2016 Annual Report

Aehr Test Systems
FOX-XP Multi-Wafer Test Systems

AEHR TEST SYSTEMS

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

	For the years ended May 31,		
	2016	2015	2014
Net sales	**$14,501**	$10,018	$19,684
(Loss) income from operations	**(6,154)**	(6,694)	497
Net (loss) income attributable to common shareholders	**(6,785)**	(6,647)	422
Net (loss) income per share - diluted	**(0.52)**	(0.55)	0.04
Cash and cash equivalents	**939**	5,527	1,809
Working capital	**4,068**	7,776	6,556
Shareholders' equity	**(723)**	4,550	7,029

PRODUCTS

The FOX™-XP Multi-Wafer Burn-in and Test System, publicly introduced in July 2016, is designed for single-touchdown testing of up to 18 wafers at a time. A single test cell with a WaferPak™ Aligner and three FOX-XP systems can test up to 54 wafers at a time. The FOX-XP system can be used in a wide range of test and reliability screening (burn-in) applications for devices such as memories, microcontrollers, sensors, and VCSELs (laser diodes). Our FOX-15 multi-wafer system is currently used in production wafer test and burn-in applications for sensors, VCSELs and LEDs.

The FOX-1P Full Wafer Parallel Test System, introduced in our fiscal year 2015, is designed for massively parallel testing in wafer sort. By testing all devices on a wafer at one time, test costs can be decreased significantly due to the high throughput of the system, enabling the user to significantly reduce the capital investment required for high-volume production test. The FOX-1P system, with its universal pin architecture to provide per-pin electronics and per-device power supplies, provides the greatest benefit when the devices being tested utilize Design for Testability (DFT) or Built-In Self-Test (BIST), for example in state-of-the-art memories and microcontrollers.

Aehr Test's patented WaferPak Cartridges connect electrical test resources from Aehr's FOX-XP and FOX-15 systems to the customer's wafer to be tested or burned-in. They contain micro-miniature probes to contact all of the die on a wafer in a single touchdown. WaferPak Cartridges are custom designed uniquely for each customer wafer application to interface to the unique pad positions of a wafer design. When used in a FOX system, WaferPak Cartridges enable the production of Known-Good Die (KGD) for use in high reliability and multi-die stacked package applications.

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

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

Wafer photo on front cover courtesy of Jim Handy at Objective Analysis.

LETTER TO OUR SHAREHOLDERS

Dear Shareholders, Customers, Partners, and Employees,

Fiscal 2016 was a year of significant progress for Aehr Test. We successfully developed new products, engaged with key new customers, and improved our infrastructure and supply chain to enable us to deliver to the capacity and lead times needed by the new and exciting markets addressed by our new FOX wafer-level test and burn-in products.

While the market for our packaged part test and burn-in products was very soft this past year, we move into the new fiscal year with great optimism and expectations for this business, and we expect significant bookings and revenue growth for the company as a whole, particularly for our new FOX products. Our strong start to fiscal 2017 includes more than $8.5 million of announced large order bookings in the fiscal first quarter alone. Half of these bookings were for ABTS packaged part systems and the other half were for our FOX wafer level products.

We completed key milestones in the development and roll out of our new FOX wafer-level test and burn-in products. During the year, we completed the development of the FOX-1P test system that is the first product in our new FOX-P line of wafer-level test and burn-in systems, as well as the single-wafer version of our new FOX-XP multi-wafer test and burn-in system. We successfully completed system performance verification on the FOX-1P this past year and received pre-shipment acceptance from our lead customer, which led to shipping the initial system in July 2016, followed by the first production shipments a month later. These are all important milestones as we are now able to ship against the backlog we have for FOX-1P production systems to help start off Fiscal 2017 with positive momentum.

We also successfully demonstrated testing of multiple devices in wafer form on the FOX-XP system. The FOX-XP system is a key member of our FOX product family as it delivers the capability to test up to 18 wafers in parallel in a single chamber, with multiple chambers able to be combined to into a single test cell. This capability is enabled by key technology developed by Aehr Test over the last decade, and really comes together with the higher performance, higher number of resources, and higher power available with the new FOX-P test electronics and WaferPak contactors. We delivered the first single-wafer FOX-XP system and received customer acceptance of that system and its corresponding WaferPak Contactors this past fiscal third quarter and plan to ship production multi-wafer system configurations of the FOX-XP beginning in the third quarter of this fiscal year.

A critical aspect of the FOX-XP system is Aehr's proprietary WaferPak full wafer contactor that provides very low cost contacting of wafers ranging from 3" to 12" (75 mm to 300mm). The WaferPak contactor distributes the electrical signals from the test system to the devices under test, makes reliable and accurate electrical connections and can withstand very high temperature variations. Customer wafers are loaded, precisely aligned, and unloaded to our WaferPak contactors with our new proprietary high performance FOX WaferPak Aligner, which was the result of a multi-year development with a key partner. We successfully installed the first new WaferPak Aligner in production along with our previous generation FOX-15 multi-wafer test system during the fiscal year.

We made significant progress with new customers and markets for our FOX wafer-level test and burn-in products. Early in the fiscal year we delivered an important initial production shipment of our FOX-15 multiple wafer test and burn in system to a major new customer. This new customer's production applications present a significant opportunity ahead for Aehr Test's unique and highly cost effective FOX-XP test and burn-in solutions. Over the course of the fiscal year, we established a very good relationship with this customer who, with the success of the FOX-15 application, has become our initial lead customer for the

FOX-XP multi-wafer test and burn-in solution. The FOX-XP system and the WaferPak contactors that we delivered to them in our fiscal third quarter are being used for reliability and qualification tests of integrated devices intended for a very high-volume application. With this initial system delivered and accepted and the success of the device qualification tests that are being run on this system, we look forward to production orders from this customer to meet their calendar 2017 capacity needs, with a capacity ramp continuing through calendar 2018.

Just after the fiscal year end, we were excited to announce that we received the first order for our FOX-XP multi-wafer production test cell from our second lead FOX-XP customer. This initial order totaled more than $4.5 million and included a FOX-XP system configured to test up to 18 wafers simultaneously, a FOX-XP WaferPak aligner and an initial set of WaferPak contactors. This customer is one of the largest semiconductor manufacturers in the world and selected the FOX-XP solution for a high-volume production application where extended burn-in is required to meet their stringent quality standards. We believe that the FOX-XP test cell is a perfect fit for this new and exciting application, and this customer is forecasting device capacity growth that will drive the need for additional production burn-in capacity for multiple years into the future.

These two high-quality top-tier customers for the FOX-XP system represent a significant opportunity for Aehr Test, not only with the initial devices they have chosen to test, but also with other applications at both of these customers. We look forward to expanding our initial customer list as we address the many other opportunities in the rapidly-growing consumer, mobile, automotive and computing markets where our multi-wafer test and burn-in systems can deliver a significant cost and quality of test advantage. We believe we head into the new year with a great set of customers who appreciate and value Aehr Test's products and services and provide us with a great opportunity to grow our business significantly.

We successfully completed key enhancements to our manufacturing processes and supply chain to meet the potential demand and lead times needed for our new market opportunities. During the year we transitioned to a new Enterprise Resource Planning (ERP) system that was specifically brought on board to help us to scale our manufacturing and for inventory and manufacturing planning and procurement. We also brought on several key new suppliers and contract manufacturers to provide us increased capacity for key subsystems for our new FOX and ABTS systems and WaferPak contactors. I am very pleased with the strength and depth of our supply chain and our key manufacturing partners who play an important role in our ability to meet significant increases in customer demand.

With our successful new product initiatives, the strong relationships we have developed with both our current and new customers, and the enhancements we have made to our manufacturing processes and supply chain, we are excited about the opportunities for Aehr Test this fiscal year and beyond. We believe these new market opportunities expand our served available market from our current market of $100 million to a market of over $400 million annually. With our new FOX family of products, including our unique WaferPak contactors, we believe Aehr Test is uniquely positioned to capitalize on these new emerging markets.

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

Gayn Erickson, President and CEO

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

FORM 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended May 31, 2016

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

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 par value
Name of each exchange on which registered: The NASDAQ Capital Market
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

The aggregate market value of the registrant's common stock, par value $0.01 per share, held by non-affiliates of the registrant, based upon the closing price of $1.98 on November 30, 2015, as reported on the NASDAQ Capital Market, was $18,433,279. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock (other than such persons of whom the Registrant became aware only through the filing of a Schedule 13G filed with the Securities and Exchange Commission) and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

The number of shares of registrant's common stock, par value $0.01 per share, outstanding at July 31, 2016 was 13,331,965.

AEHR TEST SYSTEMS

FORM 10-K
FISCAL YEAR ENDED MAY 31, 2016

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "plan," "intend," "expect," "could," "target," "project," "should," "predict," "potential," "would," "seek" and similar expressions and the negative of those expressions are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. These risks include but are not limited to those factors identified in "Risk Factors" beginning on page 9 of this Annual Report on Form 10-K, those factors that we may from time to time identify in our periodic filings with the Securities and Exchange Commission, as well as other factors beyond our control. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason. Unless the context requires otherwise, references in this Form 10-K to "Aehr Test," the "Company," "we," "us" and "our" refer to Aehr Test Systems.

PART I

Item 1. Business

THE COMPANY

Aehr Test was incorporated in the state of California on May 25, 1977. We develop, manufacture and sell systems which are designed to reduce the cost of testing and to perform reliability screening, or burn-in, of complex logic devices, memory ICs, sensors and optical devices. These systems can be used to simultaneously perform parallel testing and burn-in of packaged integrated circuits, or ICs, singulated bare die or ICs still in wafer form. Increased quality and reliability needs of the Automotive, Mobility and flash memory integrated circuit markets are driving additional testing requirements, capacity needs and opportunities for Aehr Test products in package and wafer level testing. Leveraging its expertise as a long-time leading provider of burn-in equipment, with over 2,500 systems installed worldwide, the Company has developed and introduced several innovative product families, including the ABTS™ and FOX™ systems, the WaferPak™ cartridge and the DiePak® carrier. The latest ABTS family of packaged part burn-in and test systems can perform test during burn-in of complex devices, such as digital signal processors, microprocessors, microcontrollers and systems-on-a-chip, and offers individual temperature control for high-power advanced logic devices. The FOX systems are full wafer contact parallel test and burn-in systems designed to make contact with all pads of a wafer simultaneously, thus enabling full wafer parallel test and burn-in. The WaferPak cartridge includes a full-wafer probe card for use in testing wafers in FOX systems. The DiePak carrier is a reusable, temporary package that enables IC manufacturers to perform cost-effective final test and burn-in of singulated bare die.

INDUSTRY BACKGROUND

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

Testing and reliability screening involve multiple steps. The first set of tests is typically performed by IC manufacturers before the processed semiconductor wafer is cut into individual die, in order to avoid the cost of packaging defective die into their packages. This "wafer probe" testing can be performed on one or many die at a time, including testing the entire wafer at once. After the die are packaged and before they undergo reliability screening, a short test is typically performed to detect packaging defects. Most leading-edge microprocessors, microcontrollers, digital signal processors, memory ICs, sensors and optical devices (such as vertical-cavity surface-emitting lasers, or VCSELs) then undergo an extensive reliability screening and stress testing procedure known as "burn-in" or "cycling," depending on the application. The burn-in process screens for early failures by operating the IC at elevated voltages and temperatures, up to 150 degrees Celsius (302 degrees Fahrenheit), for periods typically ranging from 2 to 48 hours. A typical burn-in system can process thousands of ICs simultaneously. After burn-in, the ICs undergo a final test process using automatic test equipment, or testers. The cycling process screens flash memory devices for failure to meet write/erase cycling endurance requirements.

PRODUCTS

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

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

FULL WAFER CONTACT SYSTEMS

The FOX-1P full wafer parallel test system, introduced in October 2014, is designed for massively parallel test in wafer sort. The FOX-1P system is designed to make electrical contact to and test all of the die on a wafer in a single touchdown. The FOX-1P test head and WaferPak contactor are compatible with industry-standard 300 mm wafer probers which provide the wafer handling and alignment automation for the FOX-1P system. The FOX-1P pattern generator is designed to functionally test industry-standard memory devices such as flash and DRAMs, plus it is optimized to test memory or logic ICs that incorporate design for testability, or DFT, and built-in self-test, or BIST. The FOX-1P universal per-pin architecture to provide per-pin electronics and per-device power supplies is tailored to full-wafer functional test. The Company believes that the FOX-1P system can significantly reduce the cost of testing IC wafers. The Company's FOX-1P system was partially funded through a development agreement with a leading semiconductor manufacturer. The Company has received the first production order of this new system and shipped the first system in July 2016.

The FOX-1 full wafer parallel test system, the predecessor to the FOX-1P system, was introduced in June 2005 and was designed for massively parallel test in wafer sort. The FOX-1 system is nearing the end of its lifecycle and limited shipments are expected in the future.

The FOX-XP full wafer contact test and burn-in system, introduced in July 2016, is designed for use with wafers that require test and burn-in times typically measured in hours. The FOX-XP system is focused on parallel testing and burning-in up to 18 wafers at a time. For high reliability applications, such as automotive, mobile devices, sensors, and SSDs the FOX-XP system is a cost-effective solution for producing tested and burned-in die for use in multi-chip packages. Using Known-Good Die, or KGD, which are fully burned-in and tested die, in multi-chip packages helps assure the reliability of the final product and lowers costs by increasing the yield of high-cost multi-chip packages. Wafer-level burn-in and test enables lower cost production of KGD for multi-chip modules, 3-D stacked packages and systems-in-a-package.

The FOX-15 full wafer parallel test system, the predecessor to the FOX-XP system, was introduced in October 2007 and was designed for full-wafer test and burn-in. The FOX-15 system is nearing the end of its lifecycle and limited shipments are expected in the future.

One of the key components of the FOX systems is the patented WaferPak cartridge system. The WaferPak cartridge contains a full-wafer single-touchdown probe card which is easily removable from the system. Traditional probe cards contact only a portion of the wafer, requiring multiple touchdowns to test the entire wafer. The unique design is intended to accommodate a wide range of contactor technologies so that the contactor technology can evolve along with the changing requirements of the customer's wafers.

Another key component of our FOX-XP and FOX-15 test cell is the WaferPak Aligner. The WaferPak Aligner performs automatic alignment of the customer's wafer to the WaferPak cartridge so that the wafer can be tested and burned-in by the FOX-XP and FOX-15 systems. Typically one WaferPak Aligner can support several FOX-XP or FOX-15 systems.

The full wafer contact systems product category accounted for approximately 60%, 31% and 42% of the Company's net sales in fiscal 2016, 2015 and 2014, respectively.

SYSTEMS FOR PACKAGED PARTS

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

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

The Advanced Burn-in and Test System, or ABTS, was introduced in fiscal 2008. The ABTS family of products is based on a completely new hardware and software architecture that is intended to address not only today's devices, but also future devices for many years to come. The ABTS system can test and burn-in both high-power logic and low-power ICs. It can be configured to provide individual device temperature control for devices up to 70W or more and with up to 320 I/O channels.

The MAX system family, the predecessor to the ABTS family, was designed for monitored burn-in of memory and logic devices. The MAX system is nearing the end of its lifecycle and limited shipments are expected in the future.

This packaged part systems product category accounted for approximately 40%, 65% and 57% of the Company's net sales in fiscal 2016, 2015 and 2014, respectively.

TEST FIXTURES

The Company sells, and licenses others to manufacture and sell, custom-designed test fixtures for its systems. The test fixtures include BIBs for the ABTS parallel test and burn-in system and for the MAX monitored burn-in system. These test fixtures hold the devices undergoing test or burn-in and electrically connect the devices under test to the system electronics. The capacity of each test fixture depends on the type of device being tested or burned-in, ranging from several hundred in memory production to as few as eight for high pin-count complex Application Specific Integrated Circuits, or ASICs, or microprocessor devices. Test fixtures are sold both with new Aehr Test systems and for use with the Company's installed base of systems. Test fixtures are also available from third-party suppliers.

The Company's DiePak product line includes a family of reusable, temporary die carriers and associated sockets that enable the test and burn-in of bare die using the same test and burn-in systems used for packaged ICs. DiePak carriers offer cost-effective solutions for providing KGD for most types of ICs, including memory, microcontroller and microprocessor devices. The DiePak carrier consists of an interconnect substrate, which provides an electrical connection between the die pads and the socket contacts, and a mechanical support system. The substrate is customized for each IC product. The DiePak carrier comes in several different versions, designed to handle ICs ranging from 54 pin-count memory up to 320 pin-count microprocessors.

The Company has received patents or applied for patents on certain features of the FOX, ABTS and MAX4 test fixtures. The Company has licensed or authorized several other companies to provide MAX4 BIBs from which the Company receives royalties. Royalties and revenue for the test fixtures product category accounted for less than 5% of net sales in fiscal 2016, 2015 and 2014.

CUSTOMERS

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

Sales to the Company's five largest customers accounted for approximately 94%, 79%, and 90% of its net sales in fiscal 2016, 2015 and 2014, respectively. During fiscal 2016, Apple Operations, or Apple, and Texas Instruments Incorporated, or Texas Instruments, accounted for approximately 47% and 32%, respectively, of the Company's net sales. During fiscal 2015, Texas Instruments, and Micronas GMBH, or Micronas, accounted for approximately 45% and 11%, respectively, of the Company's net sales. During fiscal 2014, Texas Instruments, and Spansion Inc., or Spansion, and Micronas accounted for approximately 40%, 30% and 12%, respectively, of the Company's net sales. No other customers accounted for more than 10% of the Company's net sales for any of these periods. The Company expects that sales of its products to a limited number of customers will continue to account for a high percentage of net sales for the foreseeable future. In addition, sales to particular customers may fluctuate significantly from quarter to quarter. Such fluctuations may result in changes in utilization of the Company's facilities and resources. The loss of or reduction or delay in orders from a significant customer or a delay in collecting or failure to collect accounts receivable from a significant customer could materially and adversely affect the Company's business, financial condition and operating results.

MARKETING, SALES AND CUSTOMER SUPPORT

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

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

BACKLOG

At May 31, 2016, the Company's backlog was $5.3 million compared with $12.0 million at May 31, 2015. The Company's backlog consists of product orders for which confirmed purchase orders have been received and which are scheduled for shipment within 12 months. Due to the possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments or development projects, the Company's backlog as of a particular date may not be indicative of net sales for any succeeding period.

RESEARCH AND PRODUCT DEVELOPMENT

The Company historically has devoted a significant portion of its financial resources to research and development programs and expects to continue to allocate significant resources to these efforts. Certain research and development expenditures related to non-recurring engineering milestones have been transferred to cost of goods sold, reducing research and development expenses. The Company's research and development expenses during fiscal 2016, 2015 and 2014 were $4.3 million, $4.1 million and $3.4 million, respectively.

The Company conducts ongoing research and development to design new products and to support and enhance existing product lines. Building upon the expertise gained in the development of its existing products, the Company has developed the FOX family of systems for performing test and burn-in of entire processed wafers, rather than individual die or packaged parts. During the first quarter of fiscal 2013, the Company entered into an agreement with a customer to develop a next generation FOX system, and the Company shipped the first system in July 2016. This new FOX system is designed to provide the customer with increased test flexibility and capability at a significantly lower cost of test than alternative solutions while also expanding the markets addressed by our FOX full wafer test products. The Company is developing enhancements to the ABTS and FOX families of products, intended to improve the capability and performance for testing and burn-in of future generation ICs and provide the flexibility in a wide variety of applications from logic to memory.

MANUFACTURING

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

COMPETITION

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

The Company's FOX full wafer contact systems face competition from larger systems manufacturers that have significant technological know-how and manufacturing capability. Competing suppliers of full wafer contact systems include Advantest Corporation, Teradyne Inc., Micronics Japan Co., Ltd., and Tokyo Electron Limited.

The Company's ABTS TDBI systems have faced and are expected to continue to face increasingly severe competition, especially from several regional, low-cost manufacturers and from systems manufacturers that offer higher

power dissipation per device under test. Some users of such systems, such as independent test labs, build their own burn-in systems, while others, particularly large IC manufacturers in Asia, acquire burn-in systems from captive or affiliated suppliers. The market for burn-in systems is highly fragmented, with many domestic and international suppliers. Competing suppliers of burn-in and functional test systems that compete with ABTS systems include Dong-Il Corporation, Micro Control Company, Incal Technology and Advantest Corporation.

The Company's WaferPak products are facing and are expected to face increasing competition. Several companies have developed or are developing full-wafer and single-touchdown probe cards. As the full-wafer test market develops, the Company expects that other competitors will emerge. The primary competitive factors in this market are cost, performance, reliability and assured supply. Competing suppliers of full-wafer probe cards include FormFactor, Inc., Japan Electronic Materials Corporation and Micronics Japan Co., Ltd.

The Company's test fixture products face numerous regional competitors. There are limited barriers to entry into the BIB market, and as a result, many companies design and manufacture BIBs, including BIBs for use with the Company's ABTS and MAX systems. The Company has granted royalty-bearing licenses to several companies to make BIBs for use with the Company's MAX4 systems and the Company may grant additional licenses as well. Sales of MAX4 BIBs by licensees result in royalties to the Company.

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. If the bare die market develops, the Company expects that other competitors will emerge. The DiePak products also face severe competition from other alternative test solutions. The Company expects that the primary competitive factors in this market will be cost, performance, reliability and assured supply. Suppliers with products that compete with our DiePak products include Yamaichi Electronics Co., Ltd.

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

PROPRIETARY RIGHTS

The Company relies primarily on the technical and creative ability of its personnel, its proprietary software, and trade secrets and copyright protection, rather than on patents, to maintain its competitive position. The Company's proprietary software is copyrighted and licensed to the Company's customers. At May 31, 2016 the Company held forty-six issued United States patents with expiration date ranges from 2017 to 2029 and had several additional United States patent applications and foreign patent applications pending.

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

There are currently no pending claims against the Company regarding infringement of any patents or other intellectual property rights of others. However, the Company may receive communications from third parties asserting intellectual property claims against the Company. Such claims could include assertions that the Company's products infringe, or may infringe, the proprietary rights of third parties, requests for indemnification against such infringement or suggest the Company may be interested in acquiring a license from such third parties. There can be no assurance that any such

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

EMPLOYEES

As of May 31, 2016, the Company, including its two foreign subsidiaries and one branch office, employed 76 persons collectively, on a full-time basis, of whom 21 were engaged in research, development and related engineering, 21 were engaged in manufacturing, 23 were engaged in marketing, sales and customer support and 11 were engaged in general administration and finance functions. In addition, the Company from time to time employs a number of contractors and part-time employees, particularly to perform customer support and manufacturing. The Company's success is in part dependent on its ability to attract and retain highly skilled workers, who are in high demand. None of the Company's employees are represented by a union and the Company has never experienced a work stoppage. The Company's management considers its relations with its employees to be good.

BUSINESS SEGMENT DATA AND GEOGRAPHIC AREAS

The Company operates in a single business segment, the designing, manufacturing and marketing of advanced test and burn-in products to the semiconductor manufacturing industry in several geographic areas. Selected financial information, including net sales and property and equipment, net for each of the last three fiscal years, by geographic area is included in Part II, Item 8, Note 13 "Segment Information" and certain risks related to such operations are discussed in Part I, Item 1A, under the heading "We sell our products and services worldwide, and our business is subject to risks inherent in conducting business activities in geographic regions outside of the United States."

AVAILABLE INFORMATION

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

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

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

Item 1A. Risk Factors

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

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 2016, with the exception of fiscal 2014, we experienced operating losses. The Company anticipates that the existing cash balance together with income from operations, collections of existing accounts receivable, revenue from our existing backlog of products, the sale of inventory on hand, and deposits and down payments against significant orders will be adequate to meet its short-term working capital and capital

equipment requirements. The Company extended the maturity date of its 9.0% Convertible Secured Notes due 2017 (the "Convertible Notes") to April 10, 2019 which improves our ability to meet current liabilities for fiscal 2017. Refer to Note 9 and Note 16 of Notes to Consolidated Financial Statements, "CONVERTIBLE NOTES AND LINE OF CREDIT" and "SUBSEQUENT EVENTS" for further discussion of the Convertible Notes. Depending on our rate of growth and profitability, and our ability to obtain significant orders with down payments, we may require additional equity or debt financing to meet our working capital requirements or capital equipment needs. There can be no assurance that additional financing will be available when required, or if available, that such financing can be obtained on terms satisfactory to the Company.

Our common stock may be delisted from The NASDAQ Capital Market if we cannot maintain compliance with NASDAQ's continued listing requirements.

In order to maintain our listing on The NASDAQ Capital Market, we are required to maintain compliance with NASDAQ's continued listing requirements. The continued listing requirements include, among others, a minimum bid price of $1.00 per share and any of: (i) a minimum stockholders' equity of $2.5 million; (ii) a market value of listed securities of at least $35 million; or (iii) net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the last three fiscal years. There are no assurances that we will be able to sustain long-term compliance with NASDAQ's continued listing requirements. On April 19, 2016 the Company was notified by NASDAQ that it was no longer in compliance with NASDAQ's continued listing requirements as we did not have a minimum stockholders' equity of $2.5 million. The Company submitted a plan to regain compliance, and we received an extension until October 17, 2016 to implement the plan. There are no assurances that we will be able to execute the plan to regain compliance or that we will be able to maintain compliance. If we fail to regain and maintain compliance with the applicable requirements, our stock may be delisted.

If we are delisted, we would expect our common stock to be traded in the over-the-counter market, which could make trading our common stock more difficult for investors, potentially leading to declines in our share price and liquidity. Delisting from The NASDAQ Capital Market would also constitute an event of default under our Convertible Notes. In addition, delisting could result in negative publicity and make it more difficult for us to raise additional capital.

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.

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 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 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.

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 94%, 79%, and 90% of its net sales in fiscal 2016, 2015 and 2014, respectively. During fiscal 2016, Apple and Texas Instruments accounted for approximately 47% and 32%, respectively, of the Company's net sales. 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. 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.

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. The market for semiconductors and semiconductor capital equipment has historically been cyclical, and we expect this to continue in the future. The uncertainty of the semiconductor market may cause some manufacturers in the future to further delay capital spending plans. Economic conditions may also affect the ability of our customers to meet their payment obligations, resulting in cancellations or deferrals of existing orders and limiting additional orders. In addition, some governments have subsidized portions of fabrication facility construction, and financial turmoil may reduce these governments' willingness to continue such subsidies. Such developments could have a material adverse effect on our business, financial condition and results of operations.

The 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.

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 80%, 64%, and 56% of our net sales for fiscal 2016, 2015 and 2014, 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 97%, 2% and 1% of our net sales for fiscal 2016 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 2016, 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 and WaferPak contactors contain several components, including environmental chambers, power supplies, high-density interconnects, wafer contactors, signal distribution substrates, WaferPak Aligners 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.

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 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's principal administrative and production facilities are located in Fremont, California, in a 51,289 square foot building. The Company's lease was renewed in November, 2014 and expires in June, 2018. The Company has an option to extend the lease for an additional three year period at rates to be determined. The Company's facility in Japan is located in a 418 square foot office in Tokyo under a lease which expires in June, 2019. The Company also maintains a 1,585 square foot warehouse in Yamanashi under a lease which expires in November, 2016. The Company leases a sales and support office in Utting, Germany. The lease, which began February 1, 1992 and expires on January 31, 2018, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiry. The Company's and its subsidiaries' annual rental payments currently aggregate $499,000. The Company periodically evaluates its global operations and facilities to bring its capacity in line with demand and to provide cost efficient services for its customers. In prior years, through this process, the Company has moved from certain facilities that exceeded the capacity required to satisfy its needs. The Company believes that its existing facilities are adequate to meet its current and reasonably foreseeable requirements. The Company regularly evaluates its expected future facilities requirements and believes that alternate facilities would be available if needed.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

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

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

	High	Low
Fiscal 2016:		
First quarter ended August 31, 2015.	$2.49	$1.95
Second quarter ended November 30, 2015.	2.50	1.72
Third quarter ended February 29, 2016.	2.02	1.01
Fourth quarter ended May 31, 2016	1.76	0.95
Fiscal 2015:		
First quarter ended August 31, 2014.	$3.24	$1.92
Second quarter ended November 30, 2014.	2.80	1.80
Third quarter ended February 28, 2015.	2.80	2.18
Fourth quarter ended May 31, 2015	2.86	1.87

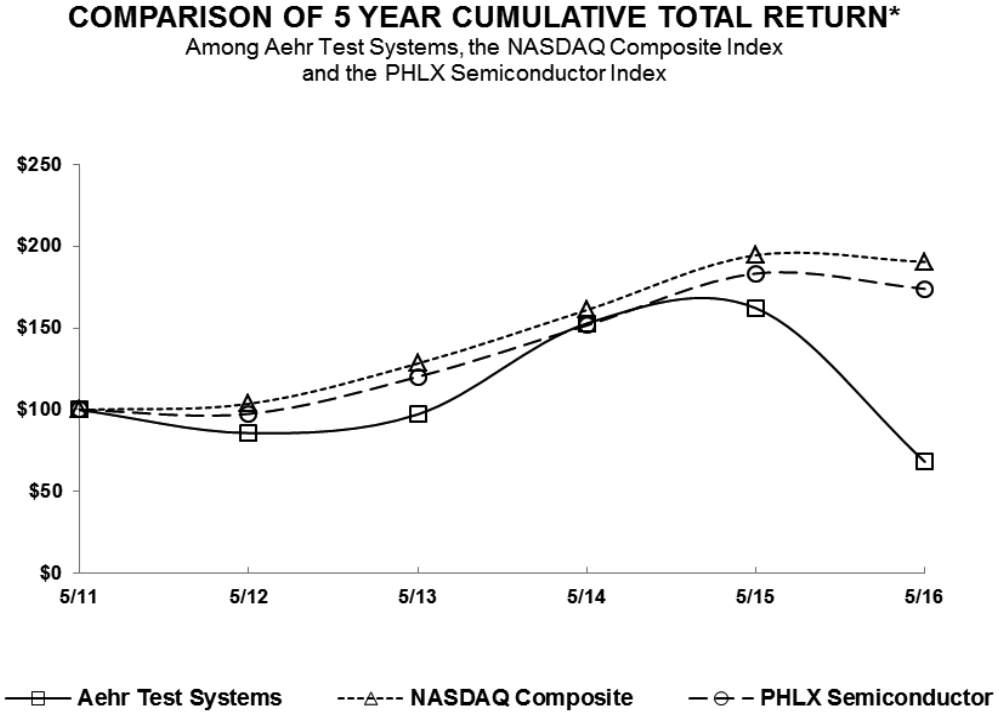
At August 5, 2016, the Company had 155 holders of record of its common stock. A substantially greater number of holders of the Company's common stock are "street name" or beneficial holders whose shares are held by banks, brokers and other financial institutions.

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

The Company did not repurchase any of its common stock during the fiscal year ended May 31, 2016.

PERFORMANCE MEASUREMENT COMPARISON

The following graph shows a comparison of total shareholder return for holders of the Company's common stock for the last five fiscal years ended May 31, 2016, compared with the NASDAQ Composite Index and the Philadelphia Semiconductor Index. The graph assumes that $100 was invested in the Company's common stock, in the NASDAQ Composite Index and the Philadelphia Semiconductor Index on May 31, 2011, and that all dividends were reinvested. The Company believes that while total shareholder return can be an important indicator of corporate performance, the stock prices of semiconductor equipment companies like us are subject to a number of market-related factors other than company performance, such as competitive announcements, mergers and acquisitions in the industry, the general state of the economy and the performance of other semiconductor equipment company stocks. Stock prices and shareholder returns over the indicated period should not be considered indicative of future stock prices or shareholder returns.



Item 6. Selected Consolidated Financial Data

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

We derived the statements of operations data for the years ended May 31, 2016, 2015 and 2014 and the balance sheet data as of May 31, 2016 and 2015 from our audited consolidated financial statements and related notes, which are included elsewhere in this Annual Report on Form 10-K. We derived the statements of operations data for the years ended May 31, 2013 and 2012 and the balance sheet data as of May 31, 2014, 2013 and 2012 from our audited consolidated financial statements and related notes which are not included in this Annual Report on Form 10-K. We have not declared or distributed any cash dividends.

	Fiscal Year Ended May 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	$14,501	$10,018	$19,684	$16,488	$15,521
Cost of sales	9,356	6,180	9,462	9,712	9,314
Gross profit	5,145	3,838	10,222	6,776	6,207
Operating expenses:					
Selling, general and administrative	6,975	6,470	6,323	6,872	6,526
Research and development	4,324	4,062	3,402	3,211	4,188
Total operating expenses	11,299	10,532	9,725	10,083	10,714
(Loss) income from operations	(6,154)	(6,694)	497	(3,307)	(4,507)
Interest expense	(605)	(130)	(26)	(49)	(4)
Gain on sale of long-term investment	--	--	--	--	990
Other (expense) income, net	(16)	211	(64)	(33)	117
(Loss) income before income tax (expense) benefit	(6,775)	(6,613)	407	(3,389)	(3,404)
Income tax (expense) benefit	(10)	(34)	15	(30)	15
Net (loss) income	(6,785)	(6,647)	422	(3,419)	(3,389)
Less: Net income attributable to the noncontrolling interest	--	--	--	--	1
Net (loss) income attributable to Aehr Test Systems common shareholders	$(6,785)	$(6,647)	$ 422	$(3,419)	$(3,390)
Net (loss) income per share:					
Basic	$(0.52)	$(0.55)	$0.04	$(0.36)	$(0.38)
Diluted	$(0.52)	$(0.55)	$0.04	$(0.36)	$(0.38)
Shares used in per share calculations					
Basic	13,091	12,047	10,877	9,549	9,016
Diluted	13,091	12,047	11,889	9,549	9,016

	May 31,				
	2016	2015	2014	2013	2012
CONSOLIDATED BALANCE SHEETS:					
Cash and cash equivalents	$939	$5,527	$1,809	$2,324	$2,073
Working capital	4,068	7,776	6,556	4,900	6,120
Total assets	10,046	14,868	12,225	10,975	11,613
Long-term obligations, less current portion	6,089	3,799	79	280	351
Total shareholders' equity (deficit)	(723)	4,550	7,029	4,994	6,454

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

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

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 ABTS Advanced Burn-in and Test System, the FOX full wafer contact parallel test and 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 and 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires 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, investments, intangible assets, income taxes, financing operations, warranty obligations, long-term service contracts, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which 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.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

REVENUE RECOGNITION

The Company recognizes revenue upon the shipment of products or the performance of services when: (1) persuasive evidence of the arrangement exists; (2) goods or services have been delivered; (3) the price is fixed or determinable; and (4) collectibility is reasonably assured. When a sales agreement involves multiple deliverables, such as extended support provisions, training to be supplied after delivery of the systems, and test programs specific to customers' routine applications, the multiple deliverables are evaluated to determine the units of accounting. Judgment is required to properly identify the accounting units of multiple element transactions and the manner in which revenue is allocated among the accounting units. Judgments made, or changes to judgments made, may significantly affect the timing or amount of revenue recognition.

Revenue related to the multiple elements are allocated to each unit of accounting using the relative selling price hierarchy. Consistent with accounting guidance, the selling price is based upon vendor specific objective evidence (VSOE). If VSOE is not available, third party evidence (TPE) is used to establish the selling price. In the absence of VSOE or TPE, estimated selling price is used.

During the first quarter of fiscal 2013, the Company entered into an agreement with a customer to develop a next generation FOX system. The project identifies multiple milestones with values assigned to each. The consideration earned upon achieving the milestone is required to meet the following conditions prior to recognition: (i) the value is commensurate with the vendor's performance to meet the milestone, (ii) it relates solely to past performance, (iii) and it is reasonable relative to all of the deliverables and payment terms within the arrangement. Revenue is recognized for the milestone upon acceptance by the customer.

Sales tax collected from customers is not included in net sales but rather recorded as a liability due to the respective taxing authorities. Provisions for the estimated future cost of warranty and installation are recorded at the time the products are shipped.

Royalty-based revenue related to licensing income from performance test boards and burn-in boards is recognized upon the earlier of the receipt by the Company of the licensee's report related to its usage of the licensed intellectual property or upon payment by the licensee.

The Company's terms of sales with distributors are generally Free on Board, or FOB, shipping point with payment due within 60 days. All products go through in-house testing and verification of specifications before shipment. Apart from warranty reserves, credits issued have not been material as a percentage of net sales. The Company's distributors do not generally carry inventories of the Company's products. Instead, the distributors place orders with the Company at or about the time they receive orders from their customers. The Company's shipment terms to our distributors do not provide for credits or rights of return. Because the Company's distributors do not generally carry inventories of our products, they do not have rights to price protection or to return products. At the time the Company ships products to the distributors, the price is fixed. Subsequent to the issuance of the invoice, there are no discounts or special terms. The Company does not give the buyer the right to return the product or to receive future price concessions. The Company's arrangements do not include vendor consideration.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

WARRANTY OBLIGATIONS

The Company provides and records the estimated cost of product warranties at the time revenues are recognized on 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. The Company's estimate of warranty reserve is based on management's assessment of future warranty obligations and on historical warranty obligations. Should actual product failure rates, material usage or service delivery costs differ from the Company's estimates, revisions to the estimated warranty liability would be required, which could affect how the Company accounts for expenses.

INVENTORY OBSOLESCENCE

In each of the last three fiscal years, the Company has written down its inventory for estimated obsolescence or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If future market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

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.

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.

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 1997 – 2016 remain subject to examination by the appropriate governmental agencies due to tax loss carryovers from those years.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense consists of expenses for stock options, restricted stock units, and employee stock purchase plan, or ESPP, purchase rights. 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.

The fair value of each option grant and the right to purchase shares under the Company's stock purchase plan are estimated on the date of grant using the Black-Scholes option valuation model with assumptions concerning expected term, stock price volatility, expected dividend yield, risk-free interest rate and the expected life of the award. See Note 1 to our consolidated financial statements for additional information relating to stock-based compensation. See Notes 10 and 11 to our consolidated financial statements for detailed information regarding the stock option plan and the ESPP.

RESULTS OF OPERATIONS

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

	Year Ended May 31,		
	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	64.5	61.7	48.1
Gross profit	35.5	38.3	51.9
Operating expenses:			
Selling, general and administrative	48.1	64.6	32.1
Research and development	29.8	40.5	17.3
Total operating expenses	77.9	105.1	49.4
(Loss) income from operations	(42.4)	(66.8)	2.5
Interest expense	(4.2)	(1.3)	(0.1)
Other (expense) income, net	(0.1)	2.1	(0.3)
(Loss) income before income tax (expense) benefit	(46.7)	(66.0)	2.1
Income tax (expense) benefit	(0.1)	(0.4)	--
Net (loss) income	(46.8)	(66.4)	2.1
Less: Net income attributable to the noncontrolling interest	--	--	--
Net (loss) income attributable to Aehr Test Systems common shareholders	(46.8)%	(66.4)%	2.1%

FISCAL YEAR ENDED MAY 31, 2016 COMPARED TO FISCAL YEAR ENDED MAY 31, 2015

NET SALES. Net sales consist primarily of sales of systems, test fixtures, die carriers, upgrades and spare parts as well as revenues from service contracts. Net sales increased to $14.5 million for the fiscal year ended May 31, 2016 from $10.0 million for the fiscal year ended May 31, 2015, an increase of 44.7%. The increase in net sales in fiscal 2016 resulted primarily from an increase in net sales of the Company's wafer-level products, partially offset by a decrease in net sales of the Company's Test During Burn-in (TDBI) products. Net sales of the wafer-level products for fiscal 2016 were $8.7 million, and increased approximately $5.5 million from fiscal 2015. Net sales of the TDBI products for fiscal 2016 were $5.8 million, and decreased approximately $0.7 million from fiscal 2015.

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 $5.1 million for the fiscal

year ended May 31, 2016 from $3.8 million for the fiscal year ended May 31, 2015, an increase of 34.1%. Gross profit margin for the fiscal year ended May 31, 2016 was 35.5%, compared with 38.3% for the fiscal year ended May 31, 2015. The decrease in gross profit margin of 2.8% was primarily due to manufacturing inefficiencies from decreased manufacturing levels, resulting in a 4.5% gross profit margin reduction, partially offset by decreased direct material costs as a percentage of sales due to product mix and the sale of fully reserved inventory, resulting in a 1.7% increase in gross profit margin.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative, or SG&A, expenses consist primarily of salaries and related costs of employees, customer support costs, commission expenses to independent sales representatives, product promotion, other professional services and bad debt expenses. SG&A expenses were $7.0 million for the fiscal year ended May 31, 2016, compared with $6.5 million for the fiscal year ended May 31, 2015, an increase of 7.8%. The increase in SG&A expenses was primarily due to increases of $0.2 million each in employment related expenses and sales commissions to outside sales representatives.

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 $4.3 million for the fiscal year ended May 31, 2016 from $4.1 million for the fiscal year ended May 31, 2015, an increase of 6.5%. Higher R&D expenses in the fiscal year ended May 31, 2016 were primarily due to increases of $0.2 million each in project expenses and employment related expenses.

INTEREST EXPENSE. Interest expense increased to $605,000 for the fiscal year ended May 31, 2016 from $130,000 for the fiscal year ended May 31, 2015. The increase in interest expense for the fiscal year ended May 31, 2016 was primarily due to an increase in borrowing under the Credit Facility and Convertible Notes.

OTHER (EXPENSE) INCOME, NET. Other expense, net was $16,000 for the fiscal year ended May 31, 2016, compared with other income, net of $211,000 for the fiscal year ended May 31, 2015. The change between other expense and other income was due primarily to losses or gains realized in connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX (EXPENSE) BENEFIT. Income tax expenses were $10,000 and $34,000 for the fiscal year ended May 31, 2016 and 2015, respectively.

FISCAL YEAR ENDED MAY 31, 2015 COMPARED TO FISCAL YEAR ENDED MAY 31, 2014

NET SALES. Net sales consist primarily of sales of systems, test fixtures, die carriers, upgrades and spare parts as well as revenues from service contracts. Net sales decreased to $10.0 million for the fiscal year ended May 31, 2015 from $19.7 million for the fiscal year ended May 31, 2014, a decrease of 49.1%. The decrease in net sales in fiscal 2015 was primarily due to customer order and shipment push outs, customers absorbing capacity taken in earlier quarters, and the delay in the release of our new FOX-1P system. The decreases included both net sales of the Company's wafer-level products and Test During Burn-in (TDBI) products. Net sales of the wafer-level products for fiscal 2015 were $3.1 million, and decreased approximately $5.2 million from fiscal 2014. Net sales of the TDBI products for fiscal 2015 were $6.6 million, and decreased approximately $4.6 million from fiscal 2014.

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 decreased to $3.8 million for the fiscal year ended May 31, 2015 from $10.2 million for the fiscal year ended May 31, 2014, a decrease of 62.5% primarily due to a decrease in net sales. Gross profit margin for the fiscal year ended May 31, 2015 was 38.3%, compared with 51.9% for the fiscal year ended May 31, 2014. The decrease in gross profit margin of 13.6% was primarily due to increased direct material costs as a percentage of sales resulting in a 8.1% gross profit margin reduction and manufacturing inefficiencies resulting in a 5.2% gross profit margin reduction.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses consist primarily of salaries and related costs of employees, customer support costs, commission expenses to independent sales representatives, product promotion, other professional services and bad debt expenses. SG&A expenses were $6.5 million for the fiscal year ended May 31, 2015, compared with $6.3 million for the fiscal year ended May 31, 2014, an increase of 2.3%. The increase in SG&A expenses was primarily due to an increase in employment related expenses.

RESEARCH AND DEVELOPMENT. 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 $4.1 million for the fiscal year ended May 31, 2015 from $3.4 million for the fiscal year ended May 31, 2014, an increase of 19.4%. Lower R&D expenses in the fiscal year ended

May 31, 2014 were primarily due to the transfer of R&D expenditures, related to non-recurring engineering milestones, into cost of goods sold and prepaid expenses.

INTEREST EXPENSE. Interest expense increased to $130,000 for the fiscal year ended May 31, 2015 from $26,000 for the fiscal year ended May 31, 2014. The increase in interest expense for the fiscal year ended May 31, 2015 was primarily due to borrowing under the Credit Facility and Convertible Notes.

OTHER (EXPENSE) INCOME, NET. Other income, net was $211,000 for the fiscal year ended May 31, 2015, compared with other expense, net of $64,000 for the fiscal year ended May 31, 2014. The other income in fiscal 2015 and the other expense in fiscal 2014 were primarily due to gains or losses, respectively, 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 $34,000 for the fiscal year ended May 31, 2015, compared with income tax benefit of $15,000 for the fiscal year ended May 31, 2014. The income tax benefit for the fiscal year ended May 31, 2014 was primarily due to the reversal of tax liabilities previously established under Financial Accounting Standards Board Codification 740, which were no longer required.

LIQUIDITY AND CAPITAL RESOURCES

We consider cash and cash equivalents as liquid and available for use. As of May 31, 2016, the Company had $0.9 million in cash and cash equivalents, compared to $5.5 million as of May 31, 2015.

Net cash used in operating activities was $6.3 million and $2.3 million for the fiscal years ended May 31, 2016 and 2015, respectively. For the fiscal year ended May 31, 2016, net cash used in operating activities was primarily the result of the net loss of $6.8 million, as adjusted to exclude the effect of non-cash charges including stock-based compensation expense of $1.0 million, and depreciation and amortization of $0.2 million. Other changes in cash from operations resulted from a decrease in accounts receivable of $0.9 million, and increases in accounts payable of $0.6 million and accrued expenses of $0.5 million, offset by a decrease in customer deposits and deferred revenue of $2.9 million. The decrease in accounts receivable was primarily due to improvements in customer payment terms. The increases in accounts payable and accrued expenses were primarily due to higher expenditures associated with higher revenue. The decrease in customer deposits and deferred revenue was primarily due to the decrease in backlog of customer orders with down payments. For the fiscal year ended May 31, 2015, net cash used in operating activities was primarily the result of the net loss of $6.6 million, as adjusted to exclude the effect of non-cash charges including stock-based compensation expense of $1.0 million, and an increase in inventories of $1.0 million, partially offset by an increase in customer deposits and deferred revenue of $3.7 million and a decrease in accounts receivable of $1.8 million. The increase in inventories was primarily due to inventory purchases to support future shipments. The increase in customer deposits and deferred revenue was primarily due to the receipt of additional down payments from certain customers. The decrease in accounts receivable was primarily due to a decrease in sales.

Net cash used in investing activities was $0.9 million for the fiscal year ended May 31, 2016 as compared to net cash used in investing activities of $0.1 million for the fiscal year ended May 31, 2015. Net cash used in investing activities for the fiscal year ended May 31, 2016 was primarily due to the purchases of property and equipment for our capital and infrastructure improvement plan to showcase our products and to enhance our manufacturing capabilities in preparation for increased demand.

Financing activities provided net cash of $2.5 million for the fiscal year ended May 31, 2016 as compared to $6.4 million for the fiscal year ended May 31, 2015. Net cash provided by financing activities during the fiscal year ended May 31, 2016 was due to net borrowings under the Credit Facility of $2.0 million, and $0.5 million in proceeds from issuance of common stock and issuance of stock under employee plans. Net cash provided by financing activities during the fiscal year ended May 31, 2015 was primarily due to net proceeds of $3.8 million from the issuance of Convertible Notes, and the net proceeds of $2.6 million from the sale of our common stock in a private placement transaction with certain directors and officers of the Company and other accredited investors that closed on November 26, 2014. Refer to Note 9 of Notes to Consolidated Financial Statements, "CONVERTIBLE NOTES AND LINE OF CREDIT", for further discussion of the Credit Facility and Convertible Notes.

As of May 31, 2016, the Company had working capital of $4.1 million. Working capital consists of cash and cash equivalents, accounts receivable, inventories and prepaid expenses and other current assets, less current liabilities.

As of May 31, 2015, the Company had $5.5 million in cash and cash equivalents, compared to $1.8 million as of May 31, 2014.

As of May 31, 2015, the Company had working capital of $7.8 million.

For the fiscal year ended May 31, 2014, net cash used in operating activities was primarily the result of net income of $0.4 million, as adjusted to exclude the effect of non-cash charges including stock-based compensation expense of $0.8 million, a decrease in customer deposits and deferred revenue of $1.0 million and an increase in inventories of $0.7 million. The decrease in customer deposits and deferred revenue was primarily due to the shipments against customer orders with down payments. The increase in inventories was primarily due to inventory purchases to support future shipments.

Net cash used in investing activities was $0.3 million for the fiscal year ended May 31, 2014 was primarily due to the purchase of property and equipment.

Financing activities provided cash of $0.4 million for the fiscal year ended May 31, 2014, due to $0.7 million in proceeds from issuance of common stock and exercise of stock options, partially offset by net repayments under a line of credit of $0.3 million.

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 income from operations, collections of existing accounts receivable, revenue from our existing backlog of products, the sale of inventory on hand, and deposits and down payments against significant orders will be adequate to meet its short-term working capital and capital equipment requirements. The Company extended the maturity date of the Convertible Notes to April 10, 2019 which improves our ability to meet current liabilities for fiscal 2017. Refer to Note 16, "SUBSEQUENT EVENTS". Depending on its rate of growth and profitability, and its ability to obtain significant orders with down payments, 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 FINANCING

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

OVERVIEW OF CONTRACTUAL OBLIGATIONS

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

	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	5 years
Operating Leases	$1,012	$ 488	$ 524	$ --	$ --
Convertible Notes (1)	5,962	--	5,962	--	--
Interest on Convertible Notes (2)	1,554	441	1,113	--	--
Purchases (3)	554	554	--	--	--
Total	$9,082	$1,483	$ 7,599	$ --	$ --

(1) Convertible Notes on the consolidated balance sheet is net of unamortized debt issuance costs of $148,000.
(2) Based on 9% interest rate. See Note 9 "CONVERTIBLE NOTES AND LINE OF CREDIT."
(3) Shown above are the Company's binding purchase obligations. The large majority of the Company's purchase orders are cancelable by either party, which if canceled may result in a negotiation with the vendor to determine if there shall be any restocking or cancellation fees payable to the vendor.

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or from intellectual property infringement or other claims. These agreements may limit the time period within which an indemnification claim can be made and the amount of the claim.

In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to the Company's agents.

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

RECENT ACCOUNTING PRONOUNCEMENTS:

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company had no holdings of derivative financial or commodity instruments at May 31, 2016.

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 8. Financial Statements and Supplementary Data

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Consolidated Financial Statements of Aehr Test Systems

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

REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Aehr Test Systems

We have audited the accompanying consolidated balance sheets of Aehr Test Systems and subsidiaries (the "Company") as of May 31, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive (loss) income, and cash flows for each of the years in the three-year period ended May 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor have we been engaged to perform, an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aehr Test Systems and subsidiaries as of May 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr Pilger Mayer, Inc.

E. Palo Alto, California
August 29, 2016

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

	May 31, 2016	May 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 939	$ 5,527
Accounts receivable, net	522	1,383
Inventories	7,033	7,123
Prepaid expenses and other	254	262
Total current assets	8,748	14,295
Property and equipment, net	1,204	478
Other assets	94	95
Total assets	$10,046	$14,868
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	1,413	724
Accrued expenses	1,553	1,045
Customer deposits and deferred revenue	1,714	4,750
Total current liabilities	4,680	6,519
Convertible notes, net of debt issuance costs	5,962	3,791
Income taxes payable	--	8
Deferred revenue, long-term	127	--
Total liabilities	10,769	10,318
Commitments and contingencies (Note 15)		
Aehr Test Systems shareholders' equity (deficit):		
Preferred stock, $0.01 par value:		
Authorized: 10,000 shares;		
Issued and outstanding: none	--	--
Common stock, $0.01 par value:		
Authorized: 75,000 shares;		
Issued and outstanding: 13,216 shares and 12,857 shares at May 31, 2016 and 2015, respectively	132	129
Additional paid-in capital	58,052	56,547
Accumulated other comprehensive income	2,237	2,231
Accumulated deficit	(61,124)	(54,339)
Total Aehr Test Systems shareholders' equity (deficit)	(703)	4,568
Noncontrolling interest	(20)	(18)
Total shareholders' equity (deficit)	(723)	4,550
Total liabilities and shareholders' equity (deficit)	$10,046	$14,868

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

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

	Year Ended May 31,		
	2016	2015	2014
Net sales	$14,501	$10,018	$19,684
Cost of sales	9,356	6,180	9,462
Gross profit	5,145	3,838	10,222
Operating expenses:			
Selling, general and administrative	6,975	6,470	6,323
Research and development	4,324	4,062	3,402
Total operating expenses	11,299	10,532	9,725
(Loss) income from operations	(6,154)	(6,694)	497
Interest expense	(605)	(130)	(26)
Other (expense) income, net	(16)	211	(64)
(Loss) income before income tax (expense) benefit	(6,775)	(6,613)	407
Income tax (expense) benefit	(10)	(34)	15
Net (loss) income	(6,785)	(6,647)	422
Less: Net income attributable to the noncontrolling interest	--	--	--
Net (loss) income attributable to Aehr Test Systems common shareholders	$ (6,785)	$(6,647)	$ 422
Net (loss) income per share – basic and diluted	$(0.52)	$(0.55)	$0.04
Shares used in per share calculation – basic	13,091	12,047	10,877
Shares used in per share calculation – diluted	13,091	12,047	11,889

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

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

	Year Ended May 31,		
	2016	2015	2014
Net (loss) income	$(6,785)	$(6,647)	$ 422
Other comprehensive income (loss), net of tax:			
Foreign currency translation income (loss)	4	(254)	45
Total comprehensive (loss) income	(6,781)	(6,901)	467
Less: Comprehensive (loss) income attributable to noncontrolling interest	(2)	3	(1)
Comprehensive (loss) income, attributable to Aehr Test Systems.	$(6,779)	$(6,904)	$ 468

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

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Aehr Test Systems Shareholders'	Noncontrolling	Total Shareholders'
	Shares	Amount	Capital	Income	Deficit	Equity (Deficit)	Interest	Equity (Deficit)
Balances, May 31, 2013	10,599	$106	$50,580	$2,442	$(48,114)	$5,014	$(20)	$4,994
Issuance of common stock under employee plans.	604	6	709	--	--	715	--	715
Stock-based compensation.	--	--	853	--	--	853	--	853
Net income	--	--	--	--	422	422	--	422
Foreign currency translation adjustment	--	--	--	46	--	46	(1)	45
Balances, May 31, 2014	11,203	112	52,142	2,488	(47,692)	7,050	(21)	7,029
Issuance of common stock under private placement.	1,065	11	2,563	--	--	2,574	--	2,574
Issuance of common stock under employee plans.	589	6	849	--	--	855	--	855
Stock-based compensation.	--	--	993	--	--	993	--	993
Net loss	--	--	--	--	(6,647)	(6,647)	--	(6,647)
Foreign currency translation adjustment.	--	--	--	(257)	--	(257)	3	(254)
Balances, May 31, 2015	12,857	129	56,547	2,231	(54,339)	4,568	(18)	4,550
Issuance of common stock under employee plans.	359	3	509	--	--	512	--	512
Stock-based compensation.	--	--	996	--	--	996	--	996
Net loss	--	--	--	--	(6,785)	(6,785)	--	(6,785)
Foreign currency translation adjustment	--	--	--	6	--	6	(2)	4
Balances, May 31, 2016	13,216	$132	$58,052	$2,237	$(61,124)	$ (703)	$(20)	$(723)

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

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

	Year Ended May 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net (loss) income	$(6,785)	$(6,647)	$ 422
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Stock-based compensation expense	1,016	997	829
(Recovery of) provision for doubtful accounts	(13)	(30)	15
Loss (gain) on disposal of asset	2	--	(41)
Amortization of debt issuance costs	177	31	--
Depreciation and amortization	203	135	141
Changes in operating assets and liabilities:			
Accounts receivable	887	1,774	(720)
Inventories	70	(1,008)	(740)
Prepaid expenses and other	9	34	(51)
Accounts payable	564	(850)	707
Accrued expenses	539	(371)	(25)
Customer deposits and deferred revenue	(2,909)	3,702	(984)
Income taxes payable	(41)	(15)	(65)
Deferred rent	--	(8)	(95)
Net cash used in operating activities	(6,281)	(2,256)	(607)
Cash flows from investing activities:			
Purchases of property and equipment	(919)	(118)	(339)
Proceeds from sales of property and equipment	--	--	50
Net cash used in investing activities	(919)	(118)	(289)
Cash flows from financing activities:			
Line of credit borrowings (repayments), net	2,000	(777)	(324)
Proceeds from issuance of convertible notes, net	(6)	3,760	--
Proceeds from issuance of common stock under private placement, net of issuance cost	--	2,574	--
Proceeds from issuance of common stock under employee plans	512	855	715
Net cash provided by financing activities	2,506	6,412	391
Effect of exchange rates on cash and cash equivalents	106	(320)	(10)
Net (decrease) increase in cash and cash equivalents	(4,588)	3,718	(515)
Cash and cash equivalents, beginning of year	5,527	1,809	2,324
Cash and cash equivalents, end of year	$ 939	$ 5,527	$ 1,809
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$47	$26	$44
Interest	$302	$130	$27
Non-cash transactions:			
Net change in capitalized stock-based compensation	$(20)	$ (4)	$24
Line of credit converted to convertible notes	$2,000	--	--

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS:

Aehr Test Systems (the "Company") was incorporated in California in May 1977 and primarily designs, engineers and manufactures test and burn-in equipment used in the semiconductor industry. The Company's principal products are the Advanced Burn-In and Test System, or ABTS, the FOX full wafer contact parallel test and burn-in systems, the MAX burn-in system, WaferPak full wafer contactor, the DiePak carrier and test fixtures.

LIQUIDITY:

Since inception, the Company has incurred substantial cumulative losses and negative cash flows from operations. In recent years, the Company has recognized significantly lower sales levels compared to the net sales of the years immediately preceding fiscal 2009, as a result of a major customer filing bankruptcy and a slowdown in the semiconductor manufacturing industry. In response to the low levels of net sales, the Company took significant steps to minimize expense levels and to increase the likelihood that it will have sufficient cash to support operations during the slow business periods. Those steps included reductions in headcount, reduced compensation for officers and other salaried employees, Company-wide shutdowns and lower fees paid to the Board of Directors, among other spending cuts. The Company will continue to explore methods to reduce its costs as necessary.

In March 2013, the Company sold 1,158,000 shares of its common stock in a private placement transaction with certain Directors and Officers of the Company and other accredited investors. The purchase price per share of the common stock sold in the private placement was $1.00, resulting in gross proceeds to the Company of $1,158,000, before offering expenses. The net proceeds after offering expenses were $1,138,000.

In November 2014, the Company sold 1,065,000 shares of its common stock in a private placement transaction with certain Directors and Officers of the Company and other accredited investors. The purchase price per share of the common stock sold in the private placement was $2.431, resulting in gross proceeds to the Company of $2,589,000, before offering expenses. The net proceeds after offering expenses were $2,574,000.

In August 2011, the Company entered into a working capital credit facility agreement with Silicon Valley Bank allowing the Company to borrow up to $1.5 million based upon qualified U.S. based and foreign customer receivables, and export-related inventory. In May 2012, the credit agreement was amended to increase the borrowing limit to $2.0 million. In September 2012, the credit agreement was amended to increase the borrowing limit to $2.5 million. On April 10, 2015, the Company terminated the working capital credit facility agreement with Silicon Valley Bank and 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 Company received $3.8 million in net proceeds from the issuance of the Convertible Notes in fiscal 2015. In fiscal 2016 the Company drew $2.0 million against the Credit Facility. Refer to Note 9, "CONVERTIBLE NOTES AND LINE OF CREDIT", for further discussion of the Credit Facility and the Convertible Notes.

During fiscal 2016, 2015 and 2014, the Company experienced negative cash flow from operating activities. The Company anticipates that the existing cash balance together with income from operations, collections of existing accounts receivable, revenue from our existing backlog of products, the sale of inventory on hand, and deposits and down payments against significant orders will be adequate to meet its short-term working capital and capital equipment requirements. The Company extended the maturity date of the Convertible Notes to April 10, 2019 which improves our ability to meet current liabilities for fiscal 2017. Refer to Note 16, "SUBSEQUENT EVENTS". Depending on its rate of growth and profitability, and its ability to obtain significant orders with down payments, 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.

CONSOLIDATION AND EQUITY INVESTMENTS:

The consolidated financial statements include the accounts of the Company and both its wholly-owned and majority-owned foreign subsidiaries. Intercompany accounts and transactions have been eliminated. Equity investments in which the Company holds an equity interest less than 20 percent and over which the Company does not have significant

influence are accounted for using the cost method. Dividends received from investees accounted for using the cost method are included in other (expense) income, net on the Consolidated Statements of Operations.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS:

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

Transaction gains and losses that arise from exchange rate changes denominated in currencies other than the local currency are included in the Consolidated Statements of Operations as incurred. See Note 12 for the detail of foreign exchange transaction gains and losses for all periods presented.

USE OF ESTIMATES:

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

CASH EQUIVALENTS AND INVESTMENTS:

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

FAIR VALUE OF FINANCIAL INSTRUMENTS AND MEASUREMENT:

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

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

Level 1 - instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

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

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

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of May 31, 2016 (in thousands):

	Balance as of May 31, 2016	Level 1	Level 2	Level 3
Money market funds.	$ 1	$ 1	$ --	$ --
Certificate of deposit	50	--	50	--
Assets.	$ 51	$ 1	$ 50	$ --

The following table summarizes the Company's financial assets 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	$ --

There were no financial liabilities measured at fair value as of May 31, 2016 and 2015.

There were no transfers between Level 1 and Level 2 fair value measurements during the fiscal year ended May 31, 2016 and 2015.

Financial instruments include cash, cash equivalents, receivables, accounts payable and certain other accrued liabilities. The fair value of cash, cash equivalents, receivables, accounts payable and certain other accrued expenses are valued at their carrying value, which approximates 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.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Accounts receivable are derived from the sale of products throughout the world to semiconductor manufacturers, semiconductor contract assemblers, electronics manufacturers and burn-in and test service companies. Accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. The Company also reviews its trade receivables by aging category to identify specific customers with known disputes or collection issues. The Company exercises judgment when determining the adequacy of these reserves as the Company evaluates historical bad debt trends, general economic conditions in the United States and internationally, and changes in customer financial conditions. Uncollectible receivables are recorded as bad debt expense when all efforts to collect have been exhausted and recoveries are recognized when they are received. No significant adjustments to the allowance for doubtful accounts were recorded during the years ended May 31, 2016, 2015 or 2014.

CONCENTRATION OF CREDIT RISK:

The Company sells its products primarily to semiconductor manufacturers in North America, Asia, and Europe. As of May 31, 2016, approximately 7%, 68% and 25% of gross accounts receivable were from customers located in Asia, Europe and North America, respectively. As of May 31, 2015, approximately 70%, 3% and 27% of gross accounts receivable were from customers located in Asia, Europe and North America, respectively. One customer accounted for 67% of gross accounts receivable as of May 31, 2016. Two customers accounted for 41% and 32% of gross accounts receivable as of May 31, 2015. Two customers accounted for 47% and 32% of net sales in fiscal 2016. Two customers accounted for 45% and 11% of net sales in fiscal 2015. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company uses letter of credit terms for some of its international customers.

The Company's cash and cash equivalents are generally deposited with major financial institutions in the United States, Japan, Germany and Taiwan. The Company invests its excess cash in money market funds. The money market funds bear the risk associated with each fund. The money market funds have variable interest rates. The Company has not experienced any material losses on its money market funds or short-term cash deposits.

CONCENTRATION OF SUPPLY RISK:

The Company relies on subcontractors to manufacture many of the components and subassemblies used in its products. Quality or performance failures of the Company's products or changes in its manufacturers' financial or business condition could disrupt the Company's ability to supply quality products to its customers and thereby have a material and adverse effect on its business and operating results. Some of the components and technologies used in the Company's products are purchased and licensed from a single source or a limited number of sources. The loss of any of these suppliers may cause the Company to incur additional transition costs, result in delays in the manufacturing and delivery of its products, or cause it to carry excess or obsolete inventory and could cause it to redesign its products.

INVENTORIES:

Inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out method) or market. Provisions for excess, obsolete and unusable inventories are made after management's evaluation of future demand and market conditions. The Company adjusts inventory balances to approximate the lower of its manufacturing costs or market value. If actual future demand or market conditions become less favorable than those projected by management, additional inventory write-downs may be required, and would be reflected in cost of product revenue in the period the revision is made.

PROPERTY AND EQUIPMENT:

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

Furniture and fixtures	2 to 6 years
Machinery and equipment	3 to 6 years
Test equipment	4 to 6 years

REVENUE RECOGNITION:

The Company recognizes revenue upon the shipment of products or the performance of services when: (1) persuasive evidence of the arrangement exists; (2) goods or services have been delivered; (3) the price is fixed or determinable; and (4) collectibility is reasonably assured. When a sales agreement involves multiple deliverables, such as extended support provisions, training to be supplied after delivery of the systems, and test programs specific to customers' routine applications, the multiple deliverables are evaluated to determine the unit of accounting. Judgment is required to properly identify the accounting units of multiple element transactions and the manner in which revenue is allocated among the accounting units. Judgments made, or changes to judgments made, may significantly affect the timing or amount of revenue recognition.

Revenue related to the multiple elements are allocated to each unit of accounting using the relative selling price hierarchy. Consistent with accounting guidance, the selling price is based upon vendor specific objective evidence (VSOE). If VSOE is not available, third party evidence (TPE) is used to establish the selling price. In the absence of VSOE or TPE, estimated selling price is used. The Company has adopted this guidance effective with the first quarter of fiscal 2012.

During the first quarter of fiscal 2013, the Company entered into an agreement with a customer to develop a next generation system. The project identifies multiple milestones with values assigned to each. The consideration earned upon achieving the milestone is required to meet the following conditions prior to recognition: (i) the value is commensurate with the vendor's performance to meet the milestone, (ii) it relates solely to past performance, (iii) and it is reasonable relative to all of the deliverables and payment terms within the arrangement. Revenue is recognized for the milestone upon acceptance by the customer.

Sales tax collected from customers is not included in net sales but rather recorded as a liability due to the respective taxing authorities. Provisions for the estimated future cost of warranty and installation are recorded at the time the products are shipped.

Royalty-based revenue related to licensing income from performance test boards and burn-in boards is recognized upon the earlier of the receipt by the Company of the licensee's report related to its usage of the licensed intellectual property or upon payment by the licensee.

The Company's terms of sales with distributors are generally FOB shipping point with payment due within 60 days. All products go through in-house testing and verification of specifications before shipment. Apart from warranty reserves, credits issued have not been material as a percentage of net sales. The Company's distributors do not generally carry inventories of the Company's products. Instead, the distributors place orders with the Company at or about the time they receive orders from their customers. The Company's shipment terms to our distributors do not provide for credits or rights of return. Because the Company's distributors do not generally carry inventories of our products, they do not have rights to price protection or to return products. At the time the Company ships products to the distributors, the price is fixed. Subsequent to the issuance of the invoice, there are no discounts or special terms. The

Company does not give the buyer the right to return the product or to receive future price concessions. The Company's arrangements do not include vendor consideration.

PRODUCT DEVELOPMENT COSTS AND CAPITALIZED SOFTWARE:

Costs incurred in the research and development of new products or systems are charged to operations as incurred. Costs incurred in the development of software programs for the Company's products are charged to operations as incurred until technological feasibility of the software has been established. Generally, technological feasibility is established when the software module performs its primary functions described in its original specifications, contains features required for it to be usable in a production environment, is completely documented and the related hardware portion of the product is complete. After technological feasibility is established, any additional costs are capitalized. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use. Capitalized costs are amortized over the estimated life of the related software product using the greater of the units of sales or straight-line methods over ten years. No system software development costs were capitalized or amortized in fiscal 2016, 2015 and 2014.

IMPAIRMENT OF LONG-LIVED ASSETS:

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

ADVERTISING COSTS:

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

SHIPPING AND HANDLING OF PRODUCTS:

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

INCOME TAXES:

Income taxes 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.

A full valuation allowance was established against all deferred tax assets, as management determined that it is more likely than not that deferred tax assets will not be realized, as of May 31, 2016 and 2015.

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.

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 1997 – 2016 remain subject to examination by the appropriate governmental agencies due to tax loss carryovers from those years.

STOCK-BASED COMPENSATION:

Stock-based compensation expense consists of expenses for stock options, restricted stock units, or RSUs, and employee stock purchase plan, or ESPP, purchase rights. Stock-based compensation cost for stock options and ESPP purchase rights are 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.

The following table summarizes compensation costs related to the Company's stock-based compensation for the years ended May 31, 2016, 2015 and 2014 (in thousands, except per share data):

	Year Ended May 31,		
	2016	2015	2014
Stock-based compensation in the form of stock options, RSUs, and ESPP purchase rights, included in:			
Cost of sales	$ 87	$ 70	$ 43
Selling, general and administrative	723	726	643
Research and development	206	201	167
Net effect on net (loss) income	$1,016	$997	$853
Effect on net (loss) income per share:			
Basic	$0.08	$0.08	$0.08
Diluted	$0.08	$0.08	$0.07

During fiscal 2016, 2015 and fiscal 2014, the Company recorded stock-based compensation related to stock options and restricted stock units of $894,000, $857,000 and $723,000, respectively.

As of May 31, 2016, 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 $1,102,000 which is net of estimated forfeitures of $3,000. This cost will be amortized on a straight-line basis over a weighted average period of approximately 2.1 years.

During fiscal 2016, 2015 and fiscal 2014, the Company recorded stock-based compensation related to its ESPP of $122,000, $140,000 and $130,000, respectively.

As of May 31, 2016, 2015 and 2014, stock-based compensation costs of $0, $20,000 and $24,000, respectively, were capitalized as part of inventory.

As of May 31, 2016, the total compensation cost related to purchase rights under the ESPP but not yet recognized was $138,000. 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 method and a single option award approach. The fair value under the single option approach is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

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

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 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 method.

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

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

Fair Value. The fair values of the Company's stock options granted to employees shares in fiscal 2016, 2015 and 2014 were estimated using the following weighted average assumptions in the Black-Scholes option valuation method:

	Year Ended May 31,		
	2016	2015	2014
Option plan shares			
Expected term (in years)	4	4	4
Volatility	0.86	0.90	0.95
Expected dividend	$0.00	$0.00	$0.00
Risk-free interest rates.	1.21%	1.20%	1.39%
Weighted-average grant date fair value.	$1.31	$1.52	$1.09

The fair value of our ESPP purchase rights for the fiscal 2016, 2015 and 2014 was estimated using the following weighted-average assumptions:

	Year End May 31,		
	2016	2015	2014
Employee stock purchase plan shares			
Expected term (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility.	0.64 – 0.74	0.55 – 0.83	0.86 – 1.00
Expected dividend	$0.00	$0.00	$0.00
Risk-free interest rates.	0.40%–0.76%	0.04%–0.55%	0.04%–0.44%
Weighted-average grant date fair value.	$0.80	$1.43	$1.34

During the fiscal years ended May 31, 2016, 2015 and 2014, ESPP purchase rights of 304,000, 222,000, and 172,000 shares, respectively, were granted. Total ESPP shares issued during the fiscal years ended May 31, 2016, 2015, and 2014 were 86,000, 87,000, and 120,000 shares, respectively. As of May 31, 2016 there were 182,000 ESPP shares available for issuance.

EARNINGS PER SHARE ("EPS"):

Basic EPS is determined using the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, 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) income per share attributable to Aehr Test Systems common shareholders (in thousands, except per share data):

	Year Ended May 31,		
	2016	2015	2014
Numerator: Net (loss) income.	$(6,785)	$(6,647)	$ 422
Denominator for basic net (loss) income per share:			
Weighted-average shares outstanding	13,091	12,047	10,877
Shares used in basic net (loss) income per share calculation	13,091	12,047	10,877
Effect of dilutive securities.	--	--	1,012
Denominator for diluted net (loss) income per share	13,091	12,047	11,889
Basic net (loss) income per share	$(0.52)	$(0.55)	$ 0.04
Diluted net (loss) income per share	$(0.52)	$(0.55)	$ 0.04

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. In the fiscal year's ended May 31, 2016 and 2015, potential common shares have not been included in the calculation of diluted net loss per share as the effect would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for these periods are the same. Stock options to purchase 3,201,000, 3,686,000, and 301,000 shares of common stock were outstanding on May 31, 2016, 2015

and 2014, respectively, but were not included in the computation of diluted net (loss) income per share, because the inclusion of such shares would be anti-dilutive. ESPP rights to purchase 304,000, 175,000 and 131,000 ESPP shares were outstanding on May 31, 2016, 2015 and 2014, respectively, but were not included in the computation of diluted net (loss) income per share, because the inclusion of such shares would be anti-dilutive. RSUs for 35,000 shares were outstanding at May 31, 2016 but not included in the computation of diluted net (loss) income per share, because the inclusion of such shares would be anti-dilutive. The shares convertible under the Convertible Notes outstanding at May 31, 2016 were not included in the computation of diluted net (loss) income per share, because the inclusion of such shares would be anti-dilutive.

COMPREHENSIVE (LOSS) INCOME:

Comprehensive (loss) income generally represents all changes in shareholders' equity (deficit) except those resulting from investments or contributions by shareholders. Unrealized gains and losses on foreign currency translation adjustments are included in the Company's components of comprehensive (loss) income, which are excluded from net (loss) income. Comprehensive (loss) income is included in the statements of shareholders' equity (deficit) and comprehensive (loss) income.

RECLASSIFICATION

Certain reclassifications have been made to the consolidated financial statements to conform to the current period presentation. These reclassifications did not result in any change in previously reported net loss, total assets or shareholders' equity (deficit).

RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2014, as part of its ongoing efforts to assist in the convergence of US GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in US GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and will become effective for us beginning in the first quarter of fiscal 2019. The FASB has issued several updates to the standard which i) defer the original effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017 (ASU 2015-14); ii) clarify the application of the principal versus agent guidance (ASU 2016-08); and iii) clarify the guidance on inconsequential and perfunctory promises and licensing (ASU 2016-10). In May 2016, the FASB issued ASU 2016-12, 'Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients", to address certain narrow aspects of the guidance including collectibility criterion, collection of sales taxes from customers, noncash consideration, contract modifications and completed contracts. This issuance does not change the core principle of the guidance in the initial topic issued in May 2014. The Company is currently evaluating the impact of adopting this new guidance on its 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 Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

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 9 of Notes to Consolidated Financial Statements, "CONVERTIBLE NOTES AND LINE OF CREDIT" for further discussion of the Credit Facility and Convertible Notes.

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 its consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, Imputation of Interest. This standard clarifies ASU 2015-03, Debt Issuance Costs discussed above, in which an entity may defer and present debt issuance costs for line of credit arrangements as an asset and subsequently amortize the costs over the term of the line of credit agreement regardless of whether any amounts are outstanding. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In November 2015, FASB issued ASU No. 2015-17, Income Taxes. This standard simplifies the presentation of deferred income taxes to be classified as noncurrent in the consolidated balance sheet. 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 its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases. This standard 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 the fiscal year 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In January 2016, FASB issued ASU No. 2016-01, 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. ASU 2016-01 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.

In March 2016, FASB released ASU 2016-09, Compensation - Stock Compensation. The standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The accounting standard will be effective for the Company beginning the first quarter of fiscal 2018, and early adoption is permitted. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

2. ACCOUNTS RECEIVABLE:

Accounts receivable comprise (in thousands):

	May 31,	
	2016	2015
Accounts receivable.	$ 530	$1,404
Less: Allowance for doubtful accounts	(8)	(21)
	$ 522	$1,383

	Balance at beginning of year	Additions charged to costs and expenses	Deductions*	Balance at end of year
Allowance for doubtful accounts receivable:				
May 31, 2016	$ 21	$ --	$ (13)	$ 8
May 31, 2015	$ 51	$ --	$ (30)	$ 21

* Deductions include write-offs of uncollectible accounts and collections of amounts previously reserved.

3. INVENTORIES:

Inventories comprise (in thousands):

	May 31,	
	2016	2015
Raw materials and sub-assemblies.	$2,839	$4,018
Work in process.	4,151	2,584
Finished goods.	43	521
	$7,033	$7,123

4. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net comprise (in thousands):

	May 31,	
	2016	2015
Leasehold improvements.	$1,072	$1,093
Furniture and fixtures	974	1,062
Machinery and equipment.	2,330	3,802
Test equipment.	2,581	2,967
	6,957	8,924
Less: Accumulated depreciation and amortization.	(5,753)	(8,446)
	$1,204	$ 478

Depreciation expense was $203,000, $135,000 and $141,000 for fiscal 2016, 2015, and 2014, respectively.

5. PRODUCT WARRANTIES:

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

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

Following is a summary of changes in the Company's liability for product warranties during the fiscal years ended May 31, 2016 and 2015 (in thousands):

	May 31,	
	2016	2015
Balance at the beginning of the year.	$ 137	$ 223
Accruals for warranties issued during the year	334	150
Settlement made during the year (in cash or in kind) . .	(316)	(236)
Balance at the end of the year.	$ 155	$ 137

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

6. ACCRUED EXPENSES:

Accrued expenses comprise (in thousands):

	May 31,	
	2016	2015
Payroll related	$ 706	$ 503
Commissions and bonuses	227	94
Professional services	166	142
Warranty	155	137
Accrued interest	110	--
Investor relations	88	32
Taxes payable	63	101
Other	38	36
	$1,553	$1,045

7. INCOME TAXES:

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

	Year Ended May 31,		
	2016	2015	2014
Domestic	$ (6,794)	$ (6,871)	$ 438
Foreign	19	258	(31)
	$ (6,775)	$ (6,613)	$ 407

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

	Year Ended May 31,		
	2016	2015	2014
Federal income taxes:			
Current	$ --	$ --	$ --
Deferred	--	--	--
State income taxes:			
Current	3	(19)	(30)
Deferred	--	--	--
Foreign income taxes:			
Current	(13)	(15)	45
Deferred	--	--	--
	$ (10)	$ (34)	$ 15

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

	Year Ended May 31,		
	2016	2015	2014
U.S. federal statutory tax rate	34.0 %	34.0 %	34.0 %
State taxes, net of federal tax effect	--	(0.2)	4.7
Foreign rate differential	0.2	1.4	(11.9)
Stock-based compensation	(3.8)	(2.2)	34.5
Research and development credit	2.1	1.1	(20.5)
Change in valuation allowance	(32.5)	(34.4)	(45.8)
Other	(0.2)	(0.2)	1.3
Effective tax rate	(0.2)%	(0.5)%	(3.7)%

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

	Year Ended May 31,	
	2016	2015
Net operating losses	$16,643	$15,063
Credit carryforwards	4,430	3,946
Inventory reserves	1,064	1,429
Reserves and accruals	1,606	2,809
Other	885	960
	24,628	24,207
Less: Valuation allowance	(24,628)	(24,207)
Net deferred tax assets	$ --	$ --

The valuation allowance increased by $421,000 during fiscal 2016, increased by $2,223,000 during fiscal 2015, and decreased by $206,000 during fiscal 2014. As of May 31, 2016 and 2015, the Company concluded that it is more likely than not that the deferred tax assets will not be realized and therefore provided a full valuation allowance against the deferred tax assets. The Company will continue to evaluate the need for a valuation allowance against its deferred tax assets on a quarterly basis.

At May 31, 2016, the Company had federal and state net operating loss carryforwards of $45,272,000 and $31,110,000, respectively. The federal and state net operating loss carryforwards will begin to expire in 2024 and began expiring in 2015, respectively. At May 31, 2016, the Company also had federal and state research and development tax credit carryforwards of $1,769,000 and $4,894,000, respectively. The federal credit carryforward will begin to expire in 2019, and the California credit will carryforward indefinitely. These carryforwards may be subject to certain limitations on annual utilization in case of a change in ownership, as defined by tax law. The Company also has alternative minimum tax credit carryforwards of $91,000 for federal tax purposes and $34,000 for state purposes. The credits may be used to offset regular tax and do not expire.

The Company has made no provision for U.S. income taxes on undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings in its foreign subsidiaries. If such earnings were distributed, the Company would be subject to additional U.S. income tax expense. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

Foreign net operating loss carryforwards of $848,000 are available to reduce future foreign taxable income. The foreign net operating losses will begin to expire in 2018.

The Company maintains liabilities for uncertain tax positions. These liabilities involve considerable judgment and estimation and are continuously monitored by management based on the best information available. The aggregate changes in the balance of gross unrecognized tax benefits are as follows (in thousands):

Beginning balance as of May 31, 2013	$1,007
Decreases related to prior year tax positions	--
Decreases related to lapse of statute of limitations	(34)
Balance at May 31, 2014	$ 973
Decreases related to prior year tax positions	--
Decreases related to lapse of statute of limitations	(54)
Balance at May 31, 2015	$ 919
Decreases related to prior year tax positions	(124)
Decreases related to lapse of statute of limitations	(6)
Balance at May 31, 2016	$ 789

The ending balance of $789,000 of unrecognized tax benefits as of May 31, 2016, if recognized, would not impact the effective tax rate.

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 1997 – 2016 remain subject to examination by the appropriate governmental agencies due to tax loss carryovers from those years.

8. CUSTOMER DEPOSITS AND DEFERRED REVENUE:

Customer deposits and deferred revenue (in thousands):

	May 31,	
	2016	2015
Customer deposits.	$ 540	$3,685
Deferred revenue	1,174	1,065
	$1,714	$4,750

9. CONVERTIBLE NOTES AND LINE OF CREDIT:

On April 10, 2015, 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. On August 22, 2016 the Purchase Agreement was amended to extend the maturity date of the Convertible Notes to April 10, 2019, decrease the conversion price from $2.65 per share to $2.30 per share, decrease the forced conversion price from $7.50 per share to $6.51 per share, and allow for additional equity awards. Refer to Note 16, "SUBSEQUENT EVENTS".

The Convertible Notes bear interest at an annual rate of 9.0% and will mature on April 10, 2019 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 fiscal years ended May 31, 2016 and 2015, $177,000 and $31,000, respectively, of amortization costs were recognized as interest expense.

The conversion price for the Convertible Notes is $2.30 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 must be supported by outstanding valid purchase orders at least equal to the amount of the requested drawdown plus the principal amount of all outstanding 5.0% Notes as defined under the Purchase Agreement. Advances will bear interest at an annual rate of 5.0%. 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 be reborrowed (unless converted into Convertible Notes).

The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company.

During fiscal 2016, the Company borrowed $2,000,000 against the credit facility. During fiscal 2016, $900,000 of the borrowing was converted into Convertible Notes upon maturity. As of May 31, 2016 and 2015, the Company had a balance of $1,100,000 and zero against the Credit Facility, respectively. The balance available to borrow under the Credit Facility as of May 31, 2016 was zero. Upon maturity in July 2016, the $1,100,000 balance of the Credit Facility was converted into Convertible Notes. The May 31, 2016 balance was reclassified to Convertible Notes with the amendment of the Purchase Agreement. Refer to Note 16, "SUBSEQUENT EVENTS".

Convertible Notes, net of debt issuance costs (in thousands):

	May 31, 2016	May 31, 2015
Principal	$6,110	$4,110
Unamortized debt issuance costs	(148)	(319)
	$5,962	$3,791

10. CAPITAL STOCK:

STOCK OPTIONS:

In October 1996, the Company's Board of Directors approved the 1996 Stock Option Plan (the "Stock Plan"), which provided for granting of incentive and non-qualified stock options to our employees and directors. The Stock Plan provides that qualified options be granted at an exercise price equal to the fair market value at the date of grant, as determined by the Board of Directors (85% of fair market value in the case of non-statutory options and purchase rights and 110% of fair market value in certain circumstances). Options generally expire within five years from date of grant. Most options become exercisable in increments over a four-year period from the date of grant.

In October 2006, the Company's 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan ("2006 Plans") were approved by the shareholders, which provide for granting of incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, performance shares and other stock or cash awards as the Company's Board of Directors may determine. A total of 5,450,000 shares of common stock have been reserved for issuance under the Company's 2006 Equity Incentive Plan. Options granted under the 2006 Equity Incentive Plan are generally for periods not to exceed ten years (five years if the option is granted to a 10% stockholder) and are granted at the fair market value of the stock at the date of grant as determined by the Board of Directors. The 2006 Plans respectively replace the Company's Amended and Restated 1996 Stock Option Plan, which would otherwise have expired in 2006; and the Company's 1997 Employee Stock Purchase Plan, which would have otherwise expired in 2007.

As of May 31, 2016, out of the 5,083,000 shares authorized for grant under the 2006 Equity Incentive Plan, approximately 3,201,000 shares were outstanding.

The following tables summarize the Company's stock option and RSUs transactions during fiscal 2016, 2015 and 2014 (in thousands, except per share data):

	Available Shares
Balances, May 31, 2013.	1,737
Options granted.	(908)
Options terminated	420
Plan shares expired.	(104)
Balances, May 31, 2014.	1,145
Additional shares reserved.	860
Options granted.	(1,253)
Options terminated	93
Balances, May 31, 2015.	845
Additional shares reserved.	800
Options granted.	(92)
RSUs granted.	(35)
Options terminated	329
Balances, May 31, 2016.	1,847

	Outstanding Options		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balances, May 31, 2013.	2,956	$1.79	$964
Options granted.	908	$1.64	
Options terminated	(420)	$5.51	
Options exercised.	(442)	$1.17	
Balances, May 31, 2014.	3,002	$1.31	$2,913
Options granted.	1,253	$2.38	
Options terminated	(93)	$2.30	
Options exercised.	(476)	$1.33	
Balances, May 31, 2015.	3,686	$1.66	$2,946
Options granted.	92	$2.12	
Options terminated	(329)	$1.93	
Options exercised.	(248)	$1.34	
Balances, May 31, 2016.	3,201	$1.66	$ 189
Options exercisable and expected to be exercisable at May 31, 2016	3,137	$1.66	$ 186

The options outstanding and exercisable at May 31, 2016 were in the following exercise price ranges (in thousands, except per share data):

	Options Outstanding at May 31, 2016			Options Exercisable at May 31, 2016			
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	579	2.82	$0.68	578	2.82	$0.68	
$1.09-$1.40	1,143	3.12	$1.28	987	2.96	$1.28	
$1.73-$2.06	248	4.70	$1.88	221	4.75	$1.90	
$2.10-$2.71	1,231	5.45	$2.43	604	5.33	$2.46	
$0.59-$2.71	3,201	4.08	$1.66	2,390	3.69	$1.49	$189

The total intrinsic values of options exercised were $185,000, $540,000 and $520,000 during fiscal 2016, 2015 and 2014, respectively. The weighted average contractual life of the options exercisable and expected to be exercisable at May 31, 2016 was 4.08 years.

Options to purchase 2,390,000, 2,189,000 and 1,892,000 shares were exercisable at May 31, 2016, 2015 and 2014, respectively. These exercisable options had weighted average exercise prices of $3.69, $1.43 and $1.22 as of May 31, 2016, 2015 and 2014, respectively.

During the fiscal year ended May 31, 2016, RSUs were granted to an employee 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 and have a term of one year. The 35,000 RSUs were outstanding and fully vested at May 31, 2016. The intrinsic value of the outstanding RSUs at May 31, 2016 was $35,000. There were no RSUs granted during fiscal 2015 or 2014.

11. EMPLOYEE BENEFIT PLANS:

EMPLOYEE STOCK OWNERSHIP PLAN:

The Company has a non-contributory, trusteed employee stock ownership plan for full-time employees who have completed three consecutive months of service and for part-time employees who have completed one year of service and have attained an age of 21. The Company can contribute either shares of the Company's stock or cash to the plan. The contribution is determined annually by the Company and cannot exceed 15% of the annual aggregate salaries of those employees eligible for participation in the plan. On May 31, 2007, the Company converted the Aehr Test Systems Employee Stock Bonus Plan into the Aehr Test Systems Employee Stock Ownership Plan (the "Plan"). The stock bonus plan was converted to an employee stock ownership plan ("ESOP") to enable the Plan to better comply with changes in the law regarding Company stock. Individuals' account balances vest at a rate of 20% per year commencing upon completion of two years of service. Non-vested balances, which are forfeited following termination of employment, are allocated to the remaining employees in the Plan. Under the Plan provisions, each employee who reaches age fifty-five (55) and has been a participant in the Plan for ten years will be offered an election each year to direct the transfer of up to 25% of his/her ESOP account to the employee self-directed account in the Savings and Retirement Plan. For anyone who met the above prerequisites, the first election to diversify holdings was offered after May 31, 2008. In the sixth year, employees will be able to diversify up to 50% of their ESOP accounts. Contributions of $60,000 per year were authorized for the plan during fiscal 2016, 2015 and 2014. The contribution amounts are recorded as compensation expense, in the period authorized and included in accrued expenses, in the period authorized. Contributions of 25,000 shares were made to the ESOP during fiscal 2016 for fiscal 2015. Contributions of 26,548 shares were made to the ESOP during fiscal 2015 for fiscal 2014. Contributions of 41,666 shares were made to the ESOP during fiscal 2014 for fiscal 2013. The contribution for fiscal 2016 will be made in fiscal 2017. Shares held in the ESOP are included in the EPS calculation.

401(K) PLAN:

The Company maintains a defined contribution savings plan (the "401(k) Plan") to provide retirement income to all qualified employees of the Company. The 401(k) Plan is intended to be qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan is funded by voluntary pre-tax contributions from employees. Contributions are invested, as directed by the participant, in investment funds available under the 401(k) Plan. The Company is not required to make, and did not make, any contributions to the 401(k) Plan during fiscal 2016, 2015 and 2014.

EMPLOYEE STOCK PURCHASE PLAN:

In October 2006, the Company's shareholders approved the 2006 Employee Stock Purchase Plan, or 2006 Purchase Plan. The 2006 Purchase Plan replaced the 1997 Employee Stock Purchase Plan which would have otherwise expired in 2007. A total of 1,150,000 shares of the Company's common stock were reserved for issuance under the 2006 Purchase Plan. The 2006 Purchase Plan has consecutive, overlapping, twenty-four month offering periods. Each twenty-four month offering period includes four six month purchase periods. The offering periods generally begin on the first trading day on or after April 1 and October 1 each year. The first exercise date under the 2006 Purchase Plan was April 1, 2007. All employees who work a minimum of 20 hours per week and are customarily employed by the Company (or an affiliate thereof) for at least five months per calendar year are eligible to participate. Under the 2006 Purchase Plan, shares are purchased through employee payroll deductions at exercise prices equal to 85% of the lesser of the fair market value of the Company's common stock at either the first day of an offering period or the last day of the purchase period. If a participant's rights to purchase stock under all employee stock purchase plans of the Company accrue at a rate which exceeds $25,000 worth of stock for a calendar year, such participant may not be granted an option to purchase stock under the 2006 Purchase Plan. The maximum number of shares a participant may purchase during a single purchase period is 3,000 shares. For the years ended May 31, 2016, 2015 and 2014, approximately 86,000, 87,000 and 120,000 shares of common stock, respectively, were issued under the plans. To date, 968,000 shares have been issued under the 2006 Purchase Plan.

12. OTHER (EXPENSE) INCOME, NET:

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

	Year Ended May 31,		
	2016	2015	2014
Foreign exchange (loss) gain.	$(19)	$194	$(47)
Other, net.	3	17	(17)
	$(16)	$211	$(64)

13. 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
2016:				
Net sales.	$2,957	$10,228	$ 1,316	$14,501
Property and equipment, net	1,151	39	14	1,204
2015:				
Net sales.	$3,648	$4,943	$ 1,427	$10,018
Property and equipment, net	432	34	12	478
2014:				
Net sales.	$8,708	$7,453	$ 3,523	$19,684
Property and equipment, net	415	42	17	474

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.

14. RELATED PARTY TRANSACTIONS:

Mario M. Rosati, one of the Company's directors, is also a member of Wilson Sonsini Goodrich & Rosati, Professional Corporation, which has served as the Company's outside corporate counsel and has received compensation at normal commercial rates for these services. At May 31, 2016, the Company had $111,000 payable to Wilson Sonsini Goodrich & Rosati.

15. COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

The Company leases most of its manufacturing and office space under operating leases. The Company entered into non-cancelable operating lease agreements for its United States manufacturing and office facilities and maintains equipment under non-cancelable operating leases in Germany. The Company's principal administrative and production facilities are located in Fremont, California, in a 51,289 square foot building. The Company's lease was renewed in November, 2014 and expires in June 2018. The Company has an option to extend the lease for an additional three year period at rates to be determined. The Company's facility in Japan is located in a 418 square foot office in Tokyo under a cancellable lease which expires in June 2019. The Company also maintains a 1,585 square foot warehouse in Yamanashi under a lease which expires in November 2016. The Company leases a sales and support office in Utting, Germany. The lease, which began February 1, 1992 and expires on January 31, 2018, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiry. Under the lease agreements, the Company is responsible for payments of utilities, taxes and insurance.

Minimum annual rentals payments under non-cancellable operating leases in each of the next five fiscal years and thereafter are as follows (in thousands):

Years Ending May 31,	
2017.	$ 488
2018.	485
2019.	39
2020.	--
2021.	--
Thereafter	--
Total	$1,012

Rental expense for the years ended May 31, 2016, 2015 and 2014 was $499,000, $554,000 and $562,000, respectively.

At May 31, 2016 and 2015, the Company had a $50,000 certificate of deposit held by a financial institution representing a security deposit for its United States manufacturing and office space lease. This amount is included in "Other Assets" on the consolidated balance sheets.

PURCHASE OBLIGATIONS

The Company has purchase obligations to certain suppliers. In some cases the products the Company purchases are unique and have provisions against cancellation of the order. At May 31, 2016, the Company had $554,000 of purchase obligations which are due within the following 12 months. This amount does not include contractual obligations recorded on the consolidated balance sheets as liabilities.

CONTINGENCIES

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

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

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

16. SUBSEQUENT EVENTS

On August 22, 2016 the Purchase Agreement was amended to extend the maturity date of the Convertible Notes to April 10, 2019, decrease the conversion price from $2.65 per share to $2.30 per share, decrease the forced conversion price from $7.50 per share to $6.51 per share, and allow for additional equity awards.

On August 8, 2016 the Company entered into Common Stock Purchase Agreement with Semics Inc., a semiconductor test equipment provider that produces fully automatic wafer probe systems, to sell 200,000 shares of Aehr Test Systems common stock in consideration for an outstanding invoice of $323,000 for capital equipment.

17. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (UNAUDITED)

The following tables (presented in thousands, except per share data) sets forth selected unaudited condensed consolidated statements of operations data for each of the four quarters of the fiscal years ended May 31, 2016 and 2015. The unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal recurring entries) necessary for a fair statement of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period and should be read in conjunction with the audited consolidated financial statements of the Company's and the notes thereto included elsewhere herein.

	Three Months Ended			
	Aug. 31, 2015	Nov. 30, 2015	Feb. 29, 2016	May 31, 2016
Net sales	$6,633	$ 4,620	$ 1,677	$ 1,571
Gross profit	$3,383	$ 1,691	$ 169	$ (98)
Net income (loss)	$ 294	$(1,048)	$(2,975)	$(3,056)
Net income (loss) per share basic and diluted	$ 0.02	$ (0.08)	$ (0.23)	$ (0.23)

	Three Months Ended			
	Aug. 31, 2014	Nov. 30, 2014	Feb. 28, 2015	May 31, 2015
Net sales	$3,558	$ 2,615	$ 2,027	$ 1,818
Gross profit	$1,610	$ 694	$ 852	$ 682
Net loss	$ (907)	$(2,114)	$(1,726)	$(1,900)
Net loss per share basic and diluted	$ (0.08)	$ (0.18)	$ (0.14)	$ (0.15)

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

None.

Item 9A. Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in "*Internal Control – Integrated Framework"* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that the Company's internal control over financial reporting was effective as of May 31, 2016. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

(c) **Changes in internal controls over financial reporting.**

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

The names of the directors of the Company, ages as of May 31, 2016, and certain information about them are below:

Name of Nominee	Age	Position	Director Since
Rhea J. Posedel	74	Chairman	1977
Gayn Erickson	52	President and Chief Executive Officer	2012
Robert R. Anderson (1)(2)	78	Director	2000
William W.R. Elder (2)(3)	77	Director	1989
Mario M. Rosati	70	Director	1977 (4)
John M. Schneider (1)(3)	49	Director	2014 (5)
Howard T. Slayen (1)	69	Director	2008

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance and Nominating Committee
(4) Mr. Rosati was a member of the Board of Directors from 1977 to September 2008 and then rejoined the Board of Directors in February 2009
(5) Mr. Schneider has been a member of the Board of Directors since December 2014.

RHEA J. POSEDEL is a founder of the Company and has served as the Chairman of the Board of Directors since the Company's inception in 1977. He also served as Executive Chairman of the Company from January 2012 to March 2013. Mr. Posedel served as Chief Executive Officer of the Company since the Company's inception in 1977 until January 2012. From the Company's inception through May 2000, Mr. Posedel also served as President of the Company. Prior to founding the Company, Mr. Posedel held various project engineering and engineering managerial positions at Lockheed Martin Corporation, Ampex Corporation, and Cohu, Inc. Mr. Posedel received a B.S. in Electrical Engineering from the University of California, Berkeley, an M.S. in Electrical Engineering from San Jose State University and an M.B.A. from Golden Gate University.

Mr. Posedel brings to the Board of Directors senior leadership experience, industry and technical expertise, and a deep knowledge of the Company's operations, strategy and vision.

GAYN ERICKSON has served as President, Chief Executive Officer and member of the Board of Directors of the Company since January 2012. Prior to joining the Company, Mr. Erickson served as corporate officer, Senior Vice President and General Manager of Verigy Ltd.'s memory test business from February 2006 until October 2011. Prior to that, he was Vice President of Marketing and Sales for Agilent Technologies' Semiconductor Memory Test products. He has over 27 years of executive and general management, operations, marketing, sales and R&D program management experience, dating back to the late 1980s when he began his career in semiconductor test with Hewlett-Packard's Automated Test Group. Mr. Erickson received a B.S. in Electrical Engineering from Arizona State University.

Mr. Erickson brings to the Board of Directors senior leadership experience, semiconductor test industry and technical expertise, and strategic business development experience.

ROBERT R. ANDERSON has been a director of the Company since October 2000. Mr. Anderson currently is a director of MKS Instruments, Inc., a semiconductor components and equipment supplier. Mr. Anderson also serves as a director for Energetiq Technology, Inc., a private company. Mr. Anderson was co-founder, Chairman of the Board, Chief Financial Officer and Chief Operating Officer of KLA Instruments (KLAC), a supplier of process control and yield management solutions for the semiconductor and related nanoelectronics industries, from 1975 through 1994. Mr. Anderson is a graduate of Bentley University and served as a trustee of Bentley University from 1993 through 2004.

Mr. Anderson brings to the Board of Directors a strong background in advising high-tech companies through his public company board experience. As the co-founder, Chief Financial Officer and Chief Operating Officer of a high-tech company, Mr. Anderson brings to the Board of Directors expertise in the semiconductor equipment industry, business development, mergers and acquisition and financing and senior management experience.

DR. WILLIAM W. R. ELDER, OBE has been a director of the Company since 1989. From 1981 to 1996, Dr. Elder was the Chief Executive Officer of Genus, Inc., a semiconductor equipment company, and then again from 1998 until the company was acquired by AIXTRON AG in 2005. Dr. Elder retired from AIXTRON AG in December 2007. Dr. Elder received a B.S.I.E. and an honorary Doctorate Degree from the University of Paisley in Scotland.

As President and Chief Executive Officer of a semiconductor equipment company, Dr. Elder brings to the Board of Directors senior leadership experience, strong industry knowledge and operations expertise.

MARIO M. ROSATI was a director of the Company from 1977 to 2008, and then rejoined the Board of Directors in 2009. Mr. Rosati is a member of the law firm Wilson Sonsini Goodrich & Rosati, Professional Corporation, which he joined in 1971. Mr. Rosati is a director of Sanmina Corporation, a publicly-held electronics manufacturing services company, as well as several privately-held companies. Mr. Rosati received a B.A. from the University of California, Los Angeles and a J.D. from the University of California, Berkeley School of Law.

As a senior partner in a major Silicon Valley based law firm, Mr. Rosati brings legal expertise in the oversight of legal and regulatory compliance, mergers and acquisitions and financing experience to the Board of Directors. Mr. Rosati also brings to the Board of Directors a strong background in advising high-tech companies through his public company board experience.

JOHN M. SCHNEIDER has been a director of the Company since December 2014. Mr. Schneider has been the owner and President of PWA Real Estate and PWA Construction, since their creation in 2008 and 2014, respectively. Mr. Schneider was the owner, President and CEO of Private Wealth Advisors and PWA Securities, a SEC-registered Registered Investment Advisor and FINRA-registered Broker/Dealer since their creation in 2003 and 2008, respectively. In July 2015, Mr. Schneider sold his ownership position in both investment companies to his existing partner. He retains his role as a registered representative and investment advisor with them. Mr. Schneider is currently the owner and President of JMS Capital Group, LLC, which is a holding company encompassing JMS Wealth Services, PWA Construction (dba JMS Development) and PWA Real Estate (dba JMS Real Estate). Mr. Schneider graduated from the University of Pittsburgh with a Bachelor of Arts Degree in Economics, obtaining their "Honors in Economics" distinction. He is also a graduate of the College of Financial Planning in Denver, Colorado and is a Certified Financial Planner.

As the founder of multiple investment companies, Mr. Schneider brings to the Board of Directors a strong expertise in business development, financing and investment activities. Mr. Schneider also brings to the Board of Directors a strong background in advising companies through his private company board experience.

HOWARD T. SLAYEN has been a director of the Company since 2008. Since June 2001, Mr. Slayen has been providing independent financial consulting services to various organizations and clients. From October 1999 to May 2001, Mr. Slayen served as Executive Vice President and Chief Financial Officer of Quaartz Inc., a web-hosted communications company. From 1971 to September 1999, Mr. Slayen held various positions with PricewaterhouseCoopers/Coopers & Lybrand, including his last position as a Corporate Finance Partner. Mr. Slayen currently serves as a director for several non-profit organizations. Mr. Slayen received a B.A. from Claremont McKenna College and a J.D. from the University of California, Berkeley School of Law.

As Vice President and Chief Financial Officer of a high-tech company, Corporate Finance Partner for a large international accounting firm and chair of the audit committee of two other public technology companies, Mr. Slayen brings to the Board of Directors senior leadership experience, expertise in accounting and financial reporting, financing and investing activities, and internal control and compliance. Mr. Slayen also brings to the Board of Directors a strong background in advising high-tech companies through his public company board experience.

Executive Officers

The names of the executive officers of the Company, ages as of May 31, 2016, and certain information about them are below:

Name	Age	Position
Gayn Erickson	52	President and Chief Executive Officer
Kenneth B. Spink	55	Vice President of Finance and Chief Financial Officer
Mark D. Allison	60	Vice President of Worldwide Sales
Carl N. Buck	64	Vice President of Marketing
David S. Hendrickson	59	Vice President of Engineering
David Fucci	67	Vice President of Operations
Kunio Sano	60	President, Aehr Test Systems Japan K.K.

GAYN ERICKSON See “Directors” above.

KENNETH B. SPINK joined the Company in 2008 as Corporate Controller and was elected Vice President of Finance, Chief Financial Officer in September 2015. Mr. Spink has more than 30 years of accounting and finance experience in high tech, public accounting, leasing, service and construction industries. He was previously the Corporate Accounting Manager at Applied Materials and began his career with the accounting firm Deloitte. Mr. Spink received a B.S. in Business Administration from California State University, Hayward.

MARK D. ALLISON joined the Company as Vice President of Worldwide Sales in August 2013. From October 2011 to August 2013, Mr. Allison operated Mark Allison Consulting, providing strategic planning and sales/marketing services to companies in the semiconductor and IT industries. From September 2006 to October 2011, Mr. Allison served as Vice President of Marketing at Verigy Ltd., a manufacturer of semiconductor test equipment. Prior to that, Mr. Allison held various sales, marketing, general management and test engineering positions at companies including Advantest, Integrated Measurement Systems, Megatest, Micron and Texas Instruments. Mr. Allison received his B.S.E.E. from the University of Notre Dame.

CARL N. BUCK joined the Company as a Product Marketing Manager in 1983 and held various positions until he was elected Vice President of Engineering in November 1992, Vice President of Research and Development Engineering in November 1996, Vice President of Marketing in September 1997, Vice President of Contactor Business Group in May 2002, Vice President of Marketing and Contactor Business Group in October 2005, Vice President of Sales and Marketing in October 2011, and currently as Vice President of Marketing of the Company. From 1978 to 1983, Mr. Buck served as Product Marketing Manager at Intel Corporation, an integrated circuit and microprocessor company. Mr. Buck received a B.S.E.E. from Princeton University, an M.S. in Electrical Engineering from the University of Maryland and an M.B.A. from Stanford University.

DAVID S. HENDRICKSON joined the Company as Vice President of Engineering in October 2000. From 1999 to 2000, Mr. Hendrickson served as Platform General Manager, and from 1995 to 1999 as Engineering Director and Software Director of Siemens Medical (formerly Acuson Corporation), a medical ultrasound products company. From 1990 to 1995, Mr. Hendrickson served as Director of Engineering and Director of Software of Teradyne Inc. (formerly Megatest Corporation), a manufacturer of semiconductor capital equipment. Mr. Hendrickson received a B.S. in Computer Science from Illinois Institute of Technology.

DAVID FUCCI joined the Company as Vice President of Operations in June 2014. From February 2003 to May 2014, Mr. Fucci served as Vice President of Manufacturing Operations/Vice President of Quality & Compliance at DCG Systems, a leading provider of design-to-test solutions for the global semiconductor industry. DCG Systems was a division of Credence Systems Corporation, a provider of test solutions for the semiconductor industry, until 2008. Mr. Fucci was Director of Worldwide Operations/Supply Chain Management at Wireless Online, Inc. from 2000 to 2002. Prior to that, he was Senior Director of Manufacturing Operations for MicroTouch Systems. Mr. Fucci received his B.S.E.E. from the Northeastern University and an M.B.A. from Boston University.

KUNIO SANO joined the Company as Vice President of New System Development, Aehr Test Systems Japan K.K., the Company's subsidiary in Japan, in June 1998 and was elected President, Aehr Test Systems Japan K.K. in January 2001. From 1991 to 1998, he served as Manager of the Development Engineering Department at Tokyo Electron Yamanashi Limited, a leading worldwide semiconductor equipment manufacturer. Prior to that, Mr. Sano held a development engineering position at TOKICO LTD. and test engineering and design positions at Oki Engineering Co., Ltd. Mr. Sano received a B.S.E.E. from Sagami Institute of Technology in Kanagawa, Japan.

Board Matters and Corporate Governance

Board Meetings and Committees

The Board of Directors held a total of six meetings during the fiscal year ended May 31, 2016. No incumbent director during his period of service in such fiscal year attended fewer than 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which such director served.

The Board of Directors has three committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee.

The Audit Committee currently consists of directors Messrs. Slayen, Anderson and Schneider, each of whom is an independent member of the Board of Directors, as defined by the Nasdaq director independence standards, as well as applicable SEC rules, as currently in effect. The Audit Committee held four meetings during fiscal year 2016. More information regarding the functions performed by the Committee is set forth in the section entitled "Report of the Audit Committee." The Audit Committee is governed by a written charter approved by the Board of Directors. A copy of the Audit Committee charter is available on the Company's website at www.aehr.com under the heading "Investors" and the

subheading "Investor Relations." The Board of Directors has determined that Mr. Slayen is an audit committee financial expert as defined by the rules of the SEC.

The Compensation Committee of the Board of Directors currently consists of Messrs. Anderson and Elder, each of whom is an independent member of the Board of Directors, as defined by the Nasdaq director independence standards, as well as applicable SEC rules, as currently in effect. The Compensation Committee held one meeting during fiscal year 2016. The Compensation Committee reviews and advises the Board of Directors regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company. The Compensation Committee is governed by a written charter approved by the Board of Directors. The Company maintains a copy of the Compensation Committee charter on its website at www.aehr.com under the heading "Investors" and the subheading "Investor Relations." More information regarding the Compensation Committee's processes and procedures can be found herein in the section entitled "Compensation Discussion and Analysis."

The Corporate Governance and Nominating Committee of the Board of Directors currently consists of Messrs. Elder and Schneider, each of whom is an independent member of the Board of Directors, as defined by the Nasdaq director independence standards, as well as applicable SEC rules, as currently in effect. The Corporate Governance and Nominating Committee reviews and makes recommendations to the Board of Directors regarding matters concerning corporate governance; reviews the composition and evaluates the performance of the Board of Directors; selects, or recommends for the selection of the Board of Directors, director nominees; evaluates director compensation; reviews the composition of committees of the Board of Directors and recommends persons to be members of such committee; and reviews conflicts of interest of members of the Board of Directors and corporate officers. The Corporate Governance and Nominating Committee is governed by a written charter approved by the Board of Directors. The Corporate Governance and Nominating Committee of the Board of Directors did not hold any meetings during the fiscal year ended May 31, 2016. The Company maintains a copy of the Corporate Governance and Nominating Committee charter on its website at www.aehr.com under the heading "Investors" and the subheading "Investor Relations."

Shareholder Recommendations

The policy of the Board of Directors is to consider properly submitted shareholder recommendations for candidates for membership on the Board as described below under "Identifying and Evaluating Nominees for Directors." In evaluating such recommendations, the Board of Directors seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under "Director Qualifications" below. Any shareholder recommendations proposed for consideration by the Board of Directors should include the candidate's name and qualifications for Board membership and should be addressed to:

Aehr Test Systems
400 Kato Terrace
Fremont, CA 94539
Attn: Secretary

Director Qualifications

Members of the Board should have the highest professional and personal ethics and values, consistent with the Company's Code of Conduct and Ethics adopted by the Board. They should have broad experience at the policy-making level in business. They should be committed to enhancing shareholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all shareholders.

Identifying and Evaluating Nominees for Directors

The Board of Directors utilizes a variety of methods for identifying and evaluating nominees for director. The Board of Directors periodically assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Board of Directors considers various potential candidates for director. Candidates may come to the attention of the Board of Directors through current Board members, professional search firms, shareholders or other persons. These candidates are evaluated at regular or special meetings of the Board of Directors, and may be considered at any point during the year. As described above, the Board of Directors considers properly submitted shareholder recommendations for candidates for the Board. Following verification of the shareholder status of persons proposing candidates, any

recommendations are aggregated and considered by the Board of Directors at a regularly scheduled meeting prior to the issuance of the proxy statement for the Company's annual meeting. If any materials are provided by a shareholder in connection with the recommendation of a director candidate, such materials are forwarded to the Board of Directors. The Board of Directors may also review materials provided by professional search firms or other parties in connection with a candidate who is not recommended by a shareholder. In evaluating such recommendations, the Board of Directors seeks to achieve a balance of knowledge, experience and capability on the Board.

The Company seeks board members whose background, skills and experience will best assist the Company in the oversight of its business and operations. This includes understanding of and experience in manufacturing, technology, finance, and legal and regulatory compliance. Senior leadership experience and public company board experience are two of the key qualities evaluated when considering nominees for the Company's Board of Directors. A goal of the nomination process is for the Board of Directors to be comprised of directors with a diverse set of skills and experience to provide oversight and advice concerning the Company's current business and growth strategies.

The Board of Directors has determined that each of its current directors, except for Rhea J. Posedel, the Company's Chairman, and Gayn Erickson, the Company's President and Chief Executive Officer, is independent within the meaning of the Nasdaq director independence standards, as well as applicable SEC rules, as currently in effect.

Annual Meeting Attendance

Although the Company does not have a formal policy regarding attendance by members of the Board at the Company's annual meetings of shareholders, directors are encouraged to attend annual meetings of the Company's shareholders.

Code of Conduct and Ethics

The Board of Directors has adopted a Code of Conduct and Ethics for all directors, officers and employees of the Company, which includes the Chief Executive Officer, Chief Financial Officer and any other principal accounting officer. The Code of Conduct and Ethics may be found on the Company's website at www.aehr.com under the heading "Investors" and the subheading "Investor Relations." The Company will disclose any amendment to the Code of Conduct and Ethics or waiver of a provision of the Code of Conduct and Ethics, including the name of the officer to whom the waiver was granted, on the Company's website at www.aehr.com under the heading "Investors" and the subheading "Investor Relations."

Board Leadership Structure and Role in Risk Oversight

The Board of Directors maintains a structure that currently separates the positions of Chairman of the Board of Directors and Chief Executive Officer with Rhea J. Posedel currently serving in the position of Chairman of the Board of Directors and Gayn Erickson currently serving in the position of Chief Executive Officer of the Company, and with an Audit Committee, Corporate Governance and Nominating Committee and Compensation Committee for oversight of specific areas of responsibility. The Company believes that this structure is appropriate and allows for efficient and effective oversight, given the Company's relatively small size (both in terms of number of employees and in scope of operational activities directly conducted by the Company) and its corporate strategy. The Board of Directors does not have a lead independent director nor does the Board have a specific role in risk oversight of the Company. The Chairman of the Board, Chief Executive Officer, the Committees of the Board and, as needed, other executive officers and employees of the Company provide the Board of Directors with information regarding the Company's risks. The Board of Directors, or the Committee with special responsibility for oversight of the area implicated by the highlighted risks, then uses this information to perform its oversight role and inform its decision making with respect to such areas of risk.

Communications with the Board

The Company does not have a formal policy regarding shareholder communication with the Board of Directors. However, shareholders may communicate with the Board by submitting a letter to the attention of the Chairman of the Board, c/o Aehr Test Systems, 400 Kato Terrace, Fremont, CA 94539. Communication received in writing will be collected, organized and processed by the Chairman of the Board who will distribute the communications to the members of the Board of Directors, as appropriate, depending on the facts and circumstances outlined in the communication received.

Item 11. Executive Compensation

Compensation Discussion and Analysis

General Philosophy

The Company compensates the Company's executive officers through a combination of base salary, cash bonus and equity compensation designed to be competitive with comparable companies. The Company's primary objectives of the overall executive compensation program are to attract, retain, motivate and reward Company executive officers while aligning their compensation with the achievements of key business objectives and maximization of shareholder value.

The Company's compensation programs are designed to:

1. reward executive officers for performance and link executive compensation to the creation of shareholder value through the use of performance and equity-based compensation;
2. attract, retain and motivate highly qualified executive officers by compensating them at a level that is competitive with other companies in similar industries;
3. share the risks and rewards of the Company's business with the Company's executive officers; and
4. maximize long-term shareholder returns by utilizing compensation funds in a cost-effective manner.

To achieve these objectives, the Company has implemented and maintains compensation plans that tie a significant portion of executive officers' overall compensation to the Company's financial performance and common stock price. In determining the compensation for the Company's executive officers, the Company considers a number of factors, including information regarding comparably sized companies in the semiconductor equipment and materials industries in the United States. The Company also considers the level of the executive officer, the geographical region in which the executive officer resides and the executive officer's overall performance and contribution to the Company. The compensation packages provided by the Company to its executive officers, including the named executive officers, include both cash-based and equity-based compensation. A component of these compensation packages is linked to the performance of individual executive officers as well as Company-wide performance objectives. The Compensation Committee ensures that the total compensation paid to the Company's executive officers is competitive and consistent with the Company's compensation philosophy and corporate governance guidelines. The Compensation Committee relies upon Company employees, personal knowledge of semiconductor equipment industry compensation practices, compensation data in SEC filings, and national and regional compensation surveys to provide information and recommendations to establish specific compensation packages for executive officers.

Role of Compensation Committee

The Company's executive officer compensation program is overseen and administered by the Compensation Committee. The Compensation Committee reviews and advises the Board of Directors regarding all forms of compensation to be provided to the executive officers of the Company. The Compensation Committee is appointed by the Company's Board of Directors, and consists of Messrs. Anderson and Elder, each of whom is an "outside director" for purposes of Section 162(m) of the Internal Revenue Code and a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act.

The Company's Compensation Committee has primary responsibility for ensuring that the Company's executive officer compensation and benefit program is consistent with the Company's compensation philosophy and corporate governance guidelines and for determining the executive compensation packages offered to the Company's executive officers.

The Compensation Committee is responsible for:

1. determining the specific executive officer compensation methods to be used by the Company and the participants in each of those specific programs;
2. determining the evaluation criteria and timelines to be used in those programs;
3. determining the processes that will be followed in the ongoing administration of the programs; and
4. determining their role in the administration of the programs.

Many of the actions take the form of recommendations to the full Board of Directors where final approval, rejection or redirection may occur. The Compensation Committee is responsible for administering the compensation programs for all Company executive officers. The Compensation Committee has delegated the responsibility of administering the compensation programs for all other Company employees to the Company's officers.

Elements of Compensation

In structuring the Company's compensation program, the Compensation Committee seeks to select the types and levels of compensation that will further its goals of rewarding performance, linking executive officer compensation to the creation of shareholder value, attracting and retaining highly qualified executive officers and maximizing long-term shareholder returns.

The Company designs base salary to provide the essential reward for an executive officer's work. Once base salary levels are initially determined, increases in base salary are provided to recognize an executive officer's specific performance achievements.

The Company utilizes equity-based compensation, including stock options and restricted stock units, to ensure that the Company has the ability to retain executive officers over a longer period of time, and to provide executive officers with a form of reward that aligns their interests with those of the Company's shareholders. Executive officers whose skills and results the Company deems to be critical to the Company's long-term success are eligible to receive higher levels of equity-based compensation.

The Company also utilizes various forms of performance-based compensation, including cash bonuses and commissions that allow the Company to remain competitive with other companies while providing additional compensation for an executive officer's outstanding results and for the achievement of corporate objectives.

Core benefits, such as the Company's basic health benefits, 401(k) program, Employee Stock Ownership Plan, or ESOP, and life insurance, are designed to provide support to executive officers and their families.

Currently, the Company uses the following executive officer compensation vehicles:

- Cash-based programs: base salary, annual bonus plan and a revenue commission plan; and
- Equity-based programs: The 2006 Equity Incentive Plan, the 2006 Employee Stock Purchase Plan, or ESPP, and the ESOP.

These programs apply to all executive level positions, except for the revenue commission plan, which only applies to Mark Allison, the Vice President of Worldwide Sales. Periodically, but at least once near the close of each fiscal year, the Compensation Committee reviews the existing plans and recommends those that should be used for the subsequent year.

Consistent with the Company's compensation philosophy, the Company has structured each element of the Company's executive officer compensation program as described below.

Base Salary

The Company creates a set of base salary structures that are both affordable and competitive in relation to the market. The Company determines the Company's executive officer salaries based on job responsibilities and individual experiences. The Company monitors base salary levels within the market and makes adjustments to the Company's structures as needed after considering the recommendations of management. The Company's Compensation Committee reviews the salaries of the Company's executive officers annually, and the Company's Compensation Committee grants increases in salaries based on individual performance during the prior calendar year, provided that any increases are within the guidelines determined by the Compensation Committee for each position.

Annual Bonus

The Company's executive annual bonus plan provides for cash bonus awards, dependent upon attaining stated corporate objectives and personal performance goals. The Company's executive officers are eligible to receive cash bonuses based upon the Company's achievement of certain financial and performance goals set by the Compensation Committee. The Compensation Committee approves the performance criteria on an annual basis and these financial and performance goals typically have a one-year time horizon. The Compensation Committee believes that the practice of awarding incentive bonuses based on the achievement of performance goals furthers the Company's goal of strengthening the connection between the interests of management and the Company's shareholders.

In fiscal 2016, the Company's Compensation Committee determined the maximum eligible cash bonus levels for Gayn Erickson, the Company's Chief Executive Officer, Gary L. Larson, former Chief Financial Officer, Kenneth B. Spink, current Chief Financial Officer, and David Fucci, Vice President of Operations were up to 80%, 40%, 40% and 40% of their base salaries, respectively. Carl Buck, the Company's Vice President of Marketing was eligible to receive a maximum bonus of $50,000, and additional $10,000, depending upon performance against milestones. David S.

Hendrickson, the Company's Vice President of Engineering was eligible to receive a maximum bonus of $70,000, depending upon performance against milestones. Kunio Sano, the President of Aehr Test Systems Japan K.K, or ATS-J, was eligible to receive a target bonus of $10,000 plus 1% of ATS-J revenues over target. Based on the corporate financial performance for the year, the Compensation Committee awarded no cash bonuses to the Company's Chief Executive Officer, Chairman, Chief Financial Officer and Vice Presidents. The annual incentive bonus plan is discretionary, and the Compensation Committee may modify, suspend, eliminate or adjust the plan, the goals and the total or individual payouts at any time.

In fiscal 2017, Gayn Erickson, the Company's Chief Executive Officer, Kenneth B. Spink, Chief Financial Officer, Carl Buck, Vice President of Marketing and David Fucci, Vice President of Operations are eligible to receive a maximum cash bonus of up to 100%, 60%, 60% and 60%, respectively of their base salaries depending on Company performance. David S. Hendrickson, the Company's Vice President of Engineering is eligible to receive a maximum bonus of $50,000, depending upon performance against milestones. Kunio Sano, the President of ATS-J, is eligible to receive a target bonus of $10,000 plus 1% of ATS-J revenues over target.

Revenue Commission

During fiscal 2016 and 2017, Mark Allison, the Vice President of Worldwide Sales was and will be eligible to receive revenue commission based on achievement of revenue objectives or quotas. Mark Allison receives a standard commission for revenue up to 100% of quota and accelerated commissions based on revenue above quota. Commissions are considered earned at the time of revenue recognition and are paid after the close of the quarter of revenue recognition.

Under this plan, Mark Allison, the Vice President of Worldwide Sales earned $38,367 in fiscal 2016 and was paid $34,135 during fiscal 2016. The remaining $4,232 earned in fiscal 2016 was paid to Mark Allison in fiscal 2017. Commissions earned by Mark Allison in fiscal 2016 are included in the annual compensation salary column in the Summary Compensation Table in "Item 11. Executive Compensation" on page 60.

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Equity Compensation

The Company awards equity compensation to the Company's executive officers based on the performance of the executive officer and guidelines related to each executive officer's position in the Company. The Company determines the Company's equity compensation guidelines based on information derived from the Company's experience with other companies and, with respect to the Company's executive officers, informal surveys of companies in the Company's industry. The Company typically bases awards to newly hired executive officers and for continuing executive officers on these guidelines as well as an executive officer's performance for the prior fiscal year. The Company evaluates each executive officer's awards based on the factors described above and competitive practices in the Company's industry. The Company believes that stock option ownership is an important factor in aligning corporate and individual goals. The Company utilizes equity-based compensation, including stock options, to encourage long-term performance with corporate performance and extended executive officer tenure producing potentially significant value.

The Company's Compensation Committee generally grants stock options and restricted stock units to executive officers. Such grants are typically made at the first meeting of the Board of Directors held each fiscal year. The Company believes annual awards at this time allow the Compensation Committee to consider a number of factors related to the option award decisions, including corporate performance for the prior fiscal year, executive officer performance for the prior fiscal year and expectations for the upcoming fiscal year. With respect to newly hired executive officers, the Company's standard practice is to make stock option grants effective on or shortly after the executive officer's hire date. The Company does not plan or time the Company's stock option grants in coordination with the release of material non-public information for the purpose of affecting the value of executive officer compensation.

The criteria for determining the appropriate salary level, bonus and stock option grants for each of the executive officers include: (a) Company performance as a whole; (b) business unit performance (where appropriate); and (c) individual performance. Company performance and business unit performance are measured against both strategic and financial goals. Examples of these goals are to obtain operating profit, revenue growth, and timely new product introduction. Individual performance is measured to specific objectives relevant to the executive officer's position and a specific time frame.

These criteria are usually related to a fiscal year time period, but may, in some cases, be measured over a shorter or longer time frame.

The processes used by the Compensation Committee include the following steps:

1. The Compensation Committee periodically reviews information comparing the Company's compensation levels to other companies in similar industries, other leading companies (regardless of industry) and competitors. Primarily, personal knowledge of semiconductor equipment industry compensation practices, compensation data in SEC filings, and national and regional compensation surveys are used.
2. At or near the start of each evaluation cycle, the Compensation Committee meets with the Chief Executive Officer to review, revise as needed, and agree on the performance objectives set for the other executive officers. The Chief Executive Officer and Compensation Committee jointly set the Company objectives to be used. The business unit and individual objectives are formulated jointly by the Chief Executive Officer and the specific individual. The Compensation Committee also, with the Chief Executive Officer, jointly establishes and agrees on respective performance objectives of each executive officer.
3. Throughout the performance cycle review, feedback is provided by the Chief Executive Officer, the Compensation Committee and the Board of Directors, as appropriate.
4. At the end of the performance cycle, the Chief Executive Officer evaluates each other executive officers' relative success in meeting the performance goals. The Chief Executive Officer makes recommendations on salary, bonus and stock options, utilizing the comparative results as a factor. Also included in the decision criteria are subjective factors such as teamwork, leadership contributions and ongoing changes in the business climate. The Chief Executive Officer reviews the recommendations and obtains Compensation Committee approval.
5. The final evaluations and compensation decisions are discussed with each executive officer by the Chief Executive Officer or Compensation Committee, as appropriate.

In fiscal 2016, the Company granted a total of 127,500 RSUs and options to purchase shares of the Company's common stock of which a total of 64,000 RSUs and options were granted to the Company's executive officers, representing 50.2% of all RSUs and options granted in fiscal 2016. The Company's Compensation Committee does not apply a formula for allocating stock options to executive officers. Instead, the Company's Compensation Committee considers the role and responsibilities of the executive officers, competitive factors, the non-equity compensation received by the executive officers and the total number of options to be granted in the fiscal year.

Other Benefits

Executive officers are eligible to participate in all of the Company's employee benefit plans, such as medical, dental, group life, disability, and accidental death and dismemberment insurance, the Company's 401(k) plan, the Company's 2006 Equity Incentive Plan, ESOP, and ESPP. The executive officers participate on the same basis as other employees, except that the company made payments for a supplemental insurance to cover the uninsured out-of-pocket amounts related to healthcare for the executive officers. Other than these payments, there were no other special benefits or perquisites provided to any executive officer in fiscal 2016. During fiscal 2016, the Company made payments for health and life insurance premiums and medical costs as reflected in the Summary Compensation Table on page 60 under the "All Other Compensation" column. The Company does not maintain any pension plan, retirement benefit or deferred compensation arrangement other than the Company's 401(k) plan and ESOP. The Company is not required to make contributions to the 401(k) plan and did not make any during fiscal 2016. During fiscal 2016, the Company contributed $60,000 to the Company's ESOP.

The Company entered into Change of Control Severance Agreements on January 24, 2001 with Mr. Carl N. Buck, and Mr. David S. Hendrickson; on September 7, 2011 with Mr. Kunio Sano; on January 3, 2012 with Mr. Gayn Erickson; on August 12, 2013 with Mr. Mark Allison; on June 2, 2014 with Mr. David Fucci; and on September 9, 2015 with Mr. Kenneth B. Spink; pursuant to which those executives would be entitled to a payment in the event of a termination of employment for specified reasons following a change of control of the Company. For this purpose, a change of control of the Company means a merger or consolidation of the Company, a sale by the Company of all or substantially all of its assets, the acquisition of beneficial ownership of a majority of the outstanding voting securities of the Company by any person or a change in the composition of the Board as a result of which fewer than a majority of the directors are incumbent directors. Termination of employment for purposes of these agreements means a discharge of the executive officer by the Company, other than for specified causes including dishonesty, conviction of a felony, misconduct or wrongful acts. Termination also includes resignation following the occurrence of an adverse change in the executive officer's position, duties, compensation or work conditions. The amounts payable under the agreements will change from year to year based on the executive's compensation.

In the event of a termination following a change of control, the amounts payable to Messrs. Allison, Buck, Erickson, Fucci, Hendrickson, Sano, and Spink based on their base salaries at May 31, 2016, would be approximately $96,000, $92,000, $444,000, $101,000, $136,000, $77,000 and $150,000, respectively. In addition to the amounts payable to the executive officers mentioned in the previous sentence, the aggregate values of the acceleration of vesting of the executive officers' unvested stock options based on the spread between the closing price of the Company's common stock on May 31, 2016 (the last business day of the last fiscal year) of $1.01 and the exercise price of the stock options would be zero for all executive officers.

Compensation of the Chief Executive Officer

The Compensation Committee used the same compensation policy described above for all executive officers to determine the compensation for Mr. Gayn Erickson, the Company's Chief Executive Officer, in fiscal year 2016. In setting both the cash-based and the equity-based elements of Mr. Erickson's compensation, the Compensation Committee considered the company's performance, competitive forces taking into account Mr. Erickson's experience and knowledge, and Mr. Erickson's leadership in achieving the Company's long-term goals. During fiscal year 2016, Mr. Erickson received restricted stock units under the Company's 2006 Equity Incentive Plan for 35,000 shares, which vest subject to the achievement of a performance condition. This performance condition was met in fiscal year 2016. The Compensation Committee believes Mr. Erickson's fiscal year 2016 compensation was fair relative to the Company's performance and Mr. Erickson's individual performance and leadership, and that it rewards him for this performance and will serve to retain him as a key employee.

Policy on Deductibility of Compensation

The Company is required to disclose the Company's policy regarding qualifying executive compensation for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides that, for purposes of the regular income tax, the otherwise allowable deduction for compensation paid or accrued with respect to the executive officers of a publicly-held company, which is not performance-based compensation, is limited to no more than $1 million per year. It is not expected that the compensation to be paid to the Company's executive officers for fiscal 2016 will exceed the $1 million limit per officer; however, to the extent such compensation to be paid to such executive officers exceeds the $1 million limit per officer, such excess will be treated as performance-based compensation.

Compensation of Executive Officers

The following table shows information concerning compensation awarded to, earned by or paid for services to the Company in all capacities during the fiscal years ended May 31, 2016, 2015 and 2014 by the Company's Chief Executive Officer, Chairman, Chief Financial Officer and each of the three other most highly compensated executive officers with annual compensation in excess of $100,000 for the fiscal years ended May 31, 2016, 2015 and 2014.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary (1)	Bonus (2)	Stock Awards	Option Awards (3)	All Other Compensation (4)	Total
Gayn Erickson	2016	$273,192	--	$75,600	$125,148	$34,061 (5)	$508,001
President and Chief Executive	2015	$275,018	--	--	$202,053	$26,517	$503,588
Officer	2014	$230,702	$ 4,384	--	$ 75,206	$27,754	$338,046
Kenneth B. Spink	2016	$173,983	--	--	$ 22,160	$12,237 (6)	$208,380
Vice President of Finance and Chief Financial Officer							
Gary L. Larson	2016	$ 66,489	--	--	$ 22,281	$10,773 (7)	$ 99,543
Former Vice President of Finance	2015	$192,964	--	--	$ 39,178	$12,269	$244,411
and Chief Financial Officer	2014	$179,155	$ 1,332	--	$ 30,141	$45,448	$256,076
David S. Hendrickson	2016	$232,149	--	--	$ 58,643	$42,154 (8)	$332,946
Vice President of Engineering	2015	$232,149	--	--	$ 53,930	$38,793	$324,872
	2014	$210,972	$20,000	--	$ 44,377	$69,963	$345,312
Mark Allison (12)	2016	$219,574	--	--	$ 46,469	$15,215 (9)	$281,258
Vice President of	2015	$207,630	--	--	$ 44,151	$ 7,224	$259,005
Worldwide Sales	2014	$202,633	--	--	$ 23,893	$25,158	$251,684
David Fucci	2016	$174,013	--	--	$ 40,833	$30,118 (10)	$244,964
Vice President of Operations	2015	$162,635	--	--	$ 31,130	$22,799 (11)	$216,564

(1) The amounts in this column include any salary contributed by the named executive officer to the Company's 401(k) plan.

(2) Bonus amounts earned in fiscal 2014 were made under the Company's executive bonus plan.

(3) The amounts in this column represent the dollar amount recognized for financial statement reporting purposes computed in accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification 718, or ASC 718, "Compensation – Stock Compensation," (formerly FASB Statement 123R). See Note 1 of the Notes to the Consolidated Financial Statements of the Company's Annual Report on

Form 10-K for the fiscal years ended May 31, 2016, 2015 and 2014 for assumptions used to estimate the fair value of options granted during fiscal years 2016, 2015 and 2014.

(4) Consists of contributions made by the Company under its ESOP, health and life insurance premiums and medical costs paid by the Company during the fiscal years ended May 31, 2016, 2015 and 2014.
(5) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $31,180.
(6) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $10,565.
(7) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $10,017.
(8) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $39,856.
(9) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $12,984.
(10) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $28,448.
(11) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $21,094.
(12) The amount shown in the Salary column for fiscal 2016 includes $38,367 in commissions earned in fiscal 2016.

Grants of Plan Based Awards in Fiscal 2016

The following table provides information with regard to each grant of an award made to the persons named in the Summary Compensation Table during the fiscal year ended May 31, 2016.

Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) Target ($)	Maximum ($)	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Option # (2)	Exercise Price of Option Awards ($) (3)	Grant Date Fair Value of Stock Option Awards ($)
Gayn Erickson	$110,007	$220,014	6/23/15	35,000 (4)	--	--	$75,600
Kenneth B. Spink	$38,000	$76,000	9/9/15	--	29,000	$2.30	$41,827
Gary L. Larson	$41,787	$83,574		--	--	--	--
David S. Hendrickson	$70,000	$70,000		--	--	--	--
Mark Allison (5)	$--	$--		--	--	--	--
David Fucci	$34,800	$69,600		--	--	--	--

(1) Reflects the target and maximum values of cash bonus award to the named executive officers in fiscal 2016. The cash bonus award amounts actually earned by the named executive officers in fiscal 2016 are shown in the Summary Compensation Table for fiscal 2016 under the heading "Annual Compensation, Bonus" refer to "Compensation Discussion and Analysis" above for a description of the cash bonus compensation.
(2) The stock options granted in fiscal 2016 are generally exercisable starting one month after the date of grant, with 1/48th of the shares covered thereby becoming exercisable at that time and with an additional 1/48th of the total number of option shares becoming exercisable each month thereafter, with full vesting occurring on the fourth anniversary of the date of grant. These options generally expire seven years from the date of grant.
(3) Options are granted at an exercise price equal to the fair market value of the Company's common stock, as determined by reference to the closing price reported by the Nasdaq Capital Market on the date of grant.
(4) Mr. Erickson received restricted stock units under the Company's 2006 Equity Incentive Plan for 35,000 shares which vest subject to the achievement of a performance condition. This performance condition was met in fiscal 2016.
(5) Mr. Allison is eligible to receive revenue commission instead of a cash bonus award. Mr. Allison is eligible to receive $75,000 at the target worldwide consolidated revenues, plus 0.528% of worldwide consolidated revenues above target worldwide consolidated revenues.

Outstanding Equity Awards at Fiscal 2016 Year-End

The following table presents certain information concerning the outstanding equity awards held as of May 31, 2016 by each named executive officer.

	Option Awards			
	Number of Securities Underlying Unexercised Options (1)		Option Exercise	Option Expiration
Name	Exercisable	Unexercisable	Price (2)	Date (3)
Gayn Erickson	341,667	--	$0.5900	1/3/2019
	53,854	1,146	$1.2710	6/26/2019
	69,270	25,730	$1.2800	6/25/2020
	43,749	56,251	$2.7100	8/20/2021
	15,437	41,563	$2.1000	4/21/2022
Kenneth B. Spink	1,300	--	$1.2500	7/8/2018
	7,250	250	$1.2710	6/26/2016
	9,062	4,063	$1.2800	6/25/2020
	5,250	6,750	$2.7100	8/20/2021
	2,572	6,928	$2.1000	4/21/2022
	4,833	24,167	$2.3000	9/9/2022
David S. Hendrickson	40,000	--	$1.2500	7/8/2018
	39,166	834	$1.2710	6/26/2019
	54,687	20,313	$1.2800	6/25/2020
	24,609	31,641	$2.7100	8/20/2021
	6,770	18,230	$2.1000	4/21/2022
Mark Allison	58,437	26,563	$1.7300	8/12/2020
	15,312	19,688	$2.7100	8/20/2021
	5,416	14,584	$2.1000	4/21/2022
David Fucci	38,333	41,667	$2.2750	6/2/2021
	5,416	14,584	$2.1000	4/21/2022

(1) Stock options outstanding are generally exercisable starting one month after the date of grant, and with an additional 1/48th of the total number of option shares becoming exercisable each month thereafter, with full vesting occurring on the fourth anniversary of the date of grant.

(2) Options are granted at an exercise price equal to the fair market value of the Company's common stock, as determined by reference to the closing price reported by the Nasdaq Capital Market on the date of grant.

(3) These options generally expire either five or seven years from the date of grant.

Option Exercises and Stock Vested in Fiscal 2016

During the fiscal year ended May 31, 2016, there were no options exercised by the persons named in the Summary Compensation Table.

Potential Payments Upon Termination or Change of Control

The following table shows the potential payments upon termination or change of control for the persons named in the Summary Compensation Table as of May 31, 2016.

Named Executive Benefits and Payments Upon Termination:	Involuntary Termination not for Cause Following a Change of Control (1)
Gayn Erickson	
Base salary	$412,500
Medical continuation	31,180
Kenneth B. Spink	
Base salary	$142,500
Medical continuation	7,924
David S. Hendrickson	
Base salary	$116,075
Medical continuation	19,928
Mark Allison	
Base salary	$90,000
Medical continuation	6,492
David Fucci	
Base salary	$87,000
Medical continuation	14,224

(1) A change of control of the Company means a merger or consolidation of the Company, a sale by the Company of all or substantially all of its assets, the acquisition of beneficial ownership of a majority of the outstanding voting securities of the Company by any person or a change in the composition of the Board as a result of which fewer than a majority of the directors are incumbent directors. Involuntary termination not for cause means a discharge of the executive by the Company, other than for specified causes including dishonesty, conviction of a felony, misconduct or wrongful acts, and also includes resignation following the occurrence of an adverse change in the executive officer's position, duties, compensation or work conditions.

Director Compensation

Rhea J. Posedel and Gayn Erickson, inside directors of the Company, do not receive any compensation for their services as members of the Board of Directors. An inside director is a director who is a regular employee of the Company, whereas an outside director is not an employee of the Company. Each outside director received (1) an annual retainer of $25,000 paid in quarterly installments, (2) $2,500 for each regular board meeting such member attended, and (3) $1,250 for each special telephonic board meeting such member attended. Committee members attending a committee meeting not held in conjunction with a regular board meeting received the following amounts: audit committee chair - $2,000; audit committee member - $1,500; compensation committee chair - $1,750; and other committee members - $1,250. Committee members attending a committee meeting held in conjunction with a regular board meeting received 50% of the amounts noted above for each respective committee member. Outside directors are also reimbursed for certain expenses incurred in attending board and committee meetings.

Directors are also eligible to participate in the Company's 2006 Equity Incentive Plan. On October 20, 2015, outside directors Robert Anderson, William Elder, Mario Rosati, John Schneider and Howard Slayen were each granted options to purchase 10,000 shares at $2.17 per share. All exercise prices are equal to the closing price of the Company's common stock on the date of the grant as reported on the Nasdaq Capital Market.

The following table sets forth the compensation paid by the Company during the fiscal year ended May 31, 2016 to the Company's non-executive officer directors:

Director Compensation

Name	Year	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)	Non-equity Incentive Plan Compensation ($)	All Other Compensation ($) (2)	Total Compensation ($)
Rhea J. Posedel	2016	$95,389(3)	$31,994	--	$15,213	$142,596
Robert R. Anderson	2016	23,000	$31,329	--	--	$ 54,329
William W. R. Elder	2016	18,750	$29,376	--	--	$ 48,126
Mario M. Rosati	2016	18,750	$28,009	--	--	$ 46,759
John M. Schneider	2016	17,750	$39,564	--	--	$ 57,314
Howard T. Slayen	2016	24,000	$31,134	--	--	$ 55,134

(1) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended May 31, 2016 in accordance with the provisions of FASB ASC 718. See Note 1 of the Notes to Consolidated Financial Statements regarding the assumptions underlying valuation of equity awards. Rhea Posedel was not granted any option award during fiscal 2016. The full grant date fair values of the awards granted in fiscal 2016 to outside directors Robert Anderson, William Elder, Mukesh Patel, Mario Rosati, John Schneider and Howard Slayen, computed in accordance with ASC 718, were equal to $13,391 each. At the end of fiscal 2016, the aggregate number of option awards outstanding for each director was as follows: 165,500 held by Rhea Posedel; 103,513 held by Robert Anderson; 157,622 held by William Elder, 173,254 held by Mario Rosati, 49,259 held by John Schneider and 189,298 held by Howard Slayen. Options granted generally vest at either one-sixth (1/6th), one-twelfth (1/12th) or one-forty-eighth (1/48th) of the shares each month after the date of grant, so long as the optionee remains a director of the Company.

(2) Includes health and life insurance premiums and medical costs paid by the Company in the amount of $14,429, and contributions made by the Company under its ESOP in the amount of $784.

(3) Reflects salary earned by Rhea Posedel in fiscal 2016 as an employee of the Company.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Anderson and Elder. No interlocking relationship exists between the Company's Board of Directors and Compensation Committee and the board of directors or compensation committee of any other company.

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

Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,285,744 (1)	$1.65	1,979,311
Equity compensation plans not approved by security holders	--	--	--
Total	3,285,744	$1.65	1,979,311

(1) Issued pursuant to the Company's 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan.

The following table sets forth certain information regarding the beneficial ownership of the Company's common stock as of August 1, 2016, or some other practical date in cases of the principal shareholders, by: (i) each person (or group of affiliated persons) known to the Company to be the beneficial owner of more than 5% of the Company's common stock, (ii) each director of the Company, (iii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, and (iv) all directors and executive officers of the Company as a group:

	Shares Beneficially Owned(1)	
Beneficial Owner	**Number**	**Percent(2)**
Directors and Named Executive Officers:		
Rhea J. Posedel (3)	1,120,474	8.4%
Gayn Erickson (4)	883,347	6.4%
Robert R. Anderson (5)	791,060	5.9%
William W. R. Elder (6)	283,790	2.1%
Mario M. Rosati (7)	396,548	2.9%
John M. Schneider (8)	1,278,604	9.6%
Howard T. Slayen (9)	307,487	2.3%
Kenneth B. Spink (10)	36,726	*
David S. Hendrickson (11)	241,468	1.8%
Mark Allison (12)	97,839	*
David Fucci (13)	63,868	*
All Directors and Executive Officers as a group (13 persons) (14)	5,769,427	38.1%
Principal Shareholders:		
QVT Financial LP (15)	1,410,548 (16)	9.6%
1177 Avenue of the Americas, 9th Floor, New York, NY 10036		

* Represents less than 1% of the Common Shares

(1) Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have represented to the Company that they have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Unless otherwise indicated, the address of each of the individuals listed in the table is c/o Aehr Test Systems, 400 Kato Terrace, Fremont, California 94539.

(2) Percentage ownership is based on 13,331,965 shares of common stock outstanding on August 1, 2016. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of August 1, 2016 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 991,289 shares held by the Rhea J. Posedel Family Trust, and 83,218 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(4) Includes 547,903 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(5) Includes 706,122 shares held by the Robert Anderson 2000 Revocable Trust, and 84,938 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(6) Includes 3,000 shares held by Derek S. Elder, Mr. Elder's son, 111,800 shares held by William WR Elder & Gloria L S Elder, Trustees of the Elder Family Trust DTD 12/02/88, and 156,788 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(7) Includes 27,000 shares held by Mario M. Rosati and Douglas Laurice, trustees for the benefit of Mario M. Rosati, 151,016 shares held by Mario M. Rosati, Trustee of the Mario M. Rosati Trust, U/D/T dated 1/5/90, 22,500 shares held by WS Investment Company, LLC (2001A) for which Mr. Rosati is a general partner, 19,911 shares held by Mario M. Rosati and Danelle Storm Rosati, Trustees of the Rosati Family Trust U/D/T dated May 23, 1997, and 172,420 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(8) Includes 398,500 shares held by PWA Real Estate, LLC for which Mr. Schneider is an affiliate, 331,800 shares held by Private Wealth Adv 401K PSP for which Mr. Schneider is the owner, 305,176 shares held by Dharma Group Insurance Co for which Mr. Schneider is an affiliate, 14,860 shares held by Carla Frank for which Mr. Schneider is an advisor, and Mr. Schneider is the custodian for 7,925, 7,225, 3,775, and 810 shares held in custodial accounts for the benefit of Beatrice Schneider, Helena Schneider, Alexandria Schneider and Ava

Schneider, respectively, and 39,987 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(9) Includes 188,464 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(10) Includes 36,726 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(11) Includes 179,555 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(12) Includes 91,457 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(13) Includes 52,708 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(14) Includes 1,796,932 shares issuable upon the exercise of stock options exercisable within 60 days of August 1, 2016.

(15) Includes 1,410,548 shares on Schedule 13G filed April 20, 2015 with the SEC by QVT Financial LP.

(16) The shares are issuable upon conversion of outstanding Convertible Notes.

Item 13. Certain Relationships and Related Transactions

Review, Approval or Ratification of Transactions with Related Persons

In its ordinary course of business, the Company enters into transactions with certain of its directors and officers. The Company believes that each such transaction has been on terms no less favorable for the Company than could have been obtained in a transaction with an independent third party. The Company's policy is to require that any transaction with a related party that is required to be reported under applicable SEC rules, be reviewed and approved according to an established procedure. Such a transaction is reviewed and approved by the Company's Audit Committee as required by the Audit Committee's charter. We have not adopted specific standards for approval of these transactions, but instead we review each such transaction on a case by case basis.

Legal Counsel

During fiscal 2016, Mr. Mario M. Rosati, a member of the Board of Directors of the Company, was also a member of the law firm of Wilson Sonsini Goodrich & Rosati, Professional Corporation, or WSGR. The Company retained WSGR as its legal counsel during the fiscal year. The Company plans to retain WSGR as its legal counsel again during fiscal 2017.

Item 14. Principal Accountant Fees and Services

The following table sets forth the aggregate fees billed or to be billed by Burr Pilger Mayer, Inc. for the fiscal years ended May 31, 2016 and 2015:

DESCRIPTION OF SERVICES	2016	2015
Total Audit Fees	$168,760	$165,457

Audit Fees. Aggregate fees billed or to be billed for professional services rendered for the audit of the Company's fiscal 2016 and fiscal 2015 annual consolidated financial statements and for the review of the condensed consolidated financial statements included in the Company's quarterly reports during such periods and for the review of the Company's Registration Statement on Form S-8.

The Audit Committee pre-approves all audit and other permitted non-audit services provided by the Company' independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a budget. The Audit Committee may also pre-approve particular services on a case-by-case basis. The Audit Committee has delegated the authority to grant pre-approvals to the committee chair, when the full Audit Committee is unable to do so. These pre-approvals are reviewed by the full Audit Committee at its next regular meeting. In fiscal 2016, all audit and non-audit services were pre-approved in accordance with the Company's policy.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1. Financial Statements

   See Index under Item 8.

2. Financial Statement Schedule

   See Index under Item 8.

3. Exhibits

   See Item 15(b) below.

(b) Exhibits

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

Exhibit No.	Description
3.1(1)	Restated Articles of Incorporation of Registrant.
3.2(2)	Amended and Restated Bylaws of Registrant.
4.1(3)	Form of Common Stock certificate.
4.2(4)	Convertible Note Purchase and Credit Facility Agreement, dated April 10, 2015, by and among Aehr Test Systems, QVT Fund LP and Quintessence Fund L.P.
4.3	Form of 9.0% Convertible Secured Note due 2017 (included in Exhibit 4.2)
4.4	Form of 5.0% Secured Revolving Credit Note (included in Exhibit 4.2)
4.5(5)	Registration Rights Agreement, dated April 10, 2015, by and among Aehr Test Systems, QVT Fund LP and Quintessence Fund L.P.
10.1(6)	2006 Equity Incentive Plan.*
10.2(7)	2006 Employee Stock Purchase Plan.*
10.3(8)	Form of Indemnification Agreement entered into between Registrant and its directors and executive officers.*
10.5(9)	Form of Change of Control Agreement.*
10.6(10)	Lease dated August 3, 1999 for facilities located at Building C, 400 Kato Terrace, Fremont, California.
10.6.1(11)	First Amendment dated May 06, 2008 for facilities located at 400 Kato Terrace, Fremont, California.
10.6.2(12)	Second Amendment dated November 7, 2014 for facilities located at 400 Kato Terrace, Fremont, California.
10.10(13)	Offer Letter dated January 3, 2012, between the Company and Gayn Erickson.*
10.11(14)	Offer Letter dated March 5, 2013, between the Company and Rhea Posedel.*
10.12(15)	Change of Control Severance Agreement dated January 3, 2012, between the Company and Gayn Erickson.*
10.13(16)	Amended and Restated Change of Control Severance Agreement dated March 5, 2013, between the Company and Rhea J. Posedel.*
10.14(17)	Common Stock Purchase Agreement by and among the Company and the Investors (defined therein), dated as of March 15, 2013.
10.15(18)	Common Stock Purchase Agreement by and among the Company and the Investors (defined therein), dated as of November 24, 2014.
10.16(19)	Security Agreement, dated April 10, 2015, by and among Aehr Test Systems, QVT Fund LP and Quintessence Fund L.P.
10.17	Form of 2006 Equity Incentive Plan Stock Option Award Agreement.*
10.18	Form of 2006 Equity Incentive Plan Restricted Stock Unit Award Agreement.*
21.1	Subsidiaries of the Company.
23.1	Consent of Burr Pilger Mayer, Inc. - Independent Registered Public Accounting Firm (filed herewith).
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).
31.1	Certification Statement of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification Statement of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

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

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

(2) Incorporated by reference to Exhibit No. 3.1 previously filed with the Company's Current Report on Form 8-K filed January 9, 2012 (File No. 000-22893).

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

(4) Incorporated by reference to Exhibit 4.1 previously filed with the Company's Current Report on Form 8-K filed April 14, 2015 (File No. 000-22893).

(5) Incorporated by reference to Exhibit 4.4 previously filed with the Company's Current Report on Form 8-K filed April 14, 2015 (File No. 000-22893).

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

(7) Incorporated by reference to Exhibit 4.2 previously filed with the Company's Registration Statement on Form S-8 filed October 27, 2006 (File No. 333-138249).

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

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

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

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

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

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

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

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

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

(17) Incorporated by reference to Exhibit No. 10.1 previously filed with the Company's Current Report on Form 8-K filed March 20, 2013 (File No. 000-22893).

(18) Incorporated by reference to Exhibit No. 10.1 previously filed with the Company's Current Report on Form 8-K filed November 26, 2014 (File No. 000-22893).

(19) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed April 14, 2015 (File No. 000-22893).

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

SIGNATURES

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

Dated: August 29, 2016

AEHR TEST SYSTEMS

By: /s/ GAYN ERICKSON
Gayn Erickson
PRESIDENT AND CHIEF EXECUTIVE OFFICER

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ GAYN ERICKSON Gayn Erickson	President, Chief Executive Officer, and Director (Principal Executive Officer)	August 29, 2016
/s/ KENNETH B. SPINK Kenneth B. Spink	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	August 29, 2016
/s/ RHEA J. POSEDEL Rhea J. Posedel	Chairman	August 29, 2016
/s/ ROBERT R. ANDERSON Robert R. Anderson	Director	August 29, 2016
/s/ WILLIAM W. R. ELDER William W. R. Elder	Director	August 29, 2016
/s/ MARIO M. ROSATI Mario M. Rosati	Director	August 29, 2016
/s/ JOHN M. SCHNEIDER John M. Schneider	Director	August 29, 2016
/s/ HOWARD T. SLAYEN Howard T. Slayen	Director	August 29, 2016

AEHR TEST SYSTEMS, INC.
2006 EQUITY INCENTIVE PLAN
STOCK OPTION AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

Name ("Participant"): «Name»
Address: «Address»

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number	«GrantNumber»
Date of Grant	«GrantDate»
Vesting Commencement Date	«VCD»
Exercise Price per Share	«SharePrice»
Total Number of Shares Granted	«Shares»
Total Exercise Price	«TotalExercisePrice»
Type of Option:	[ ] Incentive Stock Option
	[ ] Nonstatutory Stock Option
Term/Expiration Date:	«Term» or «ExpiationDate»

Vesting Schedule:

[INSERT VESTING SCHEDULE]

Termination Period:

This Option may be exercised for three months after Optionee ceases to be a Service Provider. Upon the death or Disability of the Optionee, this Option may be exercised for [one year] after Optionee ceases to be a Service Provider. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms arid conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

(1) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(2) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to [Secretary] of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(1) cash;

(2) check;

(3) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(4) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, **and** (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

4. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Tax Consequences. Some of the federal tax consequences relating to this Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(1) Exercising the Option.

(a) Nonstatutory Stock Option. The Optionee may incur regular federal income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such Withholding amounts are not delivered at the time of exercise.

(b) Incentive Stock Option. If this Option qualifies as an ISO, the Optionee will have no regular federal income tax liability upon its exercise, although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise. In the event that the Optionee ceases to be an Employee but remains a Service Provider,

any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option on the date three (3) months and one (1) day following such change of status.

(2) Disposition of Shares.

(a) NSO. If the Optionee holds NSO Shares for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

(b) ISO. If the Optionee holds ISO Shares for at least one year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

(3) Notice of Disqualifying Disposition of ISO Shares. If the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current earnings paid to the Optionee.

7. Entire Agreement Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

8. NO GUARANTEE OF CONTINUED SERVICE. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COM:PANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan an Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:	AEHR TEST SYSTEMS
----------	----------
Signature	By
----------	----------
Print Name	Title
----------	----------
Residence Address	

CONSENT OF SPOUSE

The undersigned spouse of Optionee has read and hereby approves the terms and conditions of the Plan and this Option Agreement. In consideration of the Company's granting his or her spouse the right to purchase Shares as set forth in the Plan and this Option Agreement, the undersigned hereby agrees to be irrevocably bound by the terms and conditions of the Plan and this Option Agreement and further agrees that any community property interest shall be similarly bound. The undersigned hereby appoints the undersigned's spouse as attorney-in-fact for the undersigned with respect to any amendment or exercise of rights under the Plan or this Option Agreement.

Spouse of Optionee

EXHIBIT A

2006 EQUITY INCENTIVE PLAN EXERCISE NOTICE

EXERCISE NOTICE

Aehr Test Systems
400 Kato Terrace
Fremont, CA 94539

Attention: [**Secretary**]

1. Exercise of Option. Effective as of today,_____ , 20_, the undersigned ("Purchaser") hereby elects to purchase_____shares (the "Shares") of the common stock of Aehr Test Systems (the "Company") under and pursuant to the 1996 Stock Option Plan (the "Plan") and the Stock Option Agreement dated _____, 20_ (the "Option Agreement"). The purchase price for the Shares shall be $_____, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:	Accepted by:
PURCHASER:	AEHR TEST SYSTEMS
_____	_____
Signature	By
_____	_____
Print Name	Title
Address:	Address:
_____	400 Kato Terrace Fremont, CA 94539
_____	
	_____
	Date Received

AEHR TEST SYSTEMS, INC.
2006 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the 2006 Equity Incentive Plan, as amended (the "Plan") shall have the same defined meanings in this Restricted Stock Unit Award Agreement and any appendices and exhibits attached thereto (all together, the "Award Agreement").

I. NOTICE OF GRANT OF RESTRICTED STOCK UNITS

Name ("Participant"): «Name»

Address: «Address»

The undersigned Participant has been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Date of Grant:	«GrantDate»
Vesting Commencement Date:	«VCD»
Number of Restricted Stock Units:	«Shares»

Vesting Schedule:
Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Units will vest in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant's right to acquire any Shares hereunder will immediately terminate.

II. AGREEMENT

1. Grant of Restricted Stock Units. The Company hereby grants to the individual (the "Participant") named in Part I of this Award Agreement (the "Notice of Grant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 19(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Award Agreement, the terms and conditions of the Plan shall prevail.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3 or 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting schedule set forth in the Notice of Grant, subject to Participant continuing to be a Service Provider through each applicable vesting date.

4. Payment after Vesting.

(a) General Rule. Subject to Section 6, any Restricted Stock Units that vest will be paid to Participant (or in the event of Participant's death, to his or her properly designated beneficiary or estate) in whole Shares. Subject to the provisions of Section 4(b), such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of payment of any Restricted Stock Units payable under this Award Agreement.

(b) Acceleration.

(i) Discretionary Acceleration. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. If Participant is a U.S. taxpayer, the payment of Shares vesting pursuant to this Section 4(b) shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A. The prior sentence may be superseded in a future agreement or amendment to this Award Agreement only by direct and specific reference to such sentence.

(ii) Notwithstanding anything in the Plan or this Award Agreement or any other agreement (whether entered into before, on or after the Date of Grant), if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to Participant's death, and if (x) Participant is a U.S. taxpayer and a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to Participant's estate as soon as practicable following his or her death.

(c) Section 409A. It is the intent of this Award Agreement that it and all payments and benefits to U.S. taxpayers hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture Upon Termination as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, if Participant ceases to be a Service Provider for any or no reason, the then-unvested Restricted Stock Units awarded by this Award Agreement will thereupon be forfeited at no cost to the Company and Participant will have no further rights thereunder.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Tax Consequences. Participant has reviewed with its own tax advisors the U.S. federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Award Agreement. With respect to such matters, Participant relies solely on such advisors and not on any statements or representations of the Company or any of its agents, written or oral. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of this investment or the transactions contemplated by this Award Agreement.

8. Tax Obligations

(a) Responsibility for Taxes. Participant acknowledges that, regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for any tax and/or social insurance liability obligations and requirements in connection with the Restricted Stock Units, including, without limitation, (a) all federal, state, and local taxes (including the Participant's Federal Insurance Contributions Act (FICA) obligation) that are required to be withheld by the Company or the Employer or other payment of tax-related items related to Participant's participation in the Plan and legally applicable to Participant, (b) the Participant's and, to the extent required by the Company (or Employer), the Company's (or Employer's) fringe benefit tax liability, if any, associated with the grant, vesting, or exercise of the Restricted Stock Units or sale of Shares, and (c) any other Company (or Employer) taxes the responsibility for which the Participant has, or has agreed to bear, with respect to the Restricted Stock Units (or exercise thereof or issuance of Shares thereunder) (collectively, the "Tax Obligations"), is and remains Participant's responsibility

and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Obligations in more than one jurisdiction. If Participant fails to make satisfactory arrangements for the payment of any required Tax Obligations hereunder at the time of the applicable taxable event, Participant acknowledges and agrees that the Company may refuse to issue or deliver the Shares.

(b) Tax Withholding. When Shares are issued as payment for vested Restricted Stock Units, Participant generally will recognize immediate U.S. taxable income if Participant is a U.S. taxpayer. If Participant is a non-U.S. taxpayer, Participant will be subject to applicable taxes in his or her jurisdiction. Pursuant to such procedures as the Administrator may specify from time to time, the Company and/or Employer shall withhold the minimum amount required to be withheld for the payment of Tax Obligations. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such Tax Obligations, in whole or in part (without limitation), if permissible by applicable local law, by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the amount of such Tax Obligations, (c) withholding the amount of such Tax Obligations from Participant's wages or other cash compensation paid to Participant by the company and/or the Employer, (d) delivering to the Company already vested and owned Shares having a Fair Market Value equal to such Tax Obligations, or (e) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount of the Tax Obligations. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Tax Obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such Tax Obligations are satisfied. Further, if Participant is subject to tax in more than one jurisdiction between the Date of Grant and a date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges and agrees that the Company and/or the Employer (and/or former employer, as applicable) may be required to withhold or account for tax in more than one jurisdiction. If Participant fails to make satisfactory arrangements for the payment of such Tax Obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company. Participant acknowledges and agrees that the Company may refuse to deliver the Shares if such Tax Obligations are not delivered at the time they are due.

9. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE EMPLOYER) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK UNIT AWARD OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE EMPLOYER) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or

upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Nature of Grant. In accepting the grant, Participant acknowledges, understands and agrees that:

(a) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(b) all decisions with respect to future Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;

(c) Participant is voluntarily participating in the Plan;

(d) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(e) the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(f) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted;

(g) for purposes of the Restricted Stock Units, Participant's status as a Service Provider will be considered terminated as of the date Participant is no longer actively providing services to the Company or any Parent or Subsidiary (regardless of the reason for such termination and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any), and unless otherwise expressly provided in this Award Agreement (including by reference in the Notice of Grant to other arrangements or contracts) or determined by the Administrator, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any, unless Participant is providing bona fide services during such time); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the Restricted Stock Units grant (including whether Participant may still be considered to be providing services while on a leave of absence);

(h) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Award Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(i) the following provisions apply only if Participant is providing services outside the United States:

(i) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not part of normal or expected compensation or salary for any purpose;

(ii) Participant acknowledges and agrees that none of the Company, the Employer or any Parent or Subsidiary shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement; and

(iii) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of Participant's status as a Service Provider (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any), and in consideration of the grant of the Restricted Stock Units to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against

the Company, any Parent or Subsidiary or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, any Parent or Subsidiary and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim.

13. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

14. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Aehr Test Systems, Inc., 400 Kato Terrace, Fremont, CA 94539, or at such other address as the Company may hereafter designate in writing.

15. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to the Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. No Waiver. Either party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, nor prevent that party from thereafter enforcing each and every other provision of this Agreement. The rights granted both parties herein are cumulative and shall not constitute a waiver of either party's right to assert all other legal remedies available to it under the circumstances.

17. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns. The rights and obligations of Participant under this Agreement may only be assigned with the prior written consent of the Company.

18. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or under the rulings or regulations of the United States Securities and Exchange Commission or any other governmental regulatory body or the clearance, consent or approval of the United States Securities and Exchange Commission or any other governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, clearance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Subject to the terms of the Agreement and the Plan, the Company shall not be required to issue any certificate or certificates for Shares hereunder prior to the lapse of such reasonable period of time following the date of vesting of the Restricted Stock Units as the Administrator may establish from time to time for reasons of administrative convenience.

19. Language. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

20. Interpretation. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. Neither the Administrator nor any person acting on behalf of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

21. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

22. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

23. Governing Law and Venue. This Award Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under the Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Francisco, California or the federal courts for the United States for the Northern District of California, and no other courts.

24. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

25. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

26. Entire Agreement. The Plan is incorporated herein by reference. The Plan and this Award Agreement (including the exhibits referenced herein) constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and Participant.

PARTICIPANT	AEHR TEST SYSTEMS
_____	_____
Signature	By
_____	_____
Print Name	Print Name
	_____
Address:	Title
_____	
_____	

Exhibit 21.1

SUBSIDIARIES OF AEHR TEST SYSTEMS

1. Aehr Test Systems Japan K.K., incorporated in Japan
2. Aehr Test Systems GmbH, incorporated in Germany

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-204008) and Registration Statements on Form S-8 (No. 333-208130, 333-200442, 333-184865, 333-177954, 333-163100, 333-155389, 333-138249, 333-119636, 333-52592 and 333-40577) of Aehr Test Systems of our report dated August 29, 2016 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ Burr Pilger Mayer, Inc.

E. Palo Alto, California
August 29, 2016

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

I, Gayn Erickson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 29, 2016

/s/ GAYN ERICKSON

Gayn Erickson
President and Chief Executive Officer

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

I, Kenneth B. Spink, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 29, 2016

/s/ KENNETH B. SPINK

Kenneth B. Spink
Vice President of Finance and Chief Financial Officer

Exhibit 32.1

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

I, Gayn Erickson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Aehr Test Systems on Form 10-K for the period ending May 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Aehr Test Systems.

Date: August 29, 2016

By: /s/ GAYN ERICKSON

Gayn Erickson
President and Chief Executive Officer

I, Kenneth B. Spink, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Aehr Test Systems on Form 10-K for the period ending May 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Aehr Test Systems.

Date: August 29, 2016

By: /s/ KENNETH B. SPINK

Kenneth B. Spink
Vice President of Finance and Chief Financial Officer

CORPORATE INFORMATION

DIRECTORS

Rhea J. Posedel
Chairman

Gayn Erickson
President
Chief Executive Officer

Robert R. Anderson [1] [2]
Private investor

William W.R. Elder [2] [3]
President and CEO,
Maskless Lithography Inc.

Mario M. Rosati
Member
Wilson Sonsini Goodrich & Rosati,
Professional Corporation

John M. Schneider [1] [3]
Private investor

Howard T. Slayen [1]
Retired Partner
PricewaterhouseCoopers

[1] *Member of the Audit Committee*
[2] *Member of the Compensation Committee*
[3] *Member of the Corporate Governance and Nominating Committee*

OFFICERS

Gayn Erickson
President
Chief Executive Officer

Kenneth B. Spink
Vice President of Finance
Chief Financial Officer

Mark D. Allison
Vice President of Worldwide Sales

Carl N. Buck
Vice President of Marketing

David Fucci
Vice President of Operations

David S. Hendrickson
Vice President of Engineering

Kunio Sano
President
Aehr Test Systems Japan

CORPORATE HEADQUARTERS

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

SUBSIDIARIES

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Hashikan Bldg., 1-14
Azuma-Cho
Hachioji
Tokyo, Japan 192-0082
Telephone: 81.42.642.3530
Fax: 81.42.642.3531
Email: atsj@aehr.com

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

SHAREHOLDER INFORMATION

Legal Counsel
Wilson Sonsini Goodrich & Rosati,
Professional Corporation
Palo Alto, CA

Independent Registered Public Accounting Firm
Burr Pilger Mayer, Inc.
San Francisco, CA

Transfer Agent and Registrar
Computershare Trust Company, N.A.
P. O. Box 43070
Providence, RI 02940-3070
Toll free: 800.962.4284
Telephone: 303.262.0600
Fax: 303.262.0700

Investor Relations
Aehr Test Systems
400 Kato Terrace
Fremont, CA 94539
Telephone: 510.623.9400
Fax: 510.623.9450
Website: www.aehr.com

Annual Meeting
The annual meeting of shareholders will be held at 4:00 p.m. on October 18, 2016 at the Company's Corporate Headquarters.

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

AEHR TEST SYSTEMS

CORPORATE HEADQUARTERS
400 KATO TERRACE
FREMONT, CA 94539
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