AGIC Convertible & Income Fund II
Form N-CSRS
November 05, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21338

AGIC Convertible & Income Fund II

(Exact name of registrant as specified in charter)

1633 Broadway, New York, NY	**10019**
(Address of principal executive offices)	**(Zip code)**

Lawrence G. Altadonna 1633 Broadway, New York, New York 10019
(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3371

Date of fiscal year end: February 28, 2013

Date of reporting period: August 31, 2012

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Item 1. Report to Shareholders

Semi-Annual Report

August 31, 2012

AGIC Convertible & Income Fund

AGIC Convertible & Income Fund II

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Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

Dear Shareholder:

The U.S. economy slowed during the six-month reporting period ended August 31, 2012. There were a variety of issues behind the slowdown, notably Europe s ongoing sovereign fiscal crisis, a slowdown in China and uncertainty about future levels of federal taxes and spending in the United States. Stocks reached their highest levels since 2008, despite corporate earnings flattening.

Six Month Review through August 31, 2012

AGIC Convertible & Income Fund returned 2.19% on net asset value (NAV) and 0.98% on market price.

AGIC Convertible & Income Fund II returned 2.14% on NAV and 3.74% on market price.

In comparison, the Standard & Poor s 500 Index, an unmanaged index generally representative of the

U.S. stock market, rose 4.14% and the Barclays U.S. Credit Index, an unmanaged index considered representative of publicly issued, Securities & Exchange Commission (SEC) registered U.S. corporate and specific foreign debentures and secured notes, returned 4.63% during the six-month reporting period. The BofA Merrill Lynch All U.S. Convertibles Index, an unmanaged index generally representative of the convertible securities market, returned 0.67% during the reporting period.

As the fiscal reporting period began, U.S. gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at an annual rate of 2.0% between January and March 2012, and at a 1.7% annual pace from April to June, 2012. This slowing trend is notable, given that growth registered a 4.1% annual rate during the fourth quarter of 2011.

The period opened with robust private sector hiring; however, hiring diminished throughout the six-month period. Unemployment declined from 8.3% to 8.1% during the reporting period. U.S. consumers, whose spending represents approximately two-thirds of U.S. economic activity, became increasingly skittish at the abundant signs of a slowdown, notably the tepid labor market and rising gasoline prices.

In response to this uncertainty, investors shifted assets into the perceived safe haven of U.S. Treasury bonds, triggering the yield to reach a record low of 1.43%. During the reporting period, the yield on the benchmark 10-year Treasury bond fell from 1.98% at the beginning of the reporting period to 1.57% on August 31, 2012.

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Positioned to Face Today s Challenges

Shortly after the fiscal reporting period ended, the Federal Reserve (the Fed) revealed that it would embark upon a third round of so-called quantitative easing. The Fed agreed to purchase $40 billion of mortgage securities each month for the foreseeable future. The plan s objective is to lower already record low mortgage rates in an effort to boost the housing market. The Fed also indicated that it would continue Operation Twist, a program which involves selling debt obligations with short-term maturities and purchasing debt

obligations with longer-term maturities. The Fed announced that the Fed Funds rate is expected to be held in the 0.0% to 0.25% range through 2015, longer than previously expected. The rate has been at this level since December 2008. In addition to stimulating the housing market, the Fed indicated that these measures were aimed at boosting U.S. hiring.

There is growing uncertainty over future levels of

federal taxes and spending. A series of tax cuts are scheduled to expire on December 31, 2012 and major spending reductions are planned to begin in January 2013. The prospect of higher taxes, reduced spending, or both, would likely have an adverse effect on the economy in 2013.

For specific information on the Funds and their performance, please refer to the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds investment manager, and Allianz Global Investors Capital LLC, the Funds sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess	Brian S. Shlissel
Chairman	President & CEO

Receive this report electronically and eliminate paper mailings. To enroll, go to www.allianzinvestors.com/ edelivery.

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AGIC Convertible & Income Funds Fund Insights

August 31, 2012 (unaudited)

For the period of March 1, 2012, through August 31, 2012 as provided by Doug Forsyth, Portfolio Manager.

For the fiscal six-month period ended August 31, 2012, AGIC Convertible & Income Fund and AGIC Convertible & Income Fund II (the Funds) returned 2.19% and 2.14% on net asset value (NAV) and 0.98% and 3.74% on market price, respectively.

Market Environment

Performance over the six-month period can be segmented into three distinct time frames.

In the first month of the reporting period, the markets continued an upward trend that began in October 2011. The most obvious factor driving the rally was the decoupling of U.S. and European financial risk. As economic statistics, corporate earnings and, specifically, the housing market, showed improvement, the likelihood of a double-dip recession fell off the table. It also became more apparent that the European Union (E.U.) was addressing the crisis, which gave investors more confidence. Besides a positive equity market, an increase in bond floor valuations had a positive impact on the convertible market. Corporate bond spreads tightened as prices rose. Bond prices rose to more accurately reflect the lack of balance sheet risk for the average issuer in the market.

Investor sentiment over the next two months was in stark contrast to the sentiment shift seen in prior months when investors felt the risks to the U.S. economy had diminished. By early April, fear and macro concerns returned. Despite some softening in the broad economic statistics in the U.S., the real focus was on the day-to-day reports regarding the developments throughout Europe. Although the details were laid out in the media, there was little certainty about which specific event was the most critical. Uncertainty is the primary killer of investor confidence. With little direction and no discernible timetable toward resolution for all of the financial woes across several countries, investors sold risk assets. Convertible securities, like equities, were sold, and investors once again flocked to Treasuries and cash.

Over the remaining three months of the reporting period, markets rebounded sharply on speculation that the Federal Reserve would announce QE3 and central banks would increase efforts to stabilize economies throughout Asia

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and Europe. Furthermore, favorable developments in Europe, positive U.S. housing reports and healthy U.S. corporate earnings offset weakening global economic data reports.

Sector level performance was mixed. In general, counter-cyclical sectors such as Health Care, Utilities and Telecommunications outperformed economically-sensitive issuers. Media and Financials issues supported the overall market as well. In contrast, global economic slowdown concerns pressured Industrials, Materials and Energy issuers.

Portfolio Specifics

In general, the Funds followed a pattern of fluctuations similar to the overall markets.

Convertible positions in Financials and defensive-oriented sectors such as Utilities, Consumer Staples and Health Care, were among the greatest contributors to the Funds overall performance. Technology and Industrials issues had a positive impact as well. Defensive sectors were the beneficiaries of the general market rotation occurring during the volatile months of April and May. Select Technology issues moved higher on better-than-expected earnings.

The Funds weakest convertible performers were concentrated in Telecommunications and cyclical sectors including Materials, Energy and Transportation. Lower oil prices led to declines in Energy issues. In general, Transportation companies underperformed due to economic slowdown concerns, despite falling crude oil prices. Materials companies underperformed due to weakening demand and lower prices for commodities.

High yield bond positions in Automotive & Auto Parts, Food & Drug Retail and Restaurants were among the greatest contributors to the Funds overall performance. In addition, select Telecommunications Wireline, Consumer Products and Containers issues moved higher over the reporting period.

The Funds weakest high yield bond performers were concentrated in the Utilities, Paper and Chemicals industries. In addition, Steel and Metals/Mining issues came under pressure. These industries were among the hardest hit in the reporting period by the negative shift in the global economic outlook.

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AGIC Convertible & Income Funds Fund Insights

August 31, 2012 (unaudited) (continued)

Outlook

The outlook for the convertible and high yield markets is unchanged. The global economy is going through a soft patch. European sovereign debt issues will continue to make headlines but corporate profits should remain resilient.

Corporate balance sheets remain strong with leverage ratios and interest coverage ratios near, or better than, levels seen in the past twenty years. Cash levels of investment grade issuers remain high, and acquisition activity is ongoing. Significant refinancing activity for the past few years has essentially eliminated near-term amortization risk. The Fed and policymakers are in an accommodative stance and have acted by continuing quantitative easing. These factors combine to create an environment where defaults are low. Given these dynamics, high yield bonds and convertible bond floors should hold, supporting downside protection.

Macro factors are having an impact on daily volatility and prices of higher beta issues, which warrants close monitoring. Commodity prices eased in the first half of 2012 and should be a tailwind to earnings for the remainder of the year. In addition, U.S. economic statistics though slowing reflect continued economic growth, which should allow a majority of companies to meet or exceed earnings expectations.

For the balance of 2012, companies are expected to use the high cash levels on their balance sheets and future free cash flow to boost shareholder value. Share buybacks, increased dividends and merger and acquisition activity are possible uses of excess cash. These factors typically benefit equity and convertible investors.

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AGIC Convertible & Income Fund Performance & Statistics

August 31, 2012 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	0.98%	2.19%
1 Year	17.13%	14.20%
5 Year	5.77%	3.10%
Commencement of Operations (3/31/03) to 8/31/12	8.02%	7.51%

Market Price/NAV Performance:

Commencement of Operations (3/31/03) to 8/31/12

Market Price/NAV:

Market Price	$9.21
NAV	$8.28
Premium to NAV	11.23%
Market Price Yield(2)	11.73%
Leverage(3)	36.28%

Moody s Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund s shares, or changes in the Fund s dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at August 31, 2012.

(3) Represents Preferred Shares outstanding as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Preferred Shares) minus accrued liabilities (other than liabilities representing Preferred Shares).

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AGIC Convertible & Income Fund II Performance & Statistics

August 31, 2012 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	3.74%	2.14%
1 Year	15.00%	13.90%
5 Year	4.93%	1.61%
Commencement of Operations (7/31/03) to 8/31/12	6.72%	5.82%

Market Price/NAV Performance:

Commencement of Operations (7/31/03) to 8/31/12

Market Price/NAV:

Market Price	$8.61
NAV	$7.50
Premium to NAV	14.80%
Market Price Yield[2]	11.85%
Leverage[3]	36.70%

Moody s Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund s shares, or changes in the Fund s dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at August 31, 2012.

(3) Represents Preferred Shares outstanding as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Preferred Shares) minus accrued liabilities (other than liabilities representing Preferred Shares).

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AGIC Convertible & Income Fund Schedule of Investments

August 31, 2012 (unaudited)

Principal Amount (000s)		Value
CORPORATE BONDS & NOTES 44.8%		
Advertising 0.6%		
$8,230	Affinion Group, Inc., 11.50%, 10/15/15	$5,925,600
Airlines 0.7%		
6,250	United Airlines, Inc., 12.00%, 11/1/13 (a)(b)	6,484,375
Auto Manufacturers 0.8%		
7,410	Chrysler Group LLC, 8.25%, 6/15/21	7,854,600
Commercial Services 2.8%		
11,500	Cenveo Corp., 11.50%, 5/15/17	9,832,500
5,705	DynCorp International, Inc., 10.375%, 7/1/17	4,849,250
11,000	National Money Mart Co., 10.375%, 12/15/16	12,333,750
		27,015,500
Construction & Engineering 1.0%		
9,695	MasTec, Inc., 7.625%, 2/1/17	10,131,275
Consumer Finance 0.5%		
5,775	Springleaf Finance Corp., 6.90%, 12/15/17	4,778,813
Diversified Consumer Services 0.5%		
7,105	Cambium Learning Group, Inc., 9.75%, 2/15/17	5,399,800
Diversified Financial Services 2.2%		
	Community Choice Financial, Inc., (a)(b)	
10,085	10.75%, 5/1/19	9,958,937
7,130	12.75%, 5/1/20	7,254,775
3,995	International Lease Finance Corp., 6.375%, 3/25/13	4,094,875
		21,308,587
Diversified Telecommunications 1.1%		
10,275	Cincinnati Bell, Inc., 8.75%, 3/15/18	10,429,125
Electric 0.5%		
	Texas Competitive Electric Holdings Co. LLC,	
750	11.50%, 10/1/20 (a)(b)	607,500
10,800	15.00%, 4/1/21	4,063,500
		4,671,000
Electrical Components & Equipments 1.4%		

13,585	WireCo WorldGroup, Inc., 9.50%, 5/15/17	14,162,363
Electronic Equipment, Instruments & Components 0.8%		
7,725	Kemet Corp., 10.50%, 5/1/18	7,773,281
Electronics 0.2%		
1,700	NXP BV/NXP Funding LLC, 9.75%, 8/1/18 (a)(b)	1,950,750
Energy Equipment & Services 1.1%		
9,795	Pioneer Drilling Co., 9.875%, 3/15/18	10,652,063
Health Care Providers & Services 1.5%		
8,875	ExamWorks Group, Inc., 9.00%, 7/15/19	9,252,187
9,910	Rotech Healthcare, Inc., 10.50%, 3/15/18	5,723,025
		14,975,212

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AGIC Convertible & Income Fund Schedule of Investments

August 31, 2012 (unaudited) (continued)

	Principal Amount (000s)		Value			
Home Builders 0.7%						
	$6,625	K Hovnanian Enterprises, Inc., 10.625%, 10/15/16	$6,997,656			
Hotels, Restaurants & Leisure 2.0%						
	9,120	DineEquity, Inc., 9.50%, 10/30/18	10,282,800			
	8,405	MGM Resorts International, 11.375%, 3/1/18	9,728,787			
			20,011,587			
Household Durables 1.0%						
	5,045	Beazer Homes USA, Inc., 9.125%, 5/15/19	4,956,713			
	3,950	&nbsbsp;	2012	$25,400	$17,954	$43,354
Mukesh Patel		2012	$25,750	$18,674	$44,424	
Mario M. Rosati		2012	$24,000	$16,947	$40,947	
Howard T. Slayen		2012	$30,000	$24,722	$54,722	

(1) Rhea J. Posedel and Gayn Erickson are executive officers and do not receive any additional compensation for services provided as a director.

(2) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended May 31, 2012 in accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification 718, or ASC 718, Compensation Stock Compensation, (formerly FASB Statement 123R), and thus includes amounts from awards granted in and prior to fiscal 2012. See Note 1 of the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for fiscal 2012 filed with the SEC on August 28, 2012 regarding the assumptions underlying valuation of equity awards. The full grant date fair values of the awards granted in fiscal 2012 to outside directors Robert Anderson, William Elder, Mukesh Patel, Mario Rosati and Howard Slayen, computed in accordance with ASC 718, were equal to $24,577, $22,411, $23,494, $20,896 and $24,360, respectively. At the end of fiscal 2012, the aggregate number of option awards outstanding for each director was as follows: 97,262 held by Robert Anderson; 78,196 held by William Elder, 75,352 held by Mukesh Patel; 73,929 held by Mario Rosati, and 82,076 held by Howard Slayen. Options granted vest at either one-sixth (1/6th) or one-twelfth (1/12th) of the shares each month after the date of grant, so long as the optionee remains a director of the Company.

Vote Required

The seven nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to be voted for them shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no other legal effect in the election of directors under California law. See *Quorum; Abstentions; Broker*

Non-Votes.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE **FOR** THE NOMINEES LISTED ABOVE

PROPOSAL 2

AMENDMENT TO THE 2006 EQUITY INCENTIVE PLAN

Proposal

The Board of Directors is proposing that the 2006 Equity Incentive Plan be amended to increase the number of shares authorized thereunder by an additional 1,000,000 shares of Common Stock. The Company previously reserved 2,900,000 shares of Common Stock for issuance under the 2006 Equity Incentive Plan, plus 639,541 shares that were either (i) reserved but not issued under the 1996 Stock Option Plan, (ii) subject to stock options or similar awards granted under the 1996 Stock Option Plan that expired or otherwise terminated without having been exercised in full or (iii) issued pursuant to awards granted under the 1996 Stock Option Plan that were forfeited to or repurchased by the Company.

The Board of Directors is proposing this amendment in order to allow for sufficient stock options to cover the Company s needs for at least the next fiscal year.

Participation in the 2006 Equity Incentive Plan

The grant of options, stock purchase rights, stock bonus awards and long-term performance awards under the 2006 Equity Incentive Plan to employees, including the executive officers named in the Summary Compensation Table herein, is subject to the discretion of the plan administrator. As of the date of this proxy statement, there has been no determination by the plan administrator with respect to future awards under the 2006 Equity Incentive Plan. Accordingly, future awards are not determinable. No stock bonus awards or long-term performance awards were granted during the last fiscal year. The following table sets forth information with respect to the grant of options to the executive officers named in the Summary Compensation Table, to all current executive officers as a group, to all outside directors as a group and to all other employees as a group during the last fiscal year:

Amended Plan Benefits

2006 Equity Incentive Plan

Name of Individual Or Identity of Group and Position	Securities Underlying Options Granted(#)	Weighted Average Exercise Price Per Share ($/share)
Gayn Erickson	400,000	$0.59
Rhea J. Posedel	55,000	$1.38
Gary L. Larson	30,000	$1.25
Carl N. Buck	30,000	$1.25
David S. Hendrickson	40,000	$1.25
Kunio Sano	25,000	$1.25
All current Executive Officers as a group	665,000	$0.84
All outside Directors as a group	223,311	$0.78
All other employees (including all current Officers who are not Executive Officers) as a group	252,699	$1.25

Summary of Stock Plan

Purpose. The purposes of the 2006 Equity Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants of the Company and to promote the success of the Company s business.

Status of Shares. As of August 31, 2012, options to purchase a total of 2,744,999 (net of cancelled or expired options) shares were outstanding under the 2006 Equity Incentive Plan. In addition, options to purchase 622,420 (plus any shares that might in the future be returned to the plan as a result of cancellations or expiration of options) shares remained available for future grant thereunder. As discussed above, shares represented by options granted under the 1996 Stock Option Plan that terminate without being exercised are added to the shares available for future grant under the 2006 Equity Incentive Plan.

Eligibility; Administration. Under the 2006 Equity Incentive Plan, employees may be granted incentive stock options intended to qualify within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code) and employees, directors and consultants may be granted non-statutory stock options not intended to qualify under such statute. The 2006 Equity Incentive Plan is administered by the Board of Directors of the Company, or by a committee appointed by the Board of Directors and consisting of at least two members of the Board, which determine the terms of options granted, including the exercise price, the number of shares subject of the option and the options exercisability. The Board or its committee has sole discretion to interpret any provision of the 2006 Equity Incentive Plan. As of August 31, 2012 approximately 79 individuals were in the eligible class.

Exercise Price. The exercise price of options granted under the 2006 Equity Incentive Plan is determined by the Board of Directors or its committee. The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock on the date the option is granted. However, the exercise price of incentive stock options granted to an optionee who owns more than 10% of the voting power or value of all classes of stock of the Company must not be less than 110% of the fair market value on the date of grant. The Common Stock is currently traded on the NASDAQ Stock Market LLC. While the Company s stock is traded on the NASDAQ Stock Market LLC, the fair market value is the reported closing price on the date of grant.

Exercisability. Options granted to new optionees under the 2006 Equity Incentive Plan generally become exercisable starting one month after the date of grant with $1/48^{th}$ of the shares covered thereby becoming exercisable at that time and with an additional $1/48^{th}$ of the total number of option shares becoming exercisable each month thereafter, with full vesting occurring on the fourth anniversary of the date of grant. The term of an option may not exceed ten years. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Each option may be exercised, during the lifetime of the optionee, only by such optionee.

Stock Purchase Rights. The 2006 Equity Incentive Plan permits the Company to grant rights to purchase Common Stock. After the Board or Committee determines that it will offer stock purchase rights under the 2006 Equity Incentive Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of shares that the offeree shall be entitled to purchase, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a stock purchase agreement or a stock bonus agreement in the form determined by the Board or Committee.

Unless the Board or Committee determines otherwise, the stock purchase agreement or a stock bonus agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser s employment with the Company for any reason. The purchase price for shares repurchased pursuant to the stock purchase agreement or a stock bonus agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Board or Committee may determine.

Amendment and Termination. The Board may at any time amend or terminate the 2006 Equity Incentive Plan without approval of the shareholders; provided, however, that the Company will obtain shareholder approval of any amendment to the 2006 Equity Incentive Plan to the extent necessary to comply with Rule 16b-3 under the Securities Exchange Act of 1934 (the Exchange Act), with Section 422 of the Code, or with any other applicable law or regulation, including requirements of the NASDAQ Stock Market LLC or any established stock exchange. Any amendment or termination of the 2006 Equity

Incentive Plan is subject to the rights of optionees under agreements entered into prior to such amendment or termination.

Certain Federal Tax Information

An optionee who is granted an incentive stock option will not recognize taxable income either at the time the option is granted or at the time it is exercised, although exercise of the option may subject the optionee to the alternative minimum tax. The Company will not be allowed a deduction for federal income tax purposes as a result of the exercise of an incentive stock option regardless of the applicability of the alternative minimum tax. Upon the sale or exchange of the shares at least two years after grant of the option and one year after exercise of the option, any gain will be treated as long-term capital gain. If these holding periods are not satisfied at the time of sale, the optionee will recognize ordinary income equal to the difference between the exercise price and the lower of (i) the fair market value of the stock at the date of the option exercise or (ii) the sale price of the stock, and the Company will be entitled to a deduction in the same amount. (Different rules may apply upon a premature disposition by an optionee who is an officer, director or 10% shareholder of the Company.) Any additional gain or loss recognized on such a premature disposition of the shares will be characterized as capital gain or loss. If the Company grants an incentive stock option and as a result of the grant the optionee has the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value (under all plans of the Company and determined for each share as of the date the option to purchase the share was granted) in excess of $100,000, then the excess shares must be treated as non-statutory options.

An optionee who is granted a non-statutory stock option will also not recognize any taxable income upon the grant of the option. However, upon exercise of a non-statutory stock option, the optionee will recognize ordinary income for tax purposes measured by the excess of the then fair market value of the shares over the exercise price. Any taxable income recognized by an optionee who is an employee of the Company will be subject to tax withholding by the Company. Upon resale of the shares by the optionee, any difference between the sales price and the fair market value at the time of exercise, to the extent not recognized as ordinary income as described above, will be treated as capital gain or loss. The Company will be allowed a deduction for federal income tax purposes equal to the amount of ordinary income recognized by the optionee.

Vote Required

Approval of the amendment to the 2006 Equity Incentive Plan requires the affirmative vote of the votes cast at the Annual Meeting, or Votes Cast (which affirmative vote must constitute at least a majority of the required quorum). The effect of an abstention is the same as that of a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE AMENDMENT TO THE 2006 EQUITY INCENTIVE PLAN

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PROPOSAL 3

AMENDMENT TO THE 2006 EMPLOYEE STOCK PURCHASE PLAN

Proposal

The Board of Directors is proposing that the 2006 Employee Stock Purchase Plan, or the ESPP, be amended to increase the number of shares authorized thereunder by an additional 350,000 shares of Common Stock. The Company previously reserved 1,200,000 shares of Common Stock for issuance under the ESPP.

The Board of Directors is proposing this amendment in order to enable the Company to continue its policy of encouraging employee equity participation in the Company by enabling employees to purchase the Company s Common Stock at a discount from the market price through voluntary payroll deductions. The Management also believes the continued opportunity for employees equity participation will promote the attraction, retention and motivation of employees.

Participation in the 2006 Employee Stock Purchase Plan

Participation in the ESPP is voluntary and is dependent on each eligible employee s election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the ESPP are not determinable. Outside directors are not eligible to participate in the ESPP. No purchases have been made under the ESPP since its amendment by the Board. However, purchases were made under the ESPP prior to such amendment. The following table sets forth certain information regarding shares purchased under the ESPP during the last fiscal year and the payroll deductions accumulated at the end of the last fiscal year in accounts under the ESPP for each of the executive officers named in the Summary Compensation Table, for all current executive officers as a group and for all other employees who participated in the

ESPP as a group:

Amended Plan Benefits

2006 Employee Stock Purchase Plan

Name of Individual or Identity of Group and Position	Number of Shares Purchased (#)	Dollar Value ($)(1)	Payroll Deductions as of Fiscal Year End
Gayn Erickson			
Rhea J. Posedel			
Gary L. Larson	6,000	$ 1,421	$ 723
Carl N. Buck	6,000	$ 1,421	$ 2,106
David S. Hendrickson			
Kunio Sano			
All current executive officers as a group	12,000	$ 2,842	$ 2,829
All other employees (including all current officers who are not executive officers) as a group	141,994	$32,246	$26,594

(1) Market value of shares on date of purchase, minus the purchase price under the ESPP.

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Summary of the 2006 Employee Stock Purchase Plan

Purpose. The purpose of the ESPP is to provide employees of the Company who participate in the ESPP with an opportunity to purchase shares of the Company s Common Stock through payroll deductions.

Administration. The Board or a committee appointed by the Board (referred to herein as the Administrator) administers the ESPP. All questions of interpretation or application of the ESPP are determined by the Administrator and its decisions are final, conclusive and binding upon all participants.

Eligibility. Each of the Company s employees or the employees of the Company s designated subsidiaries who is a common law employee and whose customary employment with the Company or one of the Company s designated subsidiaries is at least twenty hours per week and more than five months in a calendar year is eligible to participate in the ESPP; except that no employee will be granted an option under the ESPP (i) to the extent that, immediately after the grant, such employee would own 5% or more of the total combined voting power of all classes of the Company s capital stock or the capital stock of one of the Company s designated subsidiaries, or (ii) to the extent that his or her rights to purchase stock under all of the Company s employee stock purchase plans accrues at a rate which exceeds $25,000 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year. As of August 31, 2012 there were approximately 59 individuals in the eligible class.

Offering Date. Each offering period under the ESPP will expire on the earliest to occur of (i) the completion of the purchase of shares on the last exercise date occurring within twenty-four months of the offering date of such option, (ii) such shorter offering period as may be determined by the Administrator, or (iii) the date on which an eligible employee ceases to be a participant under the ESPP. Each offering period will generally consist of a number of purchase periods after which shares will be purchased. Until the Administrator determines otherwise, a purchase period will be approximately six months and run from April 1 to October 1 and October 1 to April 1. To participate in the ESPP, an eligible employee must authorize payroll deductions pursuant to the ESPP. Such payroll deductions may not exceed 10% of a participant s compensation during the offering period. Once an employee becomes a participant in the ESPP, the employee automatically will participate in each successive offering period until the employee withdraws from the ESPP or the employee s employment with the Company or one of the Company s designated subsidiaries terminates. At the beginning of each offering period, each participant automatically is granted an option to purchase shares of the Company s Common Stock. The option expires at the end of the offering period or upon termination of employment, whichever is earlier, but is exercised at the end of each purchase period to the extent of the payroll deductions accumulated during such purchase period.

Purchase Price. Shares of the Company s Common Stock may be purchased under the ESPP at a purchase price not less than 85% of the lesser of the fair market value of the Company s Common Stock on (i) the first day of an offering period, or (ii) the last day of the purchase period. The fair market value of the Company s Common Stock on any relevant date will be the closing price per share as reported on the NASDAQ Stock Market LLC, or the mean of the closing bid and asked prices, if no sales were reported, as quoted on such exchange or reported in The Wall Street Journal.

Payment of Purchase Price; Payroll Deductions. The purchase price of the shares is accumulated by payroll deductions throughout each purchase period. The number of shares of the Company s Common Stock that a participant may purchase in each purchase period during an offering period will be determined by dividing the total amount of payroll deductions withheld from the participant s compensation during that purchase period by the purchase price; provided, however, that a participant may not purchase more than 3,000 shares each purchase period. During an offering period, a participant may discontinue his or her participation in the ESPP, and may decrease or increase the rate of payroll deductions in an offering period within limits set by the Administrator.

All payroll deductions made for a participant are credited to the participant s account under the ESPP, are withheld in whole percentages only and are included with the Company s general funds. Funds received by the Company pursuant to exercises under the ESPP are also used for general corporate purposes. A participant may not make any additional payments into his or her account.

Withdrawal. Generally, a participant may withdraw from an offering period at any time by written or electronic notice without affecting his or her eligibility to participate in future offering periods. Once a participant withdraws from a particular offering period, however, that participant may not participate again in the same offering period. To participate in a subsequent offering period, the participant must deliver a new subscription agreement to the Company.

Termination of Employment. Upon termination of a participant s employment for any reason, including disability or death, he or she will be deemed to have elected to withdraw from the plan and the payroll deductions credited to the participant s account (to the extent not used to make a purchase of the Company s Common Stock) will be returned to him or her or, in the case of death, to the person or persons entitled thereto as provided in the ESPP, and such participant s option will automatically be terminated.

Changes in Capitalization. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the ESPP, then the Administrator will adjust the number and class of Common Stock which may be delivered under the ESPP, the purchase price per share and the number of shares of Common Stock covered by each option under the ESPP which has not yet been exercised, and the maximum number of shares a participant can purchase during a purchase period.

Dissolution or Liquidation. In the event of the Company s proposed dissolution or liquidation, the Administrator will shorten any purchase periods and offering periods then in progress by setting a new exercise date and any offering periods will end on the new exercise date. The new exercise date will be prior to the dissolution or liquidation. If the Administrator shortens any purchase periods and offering periods then in progress, the Administrator will notify each participant in writing, at least ten business days prior to the new exercise date, that the exercise date has been changed to the new exercise date and that the option will be exercised automatically on the new exercise date, unless the participant has already withdrawn from the offering period.

Change of Control. In the event of a merger or change of control, as defined in the ESPP, each option under the ESPP will be assumed or an equivalent option will be substituted by such successor corporation or a parent or subsidiary of such successor corporation. In the event the successor corporation refuses to assume or substitute for the options, the Administrator will shorten any purchase periods and offering periods then in progress by setting a new exercise date and any offering periods will end on the new exercise date. The new exercise date will be prior to the merger or change of control. If the Administrator shortens any purchase periods and offering periods then in progress, the Administrator will notify each participant in writing, at least ten business days prior to the new exercise date, that the exercise date has been changed to the new exercise date and that the option will be exercised automatically on the new exercise date, unless the participant has already withdrawn from the offering period.

Amendment and Termination of the Plan.

The Administrator may at any time terminate or amend the ESPP including the term of any offering period then outstanding. Generally, no such termination can adversely affect options previously granted.

New Plan Benefits

Participation in the ESPP is voluntary and is dependent on each eligible employee s election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the ESPP are not determinable. Non-employee directors are not eligible to participate in the ESPP.

Certain Federal Income Tax Information

The following brief summary of the effect of federal income taxation upon the participant and the Company with respect to the shares purchased under the ESPP does not purport to be complete, and does not discuss the tax consequences of a participant s death or the income tax laws of any state or foreign country in which the participant may reside.

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The ESPP, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the ESPP are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax in an amount that depends upon the holding period. If the shares are sold or otherwise disposed of more than two years from the first day of the applicable offering period and one year from the applicable date of purchase, the participant will recognize ordinary income measured as the lesser of (a) the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price, or (b) an amount equal to 15% of the fair market value of the shares as of the first day of the applicable offering period. Any additional gain will be treated as long-term capital gain. If the shares are sold or otherwise disposed of before the expiration of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on how long the shares have been held from the date of purchase. The Company generally is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY UNDER THE ESPP. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

Vote Required

Approval of the amendment to the ESPP requires the affirmative vote of the Votes Cast (which affirmative vote must constitute at least a majority of the required quorum). The effect of an abstention is the same as that of a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE AMENDMENT TO THE 2006 EMPLOYEE STOCK PURCHASE PLAN

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PROPOSAL 4

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors of the Company has selected Burr Pilger Mayer, Inc., as the Company s independent registered public accounting firm, to audit the consolidated financial statements of the Company for the fiscal year ending May 31, 2013, and recommends that shareholders vote for ratification of such appointment. In the event of a negative vote on such ratification, the Audit Committee and the Board of Directors will reconsider their selection. Even if the selection is ratified, the Audit Committee and the Board of Directors in their discretion may direct the appointment of a different independent registered public accounting firm at any time during the year.

Representatives of Burr Pilger Mayer, Inc. are expected to be present at the meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Independent Registered Public Accounting Firm s Fees

The following table sets forth the aggregate fees billed or to be billed by Burr Pilger Mayer, Inc. for the following services for the fiscal years ended May 31, 2012 and 2011:

DESCRIPTION OF SERVICES

	2012	2011
Audit Fees	$151,335	$142,440
TOTAL	$151,335	$142,440

Audit Fees. Aggregate fees billed or to be billed for professional services rendered for the audit of the Company s fiscal 2012 and fiscal 2011 annual consolidated financial statements, for the review of the condensed consolidated financial statements included in the Company s quarterly reports during such periods and for the review of the Company s Registration Statement on Form S-8.

The Audit Committee pre-approves all audit and other permitted non-audit services provided by the Company independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a budget. The Audit Committee may also pre-approve particular services on a case-by-case basis. The Audit Committee has delegated the authority to grant pre-approvals to the committee chair, when the full Audit Committee is unable to do so. These pre-approvals are reviewed by the full Audit Committee at its next regular meeting. In fiscal 2012, all audit and non-audit services were pre-approved in accordance with the Company s policy.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF BURR PILGER MAYER, INC.

COMPENSATION OF EXECUTIVE OFFICERS

EXECUTIVE OFFICERS

The names of the executive officers of the Company and certain information about them as of the Record Date are set forth below:

Name	Age	Position
Gayn Erickson	48	President and Chief Executive Officer
Rhea J. Posedel	70	Executive Chairman
Gary L. Larson	62	Vice President of Finance and Chief Financial Officer
Larry Anderson	57	Vice President of Worldwide Sales
Carl N. Buck	60	Vice President of Marketing
David S. Hendrickson	55	Vice President of Engineering
Kunio Sano	56	President, Aehr Test Systems Japan K.K.

GAYN ERICKSON See Proposal 1 Election of Directors above.

RHEA J. POSEDEL See Proposal 1 Election of Directors above.

GARY L. LARSON joined the Company in April 1991 as Chief Financial Officer and was elected Vice President of Finance in February 1992. From 1986 to 1990, he served as Chief Financial Officer, and from 1988 to 1990 also as President and Chief Operating Officer of Nanometrics Incorporated, a manufacturer of measurement and inspection equipment for the semiconductor industry. Mr. Larson received a B.S. in Mathematics/Finance from Harvey Mudd College.

LARRY ANDERSON joined the company as Vice President of Worldwide Sales in May 2012. From October 2011 to May 2012, Mr. Anderson served as Director of Account Management of Cymer, a laser light source company whose products are used for pattering advanced semiconductors chips. From August 2010 to October 2011, Mr. Anderson was Global Account Manager at Verigy Ltd., which was then acquired by Advantest Corporation, a semiconductor tester company. From June 2000 to March 2010, Mr. Anderson served as Senior Director, North America and Europe Sales and Service of FormFactor Inc., a semiconductor test probe card manufacturer. Mr. Anderson received a B.B.A. in Marketing from Western Michigan University.

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

DAVID S. HENDRICKSON joined the Company as Vice President of Engineering in October 2000. From 1999 to 2000, Mr. Hendrickson served as Platform General Manager, and from 1995 to 1999 as Engineering Director and Software Director of Siemens Medical (formerly Acuson Corporation), a medical ultrasound products company. From 1990 to 1995, Mr. Hendrickson served as Director of Engineering and

Director of Software of Teradyne Inc. (formerly Megatest Corporation), a manufacturer of semiconductor capital equipment. Mr. Hendrickson received a B.S. in Computer Science from Illinois Institute of Technology.

KUNIO SANO joined the Company as Vice President, Aehr Test Systems Japan K.K., the Company s subsidiary in Japan, in June 1998 and was elected President, Aehr Test Systems Japan K.K. in January 2001. From 1991 to 1998, he served as Manager of Development Engineering Department at Tokyo Electron Yamanashi Limited, a leading worldwide semiconductor equipment manufacturer. Mr. Sano received a B.S.E.E. from Sagami Institute of Technology in Kanagawa, Japan.

COMPENSATION DISCUSSION AND ANALYSIS

General Philosophy

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

The Company s compensation programs are designed to:

1. reward executive officers for performance and link executive compensation to the creation of shareholder value through the use of performance and equity-based compensation;

2. attract, retain and motivate highly qualified executive officers by compensating them at a level that is competitive with other companies in similar industries;

3. share the risks and rewards of the Company s business with the Company s executive officers; and

4. maximize long-term shareholder returns by utilizing compensation funds in a cost-effective manner.

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

Role of Compensation Committee

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

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

The Compensation Committee is responsible for:

1. Determining the specific executive officer compensation methods to be used by the Company and the participants in each of those specific programs;

2. Determining the evaluation criteria and timelines to be used in those programs;

3. Determining the processes that will be followed in the ongoing administration of the programs; and

4. Determining their role in the administration of the programs.

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

Elements of Compensation

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

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

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

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

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

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

Cash-based programs: base salary, annual bonus plan and a sales commission plan; and

Equity-based programs: The 2006 Equity Incentive Plan, the 2006 Employee Stock Purchase Plan and the ESOP.

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

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

Base Salary

The Company creates a set of base salary structures that are both affordable and competitive in relation to the market. The Company determines the Company s executive officer salaries based on job

responsibilities and individual experiences. The Company monitors base salary levels within the market and makes adjustments to the Company s structures as needed after considering the recommendations of management. The Company s Compensation Committee reviews the salaries of the Company s executive officers annually, and the Company s Compensation Committee grants increases in salaries based on individual performance during the prior calendar year, provided that any increases are within the guidelines determined by the Compensation Committee for each position. During fiscal 2011 the salaries of the Company s Chief Executive Officer, Chief Financial Officer and Vice Presidents continued to be temporarily reduced from their base salaries by 15%, 10% and 10%, respectively. These salary reductions were eliminated effective June 1, 2011. Effective February 1, 2012 the salaries of the Company s Chief Executive Officer, Executive Chairman, Chief Financial Officer and Vice Presidents were again temporarily reduced from their base salaries by 15%, 15%, 10% and 10%, respectively.

Annual Bonus

The Company s executive annual bonus plan provides for cash bonus awards, dependent upon attaining stated corporate objectives and personal performance goals. The Company s executive officers are eligible to receive cash bonuses based upon the Company s achievement of certain financial and performance goals set by the Compensation Committee. The Compensation Committee approves the performance criteria on an annual basis and these financial and performance goals typically have a one-year time horizon. The Compensation Committee believes that the practice of awarding incentive bonuses based on the achievement of performance goals furthers the Company s goal of strengthening the connection between the interests of management and the Company s shareholders. In fiscal 2013, the Company s Chief Executive Officer, Executive Chairman, Chief Financial Officer, Vice President of Engineering, Vice-President of Marketing, are eligible to receive a maximum cash bonus of up to 80%, 50%, 40%, 40%, and 40%, respectively of their base salaries depending on Company performance. The President of Aehr Test Systems Japan K.K, or ATS-J, is eligible to receive a maximum bonus of $10,000 plus 2% of ATS-J revenues over $1 million.

In fiscal 2012, the Company s Compensation Committee determined the maximum eligible cash bonus levels for the Company s Executive Chairman, Chief Financial Officer and Vice Presidents were up to 50% of their base salaries. Based on the corporate financial performance for the year, the Compensation Committee awarded no cash bonuses to the Company s Executive Chairman, Chief Financial Officer and Vice Presidents. Gayn Erickson, Chief Executive Officer, was awarded a cash bonus of $41,220 representing the guaranteed portion of the fiscal 2012 bonus per his employment agreement as described below. The annual incentive bonus plan is discretionary, and the Compensation Committee may modify, suspend, eliminate or adjust the plan, the goals and the total or individual payouts at any time.

Sales Commission

During fiscal 2012, the Vice President of Marketing was eligible to receive sales commission based on achievement of sales objectives or quotas. Commissions were considered earned at the time of booking and were paid after the close of the quarter of booking. The Vice President of Marketing is not compensated under a sales commission plan in fiscal 2013.

Under this plan, the Vice President of Marketing earned $46,351 in fiscal 2012 and was paid $81,427 during fiscal 2012. This $81,427 included $50,373 that was earned in fiscal 2011. The remaining $15,297 earned in fiscal 2012 was paid to the Vice President of Marketing in fiscal 2013. No commissions were paid to the Vice President of Marketing in fiscal 2011. Commissions earned by the Vice President of Marketing in fiscal 2012 are included in the annual compensation salary column in the Summary Compensation Table on page 29.

During fiscal 2013, the Vice President of Worldwide Sales is eligible to receive sales commission based on achievement of sales objectives or quotas. The Vice President of Worldwide Sales receives a standard commission for sales up to 100% of quota and accelerated commissions based on sales above quota. Commissions are considered earned at the time of booking and are paid after the close of the quarter of booking.

Equity Compensation

The Company awards equity compensation to the Company s executive officers based on the performance of the executive officer and guidelines related to each executive officer s position in the Company. The Company determines the Company s option guidelines based on information derived from the Company s experience with other companies and, with respect to the Company s executive officers,

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

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

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

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

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

1. The Compensation Committee periodically reviews information comparing the Company s compensation levels to other companies in similar industries, other leading companies (regardless of industry) and competitors. Primarily, personal knowledge of semiconductor equipment industry compensation practices, compensation data in SEC filings, and national and regional compensation surveys are used.

2. At or near the start of each evaluation cycle, the Compensation Committee meets with the Chief Executive Officer to review, revise as needed, and agree on the performance objectives set for the other executive officers. The Chief Executive Officer and Compensation Committee jointly set the Company objectives to be used. The business unit and individual objectives are formulated jointly by the Chief Executive Officer and the specific individual. The Compensation Committee also, with the Chief Executive Officer, jointly establishes and agrees on respective performance objectives of each executive officer.

3. Throughout the performance cycle review, feedback is provided by the Chief Executive Officer, the Compensation Committee and the Board of Directors, as appropriate.

4. At the end of the performance cycle, the Chief Executive Officer evaluates each other executive officers relative success in meeting the performance goals. The Chief Executive Officer makes recommendations on salary, bonus and stock options, utilizing the comparative results as a factor. Also included in the decision criteria are subjective factors such as teamwork, leadership contributions and ongoing changes in the business climate. The Chief Executive Officer reviews the recommendations and obtains Compensation Committee approval.

5. The final evaluations and compensation decisions are discussed with each executive officer by the Chief Executive Officer or Compensation Committee, as appropriate.

In fiscal 2012, the Company granted a total of 1,141,010 option shares of which a total of 665,000 option shares were granted to the Company s executive officers, representing 58.3% of all option shares granted in fiscal 2012. The Company s Compensation Committee does not apply a formula for allocating stock options to executive officers. Instead, the Company s Compensation Committee considers the role and responsibilities of the executive officers, competitive factors, the non-equity compensation received by the executive officers and the total number of options to be granted in the fiscal year. The description for the type of equity-based compensation program should be read in conjunction with Equity Compensation

Plan Information and Stock Option Plans in this Proxy Statement and the related notes in the Notes to Consolidated Financial Statements of the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

Other Benefits

Executive officers are eligible to participate in all of the Company s employee benefit plans, such as medical, dental, group life, disability, and accidental death and dismemberment insurance, the Company s 401(k) plan, the Company s 2006 Equity Incentive Plan, ESOP, and ESPP. Because Rhea J. Posedel owns more than 10% of the Company s outstanding Common Stock he is precluded from participating in the ESPP. During fiscal 2012, the Company made payments for health and life insurance premiums and medical costs as reflected in the Summary Compensation Table below under the All Other Compensation column. Other than these payments, the executive officers participate on the same basis as other employees and there were no other special benefits or perquisites provided to any executive officer in fiscal 2012. The Company does not maintain any pension plan, retirement benefit or deferred compensation arrangement other than the Company s 401(k) plan and ESOP. The Company is not required to make contributions to the 401(k) plan and did not make any during fiscal 2012. During fiscal 2012, the Company contributed $60,000 to the Company s ESOP.

The Company entered into Change of Control Severance Agreements on January 24, 2001 with Mr. Carl N. Buck, Mr. David S. Hendrickson, and Mr. Gary L. Larson; on September 7, 2011 with Mr. Kunio Sano; on January 3, 2012 with Mr. Gayn Erickson and as amended with Mr. Rhea J. Posedel; and on May 29, 2012 with Mr. Larry Anderson; pursuant to which those executives would be entitled to a payment in the event of a termination of employment for specified reasons following a change of control of the Company. For this purpose, a change of control of the Company means a merger or consolidation of the Company, a sale by the Company of all or substantially all of its assets, the acquisition of beneficial ownership of a majority of the outstanding voting securities of the Company by any person or a change in the composition of the Board as a result of which fewer than a majority of the directors are incumbent directors. Termination of employment for purposes of these agreements means a discharge of the executive by the Company, other than for specified causes including dishonesty, conviction of a felony, misconduct or wrongful acts. Termination also includes resignation following the occurrence of an adverse change in the executive s position, duties, compensation or work conditions. The amounts payable under the agreements will change from year to year based on the executive s compensation.

In the event of a termination following a change of control, the amounts payable to Messrs. Anderson, Buck, Erickson, Hendrickson, Larson, Posedel, and Sano based on their base salaries at the reduced rates in effect at May 31, 2012, would be approximately $105,000, $82,000, $375,000, $118,000, $148,000, $232,000, and $92,000, respectively. In addition to the amounts payable to the executive officers mentioned in the previous sentence, the aggregate values of the acceleration of vesting of the executive officers unvested stock options based on the spread between the closing price of the Company s Common Stock on May 31, 2012 (the last business day of the last fiscal year) of $1.27 and the exercise price of the stock options for Messrs. Anderson, Buck, Erickson, Hendrickson, Larson, Posedel, and Sano and would be $14,450, $475, $249,334, $633, $475, $0, and $396, respectively.

Compensation of the Chief Executive Officer

The Compensation Committee used the same compensation policy described above for all executive officers to determine the compensation for Rhea Posedel, the Company s Chief Executive Officer through January 3, 2012, and Executive Chairman from January 3, 2012. In setting both the cash-based and the equity-based elements of Mr. Posedel s compensation, the Compensation Committee considered the company s performance, competitive forces taking into account Mr. Posedel s experience and knowledge, and Mr. Posedel s leadership in achieving the Company s long-term goals. During fiscal year 2012, he received a stock option grant under the Company s 2006 Stock Option Plan for 55,000 shares. This option vests over four years. The Compensation Committee believes Mr. Posedel s fiscal year 2012 compensation was fair relative to the Company s performance and Mr. Posedel s individual performance and leadership, and that it rewards him for this performance and will serve to retain him as a key employee.

Gayn Erickson was appointed Chief Executive Officer by the Board of Directors on January 3, 2012. In setting both the cash-based and the equity-based elements of Mr. Erickson s compensation, the

Compensation Committee considered competitive forces taking into account Mr. Erickson s experience and knowledge. As part of his employment agreement, Mr. Erickson received a stock option grant under the Company s 2006 Stock Option Plan for 400,000 shares, vesting over four years, and a prorated five month cash bonus for fiscal 2012 with a target level of $45,800, ninety percent (90%) of which was guaranteed. The Compensation Committee believes Mr. Erickson s fiscal year 2012 compensation was fair relative to the competitive forces and Mr. Erickson s individual experience and knowledge, and that it rewards him for this performance and will serve to retain him as a key employee.

Policy on Deductibility of Compensation

The Company is required to disclose the Company s policy regarding qualifying executive compensation for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides that, for purposes of the regular income tax, the otherwise allowable deduction for compensation paid or accrued with respect to the executive officers of a publicly-held company, which is not performance-based compensation, is limited to no more than $1 million per year. It is not expected that the compensation to be paid to the Company s executive officers for fiscal 2012 will exceed the $1 million limit per officer; however, to the extent such compensation to be paid to such executive officers exceeds the $1 million limit per officer, such excess will be treated as performance-based compensation.

Compensation of Executive Officers

The following table shows information concerning compensation awarded to, earned by or paid for services to the Company in all capacities during the fiscal years ended May 31, 2012, 2011 and 2010 by the Company s Chief Executive Officer, Chief Financial Officer and each of the three other most highly compensated executive officers with annual compensation in excess of $100,000 for the fiscal years ended May 31, 2012, 2011 and 2010.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation Salary (1)	Annual Compensation Bonus (2)	Option Awards (3)	Long-term Compensation Securities Underlying Options (4)	All Other Compensation (5)	Total
Gayn Erickson President and Chief Executive Officer	2012	$ 92,794	$41,220	$15,995		$ 7,946	$157,955
Rhea J. Posedel	2012	$228,563		$40,425	$2,224	$31,536	$302,748
Executive Chairman and	2011	$206,258		$71,538	$2,499	$22,298	$302,593
Chairman of the Board of Directors	2010	$210,118	$35,781	$90,063	$5,763	$28,682	$370,407
Gary L. Larson	2012	$209,342		$23,213	$2,302	$ 9,044	$243,901
Vice President of Finance and	2011	$188,053		$45,193	$2,555	$ 9,773	$245,574
Chief Financial Officer	2010	$190,946	$33,530	$61,867	$5,910	$ 7,765	$300,018
Carl N. Buck (6)	2012	$217,678		$21,254	$2,451	$10,766	$252,149
Vice President of Marketing	2011	$204,272		$36,134	$1,818	$12,159	$254,383
	2010	$156,859	$27,440	$54,855	$4,150	$ 9,021	$252,325
David S. Hendrickson	2012	$232,846		$27,884	$2,289	$27,988	$291,007
Vice President of Engineering	2011	$207,725		$51,087	$2,503	$30,130	$291,445
	2010	$182,001	$33,867	$63,189	$5,047	$28,452	$312,556
Kunio Sano	2012	$194,622		$16,479		$19,095	$230,196
President	2011	$177,913		$27,149		$17,643	$222,705
Aehr Test Systems Japan	2010	$162,828	$33,762	$30,270		$17,354	$244,214

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(1) The amounts in this column include any salary contributed by the named executive officer to the Company s 401(k) plan. Gayn Erickson s salary includes the period Jan 3, 2012 through May 31, 2012.

(2) Bonus amounts earned in fiscal 2012, 2011 and 2010 were made under the Company s executive bonus plan.

(3) The amounts in this column represent the dollar amount recognized for financial statement reporting purposes computed in accordance with the provisions of FASB ASC 718 and thus include awards granted in and prior to fiscal 2012, 2011 and 2010. See Note 1 of the Notes to the Consolidated Financial Statements of the Company s Annual Report on Form 10-K for the fiscal years ended May 31, 2012, 2011 and 2010 for assumptions used to estimate the fair value of options granted during fiscal years 2012, 2011 and 2010. The Company s stock-based compensation expense recognized under ASC 718 reflects an estimated forfeiture rate of 0.25%, 0.25% and 0.25% in fiscal 2012, 2011 and 2010, respectively. The values recognized in the Option Awards column above do not reflect such expected forfeitures.

(4) Represents contributions made by the Company under its ESOP.

(5) Consists of health and life insurance premiums and medical costs paid by the Company during the fiscal years ended May 31, 2012, 2011 and 2010.

(6) The amount shown in the Annual Compensation Salary column for fiscal 2012 includes $46,351 in commissions earned in fiscal 2012, and $50,373 in fiscal 2011.

Stock Option Grants and Exercises

The following table provides information with regard to each grant of an award made to the persons named in the Summary Compensation Table during the fiscal year ended May 31, 2012.

Grants of Plan-Based Awards in Fiscal 2012

Name	Option Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)		Number of Securities Underlying Option (2)	Exercise Price of Option Awards (3)	Grant Date Fair Value of Stock Option Awards
		Target	Maximum			
Gayn Erickson	1/03/12	$45,800	$ 45,800	400,000	$0.59	$156,840
Rhea J. Posedel	7/08/11	$29,513	$118,051	55,000	$1.38	$43,208
Gary L. Larson	7/08/11	$26,117	$104,468	30,000	$1.25	$24,222
Carl N. Buck	7/08/11	$	$	30,000	$1.25	$24,222
David S. Hendrickson	7/08/11	$29,021	$116,082	40,000	$1.25	$32,296
Kunio Sano	7/08/11	$25,470	$101,878	25,000	$1.25	$20,185

(1) Reflects the target and maximum values of cash bonus award to the named executive officers in fiscal 2012. The cash bonus award amounts actually earned by the named executive officers in fiscal 2012 are shown in the Summary Compensation Table for fiscal 2012 under the heading Annual Compensation, Bonus refer to Compensation Discussion and Analysis above for a description of the cash bonus compensation.

(2) The stock options granted in fiscal 2012 are generally exercisable starting one month after the date of grant, with 1/48th of the shares covered thereby becoming exercisable at that time and with an additional 1/48th of the total number of option shares becoming exercisable each month thereafter, with full vesting occurring on the fourth anniversary of the date of grant. These options generally expire either five or seven years from the date of grant.

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(3) Options are granted at an exercise price equal to the fair market value of the Company s Common Stock, as determined by reference to the closing price reported by the NASDAQ Stock Market LLC on the date of grant. Because Rhea J. Posedel owns more than 10% of the Company s outstanding Common Stock, the exercise prices of any incentive stock option granted to him is set at a 10% premium above the market price on the date of the grant. Non-qualified stock options may be granted to Mr. Posedel at the market price on the date of grant.

The following table presents certain information concerning the outstanding equity awards held as of May 31, 2012 by each named executive officer.

Outstanding Equity Awards at Fiscal 2012 Year-End

Name	Option Awards Number of Securities Underlying Unexercised Options (1) Exercisable	Unexercisable	Option Exercise Price (2)	Option Expiration Date (3)
Gayn Erickson	33,333	366,667	$0.590	1/3/2019
Rhea J. Posedel	35,000		$3.091	6/23/2012
	15,000		$9.295	7/18/2013
	33,000		$6.556	6/26/2012
	3,388	3,000	$2.475	11/13/2013
	15,410	2,202	$2.250	11/13/2013
	57,500		$0.850	6/30/2014
	26,354	28,646	$2.145	6/29/2015
	11,458	43,542	$1.375	7/08/2016
Gary L. Larson	25,000		$2.810	6/23/2012
	10,000		$8.450	7/18/2013
	20,000		$5.960	6/26/2012
	8,841	1,500	$2.250	11/13/2013
	1,659		$2.250	11/13/2013
	30,000		$0.850	6/30/2014
	11,979	13,021	$1.950	6/29/2015
	6,250	23,750	$1.250	7/08/2018
Carl N. Buck	20,000		$2.810	6/23/2012
	10,000		$8.450	7/18/2013
	12,000		$5.960	6/26/2012
	7,000	1,000	$2.250	11/13/2013
	30,000		$0.850	6/30/2014
	11,979	13,021	$1.950	6/29/2015
	6,250	23,750	$1.250	7/08/2018
David S. Hendrickson	25,000		$2.810	6/23/2012
	10,000		$8.450	7/18/2013
	25,000		$5.960	6/26/2012
	5,989	2,001	$2.250	11/13/2013
	8,010		$2.250	11/13/2013
	7,502		$0.850	6/30/2014
	22,498		$0.850	6/30/2014
	19,166	20,834	$1.950	6/29/2015
	8,333	31,667	$1.250	7/08/2018
Kunio Sano	1,563		$2.810	6/23/2012
	4,000		$8.450	7/18/2013
	10,000		$5.960	6/26/2012
	7,000	1,000	$2.250	11/13/2013
	25,000		$0.850	6/30/2014

Option Awards Number of Securities Underlying Unexercised Options (1)		Option Exercise	Option Expiration
11,979	13,021	$ 1.950	6/29/2015
5,208	19,792	$ 1.250	7/08/2018

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

(2) Options are granted at an exercise price equal to the fair market value of the Company s Common Stock, as determined by reference to the closing price reported by the NASDAQ Stock Market LLC on the date of grant. Because Rhea J. Posedel owns more than 10% of the Company s outstanding Common Stock, the exercise price of any incentive stock option granted to him is set at a 10% premium above the market price on the date of the grant. Non-qualified stock options may be granted to Mr. Posedel at the market price on the date of grant.

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

The following table provides information concerning option exercises by the persons named in the Summary Compensation Table during the fiscal year ended May 31, 2012 and the value of unexercised options at such date.

Aggregated Option Exercises in 2012 and Fiscal 2012 Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)(1) Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End($)(2) Exercisable	Unexercisable
Gayn Erickson			33,333	366,667	$ 22,666	$249,334
Rhea J. Posedel			197,110	77,390	$ 24,150	$
Gary L. Larson			113,729	38,271	$ 12,725	$475
Carl N. Buck			97,229	37,771	$ 12,725	$475
David S. Hendrickson			131,498	54,502	$ 12,767	$633
Kunio Sano			64,750	33,813	$ 10,604	$396

(1) The Company has not granted any stock appreciation rights and its stock plans do not provide for the granting of such rights.

(2) Calculated by determining the difference between the fair market value of the securities underlying the options at the last business day of the fiscal year-end ($1.27 per share as of May 31, 2012) and the exercise prices of the options.

The following table shows the potential payments upon termination or change of control for the persons named in the Summary Compensation Table as of May 31, 2012.

Potential Payments Upon Termination or Change of Control

Named Executive Benefits and Payments Upon Termination:	**Involuntary Termination not for Cause Following a Change of Control**
Gayn Erickson	
Base salary	$ 350,625
Medical continuation	23,980
Value of accelerated stock options (1)	249,334
Rhea J. Posedel	
Base salary	$ 200,686
Medical continuation	31,536
Value of accelerated stock options (1)	
Gary L. Larson	
Base salary	$ 141,032
Medical continuation	6,783
Value of accelerated stock options (1)	475
Carl N. Buck	
Base salary	$ 76,949
Medical continuation	5,383
Value of accelerated stock options (1)	475
David S. Hendrickson	
Base salary	$ 104,474
Medical continuation	13,944
Value of accelerated stock options (1)	633
Kunio Sano	
Base salary	$ 82,521
Medical continuation	9,547
Value of accelerated stock options (1)	396

(1) Represents the aggregate value of the acceleration of vesting of the executive officer s unvested stock options based on the spread between the closing price of the Company s Common Stock on May 31, 2012 (the last business day of the last fiscal year) of $1.27 and the exercise price of the stock options. Aggregate intrinsic value represents only the value for those options in which the exercise price of the option is less than the market value of the Company s stock on May 31, 2012.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review, Approval or Ratification of Transactions with Related Persons

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

Legal Counsel

During fiscal 2012, Mario M. Rosati, a member of the Board of Directors of the Company, was also a member of the law firm of Wilson Sonsini Goodrich & Rosati, Professional Corporation, or WSGR. The Company retained WSGR as its legal counsel during the fiscal year. The Company plans to retain WSGR as its legal counsel again during fiscal 2013.

Change of Control Severance Agreement

The Company entered into Change of Control Severance Agreements on January 24, 2001 with Mr. Carl N. Buck, Mr. David S. Hendrickson, and Mr. Gary L. Larson; on September 7, 2011 with Mr. Kunio Sano; on January 3, 2012 with Mr. Gayn Erickson and as amended with Mr. Rhea J. Posedel; and on May 29, 2012 with Mr. Anderson; pursuant to which those executives would be entitled to a payment in the event of a termination of employment for specified reasons following a change of control of the Company. For this purpose, a change of control of the Company means a merger or consolidation of the Company, a sale by the Company of all or substantially all of its assets, the acquisition of beneficial ownership of a majority of the outstanding voting securities of the Company by any person or a change in the composition of the Board as a result of which fewer than a majority of the directors are incumbent directors. Termination of employment for purposes of these agreements means a discharge of the executive by the Company, other than for specified causes including dishonesty, conviction of a felony, misconduct or wrongful acts. Termination also includes resignation following the occurrence of an adverse change in the executive s position, duties, compensation or work conditions. The amounts payable under the agreements will change from year to year based on the executive s compensation.

In the event of a termination following a change of control, the amounts payable to Messrs. Anderson, Buck, Erickson, Hendrickson, Larson, Posedel, and Sano based on their base salaries at the reduced rates in effect at May 31, 2012, would be approximately $105,000, $82,000, $375,000, $118,000, $148,000, $232,000, and $92,000, respectively. In addition to the amounts payable to the executive officers mentioned in the previous sentence, the aggregate values of the acceleration of vesting of the executive officers unvested stock options based on the spread between the closing price of the Company s Common Stock on May 31, 2012 (the last business day of the last fiscal year) of $1.27 and the exercise price of the stock options for Messrs. Anderson, Buck, Erickson, Hendrickson, Larson, Posedel, and Sano and would be $14,450, $475, $249,334, $633, $475, $0, and $396, respectively.

Compensation Committee Interlocks and Insider Participation

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

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Notwithstanding anything to the contrary set forth in any of the Company s previous filings under the Securities Exchange Act of 1933, as amended, or the Securities Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following report shall not be incorporated by reference into any such filings and such information shall be entitled to the benefits provided in Item 306(c) and (d) of Regulation S-K and Item 7(d)(3)(v) of Schedule 14A.

The Compensation Committee feels that the compensation vehicles used by the Company, generally administered through the process as outlined above, provide a fair and balanced executive compensation program related to the proper business issues. In addition, it should be noted that compensation vehicles will be reviewed and, as appropriate, revised in order to attract and retain new executives in addition to rewarding performance on the job.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

Robert R. Anderson
William W.R. Elder

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Exchange Act requires that directors, certain officers of the Company and 10% shareholders file reports of ownership and changes in ownership with the SEC as to the Company s securities beneficially owned by them. Such persons are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of copies of such forms received by the Company, or on written representations from certain reporting persons, the Company believes that all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with during the fiscal year ended May 31, 2012, other than one Form 4 filing by Mario Rosati, filed on October 28, 2011, which was not filed on a timely basis.

FINANCIAL STATEMENTS

The Company s Annual Report to Shareholders for the last fiscal year is being mailed with this Proxy Statement to shareholders entitled to notice of the meeting. The Annual Report includes the consolidated financial statements, unaudited selected consolidated financial data and management s discussion and analysis of financial condition and results of operations.

OTHER MATTERS

The Company knows of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed Proxy to vote the shares they represent as the Board of Directors may recommend.

By Order of the Board of Directors,

GAYN ERICKSON
President and Chief Executive Officer

Dated: September 26, 2012

Using a **black ink** pen, mark your votes with an **X** as shown in
this example. Please do not write outside the designated areas. X

Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proposals The Board of Directors recommends a vote FOR all the nominees listed, FOR Proposal 2, FOR Proposal 3 and FOR Proposal 4.

1. Election of Directors:	01 – Rhea J. Posedel	02 – Gayn Erickson	03 – Robert R. Anderson	04 – William W. R. Elder
	05 – Mukesh Patel	06 – Mario M. Rosati	07 – Howard T. Slayen	

o **Mark here to vote FOR all nominees**

o **Mark here to WITHHOLD vote from all nominees**

o **For All EXCEPT** – To withhold authority to vote for any nominee(s), write the name(s) of such nominee(s) below.

____

	For	Against	Abstain
2. Proposal to approve an amendment to the Company s 2006 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by an additional 1,000,000 shares.	o	o	o
3. Proposal to approve an amendment to the Company s 2006 Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder by an additional 350,000 shares.	o	o	o

4. Proposal to ratify the appointment of Burr Pilger Mayer, Inc. as the Company s independent registered public accounting firm. o o o

5. In their discretion, the proxyholders are authorized to vote upon such other matter or matters which may properly come before the meeting and any adjournment(s) thereof.

Non-Voting Items

Change of Address Please print new address below.

Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

/ /

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy AEHR TEST SYSTEMS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF AEHR TEST SYSTEMS

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON OCTOBER 24, 2012

The undersigned shareholder of Aehr Test Systems, a California corporation, hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement and hereby appoints Gayn Erickson and Gary L. Larson, or either of them, proxies and attorneys-in-fact, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the Annual Meeting of Shareholders of Aehr Test Systems to be held on October 24, 2012, at 4:00 p.m., local time, at 400 Kato Terrace, Fremont, California 94539, and at any adjournments thereof and to vote all shares of Common Stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth on the reverse side of this card.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED (1) FOR THE ELECTION OF THE NOMINATED DIRECTORS, (2) FOR THE AMENDMENT TO THE 2006 EQUITY INCENTIVE PLAN, (3) FOR THE AMENDMENT TO THE 2006 EMPLOYEE STOCK PURCHASE PLAN, (4) FOR RATIFICATION OF THE APPOINTMENT OF THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, AND (5) AS SAID PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY COME BEFORE THE MEETING AND ANY ADJOURNMENT(S) THEREOF.

PLEASE SIGN AND DATE ON REVERSE SIDE

Important notice regarding the internet availability of proxy materials for the Annual Meeting of Shareholders

The Proxy Statement, Form of Proxy Card and 2012 Annual Report are available at:
www.aehr.com under the heading Investors and the subheading Annual Reports/Proxies .