

AEHR TEST SYSTEMS  
Form 10-Q  
January 13, 2015

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

FORM 10-Q

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

For the quarterly period ended November 30, 2014

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

|  |            |
|--|------------|
| 400 Kato Terrace, Fremont, CA            | 94539      |
| (Address of principal executive offices) | (Zip Code) |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

(Do not check if a smaller reporting company)

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

Number of shares of the registrant’s common stock, \$0.01 par value, outstanding as of December 31, 2014 was 12,672,279.

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AEHR TEST SYSTEMS

FORM 10-Q

FOR THE QUARTER ENDED NOVEMBER 30, 2014

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## PART I. FINANCIAL INFORMATION

## Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## AEHR TEST SYSTEMS

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

|   | November<br>30,<br>2014 | May 31,<br>2014<br>(1) |
|---|-------------------------|------------------------|
| <b>ASSETS</b>   |                         |                        |
| Current assets:   |                         |                        |
| Cash and cash equivalents   | \$3,596                 | \$1,809                |
| Accounts receivable, net  | 1,352                   | 3,390                  |
| Inventories   | 6,035                   | 6,148                  |
| Prepaid expenses and other  | 359                     | 326                    |
| Total current assets  | 11,342                  | 11,673                 |
| Property and equipment, net   | 538                     | 474                    |
| Other assets  | 94                      | 78                     |
| Total assets  | \$11,974                | \$12,225               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                         |                        |
| Current liabilities:  |                         |                        |
| Line of credit  | \$642                   | \$777                  |
| Accounts payable  | 1,790                   | 1,892                  |
| Accrued expenses  | 1,248                   | 1,390                  |
| Customer deposits and deferred revenue, short-term  | 792                     | 1,058                  |
| Total current liabilities   | 4,472                   | 5,117                  |
| Income taxes payable  | 8                       | 71                     |
| Deferred rent, net of current portion   | --                      | 8                      |
| Total liabilities   | 4,480                   | 5,196                  |
| Aehr Test Systems shareholders' equity:   |                         |                        |
| Common stock, \$0.01 par value:   |                         |                        |
| Authorized: 75,000 shares;  |                         |                        |
| Issued and outstanding: 12,667 shares and<br>11,203 shares at November 30, 2014 and<br>May 31, 2014, respectively | 127                     | 112                    |
| Additional paid-in capital  | 55,725                  | 52,142                 |

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|  |           |           |
|--|-----------|-----------|
| Accumulated other comprehensive income       | 2,373     | 2,488     |
| Accumulated deficit                          | (50,713 ) | (47,692 ) |
| Total Aehr Test Systems shareholders' equity | 7,512     | 7,050     |
| Noncontrolling interest                      | (18 )     | (21 )     |
| Total shareholders' equity                   | 7,494     | 7,029     |
| Total liabilities and shareholders' equity   | \$11,974  | \$12,225  |

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

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

## AEHR TEST SYSTEMS

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

|   | Three Months Ended<br>November 30, |         | Six Months Ended<br>November 30, |           |
|---|------------------------------------|---------|----------------------------------|-----------|
|   | 2014                               | 2013    | 2014                             | 2013      |
| Net sales   | \$2,615                            | \$4,950 | \$6,173                          | \$8,702   |
| Cost of sales   | 1,921                              | 2,456   | 3,869                            | 4,264     |
| Gross profit  | 694                                | 2,494   | 2,304                            | 4,438     |
| Operating expenses:   |                                    |         |                                  |           |
| Selling, general and administrative                                     | 1,736                              | 1,517   | 3,360                            | 2,937     |
| Research and development  | 1,105                              | 798     | 2,064                            | 1,479     |
| Total operating expenses  | 2,841                              | 2,315   | 5,424                            | 4,416     |
| (Loss) income from operations   | (2,147 )                           | 179     | (3,120 )                         | 22        |
| Interest expense  | (8 )                               | (10 )   | (22 )                            | (14 )     |
| Other income (expense), net   | 60                                 | (30 )   | 91                               | (64 )     |
| (Loss) income before income tax (expense) benefit                       | (2,095 )                           | 139     | (3,051 )                         | (56 )     |
| Income tax (expense) benefit  | (19 )                              | (2 )    | 30                               | 27        |
| Net (loss) income   | (2,114 )                           | 137     | (3,021 )                         | (29 )     |
| Less: Net income attributable to the noncontrolling interest            | --                                 | --      | --                               | --        |
| Net (loss) income attributable to Aehr Test Systems common shareholders | \$(2,114 )                         | \$137   | \$(3,021 )                       | \$(29 )   |
| Net (loss) income per share – basic                                     | \$(0.18 )                          | \$0.01  | \$(0.26 )                        | \$(0.00 ) |
| Net (loss) income per share – diluted                                   | \$(0.18 )                          | \$0.01  | \$(0.26 )                        | \$(0.00 ) |
| Shares used in per share calculations:                                  |                                    |         |                                  |           |
| Basic   | 11,724                             | 10,806  | 11,557                           | 10,721    |
| Diluted   | 11,724                             | 11,839  | 11,557                           | 10,721    |

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

AEHR TEST SYSTEMS

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands, unaudited)

|  | Three Months Ended<br>November 30, |         | Six Months Ended<br>November 30, |           |
|--|------------------------------------|---------|----------------------------------|-----------|
|  | 2014                               | 2013    | 2014                             | 2013      |
| Net (loss) income  | \$(2,114                           | ) \$137 | \$(3,021                         | ) \$(29 ) |
| Other comprehensive (loss) income, net of tax:                                   |                                    |         |                                  |           |
| Net change in cumulative translation adjustments                                 | (76                                | ) 23    | (112                             | ) 45      |
| Total comprehensive (loss) income  | (2,190                             | ) 160   | (3,133                           | ) 16      |
| Less: Comprehensive income (loss) attributable to the<br>noncontrolling interest | 2                                  | --      | 3                                | (1 )      |
| Comprehensive (loss) income, attributable to Aehr Test<br>Systems                | \$(2,192                           | ) \$160 | \$(3,136                         | ) \$17    |

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



## AEHR TEST SYSTEMS

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|   | Six Months Ended<br>November 30, |         |
|---|----------------------------------|---------|
|   | 2014                             | 2013    |
| Cash flows from operating activities:   |                                  |         |
| Net loss  | \$(3,021 )                       | \$(29 ) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |                                  |         |
| Stock-based compensation expense  | 474                              | 390     |
| (Recovery of) provision for doubtful accounts   | (31 )                            | 5       |
| Loss on disposal of asset   | --                               | 9       |
| Depreciation and amortization   | 61                               | 95      |
| Changes in operating assets and liabilities:  |                                  |         |
| Accounts receivable   | 1,945                            | (58 )   |
| Inventories   | 119                              | (281 )  |
| Prepaid expenses and other  | (55 )                            | (146 )  |
| Accounts payable  | 125                              | 711     |
| Accrued expenses  | (159 )                           | (183 )  |
| Customer deposits and deferred revenue  | (257 )                           | 16      |
| Income taxes payable  | (36 )                            | (47 )   |
| Deferred rent   | (8 )                             | (47 )   |
| Net cash (used in) provided by operating activities                                       | (843 )                           | 435     |
| Cash flows from investing activities:   |                                  |         |
| Purchases of property and equipment   | (105 )                           | (52 )   |
| Net cash used in investing activities   | (105 )                           | (52 )   |
| Cash flows from financing activities:   |                                  |         |
| Line of credit repayments, net  | (135 )                           | (625 )  |
| Proceeds from issuance of common stock under private placement, net of issuance costs     | 2,574                            | --      |
| Proceeds from issuance of common stock under employee plans                               | 515                              | 423     |
| Net cash provided by (used in) financing activities                                       | 2,954                            | (202 )  |
| Effect of exchange rates on cash  | (219 )                           | (11 )   |
| Net increase in cash and cash equivalents   | 1,787                            | 170     |
| Cash and cash equivalents, beginning of period  | 1,809                            | 2,324   |
| Cash and cash equivalents, end of period  | \$3,596                          | \$2,494 |
| Supplemental disclosure of non-cash flow information:                                     |                                  |         |
| Net change in capitalized share-based compensation  | \$ 36                            | \$ --   |

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

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

1. BASIS OF PRESENTATION

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

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

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

**ACCOUNTING ESTIMATES.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to account for revenue adjustments, the allowance for doubtful accounts, inventory reserves, income taxes, stock-based compensation expenses, and product warranties, among others. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates.

**SIGNIFICANT ACCOUNTING POLICIES.** The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the year ended May 31, 2014. There have been no changes in our significant accounting policies during the six months ended November 30, 2014.

2. STOCK-BASED COMPENSATION

Stock-based compensation expense consists of expenses for stock options and employee stock purchase plan, or ESPP, shares. Stock-based compensation cost is measured at each grant date, based on the fair value of the award using the Black-Scholes option valuation model, and is recognized as expense over the employee's requisite service period. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different from those of publicly traded options. All of the Company's stock-based compensation is accounted for as an equity instrument. See Notes 10 and 11 in the Company's Annual Report on Form



10-K for fiscal 2014 filed on August 28, 2014 for further information regarding the stock option plan and the ESPP.

The following table summarizes compensation costs related to the Company's stock-based compensation for the three and six months ended November 30, 2014 and 2013 (in thousands):

|  | Three Months Ended<br>November 30, |       | Six Months Ended<br>November 30, |       |
|--|------------------------------------|-------|----------------------------------|-------|
|  | 2014                               | 2013  | 2014                             | 2013  |
| Stock-based compensation in the form of employee stock options and ESPP shares, included in: |                                    |       |                                  |       |
| Cost of sales  | \$16                               | \$15  | \$30                             | \$23  |
| Selling, general and administrative  | 212                                | 183   | 360                              | 287   |
| Research and development   | 49                                 | 49    | 84                               | 80    |
| Total stock-based compensation   | \$277                              | \$247 | \$474                            | \$390 |

As of November 30, 2014, stock-based compensation costs of \$60,000 were capitalized as part of inventory. There were no stock-based compensation costs capitalized as part of inventory at November 30, 2013.

During the three months ended November 30, 2014 and 2013, the Company recorded stock-based compensation related to stock options of \$245,000 and \$193,000, respectively. During the six months ended November 30, 2014 and 2013, the Company recorded stock-based compensation related to stock options of \$407,000 and \$328,000, respectively.

As of November 30, 2014, the total unrecognized stock-based compensation cost related to unvested stock-based awards under the Company's 1996 Stock Option Plan and 2006 Equity Incentive Plan was approximately \$1,749,000, which is net of estimated forfeitures of \$4,000. This cost will be amortized over the remaining service period of the underlying options. The weighted average period is approximately 2.8 years.

During the three months ended November 30, 2014 and 2013, the Company recorded stock-based compensation related to the ESPP of \$32,000 and \$54,000, respectively. During the six months ended November 30, 2014 and 2013, the Company recorded stock-based compensation related to the ESPP of \$67,000 and \$62,000, respectively.

As of November 30, 2014, the total compensation cost related to options to purchase the Company's common stock under the ESPP but not yet recognized was approximately \$148,000. This cost will be amortized on a straight-line basis over a weighted average period of approximately 1.3 years.

#### Valuation Assumptions

**Valuation and Amortization Method.** The Company estimates the fair value of stock options granted using the Black-Scholes option valuation model and a single option award approach. The fair value under the single option approach is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

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

**Expected Volatility.** Volatility is a measure of the amounts by which a financial variable such as stock price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses

the historical volatility for the past four or five years, which matches the expected term of most of the option grants, to estimate expected volatility. Volatility for each of the ESPP's four time periods of six months, twelve

months, eighteen months, and twenty-four months is calculated separately and included in the overall stock-based compensation cost recorded.

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

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

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

**Fair Value.** The fair value of the Company's stock options granted to employees for the three and six months ended November 30, 2014 and 2013 were estimated using the following weighted average assumptions in the Black-Scholes option valuation model:

|  | Three Months Ended<br>November 30, |        | Six Months Ended<br>November 30, |        |
|--|------------------------------------|--------|----------------------------------|--------|
|  | 2014                               | 2013   | 2014                             | 2013   |
| Expected term (in years)               | 4                                  | 4      | 4                                | 4      |
| Volatility                             | 0.90                               | 0.94   | 0.91                             | 0.95   |
| Expected dividend                      | \$0.00                             | \$0.00 | \$0.00                           | \$0.00 |
| Risk-free interest rates               | 1.11                               | % 0.95 | % 1.25                           | % 1.40 |
| Estimated forfeiture rate              | 0.25                               | % 0.25 | % 0.25                           | % 0.25 |
| Weighted average grant date fair value | \$1.32                             | \$1.77 | \$1.64                           | \$1.03 |

The fair values of the ESPP shares granted for the three and six months ended November 30, 2014 and 2013 were estimated using the following weighted-average assumptions:

|  | Three and Six<br>Months Ended<br>November 30, 2014 |      | Three and Six<br>Months Ended<br>November 30, 2013 |            |
|--|--|------|--|------------|
| Expected Term (in years)               | 0.5-2.0  |      | 0.5-2.0  |            |
| Volatility                             | 0.55-0.83  |      | 0.86-1.00  |            |
| Expected Dividend                      | \$   | 0.00 | \$   | 0.00       |
| Risk-free Interest Rates               | 0.04%-0.53   |      | %  | 0.04%-0.33 |
| Estimated Forfeiture Rate              | 0  |      | %  | 0          |
| Weighted Average Grant Date Fair Value | \$   | 1.47 | \$   | 1.34       |

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The following table summarizes the stock option transactions during the three and six months ended November 30, 2014 (in thousands, except per share data):

|  | Available<br>Shares | Number<br>of<br>Shares | Outstanding Options<br>Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|------------------------|---|---------------------------------|
| Balances, May 31, 2014   | 1,145               | 3,002                  | \$1.31  | \$2,913                         |
| Options granted  | (625 )              | 625                    | \$2.65  |                                 |
| Options terminated   | 9                   | (9 )                   | \$1.27  |                                 |
| Options exercised  | --                  | (295 )                 | \$1.07  |                                 |
| Balances, August 31, 2014                                      | 529                 | 3,323                  | \$1.59  | \$3,277                         |
| Additional shares reserved                                     | 860                 | --                     |   |                                 |
| Options granted  | (140 )              | 140                    | \$2.06  |                                 |
| Options terminated   | 10                  | (10 )                  | \$1.74  |                                 |
| Options exercised  | --                  | (35 )                  | \$1.62  |                                 |
| Balances, November 30, 2014                                    | 1,259               | 3,418                  | \$1.61  | \$3,657                         |
| Options fully vested and expected to vest at November 30, 2014 |                     | 3,350                  | \$1.61  | \$3,584                         |
| Options exercisable at November 30, 2014                       |                     | 1,928                  | \$1.29  | \$2,435                         |

The options outstanding and exercisable at November 30, 2014 were in the following exercise price ranges (in thousands, except per share data):

| Range of<br>Exercise<br>Prices | Options Outstanding<br>at November 30, 2014 |  |  | Options Exercisable<br>at November 30, 2014 |  |  |                                 |
|--------------------------------|---|--|--|---|--|--|---------------------------------|
|                                | Number<br>Outstanding<br>Shares             | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>Shares             | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| \$0.59-\$0.97                  | 680   | 4.34   | \$ 0.70                                  | 561   | 4.39   | \$ 0.72                                  |                                 |
| \$1.09-\$1.40                  | 1,327                                       | 4.47   | \$ 1.28                                  | 737   | 4.06   | \$ 1.28                                  |                                 |
| \$1.73-\$2.06                  | 547   | 3.58   | \$ 1.92                                  | 372   | 2.21   | \$ 1.91                                  |                                 |
| \$2.15-\$2.71                  | 864   | 6.18   | \$ 2.63                                  | 258   | 4.99   | \$ 1.68                                  |                                 |
| \$0.59-\$2.71                  | 3,418                                       | 4.74   | \$ 1.61                                  | 1,928                                       | 3.92   | \$ 1.29                                  | \$ 2,435                        |

The total intrinsic value of options exercised during the three and six months ended November 30, 2014 was \$29,000 and \$435,000, respectively. The total intrinsic value of options exercised during the three and six months ended November 30, 2013 was \$110,000 and \$153,000, respectively. The weighted average remaining contractual



life of the options exercisable and expected to be exercisable at November 30, 2014 was 4.74 years.

### 3. EARNINGS PER SHARE

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, and employee stock purchase plan shares) outstanding during the period using the treasury stock method.

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

|  | Three Months Ended<br>November 30,<br>2014 |           | Six Months Ended<br>November 30,<br>2014 |            | November 30,<br>2013 |   |
|--|--|-----------|--|------------|----------------------|---|
| Numerator: Net (loss) income                                 | \$ (2,114                                  | ) \$ 137  | \$ (3,021                                | ) \$ (29   | )                    | ) |
| Denominator for basic net (loss) income per share:           |  |           |  |            |                      |   |
| Weighted-average shares outstanding                          | 11,724                                     | 10,806    | 11,557                                   | 10,721     |                      |   |
| Shares used in basic net (loss) income per share calculation |  |           |  |            |                      |   |
| Effect of dilutive securities                                | --   | 1,033     | --                                       | --         |                      |   |
| Denominator for diluted net (loss) income per share          |  |           |  |            |                      |   |
|  | 11,724                                     | 11,839    | 11,557                                   | 10,721     |                      |   |
| Basic net (loss) income per share                            | \$ (0.18                                   | ) \$ 0.01 | \$ (0.26                                 | ) \$ (0.00 | )                    | ) |
| Diluted net (loss) income per share                          | \$ (0.18                                   | ) \$ 0.01 | \$ (0.26                                 | )          |                      |   |