

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.**

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(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):

- 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:

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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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4) Proposed maximum aggregate value of transaction:

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- 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:

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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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**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:

<b>Proposal</b>	<b>Vote Required</b>	<b>Effect of Broker Non-Votes and Abstentions</b>
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.

<b>Name of Stockholder</b>	<b>Shares Beneficially Owned</b>	<b>Percent Owned</b>
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.

Table of Contents**PROPOSAL NO. 1****ELECTION OF DIRECTORS**

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**

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation and Business Experience</b>
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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<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation and Business Experience</b>
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](http://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](http://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](http://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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Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Securities Underlying Compensation (#)	All Other Compensation (\$)(1)
Douglas S. Schatz	2004	391,000		85,000	34,000
Chairman of the Board,	2003	391,000		100,000	32,000
Chief Executive Officer and President	2002	391,000			15,000
Michael El-Hillow	2004	269,000	20,000	70,000	11,000
Executive Vice President and Chief Financial Officer(3)	2003	235,000	80,000	14,000	
	2002	235,000	50,000	52,000(4)	
Linda A. Capuano	2004	39,000	75,000	175,000(9)	
Executive Vice President and Chief Technology Officer(2)					
Charles S. Rhoades	2004	229,000	5,000	65,000	134,000(12)
Executive Vice President, Products and Operations(7)	2003	224,000	26,000(11)	20,000	39,000(12)
	2002	50,000	27,000(11)	40,000	8,000(12)
James G. Guilmart	2004	265,000	51,000(8)	15,000	11,000
Senior Vice President, Sales & Marketing(6)	2003	265,000	15,000	11,000	