

AEHR TEST SYSTEMS  
Form DEF 14A  
September 26, 2008  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. \_\_)

Filed by the Registrant  [ x ]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement
- [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [ x ] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to §240.14a-12

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**Aehr Test Systems**

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- [ x ] No fee required.
  - [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.  
(1) Title of each class of securities to which transaction applies:
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(2) Aggregate number of securities to which transaction applies:

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

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

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**AEHR TEST SYSTEMS**

**400 Kato Terrace**

**Fremont, California 94539**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 28, 2008**

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TO THE SHAREHOLDERS OF

AEHR TEST SYSTEMS:

You are cordially invited to attend the Annual Meeting of Shareholders (the Annual Meeting ) of Aehr Test Systems, a California corporation (the Company ), to be held on October 28, 2008, at 4:00 p.m., at the Company s corporate headquarters located at 400 Kato Terrace, Fremont, California 94539, for the following purposes:

1. To elect five directors.
2. To approve an amendment of the Company s 2006 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by an additional 600,000 shares.
3. To ratify the selection of Burr, Pilger & Mayer LLP as the Company s independent registered public accounting firm for the fiscal year ending May 31, 2009.
4. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Only holders of record of Common Stock at the close of business on September 12, 2008 will be entitled to notice of and to vote at the Annual Meeting. Please sign, date and mail the enclosed proxy so that your shares may be represented at the Annual Meeting if you are unable to attend and vote in person. If you attend the Annual Meeting, you may vote in person even if you return a proxy.

By Order of the Board of Directors,

RHEA J. POSEDEL

*Chief Executive Officer and*

*Chairman of the Board of Directors*

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**AEHR TEST SYSTEMS**

**400 Kato Terrace**

**Fremont, California 94539**

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**PROXY STATEMENT**

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**2008 ANNUAL MEETING OF SHAREHOLDERS**

This Proxy Statement is being furnished to the Shareholders (the "Shareholders") of Aehr Test Systems, a California corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Shareholders (the "Annual Meeting") of the Company to be held on October 28, 2008 and at any adjournments thereof.

At the Annual Meeting, the Shareholders will be asked:

1. To elect five directors.
2. To approve an amendment of the Company's 2006 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by an additional 600,000 shares.
3. To ratify the selection of Burr, Pilger & Mayer LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2009.
4. To transact such other business as may properly come before the Annual Meeting or any adjournments of the Annual Meeting.

The Board of Directors has fixed the close of business on September 12, 2008 as the record date for the determination of the holders of Common Stock entitled to notice of and to vote at the Annual Meeting. Each such Shareholder will be entitled to one vote for each share of Common Stock ("Common Share") held on all matters to come before the Annual Meeting and may vote in person or by proxy authorized in writing.

This Proxy Statement and the accompanying form of proxy are first being sent to holders of the Common Shares on or about September 26, 2008.

**THE ANNUAL MEETING**

**Date, Time and Place**

The Annual Meeting will be held on October 28, 2008 at 4:00 p.m., local time, at 400 Kato Terrace, Fremont, California 94539.

**General**

The Company's principal office is located at 400 Kato Terrace, Fremont, California 94539 and its telephone number is (510) 623-9400.

**Record Date and Shares Entitled to Vote**

Shareholders of record at the close of business on September 12, 2008 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, there were 8,402,720 shares of Common Stock outstanding and entitled to vote.

**Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date or by attending the meeting and voting in person.

**Voting and Proxy Solicitation**

Each shareholder voting for the election of directors may cumulate his or her votes, giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares that the shareholder is entitled to vote, or distributing the shareholder's votes on the same principle.

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among as many candidates as the shareholder chooses. No shareholder shall be entitled to cumulate votes for any candidate unless the candidate's name has been properly placed in nomination prior to the voting and the shareholder, or any other shareholder, has given notice at the meeting prior to the voting of the intention to cumulate votes. On all other matters, each share has one vote.

The Company is soliciting proxies for the Annual Meeting from its shareholders. The cost of this solicitation will be borne by the Company. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, personally or by telephone, facsimile or special delivery letter.

#### **Quorum; Abstentions; Broker Non-Votes**

The required quorum for the transaction of business at the Annual Meeting is a majority of the shares of Common Stock issued and outstanding on the Record Date. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector of Elections, appointed for the meeting, who will determine whether or not a quorum is present. If the shares present, in person and by proxy, do not constitute the required quorum, the meeting may be adjourned to a subsequent date for the purposes of obtaining a quorum. Shares that are voted FOR, AGAINST or WITHHELD FROM a matter are treated as being present at the meeting for purposes of establishing a quorum and shares that are voted FOR, AGAINST or ABSTAIN are also treated as shares entitled to vote (the Votes Cast) at the Annual Meeting with respect to such matter.

While there is no definitive statutory or case law authority in California as to the proper treatment of abstentions, the Company believes that abstentions should be counted for purposes of determining both (i) the presence or absence of a quorum for the transaction of business and (ii) the total number of Votes Cast with respect to a proposal (other than the election of directors). In the absence of controlling precedent to the contrary, the Company intends to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote against the proposal.

Broker non-votes (i.e. votes from shares of record by brokers as to which the beneficial owners have no voting instructions) will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be counted for purposes of determining the number of Votes Cast with respect to the proposal on which the broker has expressly not voted. Thus, a broker non-vote will be counted for purposes of determining whether a quorum exists but will not otherwise affect the outcome of the voting on a proposal. With respect to a proposal that requires a majority of the outstanding shares (such as an amendment to the articles of incorporation), however, a broker non-vote has the same affect as a vote against the proposal.

#### **Deadline for Receipt of Shareholder Proposals for 2009 Annual Meeting**

Shareholders are entitled to present proposals for action at a forthcoming meeting if they comply with the requirements of the proxy rules promulgated by the Securities and Exchange Commission (SEC). Proposals of shareholders of the Company intended to be presented for consideration at the Company's 2009 Annual Meeting of Shareholders must be received by the Company no later than May 29, 2009, in order that they may be included in the proxy statement and form of proxy related to that meeting.

#### **Shareholder Information**

IN COMPLIANCE WITH RULE 14A-3 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, THE COMPANY HEREBY UNDERTAKES TO PROVIDE WITHOUT CHARGE TO EACH PERSON, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, INCLUDING THE CONSOLIDATED FINANCIAL STATEMENTS.

If you share an address with another shareholder, only one annual report and proxy statement may be delivered to all shareholders sharing your address unless the Company has contrary instructions from one or more shareholders. Shareholders sharing an address may request a separate copy of the annual report or proxy statement by writing to: Aehr Test Systems, 400 Kato Terrace, Fremont, CA 94539, Attention: Investor Relations or by calling investor relations at (510) 623-9400, and the Company will promptly deliver a separate copy. If you share an address with another shareholder and you are receiving multiple copies of annual reports or proxy statements, you may write us at the address above to request delivery of a single copy of these materials in the future.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS****AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of August 31, 2008, or some other practical date in cases of the principal shareholders, by: (i) each person (or group of affiliated persons) known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock, (ii) each director of the Company, (iii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, and (iv) all directors and executive officers of the Company as a group:

<u>Beneficial Owner</u>	<u>Shares Beneficially</u>	
	<u>Owned(1)</u> <u>Number</u>	<u>Percent(2)</u>
<b>Named Executive Officers and Directors:</b>		
Rhea J. Posedel (3)	1,126,434	13.2%
Robert R. Anderson (4)	154,436	1.8%
William W. R. Elder (5)	40,000	*
Mukesh Patel (6)	45,929	*
Mario M. Rosati (7)	234,217	2.8%
Gary L. Larson (8)	152,913	1.8%
Joel Bustos (9)	29,848	*
David S. Hendrickson (10)	78,370	*
Gregory M. Perkins (11)	22,226	*
All Directors and Executive Officers as a group (11 persons) (12)	1,992,193	22.2%
<b>Principal Shareholders:</b>		
State of Wisconsin Investment Board (13)	993,740	11.8%
121 East Wilson Street, Madison, WI 53702		

\* Represents less than 1% of the Common Shares

- (1) Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have represented to the Company that they have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Unless otherwise indicated, the address of each of the individuals listed in the table is c/o Aehr Test Systems, 400 Kato Terrace, Fremont, California 94539.
- (2) Shares of Common Stock subject to options that are currently exercisable or exercisable within 60 days of August 31, 2008 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (3) Includes 20,000 shares held by Vivian Owen, Mr. Posedel's wife, 9,950 shares held by Rhea J. Posedel, trustee for Natalie Diane Posedel, Mr. Posedel's daughter, and 151,103 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (4) Includes 56,936 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (5) Includes 6,000 shares held by William W.R. Elder, trustee for his sons Derek S. Elder (3,000 shares) and Corwin W. Elder (3,000 shares) and 15,000 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (6) Includes 10,000 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.

- (7) Includes 27,000 shares held by Mario M. Rosati and Douglas Laurice, trustees for the benefit of Mario M. Rosati, 151,016 shares held by Mario M. Rosati, Trustee of the Mario M. Rosati Trust, U/D/T dated 1/9/90, 22,500 shares held by WS Investment Company, LLC (2001A) of which Mr. Rosati is a general partner and 30,000 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (8) Includes 92,374 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (9) Includes 29,373 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (10) Includes 76,457 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (11) Includes 22,226 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (12) Includes 563,363 shares issuable upon the exercise of stock options exercisable within 60 days of August 31, 2008.
- (13) Based solely on Schedule 13G/A filed February 8, 2008 with the SEC by the State of Wisconsin Investment Board ( SWIB ). SWIB has sole investment and sole voting power with respect to the shares.

### Equity Compensation Plan Information

The following table gives information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's existing equity compensation plans as of May 31, 2008.

	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, <u>warrants and rights</u>	Weighted-average exercise price of outstanding options, <u>warrants and rights</u>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
<u>Plan Category</u>			
Equity compensation plans approved by security holders	1,282,681 (1)	\$5.05	486,768
Equity compensation plans not approved by security holders	--	--	--
<b>Total</b>	<b>1,282,681</b>	<b>\$5.05</b>	<b>486,768</b>

(1) Issued pursuant to the Company's 1996 Stock Option Plan and the 1997 Employee Stock Purchase Plan ( Stock Option Plans ) and the Company's 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan ( 2006 Plans ), which require the approval of and have been approved by the Company's shareholders. See description of the Stock Option Plans below.

### Stock Option Plans

On October 26, 2006, the Company's shareholders approved the 2006 Equity Incentive Plan (the 2006 Equity Incentive Plan ). Options granted under the 2006 Equity Incentive Plan are generally for periods not to exceed ten years (five years if the option is granted to a 10% stockholder) and are granted at the fair market value of the stock at the date of grant as determined by the Board of Directors.

The 2006 Equity Incentive Plan replaces the Amended and Restated 1996 Stock Option Plan (the 1996 Stock Option Plan ) which would otherwise have expired in 2006. The 1996 Stock Option Plan will

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continue to govern awards previously granted under that plan. However, the shares represented by options granted under the 1996 Stock Option Plan that terminate without being exercised are added to the shares available for grant under the 2006 Equity Incentive Plan. More information regarding the 2006 Equity Incentive Plan is set forth in the section entitled "Amendment to the 2006 Equity Incentive Plan". As of May 31, 2008, out of the 1,616,097 shares authorized for grant under the 1996 Stock Option Plan and 2006 Equity Incentive Plan, approximately 1,265,805 shares had been granted. 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. All other exercise prices are equal to the closing price of the Company's Common Stock on the date of the grant as reported on the NASDAQ Global Market.

On October 26, 2006, the Company's shareholders approved the 2006 Employee Stock Purchase Plan (the "2006 Employee Stock Purchase Plan"). A total of 200,000 shares of the Company's Common Stock were reserved for issuance under the 2006 Employee Stock Purchase Plan. The 2006 Employee Stock Purchase Plan has consecutive, overlapping, twenty-four month offering periods. Each twenty-four month offering period includes four six month purchase periods. The offering periods generally begin on the first trading day on or after April 1 and October 1 each year. The first exercise date under the 2006 Employee Stock Purchase Plan was April 1, 2007. All employees who work a minimum of 20 hours per week and are customarily employed by the Company (or an affiliate thereof) for at least five months per calendar year are eligible to participate. Under this plan, shares are purchased through employee payroll deductions at exercise prices equal to 85% of the lesser of the fair market value of the Company's Common Stock at either the first day of an offering period or the last day of the purchase period. If a participant's rights to purchase stock under all employee stock purchase plans of the Company accrue at a rate which exceeds \$25,000 worth of stock for a calendar year, such participant may not be granted an option to purchase stock under the 2006 Employee Stock Purchase Plan.

The 2006 Employee Stock Purchase Plan replaces the 1997 Employee Stock Purchase Plan which would have otherwise expired in 2007. For the year ended May 31, 2008, approximately 33,537 shares of Common Stock were issued under the 1997 Employee Stock Purchase Plan and the 2006 Employee Stock Purchase Plan. As of May 31, 2008, 446,648 shares have been issued under 1997 Employee Stock Purchase Plan and the 2006 Employee Stock Purchase Plan. Because Rhea J. Posedel owns more than 10% of the Company's outstanding Common Stock, he is precluded from participating in the 1997 Employee Stock Purchase Plan and the 2006 Employee Stock Purchase Plan.

## **PROPOSAL 1**

### **ELECTION OF DIRECTORS**

At the Annual Meeting, five directors are to be elected to serve until the next Annual Meeting or until their successors are elected and qualified. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the five nominees named below. Each nominee has consented to be named a nominee in this Proxy Statement and to continue to serve as a director if elected. Should any nominee become unable or decline to serve as a director or should additional persons be nominated at the meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many nominees listed below as possible (or, if new nominees have been designated by the Board of Directors, in such a manner as to elect such nominees) and the specific nominees to be voted for will be determined by the proxy holders. The Company is not aware of any reason that any nominee will be unable or will decline to serve as a director. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which he is or was to be selected as a director or officer of the Company.



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The names of the nominees and certain information about them are set forth below:

Name of Nominee	Age	Position	Director Since
Rhea J. Posedel	66	Chairman of the Board and Chief Executive Officer	1977
Robert R. Anderson (1)(2)	70	Director	2000
William W.R. Elder (1)(2)(3)	69	Director	1989
Mukesh Patel (1)(3)	50	Director	1999
Howard T. Slayen	61	Nominee for Director	--

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating and Governance Committee

The principal occupation of each of the Board members during the past five years is set forth below. There is no family relationship between any director or executive officer of the Company.

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

**ROBERT R. ANDERSON** was appointed to the Company's Board of Directors in October 2000. Mr. Anderson has served as a director of Aviza Technology, Inc., a semiconductor equipment company, since December 2005. Mr. Anderson served on the Trikon board from April 2000 through the date of acquisition by Aviza. Mr. Anderson is a private investor. In addition, Mr. Anderson currently is a director of MKS Instruments, Inc., a semiconductor components and equipment supplier. He also serves as a director for one private company.

**WILLIAM W. R. ELDER** has been a director of the Company since 1989. Dr. Elder was the Chief Executive Officer of Genus, Inc. a semiconductor equipment company, from 1981 to 1996, and then again from 1998 until the company was acquired by AIXTRON AG (AIXTRON) in 2005. Dr. Elder retired from AIXTRON in December 2007. Dr. Elder is currently EVP, Global Operations and a director of Maskless Lithography Inc., a capital equipment start-up company based in San Jose, California. Dr. Elder holds a B.S.I.E. and an honorary Doctorate Degree from the University of Paisley in Scotland.

**MUKESH PATEL** was appointed to the Company's Board of Directors in June 1999. Mr. Patel was President and Chief Executive Officer of Metta Technology, which he co-founded in 2004, until November 2006, when LSI Logic Corporation acquired it. He founded Sparkolor Corporation, acquired by Intel Corporation in late 2002, and co-founded SMART Modular Technologies, Inc. (SMART Modular), a high value added memory products company, acquired by Solectron Corporation in late 1999. Mr. Patel was Vice President and General Manager Memory Product Division of SMART Modular from August 1995 to August 1998 and was Vice President, Engineering from February 1989 to July 1995. Mr. Patel is a private investor. Mr. Patel holds a B.S. degree in Engineering with an emphasis in digital electronics from Bombay University, India. Mr. Patel also serves as a director for SMART Modular and for several privately-held companies.

**HOWARD T. SLAYEN** has been providing independent financial consulting services to various organizations and clients since June 2001. From October 1999 to May 2001, Mr. Slayen was Executive Vice President and Chief Financial Officer of Quartz Inc., a web-hosted communications business. From 1971 to September 1999, Mr. Slayen held various positions with PricewaterhouseCoopers/Coopers & Lybrand,

including his last position as a Corporate Finance Partner. In addition, Mr. Slayen currently is a director of Lantronix, Inc., a provider of embedded networking solutions. He also serves as a director for

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two private companies. Mr. Slayen holds a B.A. from Claremont McKenna College and a J.D. from the University of California, Berkeley School of Law.

## **Board Matters and Corporate Governance**

### *Board Meetings and Committees*

The Board of Directors held a total of four (4) meetings and acted four (4) times by unanimous written consent during the fiscal year ended May 31, 2008. No incumbent director during his period of service in such fiscal year attended fewer than 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which such director served.

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

The Audit Committee of the Board of Directors is comprised entirely of independent directors, as defined by the NASDAQ Stock Market LLC director independence standards, as well as applicable SEC rules, as currently in effect. More information regarding the functions performed by the Committee, its membership, and the number of meetings held during the fiscal year, is set forth in the section entitled "Report of the Audit Committee." The Audit Committee is governed by a written charter approved by the Board of Directors. The Company maintains a copy of the Audit Committee charter on its website: [www.aehr.com](http://www.aehr.com). The Audit Committee consists of directors Messrs. Anderson, Elder and Patel. The Board of Directors has determined that Mr. Anderson is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Compensation Committee of the Board of Directors currently consists of Messrs. Anderson and Elder, each of whom is an independent member of the Board of Directors, as defined by the NASDAQ Stock Market LLC director independence standards, as well as applicable SEC rules, as currently in effect. The Compensation Committee held one (1) meeting during fiscal year 2008. The Compensation Committee reviews and advises the Board of Directors regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company. The Compensation Committee is governed by a written charter approved by the Board of Directors. The Company maintains a copy of the Compensation Committee charter on its website: [www.aehr.com](http://www.aehr.com). More information regarding the Compensation Committee's processes and procedures can be found herein in the section entitled "Compensation Discussion and Analysis."

The Nominating and Governance Committee of the Board of Directors currently consists of Messrs. Elder and Patel, each of whom is an independent member of the Board of Directors, as defined by the NASDAQ Stock Market LLC director independence standards, as well as applicable SEC rules, as currently in effect. The Nominating and Governance Committee held one (1) meeting during fiscal year 2008. The Nominating and Governance Committee reviews and makes recommendations to the Board of Directors regarding matters concerning corporate governance; reviews the composition and evaluates the performance of the Board of Directors; selects, or recommends for the selection of the

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Board of Directors, director nominees; evaluates director compensation; reviews the composition of committees of the Board of Directors and recommends persons to be members of such committee; and reviews conflicts of interest of members of the Board of Directors and corporate officers. The Nominating and Governance Committee is governed by a written charter approved by the Board of Directors. The Company maintains a copy of the Nominating and Governance Committee charter on its website: [www.aehr.com](http://www.aehr.com).

### *Shareholder Recommendations*

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

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Aehr Test Systems

400 Kato Terrace

Fremont, CA 94539

Attn: Secretary

In addition, procedures for shareholder direct nomination of directors are discussed under *Deadline for Receipt of Shareholder Proposals* above.

### *Director Qualifications*

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

### *Identifying and Evaluating Nominees for Directors*

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

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

The Board of Directors has determined that each of its current directors, except for Rhea J. Posedel, the Company's Chief Executive Officer, is independent within the meaning of the NASDAQ Stock Market LLC director independence standards, as well as applicable SEC rules, as currently in effect. Mr. Slayen was recommended for inclusion on the slate of directors by a non-management director. After reviewing Mr. Slayen's qualifications and those of other potential directors, the Nominating and Governance Committee and the Board of Directors approved Mr. Slayen's nomination.

### *Annual Meeting Attendance*

Although the Company does not have a formal policy regarding attendance by members of the Board at the Company's annual meetings of shareholders, directors are encouraged to attend annual meetings of the Company's shareholders. All four continuing members of the Board of Directors attended the 2007 annual meeting of shareholders.

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### *Code of Conduct and Ethics*

The Board of Directors has adopted a Code of Conduct and Ethics for all directors, officers and employees of the Company, which includes the Chief Executive Officer, Chief Financial Officer and any other principal accounting officer. The Code of Conduct and Ethics may be found on the Company's website at [www.aehr.com](http://www.aehr.com). The Company will disclose any amendment to the Code of Conduct and Ethics or waiver of a provision of the Code of Conduct and Ethics, including the name of the officer to whom the waiver was granted, on the Company's website at [www.aehr.com](http://www.aehr.com), on the Investors page.

### *Communications with the Board*

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

### **REPORT OF THE AUDIT COMMITTEE (1)**

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The Audit Committee of the Board of Directors of the Company serves as the representative of the Board for general oversight of the Company's financial accounting and reporting system of internal control, audit process and process for monitoring compliance with laws and regulations. The Audit Committee, consisting of Messrs. Patel, Anderson and Elder, held five (5) meetings in fiscal year 2008. Each member is an independent director in accordance with the NASDAQ Global Market Audit Committee requirements as currently in effect. The Audit Committee evaluates the scope of the annual audit, reviews audit results, consults with management and the Company's independent registered public accounting firm prior to the presentation of financial statements to shareholders and, as appropriate, initiates inquiries into aspects of the Company's financial affairs.

The Company's management has primary responsibility for preparing the Company's consolidated financial statements and for the Company's financial reporting process. The Company's independent registered public accounting firm, Burr, Pilger & Mayer LLP (BPM), is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements to accounting principles generally accepted in the United States of America. The Audit Committee has reviewed and discussed with management the audited consolidated financial statements for the year ended May 31, 2008. BPM, the Company's independent registered public accounting firm for fiscal year 2008, issued their unqualified report dated August 28, 2008 on the Company's consolidated financial statements.

The Audit Committee has also discussed with BPM the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from BPM required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has conducted a discussion with BPM relative to its independence. The Audit Committee has considered whether BPM's provision of non-audit services is compatible with its independence. The Audit Committee has an Audit Committee Charter.

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Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors of Aehr Test Systems that the Company's audited consolidated financial statements for the fiscal year ended May 31, 2008 be included in the Company's Annual Report on Form 10-K.

### AUDIT COMMITTEE

Robert R. Anderson

William W.R. Elder

Mukesh Patel

(1) The information regarding the Audit Committee is not soliciting material and is not deemed filed with the SEC, and is not to be incorporated by reference into any filings of the Company under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

### Director Compensation

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Rhea J. Posedel, the only inside director of the Company, does not receive any cash compensation for his services as a member of the Board of Directors. An inside director is a director who is a regular employee of the Company, whereas an outside director is not an employee of the Company. Effective October 28, 2008, each outside director will receive (1) an annual retainer of \$25,000, (2) \$2,500 for each regular board meeting such member attends, and (3) \$1,250 for each special telephonic board meeting such member attends. Committee members attending a committee meeting not held in conjunction with a regular board meeting will receive the following amounts: audit committee chair - \$2,000; audit committee member - \$1,500; compensation committee chair - \$1,750; and other committee members - \$1,250. Committee members attending a committee meeting held in conjunction with a regular board meeting will receive 50% of the amounts noted above for each respective committee member. Outside directors are also reimbursed for certain expenses incurred in attending board and committee meetings.

For fiscal year 2008, each outside director received (1) an annual retainer of \$15,000, (2) \$1,875 for each regular board meeting such member attended, and (3) \$1,125 for each committee meeting such member attended if not held in conjunction with a regular board meeting, in addition to being reimbursed for certain expenses incurred in attending Board and committee meetings. Through fiscal 2006, each outside director could elect to receive an additional stock option grant in lieu of any cash payments throughout the year. In fiscal 2007, that alternative was eliminated. Directors are eligible to participate in the Company's stock option plans. In fiscal 2006, outside directors Robert Anderson, William Elder, Mukesh Patel and Mario Rosati were each granted options to purchase 5,000 shares at \$3.66 per share. Additionally, Robert Anderson and Mukesh Patel were each granted options to purchase 14,754 shares at \$3.66 per share pursuant to an agreement to take these options in lieu of cash payments throughout the fiscal year. In each of fiscal 2008 and 2007, outside directors Robert Anderson, William Elder, Mukesh Patel and Mario Rosati were each granted options to purchase 5,000 shares at \$7.28 per share and \$6.07 per share, respectively. All exercise prices are equal to the closing price of the Company's Common Stock on the date of the grant as reported on the NASDAQ Global Market.

The Company has agreed to indemnify each director against certain claims and expenses for which the director might be held liable in connection with past or future service on the Board. In addition, the Company maintains an insurance policy insuring its officers and directors against such liabilities.

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The following table sets forth the compensation paid by the Company during the fiscal year ended May 31, 2008 to the Company's non-executive officer directors:

### Compensation of Directors

Name	Year	Fees Earned or Paid in Cash	Option Award (2)	Total Compensation
Rhea J. Posedel (1)	2008	\$ --	\$ --	\$ --
Robert R. Anderson	2008	\$27,000		