DANAHER CORP /DE/
Form DEF 14A
March 27, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

DANAHER CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

Table of Contents

DANAHER CORPORATION

2200 Pennsylvania Avenue, N.W., Suite 800W

Washington, D.C. 20037-1701

March 27, 2019

NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS	
When:	May 7, 2019 at 3:00 p.m., local time.
Where:	Washington Marriott Georgetown, 1221 22nd Street NW, Washington, D.C.
Items of Business:	1. To elect the eleven directors named in the attached proxy statement to hold office until the 2020 annual meeting of shareholders and until their successors are elected and qualified.
	2. To ratify the selection of Ernst & Young LLP as Danaher s independent registered public accounting firm for the year ending December 31, 2019.
	3. To approve on an advisory basis the Company s named executive officer compensation.
	4. To act upon a shareholder proposal requesting adoption of a policy requiring an independent Board Chair whenever possible.
	5. To consider and act upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.
Who Can Vote:	Shareholders of Danaher Common Stock at the close of business on March 11, 2019. YOUR VOTE IS IMPORTANT. PLEASE SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AT YOUR EARLIEST CONVENIENCE, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING.
Attending the Meeting:	Shareholders who wish to attend the meeting in person should review the instructions set forth in the attached proxy statement under General Information About the Annual Meeting Attending the Meeting.
Date of Mailing:	We intend to mail the Notice Regarding the Availability of Proxy Materials (Notice of Internet Availability), or the Proxy Statement and proxy card as applicable, to our shareholders on or about March 27, 2019.

By order of the Board of Directors,

JAMES F. O REILLY

Vice President, Associate General Counsel and Secretary

Review Your Proxy Statement and Vote in One of the Following Ways:

VIA THE INTERNET	BY TELEPHONE	BY MAIL
Visit the website listed on your Notice of Internet Availability, proxy card or voting instruction form	*Call the telephone number on your proxy card or voting instruction form*	*Sign, date and return your proxy card or voting instruction form in the enclosed envelope*

Please refer to the enclosed proxy materials or the information forwarded by your bank, broker, trustee or other intermediary to see which voting methods are available to you.

Table of Contents

2019 ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT TABLE OF CONTENTS

Table of Contents

PROXY STATEMENT SUMMARY

To assist you in reviewing the proposals to be acted upon at our 2019 Annual Meeting, below is summary information regarding the meeting, each proposal to be voted upon at the meeting and Danaher Corporation s business performance, corporate governance and executive compensation. The following description is only a summary. For more information about these topics, please review Danaher s Annual Report on Form 10-K for the year ended December 31, 2018 and the complete Proxy Statement. In this Proxy Statement, the terms Danaher or the Company refer to Danaher Corporation, Danaher Corporation and its consolidated subsidiaries or the consolidated subsidiaries of Danaher Corporation, as the context requires.

2019 Annual Meeting of Shareholders

DATE AND TIME: May 7, 2019, 3:00 p.m. local time

PLACE: Washington Marriott Georgetown, 1221 22nd Street NW, Washington, D.C

RECORD DATE: March 11, 2019

Voting Matters

PROPOSAL	DESCRIPTION	BOARD RECOMMENDATION
Proposal 1: Election of directors (page 1)	We are asking our shareholders to elect each of the eleven directors identified below to serve until the 2020 Annual Meeting of shareholders.	ü **FOR** each nominee
Proposal 2: Ratification of the appointment of the independent registered public accounting firm (page 21)	We are asking our shareholders to ratify our Audit Committee s selection of Ernst & Young LLP (E&Y) to act as the independent registered public accounting firm for Danaher for 2019. Although our shareholders are not required to approve the selection of E&Y, our Board believes that it is advisable to give our shareholders an opportunity to ratify this selection.	ü **FOR**

Proposal 3: Advisory vote to approve named executive officer compensation (page 57)	We are asking our shareholders to cast a non-binding, advisory vote on the compensation of the executive officers named in the Summary Compensation Table (the named executive officers or NEOs). In evaluating this year s say on pay proposal, we recommend that you review our Compensation Discussion and Analysis, which explains how and why the Compensation Committee of our Board arrived at its executive compensation actions and decisions for 2018.	ü **FOR**
Proposal 4: Shareholder proposal (page 58)	You are being asked to consider a shareholder proposal requesting adoption of a policy requiring an independent Board Chair whenever possible.	O **AGAINST**

Please see the sections titled General Information About the Meeting and Other Information beginning on page 60 for important information about the proxy materials, voting, the Annual Meeting, Company documents, communications and the deadlines to submit shareholder proposals and director nominations for next year s annual meeting of shareholders.

Table of Contents

Business Highlights

2018 Performance

In 2018, Danaher:

- continued to invest in future growth, **investing $1.2 billion in research and development** and **deploying over $2.2 billion on strategic acquisitions** that complement our Life Sciences and Environmental & Applied Solutions segments, including the $2.1 billion acquisition of Integrated DNA Technologies, Inc. (IDT);

- announced and began preparations to **stand-up our Dental segment as a publicly-traded company**;

- **returned over $430 million to shareholders through cash dividends**, marking the **26th year in a row Danaher has paid a dividend** (Danaher s per-share quarterly dividend has increased more than 500% over the last five years); and

- **grew our business on a year-over-year basis as illustrated below:**

DANAHER 2017-2018 YEAR-OVER-YEAR GROWTH FROM CONTINUING OPERATIONS

Table of Contents

Long-Term Performance

We believe a long-term performance period most accurately compares relative performance within our peer group. Over shorter periods, performance comparisons may be skewed by the easier performance baselines of peer companies that have experienced periods of underperformance.

Danaher has not experienced a sustained period of underperformance over the last twenty-five years, and we believe the consistency of our performance over that period is unmatched within our peer group. **Danaher ranks number one in its peer group over the past twenty-five years based on compounded average annual shareholder return, and is the only company in its peer group whose total shareholder return (TSR) outperformed the S&P 500 Index:**

over every rolling 3-year period from and including 1994-2018; and

by more than 600 basis points over every rolling 3-year period from and including 1999-2018.
Danaher s compounded average annual shareholder return has outperformed the S&P 500 Index over each of the last one, two, three, five-, ten-, fifteen-, twenty- and twenty-five year periods:

Table of Contents

Corporate Governance Highlights

Our Board of Directors recognizes that Danaher s success over the long-term requires a robust framework of corporate governance that serves the best interests of all our shareholders. Below are highlights of our corporate governance framework.

Board refreshment remains a key area of focus for us, as evidenced by the recent addition of Raymond C. Stevens, Ph.D. to our Board.

Our Bylaws provide for **proxy access by shareholders**.

Our **Chairman and CEO positions are separate**.

Our Board has established a **Lead Independent Director** position.

All of our directors are elected annually.

In uncontested elections, **our directors must be elected by a majority of the votes cast**, and an incumbent director who fails to receive such a majority automatically tenders his or her resignation.

Our shareholders have the right to act by written consent.
Shareholders owning 25% or more of our outstanding shares may call a special meeting of shareholders.

We have **never had a shareholder rights plan**.

We have **no supermajority voting requirements** in our Certificate of Incorporation or Bylaws.

All members of our Audit, Compensation and Nominating and Governance Committees are independent as defined by the New York Stock Exchange listing standards and applicable SEC rules.

Danaher (including its subsidiaries during the period we have owned them) has made **no political contributions since at least 2012,** has no intention of contributing any Danaher funds for political purposes and discloses its political expenditures policy on its public website. **The 2018 CPA-Zicklin Index of Corporate Political Disclosure and Accountability ranked Danaher as a First Tier company.**

Shareholder Engagement Program

We actively seek and highly value feedback from our shareholders. During 2018, in addition to our traditional Investor Relations outreach efforts, **we engaged with shareholders representing approximately 25% of our outstanding shares** on topics including our business strategy and financial performance, governance and executive compensation programs and sustainability initiatives. We shared feedback received during these meetings with our Nominating & Governance Committee and Compensation Committee, informing their decision-making.

Board of Directors

Below is an overview of each of the director nominees you are being asked to elect at the 2019 Annual Meeting.

NAME	DIRECTOR SINCE	PRINCIPAL PROFESSIONAL EXPERIENCE	COMMITTEE MEMBERSHIPS	OTHER PUBLIC COMPANY BOARDS
Donald J. Ehrlich* Lead Independent Director	1985	Former President and CEO, Schwab Corp.	A, C (Chair)	0
Linda Hefner Filler*	2005	Former President of Retail Products, Chief Marketing Officer and Chief Merchandising Officer, Walgreen Co.	N (Chair), S	0
Thomas P. Joyce, Jr.	2014	President and Chief Executive Officer, Danaher Corporation	F, E, S	0
Teri List-Stoll*	2011	Executive Vice President and Chief Financial Officer, Gap Inc.	A	1
Walter G. Lohr, Jr.*	1983	Retired partner, Hogan Lovells	C, F, N	0
Mitchell P. Rales	1983	Chairman of the Executive Committee, Danaher Corporation	F (Chair), E (Chair)	2
Steven M. Rales	1983	Chairman of the Board, Danaher Corporation	F, E, S	1
John T. Schwieters*	2003	Principal, Perseus TDC	A (Chair), N	0
Alan G. Spoon*	1999	Consultant, Polaris Partners; Former Managing General Partner, Polaris Partners	C	4

Raymond C. Stevens, Ph.D.*	2017	Provost Professor of Biological Sciences and Chemistry, and Director of The Bridge Institute, at the University of Southern California	S	0
Elias A. Zerhouni, M.D.*	2009	Former President, Global Research & Development, Sanofi S.A.	S (Chair), N	0

* = Independent director
A = Audit Committee
C = Compensation Committee
E = Executive Committee
F = Finance Committee
N = Nominating & Governance Committee
S = Science & Technology Committee

Table of Contents

Sustainability

Following the spin-off of Danaher s Fortive Corporation business in 2016, Danaher conducted a full sustainability materiality assessment, which included gathering input from dozens of stakeholders, benchmarking our program against our peers, prioritizing our focus areas and developing a clear framework to guide our future efforts. As a result of this effort**, three key pillars now underpin Danaher s sustainability program, reflecting what we believe are the most critical areas where our strategy and sustainability goals intersect:**

Innovation. This pillar addresses the direct contributions Danaher makes each day to advancing health and safety around the world. **Danaher s products and services help fight disease, protect water and air quality, and improve access to healthcare in underserved areas.** Danaher s research and development spending as a percentage of sales was 6.2% in 2018 and as of the end of 2018 Danaher held approximately 14,000 patents worldwide, underscoring our commitment to innovation.

People. This pillar focuses on our most valuable resource for delivering these world-changing, often life-saving innovations our people. **Our programs and initiatives that advance our associates safety, professional ambitions and personal growth, and strengthen the communities in which we live and work, demonstrate our commitment to those who truly define our company.** In 2018, 92% of our employees participated in our annual engagement survey, and on a year-over-year basis Danaher s scores improved in each of the 53 survey areas. Reflecting our continued commitment to diversity and inclusion, we ve trained more than 3,000 managers globally on how to build inclusive and diverse teams and leaders, and in 2018 for the fifth year in a row the Human Rights Campaign named Danaher one of the Best Places to Work for LGBTQ Equality.

Environment. This pillar encompasses how we work to increase the use of sustainable materials and energy sources and reduce our carbon footprint. **Our goal here is to establish Company-wide standards where it makes sense, while providing our operating companies with the flexibility to pursue environmental sustainability in ways that best fit the needs of their stakeholders.** In 2018, Danaher deployed the first environmental sustainability tools in the Danaher Business System (DBS) toolkit, focused on reducing energy use and waste generation.

At the Board level, **Danaher s Nominating and Governance Committee has the authority and responsibility to consider matters regarding sustainability and social responsibility**, as set forth in the committee s charter. At the management level, Danaher s Senior Vice President and General Counsel, who reports directly to our CEO, has general oversight responsibility with respect to matters of sustainability and social responsibility, and is responsible for reviewing and approving Danaher s sustainability reports.

More information about Danaher s sustainability efforts is included in our latest Sustainability Report, available at

https://sustainability.danaher.com/.

Table of Contents

Executive Compensation Highlights

Overview of Executive Compensation Program

As discussed in detail under Compensation Discussion and Analysis, with the goal of building long-term value for our shareholders, we have developed an executive compensation program designed to:

- attract and retain executives with the leadership skills, attributes and experience necessary to succeed in an enterprise with Danaher s size, diversity and global footprint;
- motivate executives to demonstrate exceptional personal performance and perform consistently at or above the levels that we expect, over the long-term and through a range of economic cycles; and
- link compensation to the achievement of corporate goals that we believe best correlate with the creation of long-term shareholder value.

To achieve these objectives our compensation program combines annual and long-term components, cash and equity, and fixed and variable elements, with a bias toward long-term equity awards tied closely to shareholder returns and subject to significant vesting and/or holding periods. Our executive compensation program rewards our executive officers when they help increase long-term shareholder value, achieve annual business goals and build long-term careers with Danaher.

Compensation Governance

Our Compensation Committee also recognizes that the success of our executive compensation program over the long-term requires a robust framework of compensation governance. As a result, the Committee regularly reviews external executive compensation practices and trends and incorporates best practices into our executive compensation program:

WHAT WE DO	WHAT WE DON T DO
Five-year vesting requirement for equity awards (or in the case of PSUs, three-year vesting and a further two-year holding period)	**No tax gross-up provisions** (except as applicable to management employees generally such as relocation policy)
Incentive compensation programs feature **multiple, different performance measures** aligned with business strategy	**No dividend/dividend equivalents paid on unvested equity awards**
Rigorous, no-fault clawback policy that is triggered even in the absence of wrongdoing	**No single trigger change of control benefits**

Minimum one-year vesting requirement for 95% of shares granted under the Company s stock plan	**No active defined benefit pension program since 2003**
Stock ownership requirements for all executive officers	**No hedging of Danaher securities permitted**
Limited perquisites and a cap on CEO/CFO personal aircraft usage	**No long-term incentive compensation is denominated or paid in cash**
Independent compensation consultant that performs no other services for the Company	**No above-market returns on deferred compensation plans**

Named Executive Officers 2018 Compensation

The following table sets forth the 2018 compensation of our named executive officers. Please see pages 39-40 for information regarding 2017 and 2016 compensation, as well as footnotes.

NAME AND PRINCIPAL POSITION	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON-EQUITY INCENTIVE PLAN COMPENSATION	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS	ALL OTHER COMPENSATION	TOTAL
Thomas P. Joyce, Jr., President and CEO	$ 1,236,000	0	$ 5,516,165	$ 4,478,180	$ 3,604,176	0	$526,520	$ 15,361,041
Daniel L. Comas, Executive Vice President and Former CFO	$ 932,639	0	$ 2,151,910	$ 1,746,670	$ 1,704,398	0	$311,600	$ 6,847,217
Rainer M. Blair, Executive Vice President	$ 700,000	0	$ 1,655,066	$ 1,343,570	$ 1,275,750	0	$114,981	$ 5,089,367
William K. Daniel II, Executive Vice President	$ 812,650	0	$ 2,068,562	$ 1,679,390	$ 1,440,423	0	$173,668	$ 6,174,693
Joakim Weidemanis, Executive Vice President	$ 660,000	0	$ 1,434,246	$ 1,164,350	$ 1,076,262	0	$104,496	$ 4,439,354

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS OF DANAHER

The Board has fixed the number of directors at eleven and our entire Board is elected annually. We are seeking your support for the election of the eleven candidates that the Board has nominated to serve on the Board of Directors (each of whom currently serves as a director of the Company), to serve until the 2020 Annual Meeting of shareholders and until his or her successor is duly elected and qualified. We believe these nominees have qualifications consistent with our position as a large, global and diversified science and technology company. We also believe these nominees have the experience and perspective to guide Danaher as we expand our business in high-growth geographies and high-growth market segments, identify, consummate and integrate appropriate acquisitions,

develop innovative and differentiated new products and services, adjust to rapidly changing technologies, business cycles and competition and address the demands of an increasingly regulated environment.

Proxies cannot be voted for a greater number of persons than the eleven nominees named in this Proxy Statement. In the event a nominee declines or is unable to serve, the proxies may be voted in the discretion of the proxy holders for a substitute nominee designated by the Board, or the Board may reduce the number of directors to be elected. We know of no reason why this will occur.

2019 Director Nominees

DONALD J. EHRLICH

AGE 81 **DIRECTOR SINCE:** 1985

Mr. Ehrlich served as President and Chief Executive Officer of Schwab Corp., a manufacturer of fire-protective safes, files, cabinets and vault doors, from January 2003 until his retirement in July 2008, and has also served on the boards of private and non-profit organizations.

Mr. Ehrlich also founded and served as the chairman and chief executive officer of an NYSE-listed publicly-traded manufacturing company, and has founded and served as CEO of two privately held manufacturing companies. As an entrepreneur and business leader who began his career on the factory floor, has been awarded over fifteen patents and worked his way to leadership of an NYSE-listed publicly-traded company, Mr. Ehrlich has a broad understanding of the strategic challenges and opportunities facing a publicly-traded company such as Danaher. He also has a broad, functional skill-set in the areas of engineering, finance, capital allocation and executive compensation.

LINDA HEFNER FILLER

AGE 58 **DIRECTOR SINCE:** 2005

Ms. Hefner Filler served as President of Retail Products, Chief Marketing Officer and Chief Merchandising Officer of Walgreen Co., a national drugstore chain, from January 2015 to April 2017. From March 2013 until June 2014, Ms. Hefner Filler served as President, North America of Claire s Stores, Inc., a specialty retailer; from May 2007 to June 2012, as Executive Vice President of Wal-Mart Stores Inc., an operator of retail stores and warehouse clubs, and from April 2009 to June 2012 also as Chief Merchandising Officer for Sam s Club, a division of Wal-Mart; and from May 2004 through December 2006, as Executive Vice President Global Strategy for Kraft Foods Inc., a food and beverage company.

Ms. Hefner Filler has served in senior management roles with leading retail and consumer goods companies, with general management responsibilities and responsibilities in the areas of marketing, branding and merchandising. Understanding and responding to the needs of our customers is fundamental to Danaher s business strategy, and Ms. Hefner Filler s keen marketing and branding insights have been a valuable resource to Danaher s Board. Her prior leadership experiences with large public companies have given her valuable perspective for matters of global portfolio strategy and capital allocation as well as global business practices.

THOMAS P. JOYCE, JR.

AGE 58 **DIRECTOR SINCE:** 2014

Mr. Joyce has served as Danaher s President and Chief Executive Officer since September 2014. Mr. Joyce joined Danaher in 1989 and served in leadership positions in a variety of different functions and businesses before his promotion to President and Chief Executive Officer. His broad operating and functional experience and in-depth knowledge of Danaher s businesses and of the Danaher Business System are particularly valuable to the Board given the complex, diverse nature of Danaher s portfolio.

Table of Contents

Proposal 1 Election of Directors of Danaher

TERI LIST-STOLL

AGE 56 **DIRECTOR SINCE:** 2011

Ms. List-Stoll has served as Executive Vice President and Chief Financial Officer of Gap Inc., a global clothing retailer, since January 2017. Prior to joining Gap, she served as Executive Vice President and Chief Financial Officer of Dick s Sporting Goods, Inc., a sporting goods retailer, from August 2015 to August 2016, and with Kraft Foods Group, Inc., a food and beverage company, as Advisor from March 2015 to May 2015, as Executive Vice President and Chief Financial Officer from December 2013 to February 2015 and as Senior Vice President of Finance from September 2013 to December 2013. From 1994 to September 2013, Ms. List-Stoll served in a series of progressively more responsible positions in the accounting and finance organization of The Procter & Gamble Company, a consumer goods company, most recently as Senior Vice President and Treasurer. Prior to joining Procter & Gamble, Ms. List-Stoll was employed by the accounting firm of Deloitte & Touche for almost ten years. Ms. List-Stoll is a member of the board of directors of Microsoft Corporation.

Ms. List-Stoll s experience dealing with complex finance and accounting matters for Gap, Dick s, Kraft and Procter & Gamble have given her an appreciation for and understanding of the similarly complex finance and accounting matters that Danaher faces. In addition, through her leadership roles with large, global companies she has insight into the business practices that are critical to the success of a large, growing public company such as Danaher.

WALTER G. LOHR, JR.

AGE 75 **DIRECTOR SINCE:** 1983

Mr. Lohr was a partner of Hogan Lovells, a global law firm, for over five years until retiring in June 2012 and has also served on the boards of private and non-profit organizations.

Prior to his tenure at Hogan Lovells, Mr. Lohr served as assistant attorney general for the State of Maryland. He has extensive experience advising companies in a broad range of transactional matters, including mergers and acquisitions, contests for corporate control and securities offerings. His extensive knowledge of the legal strategies, issues and dynamics that pertain to mergers and acquisitions and capital raising has been a critical resource for Danaher given the importance of its acquisition program.

MITCHELL P. RALES

AGE 62 **DIRECTOR SINCE:** 1983

Mr. Rales is a co-founder of Danaher and has served as Chairman of the Executive Committee of Danaher since 1984. He was also President of the Company from 1984 to 1990. Mr. Rales is also a member of the board of directors of each of Colfax Corporation and Fortive Corporation, and is a brother of Steven M. Rales.

The strategic vision and leadership of Mr. Rales and his brother, Steven Rales, helped create the Danaher Business System and have guided Danaher down a path of consistent, profitable growth that continues today. In addition, as a result of his substantial ownership stake in Danaher, he is well-positioned to understand, articulate and advocate for the rights and interests of the Company s shareholders.

Table of Contents

STEVEN M. RALES

AGE 67 **DIRECTOR SINCE:** 1983

Mr. Rales is a co-founder of Danaher and has served as Danaher s Chairman of the Board since 1984. He was also CEO of the Company from 1984 to 1990. Mr. Rales is also a member of the board of directors of Fortive Corporation, and is a brother of Mitchell P. Rales.

The strategic vision and leadership of Mr. Rales and his brother, Mitchell Rales, helped create the Danaher Business System and have guided Danaher down a path of consistent, profitable growth that continues today. In addition, as a result of his substantial ownership stake in Danaher, he is well-positioned to understand, articulate and advocate for the rights and interests of the Company s shareholders.

JOHN T. SCHWIETERS

AGE 79 **DIRECTOR SINCE:** 2003

Mr. Schwieters has served as Principal of Perseus TDC, a real estate investment and development firm, since July 2013. He also served as a Senior Executive of Perseus, LLC, a merchant bank and private equity fund management company, from May 2012 to June 2016 and as Senior Advisor from March 2009 to May 2012. Within the past five years Mr. Schwieters has served as a director of Choice Hotels International, Inc.

In addition to his roles with Perseus, Mr. Schwieters led the Mid-Atlantic region of one of the world s largest accounting firms after previously leading that firm s tax practice in the Mid-Atlantic region, and has served on the boards and chaired the audit committees of several NYSE-listed public companies. He brings to Danaher extensive knowledge and experience in the areas of public accounting, tax accounting and finance, which are areas of critical importance to Danaher as a large, global and complex public company.

ALAN G. SPOON

AGE 67 **DIRECTOR SINCE:** 1999

Mr. Spoon has served as a consultant to Polaris Partners, a company that invests in private technology and life science firms, since January 2019, after serving as Partner Emeritus of Polaris Partners from January 2015 to December 2018, Managing General Partner from 2000 to 2010 and Partner from May 2000 to December 2018. Mr. Spoon is also a member of the board of directors of each of Fortive Corporation, IAC/InterActiveCorp., Match Group, Inc. and Cable One, Inc. The Board has concluded that Mr. Spoon s service on the boards of four other publicly-traded companies does not interfere with his ability to serve effectively as a Danaher director. The Board took into account in particular that one of the other companies on whose board he sits (IACInterActiveCorp.) owns more than 80% of another company on whose board he sits (Match Group, Inc.).

In addition to his leadership roles at Polaris Partners, Mr. Spoon has previously served as president, chief operating officer and chief financial officer of one of the country s largest, publicly-traded education and media companies, and has served on the boards of numerous public and private companies. His public company leadership experience gives him insight into business strategy, leadership and executive compensation and his public company and private equity experience give him insight into technology and life science trends, acquisition strategy and financing, each of which represents an area of key strategic opportunity for the Company.

Table of Contents

Proposal 1 Election of Directors of Danaher

RAYMOND C. STEVENS, PH.D.

AGE 55 **DIRECTOR SINCE:** 2017

Professor Stevens has served as Provost Professor of Biological Sciences and Chemistry, and Director of The Bridge Institute, at the University of Southern California, a private research university, since July 2014. From 1999 until July 2014, he served as Professor of Molecular Biology and Chemistry with The Scripps Research Institute, a non-profit research organization. Professor Stevens is also Founding Director of the iHuman Institute at ShanghaiTech University, and has launched multiple biotechnology companies focused on drug discovery.

Professor Stevens is considered among the world s most influential biomedical scientists in molecular research. A pioneer in human cellular behavior research, he has been involved in the creation of therapeutic molecules that led to breakthrough drugs aimed at curing influenza, childhood diseases, neuromuscular disorders and diabetes. Professor Stevens insights in the area of molecular research, as well as his experience bringing industry and academia together to advance drug development, are highly beneficial to Danaher given our strategic focus on the development of research tools used to understand the causes of disease, identify new therapies and test new drugs and vaccines.

ELIAS A. ZERHOUNI, M.D.

AGE 67 **DIRECTOR SINCE:** 2009

Dr. Zerhouni served as President, Global Research & Development, for Sanofi S.A., a global pharmaceutical company, from 2011 to June 2018. From 2008 until 2011, he provided advisory and consulting services to various non-profit and other organizations as Chairman and President of Zerhouni Holdings. From 2002 to 2008, Dr. Zerhouni served as director of the National Institutes of Health, and from 1996 to 2002, he served as Chair of the Russell H. Morgan Department of Radiology and Radiological Sciences, Vice Dean for Research and Executive Vice Dean of the Johns Hopkins School of Medicine.

Dr. Zerhouni, a physician, scientist and world-renowned leader in radiology research, is widely viewed as one of the leading authorities in the United States on emerging trends and issues in medicine and medical care. These insights, as well as his deep, technical knowledge of the research and clinical applications of medical technologies, are of considerable importance given Danaher s strategic focus in the medical technologies markets. Dr. Zerhouni s government experience also gives him a strong understanding of how government agencies work, and his experience growing up in North Africa, together with the global nature of the issues he faced at NIH and his role at France-based Sanofi, give him a global perspective that is valuable to Danaher.

The Board of Directors recommends a vote FOR each of the foregoing nominees.

Table of Contents

Proposal 1 Election of Directors of Danaher

Board Selection and Refreshment

Director Selection

The Board and its Nominating and Governance Committee believe that it is important that our directors demonstrate:

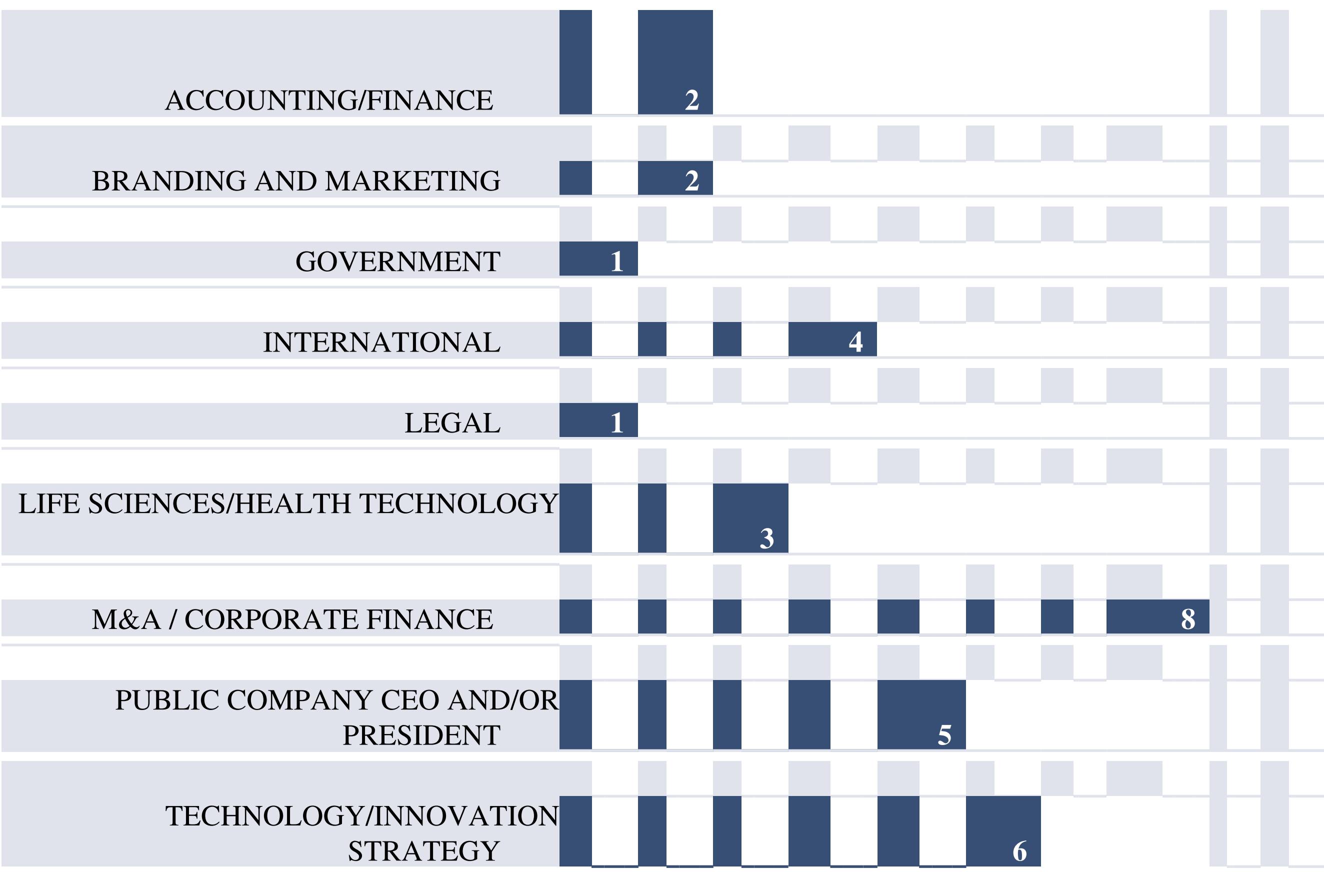
- personal and professional integrity and character;
- prominence and reputation in his or her profession;
- skills, knowledge and expertise (including business or other relevant experience) that in aggregate are useful and appropriate in overseeing and providing strategic direction with respect to Danaher s business and serving the long-term interests of Danaher s shareholders;
- the capacity and desire to represent the interests of the shareholders as a whole; and
- availability to devote sufficient time to the affairs of Danaher.

The Nominating and Governance Committee is responsible for recommending to the Board a slate of nominees for election at each annual meeting of shareholders. Nominees may be suggested by directors, members of management, shareholders or, in some cases, by a third-party search firm. The Committee considers a wide range of factors when assessing potential director nominees. This includes consideration of the current composition of the Board, any perceived need for one or more particular areas of expertise, the balance of management and independent directors, the need for committee-specific expertise, the evaluations of other prospective nominees and the qualifications of each potential nominee relative to the attributes, skills and experience described above. The Board does not have a formal or informal policy with respect to diversity but believes that the Board, taken as a whole, should embody a diverse set of skills, knowledge, experiences and backgrounds appropriate in light of the Company s needs, and in this regard also subjectively takes into consideration the diversity (with respect to race, gender and national origin) of the Board when considering director nominees. The Board does not make any particular weighting of diversity or any other characteristic in evaluating nominees and directors.

A shareholder who wishes to recommend a prospective nominee for the Board should notify the Nominating and Governance Committee in writing using the procedures described below under Other Information Communications with the Board of Directors with whatever supporting material the shareholder considers appropriate. If a prospective nominee has been identified other than in connection with a director search process initiated by the Committee, the

Committee makes an initial determination as to whether to conduct a full evaluation of the candidate based primarily on its view as to whether a new or additional Board member is necessary or appropriate at such time, the likelihood that the prospective nominee can satisfy the evaluation factors described above and any other factors as the Committee may deem appropriate. The Committee takes into account whatever information is provided to the Committee with the recommendation of the prospective candidate and any additional inquiries the Committee may in its discretion conduct or have conducted with respect to such prospective nominee.

The graph below illustrates the diverse set of skills, knowledge, experiences and backgrounds represented on our Board:



Board Refreshment

Our Board actively considers Board refreshment. Using our Board skills matrix as a guide as well as the results of our annual Board and committee self-assessment process (discussed below), the Nominating and Governance Committee evaluates Board composition at least annually and identifies for Board consideration areas of expertise that would complement and enhance our current Board. In

Proposal 1 Election of Directors of Danaher

considering the Committee s recommendations, the Board seeks to thoughtfully balance the knowledge and experience that comes from longer-term Board service with the fresh ideas and new domain expertise that can come from adding new directors. The recent addition of Raymond C. Stevens, Ph.D. to our Board is evidence of our focus on refreshment.

Proxy Access

Our Amended and Restated Bylaws (Bylaws) permit a shareholder, or a group of up to twenty shareholders, owning three percent or more of the Company s outstanding shares of Common Stock continuously for at least three years to nominate and include in the Company s annual meeting proxy materials a number of director nominees up to the greater of (x) two, or (y) twenty percent of the Board, provided that the shareholder(s) and nominee(s) satisfy the requirements specified in the Bylaws.

Majority Voting Standard

General

Our Bylaws provide for majority voting in uncontested director elections, and our Board has adopted a director resignation policy. Under the policy, our Board will not appoint or nominate for election to the Board any person who has not tendered in advance an irrevocable resignation effective in such circumstances where the individual does not receive a majority of the votes cast in an uncontested election and such resignation is accepted by the Board. If an incumbent director is not elected by a majority of the votes cast in an uncontested election, our Nominating and Governance Committee will submit for prompt consideration by the Board a recommendation whether to accept or reject the director s resignation. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation.

Contested Elections

At any meeting of shareholders for which the Secretary of the Company receives a notice that a shareholder has nominated a person for election to the Board of Directors in compliance with the Company s Bylaws and such nomination has not been withdrawn on or before the tenth day before the Company first mails its notice of meeting to the Company s shareholders, the directors will be elected by a plurality of the votes cast. This means that the nominees who receive the most affirmative votes would be elected to serve as directors.

Table of Contents

CORPORATE GOVERNANCE

Corporate Governance Overview

Our Board of Directors recognizes that Danaher s success over the long-term requires a robust framework of corporate governance that serves the best interests of all our shareholders. Below are highlights of our corporate governance framework, and additional details follow in the sections below.

Board refreshment remains a key area of focus for us, as evidenced by the recent addition of Raymond C. Stevens, Ph.D. to our Board.

Our Bylaws provide for **proxy access by shareholders.**

Our **Chairman and CEO positions are separate.**

Our Board has established a **Lead Independent Director** position.

All of our directors are elected annually.

In uncontested elections, **our directors must be elected by a majority of the votes cast,** and an incumbent director who fails to receive such a majority automatically tenders

Shareholders owning 25% or more of our outstanding shares may call a special meeting of shareholders.

We have **never had a shareholder rights plan.**

We have **no supermajority voting requirements** in our Certificate of Incorporation or Bylaws.

All members of our Audit, Compensation and Nominating and Governance Committees are independent as defined by the New York Stock Exchange listing standards and applicable SEC rules.

Danaher (including its subsidiaries during the period we have owned them) has made **no political contributions since at least 2012,** has no intention of contributing any Danaher funds for political purposes, and discloses its his or her resignation.

Our shareholders have the right to act by written consent.

political expenditures policy on its public website. **The 2018 CPA-Zicklin Index of Corporate Political Disclosure and Accountability ranked Danaher as a First Tier company.**

Board Leadership Structure, Oversight and CEO Succession Planning

Board Leadership Structure

The Board has separated the positions of Chairman and CEO because it believes that, at this time, this structure best enables the Board to ensure that Danaher s business and affairs are managed effectively and in the best interests of shareholders. This is particularly the case in light of the fact that the Company s Chairman is Steven Rales, a co-founder of the Company who owns approximately 6.0 percent of the Company s outstanding shares, served as CEO of the company from 1984 to 1990 and continues to serve as an executive officer of the company. As a result of his substantial ownership stake in the Company, the Board believes that Mr. Rales is uniquely able to understand, articulate and advocate for the rights and interests of the Company s shareholders. Moreover, Mr. Rales uses his management experience with the Company and Board tenure to help ensure that the non-management directors have a keen understanding of the Company s business as well as the strategic and other risks and opportunities that the Company faces. This enables the Board to more effectively provide insight and direction to, and exercise oversight of, the Company s President and CEO and the rest of the management team responsible for the Company s day-to-day business (including with respect to oversight of risk management).

Because Mr. Rales is not independent within the meaning of the NYSE listing standards, our Corporate Governance Guidelines require the appointment of a Lead Independent Director and Mr. Ehrlich has been appointed as our Lead Independent Director. As the Lead Independent Director, Mr. Ehrlich:

presides at all meetings of the Board at which the Chairman of the Board and the Chair of the Executive Committee are not present, including the executive sessions of non-management directors;

has the authority to call meetings of the independent directors;

acts as a liaison as necessary between the independent directors and the management directors; and

advises with respect to the Board s agenda.

Table of Contents

Corporate Governance

Board Oversight of Strategy

One of the Board s primary responsibilities is overseeing management s establishment and execution of the Company s strategy. At least quarterly, the CEO, our executive leadership team and other business leaders provide detailed business and strategy updates to the Board. At least annually, the Board conducts an even more in-depth review of the Company s overall strategy. At these reviews, the Board engages with our executive leadership team and other business leaders regarding business objectives, the competitive landscape, economic trends and other developments. At meetings occurring throughout the year, the Board also assesses mergers and acquisitions and other capital allocation topics, the Company s budget and Company performance, among other topics. The Board looks to the focused expertise of its committees to inform strategic oversight in their areas of focus.

Spotlight: oversight of strategic acquisitions

The Board oversees Danaher s strategic acquisition and integration process. Danaher views acquisitions as an important element of our strategy to deliver long-term shareholder value. Our Board includes eight members with extensive business combination experience. That depth of experience allows the Board to constructively engage with management and effectively evaluate acquisitions for alignment with our strategy, culture and financial goals. Management is charged with identifying potential acquisition targets, executing transactions, and managing integration, and our Board s oversight extends to each of these elements. Management and the Board regularly discuss potential acquisitions and their role in the Company s overall business strategy. These discussions address acquisitions in process and potential future acquisitions, and cover a broad range of matters, including valuation, risk and potential synergies with Danaher s businesses and strategy. The Board s acquisition oversight also extends across transactions and over time, as the Board regularly reviews and provides feedback regarding the operational and financial performance of our historical acquisitions.

Spotlight: oversight of human capital management and CEO succession planning

The Board and Compensation Committee engage with our senior leadership team and human resources executives on a regular basis across a range of human capital management issues. Danaher is focused on creating a respectful, rewarding, diverse, and inclusive work environment that allows our employees (whom we refer to as associates) to build meaningful careers. The success of these human capital management objectives is essential to our strategy and our shared purpose to Help Realize Life s Potential. Working with management, the Board and Compensation Committee oversee matters including culture, succession planning and development, compensation, benefits, talent recruiting and retention, associate engagement and diversity and inclusion. Additionally, each year, the Compensation Committee evaluates management s annual assessment of risk related to our compensation policies and practices.

With the support of our Nominating and Governance Committee, our Board also maintains and annually reviews both a long-term succession plan and emergency succession plan for the CEO position. The foundation of the long-term succession planning process is a CEO development model consisting of two dimensions, leadership behaviors and development experiences. The Board uses the development model as a guide in preparing candidates, and also in evaluating candidates for the CEO and other executive positions at the Board s annual talent review and succession planning session. At the annual session, the Board evaluates and compares candidates using the development model, and reviews each candidate s development actions, progress and performance over time. The candidate evaluations are supplemented with periodic 360-degree performance appraisals, and the Board also regularly interacts with candidates at Board dinners and lunches, through Board meeting presentations and at the Company s annual leadership conference.

Table of Contents

Corporate Governance

Board Oversight of Risk

The Board s role in risk oversight at the Company is consistent with the Company s leadership structure, with management having day-to-day responsibility for assessing and managing the Company s risk exposure and the Board and its committees overseeing those efforts, with particular emphasis on the most significant risks facing the Company. Each committee reports to the full Board on a regular basis, including as appropriate with respect to the committee s risk oversight activities. On an annual basis, the Company s Risk Committee (consisting of members of senior management) inventories, assesses and prioritizes the most significant risks facing the Company as well as related mitigation efforts and provides a report to the Board. With respect to the manner in which the Board s risk oversight function impacts the Board s leadership structure, as described above our Board believes that Mr. Steven Rales management experience and tenure help the Board to more effectively exercise its risk oversight function.

BOARD/COMMITTEE	PRIMARY AREAS OF RISK OVERSIGHT
Full Board	Risks associated with Danaher s strategic plan, acquisition and capital allocation program, capital structure, liquidity, organizational structure and other significant risks, and overall risk assessment and risk management policies.
Audit Committee	Major financial risk exposures, significant legal, compliance, reputational and cybersecurity risks and overall risk assessment and risk management policies.
Compensation Committee	Risks associated with compensation policies and practices, including incentive compensation.
Nominating and Governance Committee	Risks related to corporate governance, effectiveness of Board and committee oversight and review of director candidates, conflicts of interest and director independence.

Spotlight: oversight of cybersecurity risk

The Board and the Audit Committee oversee the Company s management of cybersecurity risk. To mitigate the risks posed by cybersecurity incidents and cyber attacks, we have developed a program, led by the Company s Chief Information Security Officer, that is designed to protect the confidentiality, integrity and continued availability of the Company s data and systems. This program includes a cybersecurity incident response plan and other policies and procedures designed to assist the Company in managing cybersecurity incidents and risks. Danaher s Chief Information Officer and Chief Information Security Officer provide regular updates to the Audit Committee regarding this program, including information about cyber risk management governance and the status of projects to strengthen cybersecurity controls. The Audit Committee regularly briefs the full Board on these matters, and the full Board also receives periodic briefings from management on the Company s cybersecurity program. The Company has also updated its disclosure controls and procedures to specifically address cybersecurity risk, including by amending the Company s Insider Trading Policy to address cybersecurity and by ensuring clear linkage between Danaher s Disclosure Committee and Chief Information Security Officer.

Board of Directors and Committees of the Board

General

The Board met six times in 2018. All directors attended at least 75% of the aggregate of the total number of meetings of the Board and of all committees of the Board on which they served (during the period they so served) during 2018. Danaher typically schedules a Board meeting in conjunction with each annual meeting of shareholders and as a general matter expects that the members of the Board will attend the annual meeting. Eleven of our directors attended the Company s annual meeting in May 2018.

The membership of each of the Board s committees as of March 11, 2019 is set forth to the right. While each of the committees is authorized to delegate its powers to sub-committees, none of the committees did so during 2018. The Audit, Compensation and Nominating and Governance Committees report to the Board on their actions and recommendations at each regularly scheduled Board meeting.

NAME OF DIRECTOR	AUDIT	COMPENSATION	NOMINATING & GOVERNANCE	EXECUTIVE	FINANCE	SCIENCE AND TECHNOLOGY
Donald J. Ehrlich	X	Chair				
Linda Hefner Filler			Chair			X
Thomas P. Joyce, Jr.				X	X	X

Walter G. Lohr, Jr.		X	X		X	
Teri List-Stoll	X					
Mitchell P. Rales				Chair	Chair	
Steven M. Rales				X	X	X
John T. Schwieters	Chair		X			
Raymond C. Stevens, Ph.D.						X
Alan G. Spoon		X				
Elias A. Zerhouni, M.D.			X			Chair
# of meetings held in 2018	**6**	**4**	**7**	**1**	**1**	**2**

Table of Contents

Corporate Governance

Audit Committee

The Audit Committee prepares a report as required by the SEC to be included in this Proxy Statement and assists the Board in overseeing:

- the quality and integrity of Danaher s financial statements;
- the effectiveness of Danaher s internal control over financial reporting;
- the qualifications, independence and performance of Danaher s independent auditors;
- the performance of Danaher s internal audit function;
- Danaher s compliance with legal and regulatory requirements;
- the risks described above under -Risk Oversight ; and
- the Company s swaps and derivatives transactions and related policies and procedures.

The Board has determined that each of the members of the Audit Committee is independent for purposes of Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (Securities Exchange Act) and the NYSE listing standards, qualifies as an audit committee financial expert as that term is defined in Item 407(d)(5) of Regulation S-K under the Securities Exchange Act and is financially literate within the meaning of the NYSE listing standards. The Committee typically meets in executive session, without the presence of management, at its regularly scheduled meetings.

Compensation Committee

The Compensation Committee discharges the Board s responsibilities relating to the compensation of our executive officers, including setting goals and objectives for, evaluating the performance of, and approving the compensation paid to, our executive officers. The Committee also:

reviews and discusses with Company management the Compensation Discussion and Analysis and recommends to the Board the inclusion of the Compensation Discussion and Analysis in the annual meeting proxy statement;

reviews and makes recommendations to the Board with respect to the adoption, amendment and termination of all executive incentive compensation plans and all equity compensation plans, and exercises all authority of the Board (and all responsibilities assigned by such plans to the Committee) with respect to the oversight and administration of such plans;

reviews and considers the results of shareholder advisory votes on the Company s executive compensation, and makes recommendations to the Board regarding the frequency of such advisory votes;

monitors compliance by directors and executive officers with the Company s stock ownership requirements;

assists the Board in overseeing the risks described above under -Risk Oversight ;

prepares the report required by the SEC to be included in the annual meeting proxy statement; and

considers factors relating to independence and conflicts of interests in connection with the engagement of the compensation consultants that provide advice to the Committee.

Each member of the Compensation Committee is an outside director for purposes of Section 162(m) of the Internal Revenue Code (Section 162(m)), a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act and, based on the determination of the Board, independent under the NYSE listing standards and under Rule 10C-1 under the Securities Exchange Act. The Committee typically meets in executive session, without the presence of management, at its regularly scheduled meetings.

Management Role in Supporting the Compensation Committee

Our Senior Vice President-Human Resources, Vice President-Compensation and Secretary generally attend, and from time-to-time our CEO and CFO attend, the Compensation Committee meetings. In particular, our CEO:

provides background regarding the interrelationship between our business objectives and executive compensation matters and advises on the alignment of incentive plan performance measures with our overall strategy;

participates in the Committee s discussions regarding the performance and compensation of the other executive officers and provides recommendations to the Committee regarding all significant elements of compensation paid to such officers, their annual, personal performance objectives and his evaluation of their performance (the Committee gives considerable weight to

Table of Contents

our CEO s evaluation of and recommendations with respect to the other executive officers because of his direct knowledge of each such officer s performance and contributions); and

provides feedback regarding the companies that he believes Danaher competes with in the marketplace and for executive talent.

Our human resources and legal departments also assist the Committee Chair in scheduling and setting the agendas for the Committee s meetings, prepare meeting materials and provide the Committee with data relating to executive compensation as requested by the Committee.

Independent Compensation Consultant Role in Supporting the Compensation Committee

Under the terms of its charter, the Committee has the authority to engage the services of outside advisors and experts. The Committee has engaged Frederic W. Cook & Co., Inc. (FW Cook) as its independent compensation consultant since 2008. The Committee engages FW Cook because it is considered one of the premier independent compensation consulting firms and has never provided any services to the Company other than the compensation-related services provided to or at the direction of the Compensation Committee and the Nominating and Governance Committee. FW Cook takes its direction solely from the Committee (and with respect to matters relating to the non-management director compensation program, the Nominating and Governance Committee). In addition to the director compensation advice provided to the Nominating and Governance Committee, FW Cook s primary responsibilities in 2018 were to:

provide advice and data in connection with the structuring of the executive and equity compensation programs and the compensation levels for the Company s executive officers compared to their peers;

provide advice and data in connection with the structuring of the executive and equity compensation programs of the Dental business Danaher expects to stand-up as a publicly-traded company in 2019, and the compensation levels for the anticipated executive officers thereof compared to their anticipated peers;

assess the Company s executive compensation program in the context of compensation governance best practices;

update the Committee regarding legislative and regulatory initiatives as well as emerging trends and investor views in the area of executive compensation;

- provide data regarding the share dilution costs attributable to the Company s aggregate equity compensation program; and
- assist in the preparation of the Company s executive compensation public disclosures.

The Committee does not place any material limitations on the scope of the feedback provided by FW Cook. In the course of discharging its responsibilities, FW Cook may from time to time and with the Committee s consent, request from management information regarding compensation amounts and practices, the interrelationship between our business objectives and executive compensation matters, the nature of the Company s executive officer responsibilities and other business information. The Committee has considered whether the work performed for or at the direction of the Compensation Committee and the Nominating and Governance Committee raises any conflict of interest, taking into account the factors listed in Securities Exchange Act Rule 10C-1(b)(4), and has concluded that such work does not create any conflict of interest.

Nominating and Governance Committee

The Nominating and Governance Committee:

- assists the Board in identifying individuals qualified to become Board members, and makes recommendations to the Board regarding all nominees for Board membership;
- makes recommendations to the Board regarding the size and composition of the Board and its committees;
- makes recommendations to the Board regarding matters of corporate governance and oversees the operation of Danaher s Corporate Governance Guidelines and Related Person Transactions Policy;
- develops and oversees the annual self-assessment process for the Board and its committees;
- assists the Board in CEO succession planning;
- assists the Board in overseeing the risks described above under -Risk Oversight ;
- reviews and makes recommendations to the Board regarding non-management director compensation;
- oversees the orientation process for newly elected members of the Board and continuing director education; and
- as it determines appropriate, considers matters regarding sustainability and corporate social responsibility.

Table of Contents

Corporate Governance

The Board has determined that all of the members of the Nominating and Governance Committee are independent within the meaning of the NYSE listing standards.

Science & Technology Committee

The Science and Technology Committee assists the Board in overseeing matters of science and technology, including:

- reviewing and assessing the Company s science and technology innovation strategy and priorities;
- assessing the competitive position of the Company s technology portfolio;
- reviewing with management key programs, processes and organizational structures related to innovation, research and development and the commercialization of technology; and
- assessing, and advising the Board with respect to, potentially disruptive science and technology trends, opportunities and risks.

Finance Committee

The Finance Committee approves business acquisitions, investments and divestitures up to the levels of authority delegated to it by the Board.

Executive Committee

The Executive Committee exercises between meetings of the Board such powers and authority in the management of the business and affairs of the Company as are specifically delegated to it by the Board from time to time.

Board and Committee Evaluations

Each year, our Board and its committees perform a rigorous self-evaluation, overseen by the Nominating and Governance Committee. The Nominating and Governance Committee solicits input from our directors regarding topics that warrant evaluation in each of the following areas:

- the Board s oversight of management;

- the Board s understanding of Danaher and its businesses;
- Board composition;
- conduct of Board meetings; and
- operation and effectiveness of the Board committees.

The Nominating and Governance Committee reviews the results of this feedback, and during an executive session of the Board the chair of the Committee leads a discussion of the key topics identified and communicates relevant feedback to the CEO. Each of our Audit, Compensation and Nominating and Governance Committees also conducts a self-evaluation in executive session, including with respect to any committee-specific evaluation topics identified as a result of the process described above, and communicates the results thereof to the full Board. We have successfully used this process to identify and implement opportunities to strengthen the Board and its committees.

Shareholder Engagement and Alignment

Shareholder Engagement Program

We actively seek and highly value feedback from our shareholders. During 2018, in addition to our traditional Investor Relations outreach efforts, **we engaged with shareholders representing approximately 25% of our outstanding shares** on topics including our business strategy and financial performance, governance and executive compensation programs and sustainability initiatives. We shared feedback received during these meetings with our Nominating & Governance Committee and Compensation Committee, informing their decision-making.

Key Policies Ensuring Company Alignment with Shareholder Interests

- Director and Executive Officer Stock Ownership Requirements. Our Board has adopted stock ownership requirements for non-management directors. Under the requirements, **each non-management director (within five years of his or her initial election or appointment) is required to beneficially own Danaher shares with a market value of at least five times his or her annual cash retainer** (excluding the additional cash retainers paid to the committee chairs and the Lead Independent Director).

Table of Contents

Corporate Governance

Once a director has acquired a number of shares that satisfies such ownership multiple, such number of shares then becomes such director s minimum ownership requirement (even if his or her retainer increases or the fair market value of such shares subsequently declines). Under the policy, beneficial ownership includes RSUs held by the director, shares in which the director or his or her spouse or child has a direct or indirect interest and phantom shares of Danaher Common Stock in the Non-Employee Directors Deferred Compensation Plan, but does not include shares subject to unexercised stock options or pledged shares. Each Danaher director is in compliance with the policy**. We have also adopted stock ownership requirements for our executive officers;** please see Compensation Discussion and Analysis Stock Ownership-Related Policies.

Recoupment Policy. **We have a rigorous, no-fault compensation recoupment policy** that applies to executive officers and other senior leaders.

Anti-Pledging/Hedging Policy. **In 2013 Danaher s Board adopted a policy that prohibits any director or executive officer from pledging as security under any obligation any shares of Danaher Common Stock that he or she directly or indirectly owns and controls, except for any shares that were already pledged as of the time the policy was adopted.** Certain shares of Common Stock owned by Messrs. Steven and Mitchell Rales were exempted from the policy because such shares have been pledged for decades, to secure lines of credit that reduce the need to sell shares for liquidity purposes. Messrs. Steven and Mitchell Rales acquired these pledged shares in cash purchase transactions between 1983 and 1988, and did not receive them as compensation or purchase them from Danaher. These pledged shares do not count toward the Company s stock ownership requirements.
Notwithstanding that these shares are exempted from Danaher s policy, as part of its risk oversight function the Audit Committee of Danaher s Board regularly reviews these share pledges to assess whether such pledging poses an undue risk to the Company. The Committee has concluded that the existing pledge arrangements do not pose an undue risk to the Company, based in particular on its consideration of the following factors:

- the amount by which the market value of the shares pledged as collateral exceeds the amount of secured indebtedness, which the Committee believes is a key factor in assessing the degree of risk posed by the pledging arrangements;

- the number of shares and percentage of total outstanding shares pledged; and

- the 15% reduction since 2013 in the number of shares pledged by Messrs. Steven Rales and Mitchell Rales.

Danaher policy also prohibits Danaher directors and employees (including executive officers) from engaging in any transactions involving a derivative of a Danaher security, including hedging transactions.

Shareholder Right to Call Special Meeting. Shareholders owning 25% or more of Danaher s outstanding shares may call a special meeting of shareholders. At Danaher s 2018 annual meeting of shareholders, a shareholder proposal requesting that Danaher reduce this threshold to 10% was rejected by 57% of the votes cast. Danaher s Board continues to believe that the 25% threshold strikes an appropriate balance between avoiding waste of Danaher and shareholder resources on addressing narrow or special interests, while at the same time ensuring that shareholders holding a significant minority of our outstanding shares have an appropriate mechanism to call a special meeting if they deem it appropriate.

Sustainability

Following the spin-off of Danaher s Fortive Corporation business in 2016, Danaher conducted a full sustainability materiality assessment, which included gathering input from dozens of stakeholders, benchmarking our program against our peers, prioritizing our focus areas and developing a clear framework to guide our future efforts. As a result of this effort**, three key pillars now underpin Danaher s sustainability program, reflecting what we believe are the most critical areas where our strategy and sustainability goals intersect:**

Innovation. This pillar addresses the direct contributions Danaher makes each day to advancing health and safety around the world. **Danaher s products and services fight disease, protect water and air quality, and improve access to healthcare in underserved areas.** Danaher s research and development spending as a percentage of sales was 6.2% in 2018 and as of the end of 2018 Danaher held approximately 14,000 patents worldwide, underscoring our commitment to innovation.

People. This pillar focuses on our most valuable resource for delivering these world-changing, often life-saving innovations our people. **Our programs and initiatives that advance our associates safety, professional ambitions and personal growth, and strengthen the communities in which we live and work, demonstrate our commitment to those who truly define our company.** In 2018, 92% of our employees participated in our annual engagement survey, and on a year-over-year basis Danaher s scores improved in each of the 53 survey areas. Reflecting our continued commitment to diversity and inclusion, we ve trained more than 3,000 managers globally on how to build inclusive and diverse teams and leaders, and in 2018 for the fifth year in a row the Human Rights Campaign named Danaher one of the Best Places to Work for LGBTQ Equality.

Table of Contents

Corporate Governance

Environment. This pillar encompasses how we work to increase the use of sustainable materials and energy sources and reduce our carbon footprint. **Our goal here is to establish Company-wide standards where it makes sense, while providing our operating companies with the flexibility to pursue environmental sustainability in ways that best fit the needs of their stakeholders.** In 2018, Danaher deployed the first environmental sustainability tools in the Danaher Business System (DBS) toolkit, focused on reducing energy use and waste generation.

At the Board level, **Danaher s Nominating and Governance Committee has the authority and responsibility to consider matters regarding sustainability and social responsibility**, as set forth in the committee s charter. At the management level, Danaher s Senior Vice President and General Counsel, who reports directly to our CEO, has general oversight responsibility with respect to matters of sustainability and social responsibility, and is responsible for reviewing and approving Danaher s sustainability reports.

More information about Danaher s sustainability efforts is included in our latest Sustainability Report, available at https://sustainability.danaher.com/.

Corporate Governance Guidelines, Committee Charters and Code of Conduct

As part of its ongoing commitment to good corporate governance, our Board of Directors has codified its corporate governance practices into a set of Corporate Governance Guidelines and has also adopted written charters for each of the committees of the Board. Danaher has also adopted a code of business conduct and ethics for directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees, known as the Code of Conduct. The Corporate Governance Guidelines, charters of each of the Audit, Compensation and Nominating and Governance Committees and Code of Conduct are available in the Investors Corporate Governance section of our website at http://www.danaher.com.

Table of Contents

DIRECTOR COMPENSATION

Non-Management Director Compensation Program

Non-Management Director Compensation Philosophy

We use a combination of cash and equity-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, the Board and the Nominating and Governance Committee are guided by the following principles:

- compensation should fairly pay directors for work required in a company of our size and scope, and differentiate among directors where appropriate to reflect different levels of responsibilities;
- a significant portion of the total compensation should be paid in stock-based awards to align directors interests with the long-term interests of our shareholders; and
- the structure of the compensation program should be simple and transparent.

Process for Setting Non-Management Director Compensation

The Nominating and Governance Committee is responsible for reviewing and making recommendations to the Board regarding non-management director compensation (although the Board makes the final determination regarding the amounts and type of non-management director compensation). Since 2011, the Committee has engaged FW Cook, the Board s independent compensation consultant, to prepare regular reports on market non-management director compensation practices and evaluate our program in light of the results of such reports. The Committee anticipates reviewing, and seeking advice from FW Cook regarding, the Company s non-management director compensation on an annual basis.

Danaher s 2007 Omnibus Incentive Plan (the Plan or the Omnibus Plan) limits the amount of cash and equity compensation that we may pay to a non-management director each year. Under the plan terms, an annual limit of $800,000 per calendar year applies to the sum of all cash and equity-based awards (calculated based on the grant date fair value of such awards for financial reporting purposes) granted to each non-management director for services as a member of the Board (plus an additional limit of $500,000 per calendar year with respect to any non-executive Board chair or vice chair).

Non-Management Director Compensation Structure

Compensation structure for non-management directors	
Annual cash retainer	$ 120,000
Annual equity award target award value	$ 180,000
Committee chair annual cash retainer (Compensation, Nominating and Governance, Science and Technology)	$ 20,000
Committee chair annual cash retainer (Audit)	$ 25,000
Lead Independent Director annual cash retainer	$ 30,000
Per meeting cash fee for each Board/committee meeting a director attends in excess of twenty during a calendar year	$ 2,000

Director cash retainers are paid quarterly in arrears. Director annual equity awards are divided equally (based on target award value) between options and RSUs. The options are fully vested as of the grant date. The RSUs vest upon the earlier of (1) the first anniversary of the grant date, or (2) the date of, and immediately prior to, the next annual meeting of Danaher s shareholders following the grant date, but the underlying shares are not issued until the earlier of the director s death or the first day of the seventh month following the director s retirement from the Board. Danaher also reimburses directors for Danaher-related out-of-pocket expenses, including travel expenses.

Non-Management Directors Deferred Compensation Plan

Each non-management director can elect to defer all or part of the cash director fees that he or she earns with respect to a particular year under the Non-Employee Directors Deferred Compensation Plan, which is a sub-plan under the Omnibus Plan. Amounts deferred under the plan are converted into a particular number of phantom shares of Danaher Common Stock, calculated based on the closing price of Danaher s Common Stock on the date that such quarterly fees would otherwise have been paid. Dividends accrued on phantom shares are also deemed invested in phantom shares of Danaher Common Stock. A director may elect to have his or her plan balance distributed upon cessation of Board service, or one, two, three, four or five years after cessation of Board service. All distributions from the plan are in the form of shares of Danaher Common Stock.

Table of Contents

Director Compensation

Director Summary Compensation Table

The table below summarizes the compensation paid by Danaher to the non-management directors for the year ended December 31, 2018. Each of Steven Rales, Mitchell Rales and Thomas P. Joyce, Jr. serves as a director and executive officer of Danaher but does not receive any additional compensation for services provided as a director. Neither Steven Rales nor Mitchell Rales is a named executive officer. Details regarding the 2018 executive compensation provided to each of Steven Rales and Mitchell Rales is set forth under Director Independence and Related Person Transactions.

NAME	FEES EARNED OR PAID IN CASH ($)	STOCK AWARDS ($) (1)(2)	OPTION AWARDS ($) (1)(2)	TOTAL ($)
Donald J. Ehrlich	$ 165,000	$ 85,695	$ 79,121	$ 329,816
Linda Hefner Filler (3)	0	$ 215,695	$ 79,121	$ 294,816
Robert J. Hugin (4)	$ 16,100	0	0	$ 16,100
Teri List-Stoll (3)	0	$ 200,695	$ 79,121	$ 279,816
Walter G. Lohr, Jr.	$ 115,000	$ 85,695	$ 79,121	$ 279,816
John T. Schwieters	$ 140,000	$ 85,695	$ 79,121	$ 304,816
Alan G. Spoon (3)	0	$ 200,695	$ 79,121	$ 279,816
Raymond C. Stevens, Ph.D. (3)	0	$ 200,695	$ 79,121	$ 279,816
Elias A. Zerhouni, M.D. (3)	0	$ 200,695	$ 79,121	$ 279,816

(1) The amounts reflected in these columns represent the aggregate grant date fair value of the applicable award computed in accordance with FASB ASC Topic 718. With respect to stock awards, the grant date fair value under FASB ASC Topic 718 is calculated based on the number of shares of Common Stock underlying the award, times the closing price of the Danaher Common Stock on the date of grant (but discounted to account for the fact that RSUs do not accrue dividend rights prior to vesting and distribution). With respect to stock options, the grant date fair value under FASB ASC Topic 718 has been calculated using the Black-Scholes option pricing model, based on the following assumptions (and assuming no forfeitures): an 8.0 year option life; a risk-free interest rate of 2.82%; a stock price volatility rate of 21.52%; and a dividend yield of 0.63% per share.

(2) The table below sets forth as to each non-management director the aggregate number of unvested RSUs and aggregate number of stock options outstanding as of December 31, 2018. All of the stock options set forth in the table below are fully vested. The RSUs set forth in the table below vest in accordance with the terms described

above.

NAME OF DIRECTOR	AGGREGATE NUMBER OF DANAHER STOCK OPTIONS OWNED AS OF DECEMBER 31, 2018	AGGREGATE NUMBER OF UNVESTED DANAHER RSUs OWNED A
Donald J. Ehrlich	38,924	870
Linda Hefner Filler	49,502	870
Robert J. Hugin	0	0
Teri List-Stoll	23,560	870
Walter G. Lohr, Jr.	49,502	870
John T. Schwieters	49,502	870
Alan G. Spoon	49,502	870
Raymond C. Stevens, Ph.D.	6,180	870
Elias A. Zerhouni, M.D.	38,924	870

(3) Each of Mss. Hefner Filler and List-Stoll, Mr. Spoon, Professor Stevens and Dr. Zerhouni deferred 100% of his or her 2018 cash director fees into phantom shares of Danaher Common Stock under the Non-Employee Directors Deferred Compensation Plan. Pursuant to such deferrals Ms. Hefner Filler received 1,276 phantom shares and each of Ms. List-Stoll, Mr. Spoon, Professor Stevens and Dr. Zerhouni received 1,129 phantom shares. Since these phantom shares are accounted for under FASB ASC Topic 718, they are reported under the Stock Awards column in the table above.

(4) Mr. Hugin resigned from the Board in February 2018.

Table of Contents

DIRECTOR INDEPENDENCE AND RELATED PERSON TRANSACTIONS

Director Independence

At least a majority of the Board must qualify as independent within the meaning of the listing standards of the NYSE. The Board has affirmatively determined that Mss. Hefner Filler and List-Stoll, Messrs. Ehrlich, Lohr, Schwieters and Spoon, Professor Stevens and Dr. Zerhouni are independent within the meaning of the listing standards of the NYSE. Prior to his resignation from the Board in February 2018, the Board had also determined that Mr. Hugin was independent within the meaning of the listing standards of the NYSE. The Board concluded that none of these directors possesses (or in Mr. Hugin s case possessed) any of the bright-line relationships set forth in the listing standards of the NYSE that prevent independence, or except as discussed below, any other relationship with Danaher other than Board membership.

In making its determination with respect to the independence of the directors identified above as independent, the Board considered that in 2018, the Company and its subsidiaries sold products and/or services to and purchased products and/or services from organizations with whom such directors are or were employed. In each case, the amount of sales and the amount of purchases in 2018 were less than 0.4% of the annual revenues of such other organization and of Danaher s 2018 revenues and the transactions were conducted in the ordinary course of business and on an arms -length basis.

Danaher s non-management directors (all of whom are, as noted above, independent within the meaning of the listing standards of the NYSE) meet in executive session following the Board s regularly-scheduled meetings. The sessions are chaired by the Lead Independent Director.

Certain Relationships and Related Transactions

Policy

Under Danaher s written Related Person Transactions Policy, the Nominating and Governance Committee of the Board is required to review and if appropriate approve all related person transactions, prior to consummation whenever practicable. If advance approval of a related person transaction is not practicable under the circumstances or if Danaher management becomes aware of a related person transaction that has not been previously approved or ratified, the transaction is submitted to the Committee at the Committee s next meeting. The Committee is required to review and consider all relevant information available to it about each related person transaction, and a transaction is considered approved or ratified under the policy if the Committee authorizes it according to the terms of the policy after full disclosure of the related person s interests in the transaction. Related person transactions of an ongoing nature are reviewed annually by the Committee. The definition of related person transactions for purposes of the policy covers the transactions that are required to be disclosed under Item 404(a) of Regulation S-K under the Securities Exchange Act.

Relationships and Transactions

For their service as executive officers, each of Steven Rales and Mitchell Rales received a salary of $419,000 and 401(k) Plan contributions of $19,356 during 2018 and is entitled to participate in all of the benefits made generally available to salaried employees as well as all perquisites made generally available to Danaher s executive officers. The Rales do not receive cash incentive compensation or equity awards. In 2018, Danaher provided to the Rales tax and accounting services at a cost to Danaher of approximately $260,000 in the form of one full-time employee (plus health and welfare benefits for such employee), allowed the Rales to make personal use of designated Danaher office space at a cost to Danaher of approximately $442,000, provided Mr. Steven Rales with a personal car and parking at a cost to Danaher of approximately $4,000 and provided Mr. Mitchell Rales with tickets to entertainment events at a cost to Danaher of approximately $1,000. The incremental cost to the Company of the perquisites set forth above is based on the Company s out-of-pocket costs. Danaher also provided a full-time executive assistant to each of the Rales to support them in their roles as Danaher executive officers. In each case, their use of a minority of their assistant s time for non-Danaher matters resulted in no incremental cost to Danaher. Separately, in 2018, Steven Rales and Mitchell Rales paid Danaher approximately $170,000 for providing benefits for, and as reimbursement for paying a portion of the salaries of, persons who provide services to the Rales .

Steven Rales and Mitchell Rales collectively own more than 10% of the equity of Colfax Corporation, a publicly traded industrial technology company that provides air & gas handling and fabrication technology products and services. Certain of our subsidiaries sell products and services to, and/or purchase products and services from, Colfax from time to time in the ordinary course of business and on an arms -length basis. In 2018, our subsidiaries sold less than $120,000 of products to, and purchased less than $120,000 of products from, Colfax, which in each case constituted less than 0.005% of Colfax s, and of Danaher s, revenues for 2018. Our subsidiaries intend to sell products and services to and purchase products and services from Colfax in the future in the ordinary course of their businesses and on an arms -length basis.

Table of Contents

Director Independence and Related Person Transactions

On July 2, 2016, we completed the spin-off (Separation) of Fortive Corporation (Fortive), consisting of our former Test & Measurement segment, Industrial Technologies segment (excluding the product identification businesses) and retail/commercial petroleum business. Following the Separation, Danaher and Fortive operate as separate publicly-traded companies and neither entity has any ownership interest in the other. However, Steven Rales and Mitchell Rales collectively own more than 10% of the equity of Fortive. In connection with the Separation, Danaher and Fortive entered into various agreements to effect the Separation and provide a framework for their relationship after the Separation, including a transition services agreement, an employee matters agreement, a tax matters agreement, an intellectual property matters agreement and a license agreement with respect to the Danaher Business System, or DBS (a proprietary set of business processes and methodologies we use that are designed to continuously improve business performance). These agreements provide for the allocation between Danaher and Fortive of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after Fortive s separation from Danaher and govern certain relationships between Danaher and Fortive after the Separation. In addition, following the Separation certain of our subsidiaries sell products and services to, and/or purchase products and services from, Fortive from time to time in the ordinary course of business and on an arms -length basis. In 2018, Danaher collected on Fortive s behalf for remittance to Fortive approximately $3.1 million relating to procurement, compensation and other matters, billed Fortive approximately $300,000 for transition services and paid Fortive approximately $600,000 for transition services. Our subsidiaries sold approximately $14.6 million of products and services to, and purchased approximately $17.6 million of products and services from, Fortive, which in each case is less than 0.3% of Fortive s, and of Danaher s, revenues for 2018. Our subsidiaries intend to sell products and services to and purchase products and services from Fortive in the future in the ordinary course of their businesses and on an arms -length basis.

FJ900, Inc. (FJ900), an indirect, wholly-owned subsidiary of Danaher, is party to an airplane management agreement with Joust Capital II, LLC (Joust II) and a substantially identical agreement with Joust Capital III, LLC (Joust III and together with Joust II, the Joust entities). Joust II is owned by Mitchell Rales and Joust III is owned by Steven Rales. Under the management agreements, FJ900 performs management services for the respective aircraft owned by each of the Joust entities in like manner to the management services provided by FJ900 for Danaher s aircraft. The management services provided by FJ900 include the provision of aircraft management, pilot services, maintenance, record-keeping and other aviation services. FJ900 receives no compensation for its services under the agreements. Having FJ900 perform management services for all of these aircraft enables Danaher and the Joust entities to share certain fixed expenses relating to the use, maintenance, storage, operation and supervision of their respective aircraft and utilize joint purchasing or joint bargaining arrangements where appropriate, allowing each party to benefit from efficiencies of scale and cost savings. We believe that this cost-sharing arrangement results in lower costs to Danaher than if we incurred these fixed costs on a stand-alone basis. Under the agreement, FJ900 prorates all shared expenses annually among the Joust entities and Danaher based on each party s flight hours logged for the year. The Joust entities pre-pay FJ900 on a quarterly basis for their estimated, prorated portion of such shared expenses, and the amounts are trued up at the end of the year. With respect to the year ended December 31, 2018, the Joust entities together paid FJ900 approximately $2.8 million for the Joust entities share of the fixed airplane management expenses shared with Danaher. Each Joust entity pays directly all expenses attributable to its aircraft that are not shared. Under the management agreements, each party is also required to maintain a prescribed amount of comprehensive aviation liability insurance and name the other party and its affiliates as additional named insureds, while the Joust entities must also maintain all-risk hull insurance for their aircraft. If either party suffers any losses in connection with the arrangements set forth in the management agreement, and such losses are due to the fault, negligence, breach or strict liability of the other party, the sole recourse of the party incurring the loss against the other party is to the available insurance proceeds. Each management agreement may be terminated by any party upon 30 days notice.

In addition, Danaher is party to substantially identical airplane interchange agreements with each of the Joust entities with respect to each respective aircraft owned by Danaher and by each of the Joust entities. Under each interchange agreement, the Joust entity has agreed to lease its aircraft to Danaher and Danaher has agreed to lease the respective Danaher aircraft to the Joust entity, in each case on a non-exclusive basis. Neither party is charged for its use of the other party s aircraft, the intent being that over the life of the contract each party s usage of the other party s aircraft will be generally equal. With respect to the year ended December 31, 2018, the incremental value of the use of the Joust aircraft by Danaher, net of the incremental value of the use of the Danaher aircraft by the Joust entities, was approximately $200,000. The owner of each aircraft, as operator of the aircraft, is responsible for providing a flight crew for all flights operated under the interchange agreement. Each owner/operator is required to maintain standard insurance, including all-risk hull insurance and a prescribed amount of comprehensive aviation liability insurance, and to name the other party and its affiliates as additional named insureds. With respect to any losses suffered by the party using the owner/operator s plane, the using party s recourse against the owner/operator is limited to the amount of available insurance proceeds. To the extent the using party and/or any third party suffers losses in connection with the using party s use of the owner/operator s aircraft, and recovers from the owner/operator an amount in excess of the available insurance proceeds, the using party will indemnify the owner/operator for all such excess amounts. The interchange agreements may be terminated by either party upon 10 days notice.

Table of Contents

BENEFICIAL OWNERSHIP OF DANAHER COMMON STOCK BY

DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS

The following table sets forth as of March 11, 2019 (unless otherwise indicated) the number of shares and percentage of Danaher Common Stock beneficially owned by (1) each person who owns of record or is known to Danaher to beneficially own more than five percent of Danaher s Common Stock, (2) each of Danaher s directors and named executive officers, and (3) all executive officers and directors of Danaher as a group.

NAME	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENT OF CLASS (1)	NOTES
Donald J. Ehrlich	158,324	*	Includes options to acquire 38,924 shares, 2,600 shares owned by Mr. Ehrlich s spouse and 32,000 other shares owned indirectly. Mr. Ehrlich disclaims beneficial ownership of the shares held by his spouse.
Linda Hefner Filler	66,783	*	Includes options to acquire 49,502 shares and 4,366 phantom shares attributable to Ms. Hefner Filler s account under the Non-Employee Directors Deferred Compensation Plan.
Thomas P. Joyce, Jr.	522,160	*	Includes options to acquire 364,768 shares, 4,362 shares attributable to Mr. Joyce s 401(k) account and 138,576 shares attributable to Mr. Joyce s EDIP account.

Teri List-Stoll	28,214	*	Includes options to acquire 23,560 shares and 4,654 phantom shares attributable to Ms. List-Stoll s account under the Non-Employee Directors Deferred Compensation Plan.
Walter G. Lohr, Jr.	523,974	*	Includes options to acquire 38,924 shares, 37,050 shares held by a charitable foundation of which Mr. Lohr is president and 448,000 other shares held indirectly. Mr. Lohr disclaims beneficial ownership of the shares held by the charitable foundation.
Mitchell P. Rales	35,715,842	5.0%	Includes 32,000,000 shares owned by limited liability companies of which Mr. Rales is the sole member, 193,460 shares attributable to Mr. Rales 401(k) Plan account and 3,522,382 other shares owned indirectly. The shares held by the limited liability companies are pledged to secure lines of credit with certain banks and each of these entities and Mr. Rales is in compliance with these lines of credit. The business address of Mitchell Rales, and of each of the limited liability companies, is 11790 Glen Rd., Potomac, MD 20854.
Steven M. Rales	43,150,380	6.0%	Includes 34,000,000 shares owned by limited liability companies of which Mr. Rales is the sole member, 18,640 shares attributable to Mr. Rales 401(k) Plan account, 117,000 shares owned by a charitable foundation of which Mr. Rales is a director and 9,014,740 other shares owned indirectly. Mr. Rales disclaims beneficial ownership of those shares held by the charitable foundation. The shares held by the limited liability companies are pledged to secure lines of credit with certain banks and each of these entities and Mr. Rales is in compliance with these lines of credit. The business address of Steven Rales, and of each of

			the limited liability companies, is 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701.
John T. Schwieters	57,877	*	Includes options to acquire 38,924 shares and 10,951 other shares held indirectly.
Alan G. Spoon	102,206	*	Includes options to acquire 49,502 shares.
Raymond C. Stevens, Ph.D.	8,412	*	Includes options to acquire 6,180 shares and 2,231 phantom shares attributable to Professor Stevens account under the Non-Employee Directors Deferred Compensation Plan.
Elias A. Zerhouni, M.D.	46,424	*	Includes options to acquire 38,924 shares and 7,500 other shares held indirectly.

Table of Contents

Beneficial Ownership of Danaher Common Stock by Directors, Officers and Principal Shareholders

NAME	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENT OF CLASS (1)	NOTES
Daniel L. Comas	423,136	*	Includes options to acquire 294,662 shares, 6,744 shares attributable to Mr. Comas 401(k) account, 46,720 shares attributable to Mr. Comas EDIP account, 2,543 shares held by Mr. Comas spouse and 38,804 shares held by a trust as to which Mr. Comas spouse is trustee. Mr. Comas disclaims beneficial ownership of the shares held by his spouse and by the trust.
Rainer M. Blair	60,649	*	Includes options to acquire 57,718 shares and 2,931 shares attributable to Mr. Blair s EDIP account.
William K. Daniel II	484,609	*	Includes options to acquire 402,223 shares and 31,087 shares attributable to Mr. Daniel s EDIP account.
Joakim Weidemanis	153,347	*	Includes options to acquire 110,175 shares and 15,321 shares attributable to Mr. Weidemanis EDIP account.
The Vanguard Group	46,149,541	6.4%	Derived from a Schedule 13G filed February 11, 2019 by The Vanguard Group, which sets forth their beneficial ownership as of December 31, 2018. According to the Schedule 13G, The Vanguard Group has sole voting power over 718,327 shares, shared voting power over 165,079 shares,

			sole dispositive power over 45,281,505 shares and shared dispositive power over 868,036 shares. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.
BlackRock, Inc.	43,634,997	6.1%	Derived from a Schedule 13G filed February 4, 2019 by BlackRock, Inc., which sets forth their beneficial ownership as of December 31, 2018. According to the Schedule 13G, BlackRock, Inc. has sole voting power over 37,317,996 shares and sole dispositive power over 43,634,997 shares. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.
All current executive officers and directors as a group (21 persons)	82,209,599	11.4%	Includes options to acquire 2,091,564 shares, 19,818 shares attributable to executive officers 401(k) accounts, 351,144 shares attributable to executive officers EDIP accounts and 11,252 phantom shares attributable to directors accounts under the Non-Employee Directors Deferred Compensation Plan.

(1) Except as otherwise indicated and subject to community property laws where applicable, each person or entity included in the table above has sole voting and investment power with respect to the shares beneficially owned by that person or entity. For purposes of the table, the number of shares of Danaher Common Stock attributable to each executive officer s Executive Deferred Incentive Program (EDIP) account or Deferred Compensation Plan (DCP) account is equal to (1) the person s outstanding EDIP or DCP balance, as applicable, as of March 11, 2019 (to the extent such balance is vested or will become vested within 60 days of March 11, 2019), divided by (2) the closing price of Danaher Common Stock as reported on the NYSE on March 11, 2019; the number of shares attributable to each executive officer s 401(k) Plan account is equal to (a) the officer s balance, as of March 11, 2019, in the Danaher stock fund included in the executive officer s 401(k) Plan account, divided by (b) the closing price of Danaher Common Stock as reported on the NYSE on March 11, 2019; and the number of shares attributable to the Non-Employee Directors Deferred Compensation Plan is based on the number of shares that could be issued to directors pursuant to such plan within 60 days of March 11, 2019. The table also includes shares that may be acquired upon exercise of options that are exercisable within 60 days of March 11, 2019 or upon vesting of RSUs and PSUs that vest within 60 days of March 11, 2019.

* Represents less than 1% of the outstanding Danaher Common Stock.

Table of Contents

PROPOSAL 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee on behalf of Danaher has selected Ernst & Young LLP, an international accounting firm of independent certified public accountants, to act as the independent registered public accounting firm for Danaher and its consolidated subsidiaries for the year ending December 31, 2019. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Although shareholder approval of the selection of Ernst & Young LLP is not required by law, Danaher s Board believes that it is advisable to give shareholders an opportunity to ratify this selection. If this proposal is not approved by Danaher s shareholders at the 2019 Annual Meeting, the Audit Committee will reconsider its selection of Ernst & Young LLP. Even if the selection of Ernst & Young LLP is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of Danaher and its shareholders.

The Board of Directors recommends that shareholders vote FOR ratification of the selection of Ernst & Young LLP to serve as the independent registered public accounting firm for Danaher for 2019.

Audit Fees and All Other Fees

The following table sets forth the fees for audit, audit-related, tax and other services rendered by Ernst & Young LLP to Danaher for 2018 and 2017.

	TWELVE MONTHS ENDED DECEMBER 31, 2018	TWELVE MONTHS END DECEMBER 31, 2017
Audit Fees. Fees for the audit of annual financial statements and internal control over financial reporting, reviews of quarterly financial statements, and the services that an independent auditor would customarily provide in connection with subsidiary audits, statutory requirements, regulatory filings and similar engagements, such as comfort letters, attest services, consents, and assistance with review of documents filed with the SEC. Audit fees also include advice about accounting matters that arose in	$ 20,376,344	$ 20,054,000

connection with or as a result of the audit or the review of quarterly financial statements and statutory audits that non-U.S. jurisdictions require.

Audit-Related Fees. Fees for assurance and related services reasonably related to the performance of the audit or review of financial statements and internal control over financial reporting that are not reported under Audit Fees above. This category may include fees related to the performance of audits and attest services not required by statute or regulations; audits of our employee benefit plans; due diligence related to mergers, acquisitions, and investments; and accounting consultations about the application of GAAP to proposed transactions, and, for 2018, includes audits and audit related services in connection with the anticipated stand-up of Danaher s Dental segment as a publicly-traded company, including associated filings with the SEC.	$	5,037,590

13,048
14,673
13,005

Basic net loss per share
$(0.09)
$(0.08)
$(0.15)
$(0.06)
Diluted net loss per share
$(0.09)
$(0.08)
$(0.15)
$(0.06)

For the purpose of computing diluted earnings per share, the weighted average number of potential common shares does not include stock options with an exercise price greater than the average fair value of the Company's common stock for the period, as the effect would be anti-dilutive. In the three and six months ended November 30, 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 3,229,000 shares of common stock, RSUs for 72,000 shares and ESPP rights to purchase 246,000 ESPP shares were outstanding as of November 30, 2016, but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive. Stock options to purchase 3,385,000 shares of common stock and ESPP rights to purchase 131,000 ESPP shares were outstanding as of November 30, 2015, but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of November 30, 2016 (in thousands):

	Balance as of November 30, 2016	Level 1	Level 2	Level 3
Money market funds	$4,001	$4,001	$--	$--
Certificate of deposit	50	--	50	--
Assets	$4,051	$4,001	$50	$--

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	$--

There were no financial liabilities measured at fair value as of November 30, 2016 and May 31, 2016.

There were no transfers between Level 1 and Level 2 fair value measurements during the three and six months ended November 30, 2016.

The carrying amounts of financial instruments including cash, cash equivalents, receivables, accounts payable and certain other accrued liabilities, approximate fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the carrying value of the debt approximates the fair value.

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

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable represents customer trade receivables and is presented net of allowances for doubtful accounts of $20,000 at November 30, 2016 and $8,000 at May 31, 2016. Accounts receivable are derived from the sale of products throughout the world to semiconductor manufacturers, semiconductor contract assemblers, electronics manufacturers and burn-in and test service companies. The Company's allowance for doubtful accounts is based upon historical experience and review of trade receivables by aging category to identify specific customers with known disputes or collection issues. Uncollectible receivables are recorded as bad debt expense when all efforts to collect have been exhausted and recoveries are recognized when they are received.

6. INVENTORIES

Inventories are comprised of the following (in thousands):

	November 30, 2016	May 31, 2016
Raw materials and sub-assemblies	$2,495	$2,839
Work in process	3,308	4,151
Finished goods	266	43
	$6,069	$7,033

13

7. SEGMENT INFORMATION

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

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

	United States	Asia	Europe	Total
Three months ended November 30, 2016:				
Net sales	$1,709	$2,256	$251	$4,216
Property and equipment, net	740	39	14	793
Six months ended November 30, 2016:				
Net sales	$4,873	$4,166	$495	$9,534
Property and equipment, net	740	39	14	793
Three months ended November 30, 2015:				
Net sales	$507	$3,768	$345	$4,620
Property and equipment, net	530	33	13	576
Six months ended November 30, 2015:				
Net sales	$1,225	$9,149	$879	$11,253
Property and equipment, net	530	33	13	576

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

Sales to the Company's five largest customers accounted for approximately 96% and 95% of its net sales in the three and six months ended November 30, 2016, respectively. Two customers accounted for approximately 60% and 22% of the Company's net sales in the three months ended November 30, 2016. Three customers accounted for approximately 50%, 19% and 16% of the Company's net sales in the six months ended November 30, 2016. Sales to the Company's five largest customers accounted for approximately 97% and 96% of its net sales in the three and six months ended November 30, 2015, respectively. Two customers accounted for approximately 51% and 36% of the Company's net sales in the three months ended November 30, 2015. Two customers accounted for approximately 54% and 27% of the Company's net sales in the six months ended November 30, 2015. No other customers represented more than 10% of the Company's net sales in the six months ended November 30, 2016 and 2015.

8. PRODUCT WARRANTIES

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

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

The following is a summary of changes in the Company's liability for product warranties during the three and six months ended November 30, 2016 and 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2016	2015	2016	2015
Balance at the beginning of the period	$90	$219	$155	$137
Accruals for warranties issued during the period	11	128	11	237
Accruals and adjustments (change in estimates) related to pre-existing warranties during the period	--	--	(54)	--
Settlement made during the period (in cash or in kind)	(29)	(42)	(40)	(69)
Balance at the end of the period	$72	$305	$72	$305

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

9. INCOME TAXES

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

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

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

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.

10. CUSTOMER DEPOSITS AND DEFERRED REVENUE, SHORT-TERM

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

	November 30, 2016	May 31, 2016
Customer deposits	$692	$540
Deferred revenue	363	1,174
	$1,055	$1,714

15

11. LONG-TERM DEBT

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.

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 are being accreted over the term of the original loan using the effective interest rate method, were offset against the loan balance. During the three and six months ended November 30, 2016, $44,000 and $89,000, respectively, of amortization costs were recognized as interest expense. Unamortized debt issuance costs of $59,000 were offset against the loan balance at November 30, 2016.

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. 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.

On April 14, 2016, $900,000 drawn against the Credit Facility was converted to Convertible Notes. On July 17, 2016, $1,100,000 drawn against the Credit Facility was converted to Convertible Notes. At November 30, 2016 there was no remaining balance available on the Credit Facility.

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

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

	November 30, 2016	May 31, 2016
Principal	$6,110	$6,110
Unamortized debt issuance costs	(59)	(148)
	$6,051	$5,962

12. EQUITY

On August 8, 2016 the Company issued 200,000 shares of its common stock to Semics Inc., a semiconductor test equipment provider that produces fully automatic wafer probe systems, in consideration for cancellation of an outstanding invoice of $323,000 for capital equipment.

On September 28, 2016, the Company sold 2,721,540 shares of its common stock in a private placement transaction with certain institutional and accredited investors. The purchase price per share of the common stock sold in the private placement was $2.15, resulting in gross proceeds to the Company of $5,851,000, before offering expenses. The net proceeds after offering expenses were $5,299,000.

13. 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 an accounting standards update related to revenue from contracts with customers. This standard 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 depict 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 standard 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. ii) clarify the application of the principal versus agent guidance. and iii) clarify the guidance on inconsequential and perfunctory promises and licensing. In May 2016, the FASB issued an update 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. In December 2016, the FASB issued updated guidance regarding revenue from contracts with customers. Some topics that could impact the Company include corrections and improvements around the following: contract costs impairment testing, disclosure of remaining performance obligations and prior period obligations, contract modifications, and contract asset versus receivable. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2014, the FASB issued authoritative guidance related to going concern. This guidance 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. This guidance will apply to all entities and will be effective for us in 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 July 2015, the FASB issued an accounting standards update that 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 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 November 2015, the FASB issued an accounting standards update related to deferred tax assets and liabilities. 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 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 January 2016, the FASB issued an accounting standards update related to recognition and measurement of financial assets and financial liabilities. This standard changes accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, it clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This standard is effective for us in fiscal year 2020. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

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

In March 2016, the FASB released an accounting standards update that 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.

In June 2016, the FASB issued an accounting standard update that requires measurement and recognition of expected credit losses for financial assets held based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2021 on a modified retrospective basis, and early adoption in fiscal 2020 is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

In August 2016, the FASB issued authoritative guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019 on a retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Statements of Cash Flows.

In October 2016, the FASB issued an accounting standard update that requires recognition of the income tax consequences of intra-entity transfers of assets (other than inventory) at the transaction date. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019 on a modified retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

In November 2016, the FASB issued authoritative guidance related to statements of cash flows. This guidance clarifies that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019 on a retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

In December 2016, the FASB issued authoritative guidance related to technical corrections and improvements. This guidance provides minor updates on a variety of codification topics and are not expected to have a significant effect on current accounting practice. Most of these corrections do not have a transition date as they are minor in nature.

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report and with our Annual Report on Form 10-K for the fiscal year ended May 31, 2016 and the consolidated financial statements and notes thereto.

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report, including those made by the management of Aehr Test Systems, other than statements of historical fact, are forward-looking statements. These statements typically may be identified by the use of forward-looking words or phrases such as "believe," "expect," "intend," "anticipate," "should," "planned," "estimated," and "potential," among others and include, but are not limited to, statements concerning our expectations regarding our operations, business, strategies, prospects, revenues, expenses, costs and resources. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those anticipated results or other expectations reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and other factors beyond our control, and in particular, the risks discussed in "Part II, Item 1A. Risk Factors" and those discussed in other documents we file with the SEC. All forward-looking statements included in this document are based on our current expectations, and we undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

OVERVIEW

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

The Company's net sales consist primarily of sales of systems, WaferPak contactors, test fixtures, die carriers, upgrades and spare parts, revenues from service contracts, and engineering development charges. The Company's selling arrangements may include contractual customer acceptance provisions, which are mostly deemed perfunctory or inconsequential, and installation of the product occurs after shipment and transfer of title.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, income taxes, financing operations, warranty obligations, and long-term service contracts. The Company's estimates are derived from historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Those results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a discussion of the critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

There have been no material changes to our critical accounting policies and estimates during the six months ended November 30, 2016 compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

RESULTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2016	2015	2016	2015
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.3	63.4	61.5	54.9
Gross profit	34.7	36.6	38.5	45.1
Operating expenses:				
Selling, general and administrative	40.5	37.1	35.9	31.6
Research and development	24.7	20.0	22.0	17.6
Total operating expenses	65.2	57.1	57.9	49.2
Loss from operations	(30.5)	(20.5)	(19.4)	(4.1)
Interest expense	(4.3)	(3.0)	(3.8)	(2.4)
Other income, net	1.1	1.3	0.4	0.2
Loss before income tax expense	(33.7)	(22.2)	(22.8)	(6.3)
Income tax expense	(0.7)	(0.5)	(0.3)	(0.4)
Net loss	(34.4)	(22.7)	(23.1)	(6.7)
Less: Net income attributable to the noncontrolling interest	--	--	--	--
Net loss attributable to Aehr Test Systems common shareholders	(34.4)%	(22.7)%	(23.1)%	(6.7)%

THREE MONTHS ENDED NOVEMBER 30, 2016 COMPARED TO THREE MONTHS ENDED NOVEMBER 30, 2015

NET SALES. Net sales decreased to $4.2 million for the three months ended November 30, 2016 from $4.6 million for the three months ended November 30, 2015, a decrease of 8.7%. The decrease in net sales for the three months ended November 30, 2016 resulted primarily from the decreases in net sales of the Company's wafer-level products, partially offset by the increase in net sales of the Company's Test During Burn-in (TDBI) products. Net sales of the Company's wafer-level products for the three months ended November 30, 2016 were $1.4 million, and decreased approximately $0.7 million from the three months ended November 30, 2015. Net sales of the TDBI products for the three months ended November 30, 2016 were $2.7 million, and increased approximately $0.2 million from the three months ended November 30, 2015.

20

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 $1.5 million for the three months ended November 30, 2016 from $1.7 million for the three months ended November 30, 2015, a decrease of 13.5%. Gross profit margin decreased to 34.7% for the three months ended November 30, 2016 from 36.6% for the three months ended November 30, 2015 due to changes in mix of product sales.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative, or SG&A, expenses consist primarily of salaries and related costs of employees, commission expenses to independent sales representatives, product promotion and other professional services. SG&A expenses were flat at $1.7 million for the three months ended November 30, 2016 compared with the three months ended November 30, 2015.

RESEARCH AND DEVELOPMENT. Research and development, or R&D, expenses consist primarily of salaries and related costs of employees engaged in ongoing research, design and development activities, costs of engineering materials and supplies, and professional consulting expenses. R&D expenses increased to $1.0 million for the three months ended November 30, 2016 from $0.9 million for the three months ended November 30, 2015, an increase of 12.7%. The increase in R&D expenses was primarily due to an increase in employment related expenses.

INTEREST EXPENSE. Interest expense was $181,000 for the three months ended November 30, 2016 compared with $137,000 for the three months ended November 30, 2015. The increase in interest expense in the three months ended November 30, 2016 was primarily due to higher average borrowings.

OTHER INCOME, NET. Other income, net was $43,000 and $55,000 for the three months ended November 30, 2016 and 2015, respectively. The change in other income was primarily due to gains realized in connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX EXPENSE. Income tax expenses were $30,000 and $21,000 for the three months ended November 30, 2016 and 2015, respectively.

SIX MONTHS ENDED NOVEMBER 30, 2016 COMPARED TO SIX MONTHS ENDED NOVEMBER 30, 2015

NET SALES. Net sales decreased to $9.5 million for the six months ended November 30, 2016 from $11.3 million for the six months ended November 30, 2015, a decrease of 15.3%. The decrease in net sales for the six months ended November 30, 2016 resulted primarily from the decreases in net sales of the Company’s wafer-level products, partially offset by the increase in the Company’s TDBI products. Net sales of the Company’s wafer-level products for the six months ended November 30, 2016 were $4.2 million, and decreased approximately $3.2 million from the six months ended November 30, 2015. Net sales of the TDBI products for the six months ended November 30, 2016 were $5.3 million, and increased approximately $1.4 million from the six months ended November 30, 2015.

GROSS PROFIT. Gross profit decreased to $3.7 million for the six months ended November 30, 2016 from $5.1 million for the six months ended November 30, 2015, a decrease of 27.7%. Gross profit margin decreased to 38.5% for the six months ended November 30, 2016 from 45.1% for the six months ended November 30, 2015. The higher gross profit margin for the six months ended November 30, 2015 was primarily the result of the sale of systems which included previously written-down material.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses decreased to $3.4 million for the six months ended November 30, 2016 from $3.6 million for the six months ended November 30, 2015, a decrease of 3.8%. The decrease in SG&A expenses was primarily due to a decrease in sales commissions to outside sales representatives.

RESEARCH AND DEVELOPMENT. R&D expenses increased to $2.1 million for the six months ended November 30, 2016 from $2.0 million for the six months ended November 30, 2015, an increase of 5.8%. The increase in R&D expenses was primarily due to an increase in employment related expenses.

INTEREST EXPENSE. Interest expense was $359,000 for the six months ended November 30, 2016 compared with $272,000 for the six months ended November 30, 2015. The increase in interest expense in the six months ended November 30, 2016 was primarily due to higher average borrowings.

OTHER INCOME, NET. Other income, net was $40,000 and $31,000 for the six months ended November 30, 2016 and 2015, respectively. The change in other income was due primarily to gains realized in connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX EXPENSE. Income tax expenses were $34,000 and $44,000 for the six months ended November 30, 2016 and 2015, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $1.4 million and $3.9 million for the six months ended November 30, 2016 and 2015, respectively. For the six months ended November 30, 2016, net cash used in operating activities was primarily the result of net loss of $2.2 million, as adjusted to exclude the effect of non-cash charge of stock-based compensation expense of $0.5 million. Net cash used in operations was also impacted by an increase in accounts receivable of $1.0 million and a decrease in customer deposits and deferred revenue of $739 thousand, partially offset by a decrease in inventories of $1.3 million and an increase in accounts payable of $721 thousand. The increase in accounts receivable was primarily due to large shipments toward the end of November 30, 2016. The decrease in customer deposits and deferred revenue was primarily due to shipments to customers with down payments. The decrease in inventories is primarily due to the sales of systems on-hand at the beginning of the period. The increase in accounts payable was primarily due to inventory and capital equipment purchases. For the six months ended November 30, 2015, net cash used in operating activities was primarily the result of net loss of $0.8 million, as adjusted to exclude the effect of non-cash charge of stock-based compensation expense of $0.6 million, as well as a decrease in customer deposits and deferred revenue of $3.3 million and an increase in accounts receivable of $1.2 million. This was partially offset by an increase in accounts payables of $0.7 million. The decrease in customer deposits and deferred revenue was primarily due to the shipments of customer orders with down payments. The increase in accounts receivable was primarily due to an increase in sales. The increase in accounts payable was primarily due to higher expenditures associated with higher revenue.

Net cash used in investing activities was $88,000 and $169,000 for the six months ended November 30, 2016 and 2015, respectively. Net cash used in investing activities was due to the purchases of property and equipment.

Financing activities provided cash of $5.8 million and $0.5 million for the six months ended November 30, 2016 and 2015, respectively. Net cash provided by financing activities during the six months ended November 30, 2016 was due primarily to the net proceeds of $5.3 million from the sale of our common stock in a private placement transaction with certain institutional and accredited investors that closed on September 28, 2016 and $0.5 million in proceeds from the issuance of common stock under employee plans. Net cash provided by financing activities during the six months ended November 30, 2015 was due to proceeds from the issuance of common stock under employee plans.

The effect of fluctuation in exchange rates used cash of $43,000 for the six months ended November 30, 2016 and $10,000 for the six months ended November 30, 2015. The change in cash used was due to the fluctuation in the value of the dollar compared to foreign currencies.

As of November 30, 2016 and May 31, 2016, the Company had working capital of $8.9 million and $4.1 million, respectively. Working capital consists of cash and cash equivalents, accounts receivable, inventory and other current assets, less current liabilities.

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

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

The Company anticipates that its 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. On August 22, 2016, the Company extended the maturity date of the Convertible Notes due in 2017 to April 10, 2019 which improves its ability to meet current liabilities for fiscal 2017. On September 28, 2016, the Company sold 2,721,540 shares of its common stock in a private placement transaction resulting in net proceeds after offering expenses of $5,299,000 to the Company. Refer to Note 12, "EQUITY". Depending on the Company's 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 ARRANGEMENTS

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

OVERVIEW OF CONTRACTUAL OBLIGATIONS

On April 10, 2015, the Company entered into a Convertible Note Purchase and Credit Facility Agreement providing for the Company's sale of the Convertible Notes and a secured revolving loan facility. On August 22, 2016, the Company entered into an amendment to the Convertible Note Purchase and Credit Facility Agreement and the Convertible Notes to extend the maturity date of the Convertible Notes to April 10, 2019. See Note 11, "LONG-TERM DEBT", for a description of the Convertible Note Purchase and Credit Facility Agreement and the Convertible Notes.

There have been no additional material changes in the composition, magnitude or other key characteristics of the Company's contractual obligations or other commitments as disclosed in the Company's Annual Report on Form 10-K for the year ended May 31, 2016.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company had no holdings of derivative financial or commodity instruments as of November 30, 2016 or 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.

23

A majority of the Company's revenue and capital spending is transacted in U.S. Dollars. The Company, however, enters into transactions in other currencies, primarily Euros and Japanese Yen. Since the price is determined at the time a purchase order is accepted, the Company is exposed to the risks of fluctuations in the foreign currency-U.S. Dollar exchange rates during the lengthy period from purchase order to ultimate payment. This exchange rate risk is partially offset to the extent that the Company's subsidiaries incur expenses payable in their local currency. To date, the Company has not invested in instruments designed to hedge currency risks. In addition, the Company's subsidiaries typically carry debt or other obligations due to the Company that may be denominated in either their local currency or U.S. Dollars. Since the Company's subsidiaries' financial statements are based in their local currency and the Company's condensed consolidated financial statements are based in U.S. Dollars, the Company's subsidiaries and the Company recognize foreign exchange gains or losses in any period in which the value of the local currency rises or falls in relation to the U.S. Dollar. A 10% decrease in the value of the subsidiaries' local currency as compared with the U.S. Dollar would not be expected to result in a significant change to the Company's net income or loss. There have been no material changes in our risk exposure since the end of the last fiscal year, nor are any material changes to our risk exposure anticipated.

Item 4. CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. RISK FACTORS

You should carefully consider the risks described below. These risks are not the only risks that we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected which could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Quarterly Report on Form 10-Q and in other documents we filed with the U.S. Securities and Exchange Commission, including without limitation our most recently filed Annual Report on Form 10-K or presented elsewhere by management from time to time.

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 the Convertible Notes to April 10, 2019 which improves our ability to meet current liabilities for fiscal 2017. Refer to Note 11 of Notes to Condensed Consolidated Financial Statements, "LONG-TERM DEBT" 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. On October 3, 2016, the Company was notified by NASDAQ that the Company had regained compliance with NASDAQ's continued listing requirements. If we fail to maintain compliance with the applicable NASDAQ continued listing 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.

30

We may be subject to litigation relating to intellectual property infringement which would be time-consuming, expensive and a distraction from our business.

If we do not adequately protect our intellectual property, competitors may be able to use our proprietary information to erode our competitive advantage, which could harm our business and operating results. Litigation may be necessary to enforce or determine the validity and scope of our proprietary rights, and there can be no assurance that our intellectual property rights, if challenged, will be upheld as valid. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our operating results, regardless of the outcome of the litigation. In addition, there can be no assurance that any of the patents issued to us will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to us.

There are no pending claims against us regarding infringement of any patents or other intellectual property rights of others. However, in the future we may receive communications from third parties asserting intellectual property claims against us. Such claims could include assertions that our products infringe, or may infringe, the proprietary rights of third parties, requests for indemnification against such infringement or suggestions that we may be interested in acquiring a license from such third parties. There can be no assurance that any such claim will not result in litigation, which could involve significant expense to us, and, if we are required or deem it appropriate to obtain a license relating to one or more products or technologies, there can be no assurance that we would be able to do so on commercially reasonable terms, or at all.

While we believe we have complied with all applicable environmental laws, our failure to do so could adversely affect our business as a result of having to pay substantial amounts in damages or fees.

Federal, state and local regulations impose various controls on the use, storage, discharge, handling, emission, generation, manufacture and disposal of toxic and other hazardous substances used in our operations. We believe that our activities conform in all material respects to current environmental and land use regulations applicable to our operations and our current facilities, and that we have obtained environmental permits necessary to conduct our business. Nevertheless, failure to comply with current or future regulations could result in substantial fines, suspension of production, alteration of our manufacturing processes or cessation of operations. Such regulations could require us to acquire expensive remediation equipment or to incur substantial expenses to comply with environmental regulations. Any failure to control the use, disposal or storage of or adequately restrict the discharge of, hazardous or toxic substances could subject us to significant liabilities.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The provisions of the act require, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Preparing our financial statements involves a number of complex processes, many of which are done manually and are dependent upon individual data input or review. These processes include, but are not limited to, calculating revenue, deferred revenue and inventory costs. While we continue to automate our processes and enhance our review and put in place controls to reduce the likelihood for errors, we expect that for the foreseeable future, many of our processes will remain manually intensive and thus subject to human error.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None except as previously disclosed in our Current Report on Form 8-K filed September 28, 2016.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

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

SIGNATURES

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

Aehr Test Systems
(Registrant)

Date: January 13, 2017 /s/ GAYN ERICKSON
Gayn Erickson
President and Chief Executive Officer

Date: January 13, 2017 /s/ KENNETH B. SPINK
Kenneth B. Spink
Vice President of Finance and Chief Financial Officer

AEHR TEST SYSTEMS
INDEX TO EXHIBITS

Exhibit No.	Description
10.1(1)	Purchase Agreement by and among Aehr Test Systems and the Investors (defined therein), dated as of September 22, 2016.
10.2(1)	Registration Rights Agreement by and among Aehr Test Systems and the Investors (defined therein), dated as of September 22, 2016.
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the same numbered Exhibit previously filed with the Company’s Current Report on Form 8-K filed September 28, 2016 (File No. 000-22893).

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