

ADVANCED ENERGY INDUSTRIES INC

Form DEF 14A

April 07, 2005

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

SCHEDULE 14A

INFORMATION REQUIRED IN PROXY STATEMENT

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

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

Check the appropriate box:

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

ADVANCED ENERGY INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 4, 2005

To Our Stockholders:

The 2005 Annual Meeting of Stockholders of Advanced Energy Industries, Inc. (Advanced Energy or the Company) will be held on Wednesday, May 4, 2005, at 10:00 a.m., at Advanced Energy's corporate offices, 1625 Sharp Point Drive, Fort Collins, Colorado 80525. At the meeting, you will be asked to vote on the following matters:

1. Election of six directors.
2. Approval of an amendment to the Employee Stock Purchase Plan to increase the total number of shares of common stock available for issuance under the plan from 400,000 shares to 500,000 shares.
3. Approval of an amendment to the 2003 Non-Employee Directors' Stock Option Plan to increase the total number of shares of common stock available for issuance under the plan from 150,000 shares to 250,000 shares.
4. Ratification of the appointment of Grant Thornton LLP as Advanced Energy's independent registered public accounting firm for 2005.
5. Any other matters of business properly brought before the meeting.

Each of the matters 1 to 4 is described in detail in the accompanying proxy statement, dated April 6, 2005.

If you owned common stock of Advanced Energy at the close of business on March 14, 2005, you are entitled to receive this notice and to vote at the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure that your voice is heard, you are urged to return the enclosed proxy card as promptly as possible in the postage prepaid envelope provided.

By Order of the Board of Directors

Jay L. Margulies
Secretary

Fort Collins, Colorado
April 6, 2005

YOUR VOTE IS IMPORTANT

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Date: April 6, 2005
To: Our Owners
From: Douglas S. Schatz
Subject: Invitation to Our 2005 Annual Meeting of Stockholders

Please come to our 2005 Annual Meeting of Stockholders to learn about Advanced Energy, what we have accomplished in the last year and what we hope to achieve in 2005. The meeting will be held:

Wednesday, May 6, 2005
10:00 a.m.
Advanced Energy's Corporate Offices
1625 Sharp Point Drive
Fort Collins, Colorado 80525

This proxy statement describes the matters that management of Advanced Energy intends to present to the stockholders at the annual meeting. Accompanying this proxy statement is Advanced Energy's 2004 Annual Report to Stockholders and a form of proxy. All voting on matters presented at the annual meeting will be by paper proxy or by presence in person, in accordance with the procedures described in this proxy statement. Instructions for voting are included in the proxy statement. Your proxy may be revoked at any time prior to the meeting in the manner described in this proxy statement.

I look forward to seeing you at the meeting.

Douglas S. Schatz
Chairman and Chief Executive Officer

This proxy statement and the accompanying proxy card are first being sent to stockholders on or about April 6, 2005.

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GENERAL

This proxy statement and the accompanying materials are being sent to stockholders of Advanced Energy as part of a solicitation for proxies for use at the 2005 Annual Meeting of Stockholders. The Board of Directors of Advanced Energy is making this solicitation for proxies. By delivering the enclosed proxy card, you will appoint each of Douglas S. Schatz and Michael El-Hillow as your agent and proxy to vote your shares of common stock at the meeting. In this proxy statement, proxy holders refers to Messrs. Schatz and El-Hillow in their capacities as your agents and proxies.

Advanced Energy's principal executive offices are located at 1625 Sharp Point Drive, Fort Collins, Colorado 80525. The telephone number is (970) 221-4670.

Proposals

We intend to present four proposals to the stockholders at the meeting:

1. Election of six directors.
2. Approval of an amendment to the Employee Stock Purchase Plan to increase the total number of shares of common stock available for issuance under the plan from 400,000 shares to 500,000 shares.
3. Approval of an amendment to the 2003 Non-Employee Directors' Stock Option Plan to increase the total number of shares of common stock available for issuance under the plan from 150,000 shares to 250,000 shares.
4. Ratification of the appointment of Grant Thornton LLP as Advanced Energy's independent registered public accounting firm for 2005.

We do not know of any other matters to be submitted to the stockholders at the meeting. If any other matters properly come before the meeting, the proxy holders intend to vote the shares they represent as the Board of Directors may recommend.

Record Date and Share Ownership

If you owned shares of Advanced Energy common stock in your name as of the close of business on Monday, March 14, 2005, you are entitled to vote on the proposals that are presented at the meeting. On that date, which is referred to as the record date for the meeting, 32,766,356 shares of Advanced Energy common stock were issued and outstanding and were held by approximately 823 stockholders of record, according to the records of American Stock Transfer & Trust Company, Advanced Energy's transfer agent.

Voting Procedures

Each share of Advanced Energy common stock that you hold entitles you to one vote on each of the proposals that are presented at the annual meeting. The inspector of the election will determine whether or not a quorum is present at the annual meeting. A quorum will be present at the meeting if a majority of the shares of common stock entitled to vote at the meeting are represented at the meeting, either by proxy or by the person who owns the shares. Advanced Energy's transfer agent will deliver a report to the inspector of election in advance of the annual meeting, tabulating the votes cast by proxies returned to the transfer agent. The inspector of election will tabulate the final vote count, including the votes cast in person and by proxy at the meeting.

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If a broker holds your shares, this proxy statement and a proxy card have been sent to the broker. You may have received this proxy statement directly from your broker, together with instructions as to how to direct the broker concerning how to vote your shares. Under the rules for Nasdaq-quoted companies, brokers cannot vote on any of the proposals without instructions from you. If you do not give your broker instructions or discretionary authority to vote your shares on one or more of the proposals being considered at the meeting

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and your broker returns the proxy card without voting on a proposal, your shares will be recorded as broker non-votes with respect to the proposals on which the broker does not vote.

Broker non-votes and abstentions will be counted as present for purposes of determining whether a quorum is present. If a quorum is present, directors will be elected by a plurality of the votes and each of the other matters described in this proxy statement will be approved by a majority of the votes cast in favor of the proposal. Broker non-votes and abstentions will have no effect on the outcome of any of the matters described in this proxy statement.

The following table reflects the vote required for each proposal and the effect of broker non-votes and abstentions on the vote, assuming a quorum is present at the meeting:

Proposal	Vote Required	Effect of Broker Non-Votes and Abstentions
Election of directors	The six nominees who receive the most votes will be elected	No effect
Approval of an amendment to the Employee Stock Purchase Plan to increase the total number of shares of common stock available for issuance under the plan from 400,000 shares to 500,000 shares	Majority of the shares present at the meeting (by proxy or in person) and voting For or Against the proposal	No effect
Approval of an amendment to the 2003 Non-Employee Directors Stock Option Plan to increase the total number of shares of common stock available for issuance under the plan from 150,000 shares to 250,000 shares	Majority of the shares present at the meeting (by proxy or in person) and voting For or Against the proposal	No effect
Ratification of the appointment of Grant Thornton LLP as Advanced Energy's independent registered accounting firm for 2005	Majority of the shares present at the meeting (by proxy or in person) and voting For or Against the proposal	No effect

If any other proposals are properly presented to the stockholders at the meeting, the number of votes required for approval will depend on the nature of the proposal. Generally, under Delaware law and the by-laws of Advanced Energy, the number of votes which may be required to approve a proposal is either a majority of the shares of common stock represented at the meeting and entitled to vote, or a majority of the shares of common stock represented at the meeting and casting votes either for or against the matter being considered. The enclosed proxy card gives discretionary authority to the proxy holders to vote on any matter not included in this proxy statement that is properly presented to the stockholders at the annual meeting.

Costs of Solicitation

Advanced Energy will bear the costs of soliciting proxies in connection with the annual meeting. In addition to soliciting your proxy by this mailing, proxies may be solicited personally or by telephone or facsimile by some of Advanced Energy's directors, officers and employees, without additional compensation. We may reimburse our transfer agent, American Stock Transfer & Trust Company, brokerage firms and other persons representing beneficial owners of Advanced Energy common stock for their expenses in sending proxies to the beneficial owners.

Delivery and Revocability of Proxies

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You may vote your shares by marking the enclosed proxy card and mailing it to American Stock Transfer & Trust Company in the enclosed postage prepaid envelope. If you mail your proxy, please allow sufficient time for it to be received in advance of the annual meeting.

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If you deliver your proxy and change your mind before the meeting, you may revoke your proxy by delivering notice to Jay Margulies, our Secretary, at Advanced Energy Industries, Inc., 1625 Sharp Point Drive, Fort Collins, Colorado 80525, stating that you wish to revoke your proxy or by delivering another proxy with a later date. You may vote your shares by attending the meeting in person but, if you have delivered a proxy before the meeting, you must revoke it before the meeting begins. Attending the meeting will not automatically revoke your previously-delivered proxy.

Delivery of Documents to Stockholders Sharing an Address

If two or more stockholders share an address, Advanced Energy may send a single copy of this proxy statement and other soliciting materials, as well as the 2004 Annual Report to Stockholders, to the shared address, unless Advanced Energy has received contrary instructions from one or more of the stockholders sharing the address. If a single copy has been sent to multiple stockholders at a shared address, Advanced Energy will deliver a separate proxy card for each stockholder entitled to vote. Additionally, Advanced Energy will send an additional copy of this proxy statement, other soliciting materials and the 2004 Annual Report to Stockholders, promptly upon oral or written request by any stockholder to Investor Relations, Advanced Energy Industries, Inc., 1625 Sharp Point Drive, Fort Collins, Colorado 80525; telephone number (970) 221-4670. If any stockholders sharing an address receive multiple copies of this proxy statement, other soliciting materials and the 2004 Annual Report to Stockholders and would prefer in the future to receive only one copy, such stockholders may make such request to Investor Relations at the same address or telephone number.

Common Stock Ownership by Management and Other Stockholders

The following table sets forth the beneficial ownership of Advanced Energy common stock as of March 14, 2005 by:

each person known to us to beneficially own more than 5% of the outstanding common stock;

each director and nominee for director;

each named executive officer identified on page 14; and

the current directors and executive officers as a group.

Name of Stockholder	Shares Beneficially Owned	Percent Owned
Douglas S. Schatz, Chairman, Chief Executive Officer and President Capital Group International, Inc.; Capital Guardian Trust Company 7,309,340(3) 22.3%	10,866,608(1,2)	33.1%
Capital Research and Management Company 1,700,000(4) 5.2%		
Richard P. Beck, Director 83,574(2,5) *		
Hans-Georg Betz, Director 5,000(2,5) *		
Robert L. Bratter, Director 15,000(2) *		
Joseph R. Bronson, Director 5,000(2,5) *		
Arthur A. Noeth, Director 27,500(2) *		
Barry Z. Posner, Director		

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5,000(2,5) *
Elwood Spedden, Director
29,500(2,5) *
Gerald M. Starek, Director
59,671(2,11) *
Michael El-Hillow, Executive Vice President of Finance and Administration
and Chief Financial Officer
127,934(2) *
Linda A. Capuano, Executive Vice President and Chief Technology Officer
0 *
Charles S. Rhoades, Executive Vice President, Products and Operations
46,233(2,7) *
James G. Guilmart, Senior Vice President, Sales
120,946(2) *
D. Craig Jeffries(6)
0 *
Richard A. Scholl(9)
302,529(2,10) *
All current executive officers and directors, as a group (15 persons)
11,694,495(8) 35.1%

* Less than 1% of the outstanding shares of our common stock

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(1) Includes 10,657,782 shares held by the family trust of Mr. Schatz and his wife, and 150,000 shares held by a charitable foundation of which Mr. Schatz and members of his immediate family are the trustees. Mr. Schatz may be deemed to share with the other trustees voting and dispositive power with respect to the charitable foundation's 150,000 shares. Mr. Schatz disclaims beneficial ownership of the 150,000 shares held by the charitable foundation. Mr. Schatz's address is c/o Advanced Energy Industries, Inc., 1625 Sharp Point Drive, Fort Collins, Colorado 80525.

(2) Includes beneficial ownership of the following numbers of shares that may be acquired within 60 days of March 14, 2005 pursuant to stock options granted or assumed by Advanced Energy:

Schatz	
58,826	Spedden 29,500
Beck	
15,000	Starek 33,215
Betz	
5,000	El-Hillow 125,934
Bratter	
15,000	Rhoades 35,857
Bronson	
5,000	Guilmart 120,365
Noeth	
27,500	Scholl 72,242
Posner	
5,000	

(3) Information as to the amount and nature of beneficial ownership was obtained from Amendment No. 11 to the Schedule 13G filed with the SEC on February 11, 2005 by Capital Group International, Inc. and Capital Guardian Trust Company. According to the Schedule 13G, Capital Group International, Inc. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the securities reported in the Schedule 13G, and Capital Guardian Trust Company is a bank that may be deemed to beneficially own common stock as a result of serving as an investment manager of various institutional accounts. Capital Group International, Inc. reports sole voting power over 2,491,090 shares of common stock and sole dispositive power over 3,809,660 shares of common stock. Capital Guardian Trust Company reports sole voting power over 2,233,110 shares of common stock and sole dispositive power over 3,499,680 shares. The address for each of Capital Group International, Inc. and Capital Guardian Trust Company is 11100 Santa Monica Boulevard, Los Angeles, CA 90025.

(4) Information as to the amount and nature of beneficial ownership was obtained from Amendment No. 2 to the Schedule 13G filed with the SEC on February 4, 2005 by Capital Research and Management Company. Capital Research and Management Company reports dispositive power over 1,700,000 shares, or 5.2%. The address for Capital Research and Management Company is 333 South Hope Street, Los Angeles, CA 90071.

(5) The shares reported in the table do not include an option to purchase 5,000 shares, which will be granted to each non-employee director and fully exercisable upon grant, if such person is re-elected to the Board of Directors at the annual meeting.

(6) Mr. Jeffries was Executive Vice President and Chief Marketing Officer of Advanced Energy until January 2005.

(7) The shares reported in the table include 10,000 shares owned indirectly by a trust for the benefit of Mr. Rhoades siblings. Mr. Rhoades is the trustee of such trust.

- (8) The shares reported in the table include 548,439 shares that the 15 executive officers and directors collectively have the right to acquire within 60 days of March 14, 2005 pursuant to stock options granted or assumed by Advanced Energy.
- (9) Mr. Scholl was Senior Vice President and Chief Technology Officer of Advanced Energy until his retirement in January 2005.
- (10) The shares reported in the table include 20,292 shares owned by Mr. Scholl's wife, but exclude shares that may be acquired within 60 days of March 14, 2005 pursuant to stock options held by Mr. Scholl's wife. Mr. Scholl's wife, Brenda M. Scholl, was a Senior Vice President of Advanced Energy through December 2004.
- (11) The shares reported in the table do not include 2,100 shares held by Mr. Starek's wife. Mr. Starek disclaims beneficial ownership of these shares.

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A board of six directors is to be elected at the annual meeting. The Board of Directors has nominated for election the persons listed below. Each of the nominees is currently a director of Advanced Energy. In the event that any nominee is unable to or declines to serve as a director at the time of the meeting, the proxy holders will vote in favor of a nominee designated by the Corporate Governance and Nominations Committee to fill the vacancy. We are not aware of any nominee who will be unable or who will decline to serve as a director. The term of office of each person elected as a director at the meeting will continue from the end of the meeting until the next Annual Meeting of Stockholders (expected to be held in the year 2006), or until a successor has been elected and qualified.

NOMINEES

Name	Age	Director Since	Principal Occupation and Business Experience
Douglas S. Schatz	59	1981	Douglas S. Schatz is a co-founder of Advanced Energy and has been its Chairman and Chief Executive Officer since its incorporation in 1981. Until July 1999, he also served as President. In March 2001, Mr. Schatz was reappointed as President. Since December 1995, Mr. Schatz has also served as a director of Advanced Power Technology, Inc., a publicly held company that provides high power, high voltage and high performance semiconductors and power modules, and is a member of its nominating committee and the chairman of its compensation committee. Mr. Schatz is also a member of the CEO Committee of the Mountain States Council of the American Electronics Association and serves on the Engineering Advisory Board of Colorado State University.
Richard P. Beck	71	1995	Richard P. Beck joined Advanced Energy in March 1992 as Vice President and Chief Financial Officer and became Senior Vice President in February 1998. In October 2001, Mr. Beck retired from the position of Chief Financial Officer, but remained as a Senior Vice President until May 2002. Mr. Beck is chairman of the board of Applied Films Corporation, a publicly held manufacturer of flat panel display equipment, and serves on its audit, compensation and nominating and governance committees. He is also a director of TTM Technologies, Inc., a publicly held manufacturer of printed circuit boards, and serves as a member of its nominations and corporate governance committee and as chairman of its audit committee.
Hans-Georg Betz(1,2)	58	2004	Dr. Hans-Georg Betz joined the Board of Directors of Advanced Energy in July 2004. Dr. Betz is currently chief executive officer of West STEAG Partners GmbH, a German-based venture capital company focused on the high-technology industry. Previously, he was chief executive officer of STEAG Electronic System AG and a managing director at Leybold AG. Dr. Betz serves as a director of Mattson Technology, Inc., a publicly held supplier of advanced process equipment used to manufacture semiconductors, and serves as a member of its audit and compensation committees. He also serves as a board member of Steag HamaTech AG, a publicly held supplier of manufacturing equipment and process technology for the manufacture of optical media (CD/DVD) and for processing photomask and wafers for the semiconductor industry, and as a member of the compensation committee.

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Name	Age	Director Since	Principal Occupation and Business Experience
Joseph R. Bronson(2)	56	2004	Joseph R. Bronson joined the Board of Directors of Advanced Energy in December 2004. Mr. Bronson is currently president of FormFactor, Inc., a designer and manufacturer of advanced semiconductor wafer probe cards. Mr. Bronson was appointed president of FormFactor in November 2004 and has been a director of FormFactor since April 2002. Prior to becoming president of FormFactor, Mr. Bronson held significant leadership positions with Applied Materials, Inc., a manufacturer of semiconductor capital equipment. Until his resignation from Applied Materials in October 2004, he had served as an executive vice president since December 2000 and as its chief financial officer since January 1998. Mr. Bronson is also a director of Jacobs Engineering Group, a diversified technical consulting firm.
Barry Z. Posner(3)	56	2004	Barry Z. Posner joined the Board of Directors of Advanced Energy in September 2004. Dr. Posner is Dean of the Leavey School of Business at Santa Clara University, a professor of leadership, and an award-winning author. Dr. Posner is currently on the editorial review boards of the Journal of Business Ethics and Leadership Review, and section editor for the Journal of Management Inquiry. Dr. Posner also conducts leadership-based workshops for corporations around the world.
Elwood Spedden(2,3,4)	67	1995	Elwood Spedden was chief executive officer of Photon Dynamics, Inc., a publicly held manufacturer of flat panel display test equipment, from January 2003 until his retirement in January 2004. From July 1996 to June 1997, Mr. Spedden was a vice president of KLA-Tencor Semiconductor, a manufacturer of automatic test equipment used in the fabrication of semiconductors.

- (1) Member of the Corporate Governance and Nominations Committee.
- (2) Member of the Audit and Finance Committee.
- (3) Member of the Compensation Committee.
- (4) Lead Director.

The Board of Directors has determined that each of the nominees, other than Douglas S. Schatz and Richard P. Beck, is an independent director within the meaning of Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq National Market. The Board of Directors has made an affirmative determination that none of the independent directors has any relationship with Advanced Energy that would impair his independence. The independent directors, if all of them are elected at the annual meeting, will constitute a majority of the Board of Directors.

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Since our initial public offering in November 1995, we generally have had a Board of Directors consisting of five to seven members. At the annual meeting of stockholders in 2004, the stockholders elected six directors to serve until the 2005 annual meeting. Since the 2004 annual meeting, as a result of active efforts by our Corporate Governance and Nominations Committee to recruit new directors, three persons have been added to our Board of Directors: Hans-Georg Betz, Barry Z. Posner and Joseph R. Bronson. Our Corporate Governance and Nominations Committee determined that our resulting nine-member Board of Directors should be reduced and, as a result, the Board of Directors resolved that the authorized number of members of the Board of Directors shall be reduced to six, effective as of the 2005 annual meeting of stockholders. The following three directors, each of whom is a member of our Corporate Governance and Nominations Committee, requested that they not be nominated for re-election at the 2005 annual meeting: Robert L. Bratter, Arthur A. Noeth and Gerald M. Starek.

Required Vote

The six nominees receiving the highest number of affirmative (**FOR**) votes at the meeting will be elected as directors. Stockholders do not have the right to cumulate their votes for the election of directors. Unless otherwise instructed, the proxy holders will vote the proxies received by them **FOR** each of the six nominees. Votes withheld from a nominee will be counted for purposes of determining whether a quorum is present, but will not be counted as an affirmative vote for such nominee.

The Board of Directors recommends a vote **FOR the election of each of the six nominees named above.**

Director Compensation

Compensation for each non-employee director is as follows:

\$15,000 annual retainer paid quarterly in July, October, February and April;

An additional \$25,000 annual retainer for the Lead Director paid quarterly in July, October, February and April;

\$3,000 per full board meeting; if a board meeting is more than one day, each board member will receive \$3,000 for each additional day;

\$1,500 per telephonic meeting which requires a board vote;

\$3,000 per Audit and Finance Committee meeting for the Chairman and \$1,500 per meeting for each committee member;

\$1,500 per meeting for all other Committee Chairmen (Corporate Governance and Nominations, and Compensation) and \$750 per meeting for each committee member;

15,000 options on initial election or appointment to the board, which vest 5,000 on election and 5,000 on each of the next two anniversary dates; and

5,000 options annually on the date of re-election at the annual meeting, to vest on date of grant.

Board Meetings

The Board of Directors held nine meetings in 2004. In 2004, the Board of Directors had an Audit and Finance Committee, a Corporate Governance and Nominations Committee and a Compensation Committee. In 2004, each incumbent director attended at least 75% of the aggregate number of meetings of the Board of Directors (held during

the period for which he was a director) and the committees (held during the period for which he served on such committees) on which he served.

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Audit and Finance Committee

Composition and Meetings

The Audit and Finance Committee currently consists of Mr. Starek (Chairman), Dr. Betz, Messrs. Bronson, Noeth and Spedden. Prior to October 19, 2004, the Audit and Finance Committee consisted of Messrs. Starek (Chairman), Noeth and Spedden. Mr. Bronson joined the Audit and Finance Committee upon his appointment to the Board of Directors on December 30, 2004. Each of the members of the Audit and Finance Committee is an independent director within the meaning of Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq National Market. The Board of Directors has evaluated the credentials of and determined that Mr. Starek is an audit committee financial expert within the meaning of Item 401(h) of SEC Regulation S-K and that he is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934. The Audit and Finance Committee met four times in 2004.

Policy on Audit and Finance Committee Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The Audit and Finance Committee approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit related services, tax services and other services. Approval is provided on a service-by-service basis and is generally subject to a specified budget. In 2004, the Audit and Finance Committee approved all of the audit and non-audit services provided by Advanced Energy's independent registered public accounting firms.

Committee Charter and Responsibilities

The Audit and Finance Committee is governed by a written charter, which is available on our website at www.advanced-energy.com. The Committee is responsible for, among other things:

selecting Advanced Energy's independent registered public accounting firm;

approving the scope, fees and results of the audit engagement;

determining the independence and evaluating the performance of Advanced Energy's independent registered public accounting firm and internal auditors;

approving in advance any audit and non-audit services and fees charged by the independent registered public accounting firm;

evaluating the comments made by the independent registered public accounting firm with respect to accounting procedures and internal controls and determining whether to bring such comments to the attention of Advanced Energy's management;

reviewing the internal accounting procedures and controls with Advanced Energy's financial and accounting staff and approving any significant changes; and

establishing and maintaining procedures for, and a policy of, open access to the members of the Audit and Finance Committee by the employees of and consultants to Advanced Energy to enable the employees and consultants to bring to the attention of the Committee concerns held by such employees and consultants regarding

the financial reporting of the corporation, and to report potential misconduct to the Committee.

The Committee also conducts financial reviews with Advanced Energy's independent registered public accounting firm prior to the release of financial information in the Company's Forms 10-K and 10-Q.

Management has primary responsibility for Advanced Energy's financial statements and the overall reporting process, including systems of internal controls. The independent registered public accounting firm audits the annual financial statements prepared by management, expresses an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of Advanced

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Energy in conformity with accounting principles generally accepted in the United States and discusses with the Committee any issues they believe should be raised.

Report of the Audit and Finance Committee

The Committee has reviewed Advanced Energy's audited financial statements and met together and separately with both management and Grant Thornton LLP, the Company's current independent registered public accounting firm, to discuss Advanced Energy's financial statements and reports for the third and fourth quarters of 2004 and the full year 2004 prior to issuance. For the financial statements and reports for the first and second quarters of 2004, the Committee met together and separately with both management and KPMG LLP, the Company's then independent registered public accounting firm. In addition, the Committee has discussed with the independent registered public accounting firms the matters outlined in Statement on Accounting Standards No. 61 (Communication with Audit Committees) to the extent applicable and received the written disclosures and the letter from the independent registered public accounting firms required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Committee has also discussed with the independent registered public accounting firms their independence.

Based on our review and discussion of the foregoing matters and information, the Committee recommended to the Board of Directors that the audited financial statements be included in Advanced Energy's 2004 Annual Report on Form 10-K. The Committee has recommended the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for 2005, subject to shareholder approval.

The Audit and Finance Committee

Gerald M. Starek, Chairman
Hans-Georg Betz
Joseph R. Bronson
Arthur A. Noeth
Elwood Spedden

Corporate Governance and Nominations Committee

Composition and Meetings

The Corporate Governance and Nominations Committee currently consists of Dr. Betz (Chairman) and Messrs. Bratter, Noeth and Starek. Prior to October 19, 2004, the Corporate Governance and Nominations Committee consisted of Messrs. Noeth (Chairman), Dr. Betz, and Messrs. Bratter, Spedden and Starek. Each of the members of the Committee is an independent director within the meaning of Rule 4200(a)(15) under the Marketplace Rules of the Nasdaq National Market. The Corporate Governance and Nominations Committee met three times in 2004.

Committee Charter and Responsibilities

The Corporate Governance and Nominations Committee is governed by a written charter, which is available on our website at www.advanced-energy.com.

The Committee is responsible for:

establishing and administering the procedures for nominating persons to serve as directors;

identifying and recommending candidates for nomination to the Board of Directors, consistent with criteria approved by the Board of Directors;

considering any nominees recommended by stockholders;

determining the appropriate number of authorized directors of Advanced Energy;

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developing and recommending to the Board of Directors, standards to be applied in making determinations as to the absence of material relationships between Advanced Energy and a director;

establishing procedures for the Committee to exercise oversight of the evaluation of the Board of Directors and management;

developing and recommending to the Board of Directors a set of corporate governance principles applicable to Advanced Energy, and reviewing those principles at least annually; and

performing any other duties or responsibilities expressly delegated to the Committee by the Board of Directors from time to time relating to the nomination of Board and committee members.

During 2004, the Committee actively recruited new directors. The Committee worked closely with other directors of the Company to identify and consider director candidates. The Committee will consider any and all director candidates recommended by security holders. If you are a stockholder and wish to recommend a candidate for nomination to the Board of Directors, you should submit your recommendation in writing to the Corporate Governance and Nominations Committee, in care of the Secretary of Advanced Energy at 1625 Sharp Point Drive, Fort Collins, Colorado 80525. Your recommendation should include your name and address, the number of shares of Advanced Energy common stock that you own, the name of the person you recommend for nomination, the reasons for your recommendation, a summary of the person's business history and other qualifications as a director of Advanced Energy and whether such person has agreed to serve, if elected, as a director of Advanced Energy. Please also see the information under "Proposals of Stockholders" on page 24 of this proxy statement.

The Committee will apply the same processes and criteria in evaluating director candidates recommended by security holders as it applies in evaluating director candidates recommended by directors, members of management or any other person.

The Committee does not pay a third party fee to assist in identifying and evaluating director candidates, but Advanced Energy does not preclude the potential for utilizing such services if the Committee deems such services to be necessary or appropriate.

Compensation Committee

Composition and Meetings

The Compensation Committee currently consists of Messrs. Bratter (Chairman), Noeth, Spedden and Dr. Posner. Prior to October 19, 2004, the Compensation Committee consisted of Messrs. Bratter (Chairman), Noeth, Spedden and Starek. Each of the members of the Compensation Committee is a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, an outside director within the meaning of Section 162(m) under the Internal Revenue Code and an independent director within the meaning of Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq National Market. The Compensation Committee met five times in 2004.

Committee Charter and Responsibilities

The Compensation Committee is governed by a written charter, which is available on our website at www.advanced-energy.com. The Compensation Committee is responsible for recommending salaries, incentives and other compensation for directors and officers of Advanced Energy, administering Advanced Energy's incentive compensation and benefit plans and recommending to the Board of Directors policies relating to such compensation and benefit plans. During 2004, the Compensation Committee retained an independent consultant (the independent

compensation consultant) to assist the Compensation Committee in fulfilling these responsibilities.

Report of the Compensation Committee on Executive Compensation

The Compensation Committee strives to develop and maintain competitive, progressive programs that attract, retain and motivate high-caliber executives, foster teamwork and maximize the long-term success of

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Advanced Energy by appropriately rewarding such individuals for their achievements. We believe that the executives total compensation should be based on both individual performance and the company's operating results. Our executive compensation program, therefore, includes cash bonuses and equity-based incentives, in addition to base salary.

Compensation Components

Base Salary and Cash Bonus. We aim to provide a competitive base salary that provides sufficient cash compensation to the Chief Executive Officer and the other executive officers, but that encourages the executives to strive for cash bonuses in addition to their base salaries. To determine base salaries for the Chief Executive Officer and the other executive officers of the company, we historically have reviewed data from published industry reports and surveys of similarly sized high technology companies, within and outside of the semiconductor capital equipment industry. To establish 2004 base salaries, we considered the executive compensation reported by a peer group of semiconductor capital equipment companies including ATMI, Inc., Brooks Automation, Inc., Helix Technology Corporation and MKS Instruments, Inc. (*peer companies*), as well as the financial performance of the company during 2003, each executive officer's future potential and the scope of his or her responsibilities and experience. 2004 base salaries for the executive officers, other than the Chief Executive Officer, were set between the 40th and 60th percentile of the salaries paid to executive officers in comparable positions at the peer companies. The executive officers also were eligible to participate in a bonus pool, based upon the company's operating income for 2004. The minimum level of operating income, however, was not achieved in 2004 and accordingly no bonus pool was funded. During 2004, the only executive officers to receive cash bonuses were Messrs. El-Hillow and Rhoades for assuming certain operational responsibilities during management transitions. Based on the financial performance of the company during 2004, no other cash bonuses were awarded to any of the named executives during or with respect to 2004.

Equity-Based Incentives. We believe that equity-based incentives align the executives' interests with those of the stockholders and focus the executives' attention on the long-term performance of the company. Equity-based incentives for our executives historically have taken the form of time-vested stock options. In determining the number of options granted to each executive officer in 2004, we reviewed each officer's base salary and bonus potential, and awarded options aimed at achieving total compensation between the 40th and 60th percentile of the total compensation paid to executive officers in comparable positions at the peer companies. The number of shares to be subject to options for each executive officer was determined during the first quarter of 2004; however, the options were distributed to the officers in quarterly installments throughout the year. In addition, Mr. Rhoades was granted an additional option award in August 2004, in connection with his promotion to Executive Vice President. During 2004, we reviewed with the independent compensation consultant a range of alternative equity-based incentives and determined to add restricted stock units to the forms of equity-based incentives available to our executive officers. No restricted stock units were granted in 2004, but restricted stock units were awarded to the executive officers as a component of their 2005 compensation.

Chief Executive Officer Compensation

The compensation of the Chief Executive Officer is based on the policies and procedures applicable generally to executive officers of Advanced Energy, as described above, except that his total compensation typically has been in the 25th to 35th percentile of total compensation paid to chief executive officers at peer companies. In determining Mr. Schatz' 2004 base salary, we reviewed the base salaries of chief executive officers at peer companies. We also considered the performance of the company during 2003 and determined to leave Mr. Schatz' base salary at the 2003 level. This resulted in Mr. Schatz' base salary being in the 30th to 35th percentile of the salaries paid to chief executive officers at peer companies. In light of the financial performance of the company during 2004, and the company's

failure to achieve the minimum level of operating income necessary to fund the executive bonus pool, we determined not to award any cash bonus to Mr. Schatz. During 2004, Mr. Schatz was granted options to purchase an aggregate of 85,000 shares of common stock at exercises prices equal to the market price of the common stock at the time of grant.

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Effect of Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code of 1986 generally limits to \$1 million the corporate deduction for compensation paid to certain executive officers, unless the compensation is performance-based (as defined in Section 162(m)). Each of the Board of Directors and the Compensation Committee has carefully considered the potential impact of this limitation on executive compensation and has determined it to be in the best interests of Advanced Energy and the stockholders to seek to qualify as tax deductible virtually all executive compensation. The Board of Directors and the Compensation Committee also recognize the need to consider factors other than tax deductibility in making compensation decisions and thus reserve the flexibility to award compensation that is not necessarily performance-based. Restricted stock units granted in the first quarter of 2005, for example, vest over time and, accordingly, do not qualify as performance-based compensation for purposes of Section 162(m).

The Compensation Committee

Robert L. Bratter, Chairman
Arthur A. Noeth
Barry Z. Posner
Elwood Spedden

Compensation Committee Interlocks and Insider Participation

Each of the following directors served on the Compensation Committee during 2004: Robert Bratter, Arthur A. Noeth, Barry Z. Posner, Elwood Spedden and Gerald M. Starek. None of such directors is or has been an officer or employee of Advanced Energy, nor has any of such persons had a direct or indirect interest in any business transaction with Advanced Energy involving an amount in excess of \$60,000.

During 2004, no executive officer of Advanced Energy served as a member of the board of directors or compensation committee of another company that has any executive officers or directors serving on Advanced Energy's Board of Directors or its Compensation Committee.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table sets forth the compensation earned in 2004 by Advanced Energy's Chief Executive Officer and the six highest-paid executive officers, other than the Chief Executive Officer, based on salary and bonus in 2004. These seven officers are referred to as the named executive officers. Each executive officer is appointed annually by the Board of Directors.

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Summary Compensation Table

Principal Position					Annual Compensation		Long-Term Compensation Awards
	Year	Salary (\$)	Bonus (\$)	Other (\$)	Underlying Securities	Option	
Chatz	2004	391,000				85,000	
	2003	391,000				100,000	
	2002	391,000					
Chairman of the Board, Chief Executive Officer and President							
Hillow	2003	235,000	80,000	14,000			
Executive Vice President and Chief Financial Officer							
Capuano	2002	235,000	50,000	52,000(4)			
Executive Vice President and Chief Technology Officer(2)							
El-Hillow	2003	224,000	26,000(11)	20,000	39,000(12)		
Executive Vice President, Products and Marketing							
Jeffries	2002	51,000(8)	15,000	11,000			
Senior Vice President, Marketing							
Capuano	2002	265,000	42,000(8)	20,000	11,000	9,000	
Executive Vice President and Chief Marketing Officer							
Jeffries	2003	70,000	11,000	167,000	130,000	103,000(6)	
Executive Vice President and Chief Marketing Officer							
Hillow	2003	240,000	20,000	11,000			
Executive Vice President and Chief Financial Officer							
Capuano	2002	237,000	40,000	9,000			

- (1) Reflects car allowances and amounts contributed by Advanced Energy under Advanced Energy's 401(k) profit sharing plan, except as otherwise noted.
- (2) Dr. Capuano joined Advanced Energy in October 2004. She served as a consultant to Advanced Energy from April 2004 to October 2004.
- (3) Mr. El-Hillow was appointed Executive Vice President in February 2003.
- (4) Includes reimbursement for relocation expenses of approximately \$38,000 in 2002.
- (5) Mr. Jeffries served as Executive Vice President and Chief Marketing Officer of Advanced Energy from March 2003 to January 2005. Mr. Jeffries is no longer employed by Advanced Energy.
- (6) Includes reimbursement for relocation expenses of approximately \$94,000 in 2003.
- (7)

Mr. Rhoades joined Advanced Energy in September 2002 as Senior Vice President and General Manager of Control Systems and Instrumentation. In August 2004, he was appointed Executive Vice President of Products and Operations.

- (8) Represents sales commissions paid to Mr. Guilmart.
- (9) Includes consulting fees of \$173,000 paid to Dr. Capuano for the period from April 2004 to October 2004, prior to her joining Advanced Energy.
- (10) Mr. Scholl served as Senior Vice President and Chief Technology Officer of Advanced Energy for the periods presented through his retirement in January 2005.
- (11) 2002 amount represents a sign-on bonus paid to Mr. Rhoades. 2003 amount represents a performance bonus earned and paid in 2003, the terms of which were agreed upon at hire.
- (12) Includes payments on behalf of Mr. Rhoades for relocation costs and temporary housing of \$130,000 in 2004, \$36,000 in 2003 and \$4,000 in 2002.

Table of Contents**Option Grants in 2004**

The following table sets forth information as to stock options granted in 2004 to the named executive officers.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees In Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	5% (\$)	10% (\$)
Douglas S. Schatz	21,250	1.78%	22.30	2/11/2014	298,017	755,235
	21,250	1.78%	20.81	4/14/2014	278,105	704,773
	21,250	1.78%	12.80	7/20/2014	171,059	433,498
	21,250	1.78%	10.37	10/19/2014	138,585	351,201
	85,000 total	7.12% total				
Michael El-Hillow	17,500	1.46%	22.30	2/11/2014	245,426	621,958
	17,500	1.46%	20.81	4/14/2014	299,028	580,401
	17,500	1.46%	12.80	7/20/2014	140,872	356,998
	17,500	1.46%	10.37	10/19/2014	114,129	289,224
	70,000 total	5.84% total				
Linda A. Capuano	75,000 total	6.27% total	10.37	10/19/2014	489,123	1,239,533
Charles S. Rhoades	3,750	0.31%	22.30	2/11/2014	52,591	133,277
	3,750	0.31%	20.81	4/14/2014	49,077	124,372
	3,750	0.31%	12.80	7/20/2014	30,187	76,500
	50,000	4.18%	9.97	8/26/2014	313,504	794,481
	3,750	0.31%	10.37	10/19/2014	24,456	61,977
	65,000 total	5.42% total				
James G. Guilmart	3,750	0.31%	22.30	2/11/2014	52,591	133,277
	3,750	0.31%	20.81	4/14/2014	49,077	124,372
	3,750	0.31%	12.80	7/20/2014	30,187	76,500
	3,750	0.31%	10.37	10/19/2014	24,456	61,977
	15,000 total	1.24% total				
D. Craig Jeffries	17,500	1.46%	22.30	2/11/2014	245,426	621,958
	17,500	1.46%	20.81	4/14/2014	229,028	580,401
	17,500	1.46%	12.80	7/20/2014	140,872	356,998
	17,500	1.46%	10.37	10/19/2014	114,129	289,224
	70,000 total	5.84% total				
Richard A. Scholl	2,500	0.21%	22.30	2/11/2014	35,061	88,851
	2,500	0.21%	20.81	4/14/2014	32,718	82,914
	2,500	0.21%	12.80	7/20/2014	20,125	51,000
	2,500	0.21%	10.37	10/19/2014	16,304	41,318

10,000 total

0.84% total

All options reflected in the table above were granted under Advanced Energy's 2003 Stock Option Plan. Each option vests as to one-fourth of the underlying shares on the first anniversary of its grant date and as to an additional one-sixteenth of the underlying shares quarterly thereafter until fully vested, except for the options granted to Dr. Capuano, which vest as to one-fourth of the underlying shares 10 months after the grant date and as to an additional one-sixteenth of the underlying shares quarterly thereafter until fully vested. The exercise price of each option is equal to the closing price of the common stock on the date of grant, as reported on the Nasdaq National Market.

Table of Contents**Aggregated Option Exercises in 2004 and Option Values at December 31, 2004**

The following table sets forth information as to options granted by Advanced Energy under the 1995 Stock Option Plan that were exercised by the named executive officers during 2004 and options held by the named executive officers at December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End (\$) Exercisable/ Unexercisable(1)
Douglas S. Schatz	0	\$ 0	34,374/150,626	\$7,116/\$11,859
Michael El-Hillow	0	\$ 0	94,686/155,314	\$20,425/\$28,050
Linda A. Capuano	0	\$ 0	0/75,000	\$0/\$0
Charles S. Rhoades	0	\$ 0	26,874/98,126	\$24,322/\$26,228
James G. Guilmart	0	\$ 0	108,941/47,309	\$10,022/\$11,928
D. Craig Jeffries(2)	30,000	\$18,600	14,062/155,938	\$0/\$76,000
Richard A. Scholl(3)	0	\$ 0	68,495/42,505	\$10,022/\$11,928

- (1) Reflects the difference between the fair market value at December 31, 2004 of the securities underlying the in-the-money stock options and the exercise price of the stock options.
- (2) Mr. Jeffries left Advanced Energy in January 2005. Upon his separation Mr. Jeffries forfeited 170,000 stock options included in this table.
- (3) Mr. Scholl retired from Advanced Energy in January 2005. Upon his retirement Mr. Scholl forfeited 38,758 stock options included in this table. Mr. Scholl has until April 2005 to exercise 68,806 of his stock options and until January 2008 to exercise 3,436 of his stock options.

Equity Compensation Plan Information

The following table presents information as of the end of Advanced Energy's fiscal year 2004 with respect to equity compensation plans:

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders(1)	3,869,413(2)	\$ 18.82(2)	1,445,782
Equity compensation plans not approved by security holders(3)	829,964	\$ 22.04	
Total	4,699,377	\$ 19.39	1,445,782

- (1) Consists of the 2003 Stock Option Plan, the 2003 Non-Employee Directors Stock Option Plan, 1995 Employee Stock Option Plan, the Non-Employee Directors Stock Option Plan, and the Employee Stock Purchase Plan. The 1995 Employee Stock Option Plan and the Non-Employee Directors Stock Option Plan terminated on May 7, 2003, upon shareholder approval of the 2003 Stock Option Plans, however existing stock options outstanding under the 1995 Employee Stock Option Plan and the Non-Employee Directors Stock Option Plan remain outstanding according to their original terms.
- (2) Does not include purchase rights accruing under the Employee Stock Purchase Plan for the offering beginning on December 1, 2004, the number of shares and exercise price of which will not be determinable until the expiration of such offering period.
- (3) Consists of the 2002 and 2001 Employee Stock Option Plans. These plans were both terminated on April 14, 2004, by resolution of the Company's board of directors. The options outstanding under these plans remain outstanding according to their original terms.

Table of Contents**STOCK PERFORMANCE GRAPH**

The following graph reflects the cumulative total stockholder return on the Advanced Energy common stock since December 31, 1999, compared with each of the Nasdaq Composite and the Philadelphia Semiconductor Index (SOXX). Historical stock price performance is not necessarily indicative of any future stock price performance.

[PERFORMANCE GRAPH]

	Advanced Energy Industries, Inc.	Nasdaq Composite	Philadelphia Semiconductor
	<hr/>	<hr/>	<hr/>
Dec-99	100.00	100.00	100.00
	103.30	96.83	110.43
	147.72	115.42	166.13
Mar-00	103.55	112.37	167.75
	140.10	94.87	166.29
	75.13	83.57	141.71
Jun-00	119.67	97.46	161.88
	91.37	92.57	141.06
	115.98	103.37	163.65
Sep-00	67.01	90.26	120.87
	35.03	82.81	105.29
	39.97	63.84	76.22
Dec-00	45.69	60.71	81.84
	62.31	68.14	103.92
	46.07	52.88	76.82
Mar-01	52.41	45.22	77.36
	70.48	52.00	94.05
	66.40	51.86	84.98
Jun-01	83.80	53.09	88.58
	66.50	49.82	85.99
	47.01	44.37	79.87
Sep-01	33.77	36.83	53.04
	40.79	41.54	63.59
	48.04	47.44	73.66
Dec-01	54.09	47.93	74.11
	52.18	47.53	79.32
	50.96	42.55	72.50
Mar-02	73.02	45.35	84.48
	70.66	41.49	74.62
	61.52	39.71	67.60
Jun-02	4		