

ADVANCED ENERGY INDUSTRIES INC

FORM DEF 14A (Proxy Statement (definitive))

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Address	1625 SHARP POINT DR FT COLLINS, Colorado 80525
Telephone	970-221-4670
CIK	0000927003
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

SCHEDULE 14A INFORMATION

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

Filed by the Registrant /X/
Filed by a party other than the Registrant //

Check the appropriate box:
// Preliminary Proxy Statement
// Confidential, for Use of the Commission Only (as permitted by Rule
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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):

/X/ No fee required

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(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):

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

ADVANCED ENERGY INDUSTRIES, INC.

PROXY STATEMENT FOR 1998 ANNUAL MEETING OF STOCKHOLDERS INFORMATION CONCERNING SOLICITATION AND VOTING

GENERAL

The enclosed proxy is solicited on behalf of Advanced Energy Industries, Inc., a Delaware corporation (the "Company"), for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held on Wednesday, May 6, 1998 at 10:00 a.m., local time, or at any adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting Of Stockholders. The Annual Meeting will be held at the Company's executive offices at 1625 Sharp Point Drive, Fort Collins, Colorado 80525. The Company's telephone number is (970) 221-4670.

These proxy solicitation materials, together with a copy of the Company's 1997 Annual Report to Stockholders, were mailed on or about April 2, 1998 to all stockholders entitled to vote at the meeting.

RECORD DATE AND PRINCIPAL SHARE OWNERSHIP

Stockholders of record at the close of business on March 9, 1998 (the "Record Date") are entitled to receive notice of and to vote at the Annual Meeting. On the Record Date, 22,517,438 shares of the Company's Common Stock, \$0.001 par value (the "Common Stock"), were issued and outstanding.

REVOCABILITY OF PROXIES

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Company a written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person. Attending the Annual Meeting in and of itself may not constitute a revocation of a proxy.

VOTING AND SOLICITATION

Each share of Common Stock entitles its holder to one vote on matters to be acted upon at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector of Elections (the "Inspector") with the assistance of the Company's transfer agent. The Inspector will also determine whether or not a quorum is present. The affirmative vote of a majority of shares present in person or represented by proxy at a duly held meeting at which a quorum is present is required under Delaware law for approval of proposals presented to stockholders. In general, Delaware law also provides that a quorum consists of a majority of the shares entitled to vote and present or represented by proxy at the meeting. The Inspector will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum but will not treat abstentions as votes in favor of approving any matter submitted to the stockholders for a vote. Any proxy which is returned using the form of proxy enclosed and which is not marked as to a particular item will be voted for the election of directors, for ratification of the appointment of the designated independent auditors, for amendments of the Plan (defined herein) as set forth herein, and, as the case may be with respect to any items not marked, as the proxy holders deem advisable, on any other matters that may come before the meeting. If a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter ("broker non-votes"), those shares will not be considered as present with respect to that matter. The Company believes that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

The cost of soliciting proxies will be borne by the Company. The Company has retained the services of the Bank of Boston NA, c/o Boston Equiserve LP to aid in the solicitation of proxies from bankers, bank

nominees and other institutional owners. The Company estimates that it will pay the Bank of Boston a fee not to exceed \$2,500 for its services and will reimburse the Bank of Boston for certain out-of-pocket expenses. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may also be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, personally or by telephone, telefax, or telegram.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

NOMINEES

A board of six directors is to be elected at the Annual Meeting. The proxies cannot be voted for a greater number of persons than six. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's six nominees named below, all of whom are presently directors of the Company. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. The Company is not aware of any nominee who will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next Annual Meeting of Stockholders or until a successor has been elected and qualified.

The following table sets forth certain information concerning the nominees which is based on data furnished by them.

NOMINEES FOR DIRECTOR	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE DURING PAST FIVE YEARS
Douglas S. Schatz	52	1981	Douglas S. Schatz is a co-founder of the Company and has been its President and Chief Executive Officer and a director since its incorporation in 1981. Mr. Schatz also co-founded Energy Research Associates, Inc. and served as its Vice President of Engineering from 1977 through 1980.
G. Brent Backman	57	1981	G. Brent Backman is a co-founder of the Company and has been a Vice President and a director of the Company since its incorporation in 1981. Mr. Backman became Vice President, Special Projects in 1994. Prior to co-founding the Company, Mr. Backman was a Business Manager at Ion Tech, Inc. and a Laboratory Administrator at Hughes Aircraft Company.
Richard P. Beck	64	1995	Richard P. Beck joined the Company in 1992 as Vice President and Chief Financial Officer. He became a director of the Company in 1995. From 1987 to 1992, Mr. Beck served as Executive Vice President and Chief Financial Officer of Cimage Corporation, a computer software company. Mr. Beck is a director of Target Financial, Inc., a privately-held financial company.

NOMINEES FOR DIRECTOR	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE DURING PAST FIVE YEARS
Elwood Spedden(1,2)	60	1995	Elwood Spedden joined the Board of Directors of the Company in September 1995. Mr. Spedden was a senior vice president of Tencor Instruments, a manufacturer of automatic test equipment used in the fabrication of semiconductors, from July 1996 to June 1997. From 1990 through March 1996, Mr. Spedden was with Credence Systems Corporation, a manufacturer of automatic test equipment used in the fabrication of semiconductors, in various senior management positions including President, Chief Executive Officer and Vice-Chairman of the Board of Directors. Mr. Spedden is a director of Insight Objects, a privately held software company, since January 1997.
Hollis L. Caswell	66	1997	Hollis L. Caswell joined the Board of Directors of the Company in February 1997 and joined the Company as Chief Operating Officer in June, 1997. Dr. Caswell has been a member of the Board of HYPRES, Inc., a manufacturer of superconducting electronics since 1990 and was Chairman of the Board from 1990 to 1994. From 1984 to 1990 Dr. Caswell served as Senior Vice President of Unisys Corporation and President of such company's Computer Systems Group. Dr. Caswell is a director of Thomas Group, Inc., a publicly held consulting company, since August, 1991.
Arthur A Noeth(1,2)	62	1997	Arthur A. Noeth joined the Board of Directors of the Company in July, 1997. Mr. Noeth is President and Chief Executive Officer of The Implant Center, a provider of ion implant services to the electronics industry, since 1993. From April 1987 to September, 1993 he was President of A.N. Services, a business consulting service.

(1) Member Of Audit Committee.

(2) Member of Compensation Committee.

There is no family relationship between any of the foregoing nominees or between any of such nominees and any of the Company's executive officers.

BOARD MEETINGS AND COMMITTEES

In February 1997, Hollis L. Caswell was elected to the Board of Directors, and was appointed to the Company's Audit Committee and Compensation Committee, to fill the vacancy on the Board and the committees created by the resignation of Mr. Jon Tompkins. In June 1997, Mr. Caswell was appointed Chief Operating Officer of the Company and, because he then ceased to be an outside director, he resigned his membership on the two committees. In July 1997, Arthur A. Noeth was elected to the Board of Directors and appointed to the two committees.

The Board of Directors of the Company held a total of six meetings, including one telephonic meeting, during the fiscal year ended December 31, 1997. The Board of Directors has an Audit Committee and Compensation Committee. There is no Nominating Committee or committee performing the functions of a nominating committee. Other than Mr. Noeth, who was elected to the Board of Directors in July 1997, there is no incumbent director who attended fewer than 75% of the meetings of the Board of

Directors in 1997, and no incumbent director who attended fewer than 75% of the meetings of the committee or committees on which he served in 1997.

The Audit Committee met once in 1997. At that time, such committee consisted of Messrs. Spedden and Tompkins. The Audit Committee currently consists of Messrs. Spedden and Noeth and is responsible for recommending engagement of the Company's independent auditors, reviewing the scope of the audit, considering the comments made by the independent auditors with respect to accounting procedures and internal controls and the consideration given thereto by the Company management, and reviews the internal accounting procedures and controls with the Company's financial and accounting staff.

The Compensation Committee met once in 1997. At that time such committee consisted of Messrs. Spedden and Noeth. The Compensation Committee recommends salaries, incentives and other forms of compensation for directors, officers and other employees of the Company, administers the Company's various incentive compensation and benefits plans for officers and recommends policies relating to such compensation and benefit plans.

REQUIRED VOTE

The six nominees receiving the highest number of affirmative votes of the shares present or represented by proxy and entitled to be voted for them shall be elected as directors. Votes withheld from the respective nominees will be counted for purposes of determining the presence of a quorum but will not be counted as affirmative votes. Stockholders do not have the right to cumulate their votes in the election of directors.

**THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" THE ELECTION
OF THE SIX NOMINEES NAMED ABOVE.**

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth the beneficial ownership of shares of Common Stock of the Company as of March 15, 1998 by: (i) each person or entity who, based on the information provided to the Company by such persons or entities, owned beneficially more than five percent of the Company's Common Stock and such person or entity's address; (ii) each nominee and director of the Company; (iii) each named executive officer identified in the section of this proxy statement captioned "Executive Compensation and Other Information"; and (iv) all current directors and executive officers as a group.

NAME OF PERSON	SHARES BENEFICIALLY OWNED	APPROXIMATE PERCENT OWNED
Douglas S. Schatz..... c/o Advanced Energy Industries, Inc. 1625 Sharp Point Drive Fort Collins, CO 80525	12,139,800	54.1%
G. Brent Backman..... c/o Advanced Energy Industries, Inc. 1625 Sharp Point Drive Fort Collins, CO 80525	2,214,000	10.0%
The Capital Group Companies, Inc. and Capital Guardian Trust Company(1)..... 333 South Hope Street Los Angeles, CA 90071	1,204,000	5.4%
Eric A. Balzer(2).....	258,438	1.2%
Richard P. Beck(3).....	157,101	*
Richard A. Scholl(4).....	426,402	1.9%
James Gentilcore(5).....	19,094	*
Elwood Spedden(6).....	5,000	*
Arthur A. Noeth(7).....	2,500	*
All current directors and executive officers as a group (11 persons)(2,3,4,5,6,7).....	15,268,904	68.0%

* Less than 1%

(1) Information as to the amount and nature of beneficial ownership was obtained from the Schedule 13G filed with the Securities and Exchange Commission by The Capital Group Companies, Inc. ("CGC") and Capital Guardian Trust Company ("Trust") on February 10, 1998. According to the Schedule 13G, CGC is the parent holding company of a group of investment management companies that hold investment power and, in some cases voting power over Common Stock of the Company. Trust is a wholly owned subsidiary of CGC and beneficially owns Common Stock of the Company as a result of serving as an investment manager of various institutional accounts. CGC and Trust have sole voting power over 980,500 shares of Common Stock and sole investment power over 1,204,000 shares of Common Stock. CGC does not have direct voting or investment power over any of such Common Stock and disclaims beneficial ownership of all of the 1,204,000 shares.

(2) Includes 2,000 shares that Mr. Balzer has a right to acquire within 60 days of March 15, 1998 pursuant to a stock option granted by the Company.

(3) Includes 19,000 shares that Mr. Beck has the right to acquire within 60 days of March 15, 1998 pursuant to a stock option granted by the Company.

(4) Includes 10,930 shares that his wife, Brenda Scholl, has a right to acquire within 60 days of March 15, 1998, pursuant to a stock option granted by the Company and 300 shares owned by Mrs. Scholl. Mrs. Scholl is a business unit manager for the Company.

(5) Consists of 19,094 shares that Mr. Gentilcore has the right to acquire within 60 days of March 15, 1998, pursuant to a stock option granted by the Company.

(6) Consists of 5,000 shares that Mr. Spedden has the right to acquire within 60 days of March 15, 1998, pursuant to stock options granted by the Company.

(7) Consists of 2,500 shares that Mr. Noeth has the right to acquire within 60 days of March 15, 1998, pursuant to stock options granted by the Company.

(8) Includes 39,436 shares that three non-named executive officers have the right to acquire within 60 days of March 15, 1998, pursuant to stock options granted by the Company.

DIRECTOR COMPENSATION

Directors who are not employees of the Company receive meeting fees of \$3,000 for each Board of Directors meeting attended, other than telephonic meetings, and \$300 for each committee meeting attended, plus reimbursement for reasonable out-of-pocket travel expenses. In addition, each person who is a non-employee director is automatically granted upon becoming a director of the Company an option to purchase 7,500 shares of the Company's Common Stock under the Company's 1995 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") at a price per share equal to the fair market value of one share of the Company's Common Stock on that date. Each option has a term of ten years and is immediately exercisable as to 2,500 shares of Common Stock, and vest as to 2,500 shares of Common Stock on each of the second and third anniversaries of the grant date. On each anniversary of the date on which a person becomes a non-employee director, an option for an additional 2,500 shares will be granted under the Directors' Plan to such director. Such additional options vest in full on the third anniversary of the grant date and expire ten years after the grant date. The exercise price of such options is equal to the fair market value of the Common Stock on the respective grant date. 50,000 shares of Common Stock have been reserved for issuance pursuant to options to be granted under the Directors' Plan. As of March 15, 1998, options to purchase a total of 7,500 shares were outstanding under the Directors' Plan.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table provides certain summary information concerning compensation paid or accrued by the Company to or on behalf of the Company's Chief Executive Officer and each of the four other most highly compensated executive officers ("named executive officers") of the Company (determined at the end of the last fiscal year) for the fiscal years ended December 31, 1995, 1996 and 1997.

SUMMARY COMPENSATION TABLE
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION (\$)(1)
		SALARY (\$)	BONUS (\$)	SECURITIES UNDERLYING OPTIONS (#)	
Douglas S. Schatz	1997	299,755	0	0	2,531
President	1996	288,989	0	0	0
Chairman of the Board and Chief Executive Officer	1995	288,283	50,568	0	10,290
Eric A. Balzer	1997	166,667	81,905	10,000	1,445
Vice President Operations	1996	147,820	0	0	0
	1995	149,049	25,872	0	4,686
Richard P. Beck	1997	197,181	93,301	5,000	1,699
Vice President and	1996	150,460(3)	0	19,000(3)	0
Chief Financial Officer	1995	182,519	31,920	0	6,140
James Gentilcore	1997	180,526	85,086	30,000	1,564
Vice President, Sales	1996	165,823	0	20,000	0
and Marketing	1995	(2)			
Richard A. Scholl	1997	205,344	97,235	0	1,765
Vice President and	1996	189,750	0	0	0
Chief Technology Officer	1995	191,700	33,264	0	6,485

(1) Amounts contributed by the Company to each of the named executive officers under the Company's 401(k) profit sharing plan.

(2) Mr. Gentilcore was not an employee in 1995.

(3) In 1996 Richard P. Beck voluntarily reduced his salary by 80% for the fourth quarter of 1996 and Mr. Beck was granted in lieu thereof an incentive stock option for 19,000 shares.

OPTION GRANTS IN FISCAL YEAR 1997

The following table sets forth information as to stock options granted to named executive officers during the fiscal year ended December 31, 1997.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1997	EXERCISE PRICE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
					5%	10%
Douglas S. Schatz.....	0	N/A	N/A	N/A	N/A	N/A
Eric Balzer.....	10,000	1.4%	\$ 8.625	4/23/2007	\$ 54,337	\$ 137,138
Richard Beck.....	5,000	0.7%	\$ 8.625	4/23/2007	\$ 27,169	\$ 25,444
James Gentilcore.....	30,000	4.3%	\$ 8.625	4/23/2007	\$ 163,012	\$ 411,413
Richard Scholl.....	0	N/A	N/A	N/A	N/A	N/A

All of the options were granted under the Company's 1995 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 each quarter thereafter until fully vested. The exercise price of each of the foregoing options is

equal to the closing price of the Common Stock, as reported on the Nasdaq National Market, on the grant date.

AGGREGATED OPTION EXERCISES IN FISCAL YEAR 1997 AND OPTION VALUES AT END OF FISCAL YEAR 1997.

The following table sets forth information as to options exercised by the named executive officers during the fiscal year ended December 31, 1997 and options held by the named executive officers at December 31, 1997.

	NUMBER OF SECURITIES ISSUED ON EXERCISE OF OPTIONS IN 1997	VALUED REALIZED ON EXERCISE OF OPTIONS	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1997	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1997 (1)
Douglas S. Schatz.....	0	N/A	0	N/A
Eric A. Balzer.....	0	N/A	10,000	\$ 63,125
Richard P. Beck.....	66,885	\$ 945,386	24,000	\$ 241,750
James Gentilcore.....	0	N/A	53,094	\$ 444,852
Richard A. Scholl (2).....	0	N/A	20,374	\$ 203,946

(1) Market value of underlying securities at year-end minus exercise price.

(2) Consists of 20,374 shares that his wife, Brenda Scholl, has a right to acquire pursuant to a stock option granted by the Company. Mrs. Scholl is a business unit manager for the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee are Elwood Spedden and Arthur Noeth. Prior to Mr. Noeth, Hollis Caswell was a member of the Compensation Committee until he became Chief Operating Officer in June 1997. Prior to Mr. Caswell, Jon Tompkins was a member of the Compensation Committee until he resigned in February 1997. Other than Mr. Caswell none of such persons is or has been an officer or employee of the Company or any of its subsidiaries, nor has any of such persons had a direct or indirect interest in any business transaction with the Company which involved an amount in excess of \$60,000. None of the executive officers of the Company has served as a member of the board of directors or on the compensation committee of any other company of which any member of the Compensation Committee during 1997 is or has been an executive officer.

REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee, which consists of two non-employee directors, reviews and makes recommendations with respect to the Company's executive compensation policies and the compensation to be paid to each of the executive officers. The recommendations of the Compensation Committee with respect to each executive officers' compensation are subject to approval by the Board of Directors. The Committee also reviews the compensation policy, particularly with respect to stock options, for key managers who are not corporate officers.

COMPENSATION POLICIES

One of the primary goals in setting compensation policies is to maintain competitive, progressive programs to attract, retain and motivate high caliber executives, foster teamwork and maximize the long-term success of the Company by appropriately rewarding such individuals for their achievements. Another goal is to provide an incentive to executives to focus efforts on long-term strategic goals for the Company by closely aligning their financial interests with stockholder interests. To attain these goals the Company's executive compensation program was designed to include base salary, annual incentives and long-term incentives.

In formulating and administering the individual elements of the Company's executive compensation program, planning, implementing and achieving long-term objectives are emphasized to establish performance objectives, evaluate performance and determine actual incentive awards.

COMPENSATION COMPONENTS

BASE SALARY

The base salaries of executive officers were established after review of relevant data of other executives with similar responsibilities from published industry reports and surveys of similarly situated companies. The objective is to maintain the Company's annual executive salaries at levels competitive with the market average base salary of executive officers in similar positions. The market is comprised of similarly sized high technology companies within and outside the Company's industry. In 1998, a large portion of each executive officer's compensation will be in the form of a cash bonus, provided certain target performance objectives are met. The Compensation Committee has established base salary and incentives for the executive officers for 1998.

ANNUAL INCENTIVES

The more aggressive incentive bonus levels for executives are intended to provide the appropriate elements of variability and risk. Bonus payments are tied specifically to targeted corporate performance. The Committee will establish a base bonus amount, determined through review of a competitive market survey for executives at similar levels, which will be incrementally reduced if the Company does not meet its targeted performance or increased if the Company exceeds its targeted performance. There is no minimum or maximum percentage by which the bonus can be reduced or increased.

STOCK OPTIONS

The Committee will grant stock options under the Company's 1995 Stock Option Plan to focus the executive's attention on the long-term performance of the Company and on maximizing stockholder value. The grant of stock options is closely tied to individual executive performance. The Committee will grant such stock options after a review of various factors, including the executive's potential contributions to the Company, current equity ownership in the Company and vesting rates of existing stock options, if any. Incentive stock options and non statutory stock options are granted with an exercise price of at least 100% and 85%, respectively, of the fair market value of the Common Stock subject to the option on the date of the grant and utilize vesting periods to encourage retention of executive officers. Because of the direct benefit executive officers receive through improved stock performance, the Committee believes stock options serve to align the interests of executive officers closely with those of other stockholders.

COMPENSATION OF CHIEF EXECUTIVE OFFICER

The compensation of the Chief Executive Officer, Mr. Douglas S. Schatz, was based on the policies and procedures described above. In determining Mr. Schatz's base salary and bonus, compensation levels for other chief executive officers in high technology firms within and outside the industry were examined. This information was compared to the relevant performance of such firms relative to the Company's performance.

EFFECT OF SECTION 162(M) OF THE INTERNAL REVENUE CODE

Section 162(m) of the Internal Revenue Code of 1986 (the "Code") generally limits the corporate deduction for compensation paid to certain executive officers to \$1 million, unless the compensation is performance based. The Board has carefully considered the potential impact of this tax code provision on the Company and has concluded in general that the best interests of the Company and the stockholders will be served if certain of the Company's stock-based long-term incentives qualify as performance-based

compensation within the meaning of the Code. It is the Board's intention that, so long as it is consistent with its overall compensation objectives, virtually all executive compensation will be deductible for federal income tax purposes.

THE COMPENSATION COMMITTEE

Elwood Spedden

Arthur A. Noeth

PERFORMANCE GRAPH

The following graph compares, for the period of time that the Company's Common Stock has been registered under Section 12 of the Securities Exchange Act of 1934, the cumulative total stockholder return for the Company, The Nasdaq Stock Market U.S. and the Hambrecht & Quist Semiconductor Index. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

ADVANCED ENERGY INDUSTRIES H&Q SEMICONDUCTOR SECTOR INDEX NASDAQ STOCK MARKET-U.S. INDEX

HAMBRECHT & QUIST INDEX PRODUCTS AND SERVICES: 1997 PROXY PERFORMANCE GRAPH DATA

MONTHLY DATA SERIES

SCALED PRICES: Stock and index prices scaled to 100 at 11/17/98

DATES	ADVANCED ENERGY INDUSTRIES	NASDAQ STOCK MARKET -- U.S.	H&Q SEMICONDUCTOR SECTOR
11/17/95	100.00	100.00	100.00
Nov-95	105.00	101.47	98.54
Dec-95	90.00	100.93	86.11
Jan-96	87.50	101.43	84.94
Feb-96	82.50	105.29	85.37
Mar-96	80.00	105.64	81.32
Apr-96	87.50	114.40	93.17
May-96	80.00	119.66	90.29
Jun-96	77.50	114.26	77.94
Jul-96	58.75	104.08	69.19
Aug-96	70.00	109.92	75.73
Sep-96	53.75	118.32	88.48
Oct-96	41.25	117.02	89.29
Nov-96	66.25	124.25	112.53
Dec-96	53.75	124.14	111.52
Jan-97	75.00	132.96	134.45
Feb-97	65.00	125.61	128.00
Mar-97	75.00	117.41	125.33
Apr-97	88.75	121.08	136.09
May-97	122.50	134.81	146.95
Jun-97	153.75	138.93	141.34
Jul-97	250.00	153.60	172.88
Aug-97	315.00	153.36	176.16
Sep-97	283.12	162.43	176.69
Oct-97	207.50	153.99	138.32
Nov-97	197.50	154.75	133.44
Dec-97	149.37	152.34	117.61

* Assumes \$100 invested on November 17, 1995, the date of the Company's initial public offering, in the Common Stock of Advanced Energy Industries, Inc., and \$100 invested on November 17, 1995 in the Nasdaq Stock Market-U.S., and the Hambrecht & Quist Semiconductor Index.

CERTAIN TRANSACTIONS

The Company's executive offices and manufacturing facilities in Fort Collins, Colorado are leased from Prospect Park East Partnership and from Sharp Point Properties, LLC, (a Colorado limited liability company, the "LLC"), in which Douglas S. Schatz, President, Chief Executive Officer and Chairman of the Board of the Company, and G. Brent Backman, Vice President, Special Projects of the Company, hold

26.67% and 6.66% member interests, respectively, in each of the leasing entities. The Company believes that the terms of such leases are no less favorable than could have been obtained from a third party lessor. Aggregate rental payments under such leases for 1997 totaled approximately \$1,320,834. The Company leases a condominium in Breckenridge, Colorado owned by a partnership formed by Messrs. Schatz and Backman. The Company uses the condominium to provide rewards and incentives to its customers, suppliers and employees. The Company believes that the terms of such lease are no less favorable than could have been obtained from a third party lessor. Aggregate rental payments under such lease for 1997 totaled \$36,000.

PROPOSAL NO. 2 AMENDMENT OF 1995 STOCK OPTION PLAN

The Compensation Committee of the Board of Directors of the Company (the "Committee"), the administrator of the Company's 1995 Stock Option Plan (the "Plan"), has amended the Plan to increase the number of shares of Common Stock issuable thereunder from 3,500,000 to 4,625,000 (the "Amendment"). The Amendment was ratified by the Board of Directors of the Company on February 10, 1998 and is subject to approval of the stockholders. Technical amendments to reflect certain changes in the tax and securities laws also were approved by the Committee and ratified by the Board of Directors. A copy of the Plan, as revised, may be obtained from the Plan Administrator at the Company's corporate offices at 1625 Sharp Point Drive, Fort Collins, Colorado 80525; telephone number: 970-221-4670.

OVERVIEW

The stated purposes of the Plan are to provide a means by which the Company can seek to retain the services of its existing employees and directors, to secure and retain the services of new employees, directors and consultants and to provide incentives for such persons to exert maximum efforts for the success of the Company and its affiliates.

Options to purchase Common Stock ("Options") may be issued under the Plan to any person, including an officer or director, employed by the Company or an affiliate of the Company, or to any person, including an advisor, who is engaged by the Company or an affiliate of the Company to render consulting services, provided that such person is compensated for such services ("Eligible Optionees"). When the Plan was first adopted in 1993, approximately 250 persons were Eligible Optionees. As of December 31, 1997, approximately 575 persons were Eligible Optionees. In addition to this growth in the Company, and the resulting issuance of Options to Eligible Optionees, certain officers of the Company elected in 1996 to receive Options in lieu of a portion of their salary for that year.

As of February 1, 1998, the Company had issued 1,998,673 shares of Common Stock pursuant to Options and Options to purchase an additional 1,481,034 shares of Common Stock were outstanding under the Plan. The Company desires to amend the Plan to increase the number of shares of Common Stock issuable thereunder because the Company believes that Options are a critical component of its employees' compensation.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" AMENDMENT OF THE 1995 STOCK OPTION PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE THEREUNDER FROM 3,500,000 TO 4,625,000

CERTAIN INFORMATION REGARDING THE PLAN

The Committee has the power to determine from time to time the Eligible Optionees to be granted Options, as well as the power to determine the terms and conditions of such Options. The Committee may amend or terminate the Plan at any time and for any reason, subject to ratification by the board of directors, any required regulatory approval and any required approval of the stockholders of the Company.

DESCRIPTION OF OPTIONS. The provisions of separate Options need not be identical, but each Option is subject to the following provisions: (a) the term of any Option may not be longer than ten (10) years from the date of grant, (b) the exercise price of an Incentive Stock Option (as defined in the 1995 Stock Option Plan) shall not be less than 100% of the fair market value of the underlying Common Stock, and the exercise price of a Nonstatutory Stock Option (as defined in the 1995 Stock Option Plan) shall not be less than 85% of the fair market value of the underlying Common Stock, and (c) an Option shall not be transferable except by will or by the laws of descent and distribution; provided that a Nonstatutory Stock Option may also be transferred pursuant to a qualified domestic relations order satisfying the requirements of Rule 16b-3 under the Exchange Act.

EXERCISE OF OPTIONS. Payment of the exercise price of an Option must be made either (i) in cash at the time the Option is exercised, or (ii) at the discretion of the Committee, either at the time of the grant or exercise of the Option, (A) by delivery to the Company of other shares of Common Stock, (B) according to a deferred payment or other arrangement (which may include the use of other shares of Common Stock) with the optionee or a permitted transferee, or (C) in any other form of legal consideration that may be acceptable to the Board of Directors of the Company.

ALLOCATION OF EMPLOYEE OPTIONS IN 1998. The potential benefit to be received by an optionee is dependent on increases in the price of the Common Stock prior to exercise of the Option. Accordingly, the ultimate dollar value of the Options is not currently ascertainable. As of March 9, 1998, the closing price of the Common Stock on the Nasdaq was \$15.125.

The Compensation Committee has granted to certain officers of the Company Options that are subject to the stockholders' approval of the Amendment ("Contingent Options"). If the Amendment is not approved by the stockholders, the Contingent Options will be cancelled without any additional action by the Company, the Committee or the holders of the Contingent Options. The following table sets forth certain information as of the date hereof with respect to Options granted in 1998, including the Contingent Options.

1995 STOCK OPTION PLAN BENEFITS

OPTIONEE	SHARES OF COMMON STOCK UNDERLYING OPTIONS	EXERCISE PRICE
Douglas S. Schatz.....	None	n/a
Eric Balzer.....	10,000	\$ 15.28
Richard P. Beck.....	20,000	15.28
Hollis Caswell.....	37,500	15.28
James Gentilcore.....	18,000	15.28
Timothy Kerr.....	20,000	15.28
Richard A. Scholl.....	None	n/a
All executive officers, as a group.....	105,500	15.28
Non-Executive Officer Employees, as a group.....	238,800	15.28

All of the options were granted under the Company's 1995 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 each quarter thereafter until fully vested except for Mr. Beck whose options vest quarterly at the rate of one sixteenth each quarter from the date of grant. The exercise price of each of the foregoing options is equal to the closing price of the Common Stock, as reported on the Nasdaq National Market, on the grant date.

If the Amendment is approved by the stockholders, the Compensation Committee intends to grant additional Options under the Plan in 1998. However, the number of Options to be granted and the

allocation among the persons set forth in the table above will be determined by the Committee in its discretion and, accordingly, are not currently determinable.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS. The following is a summary of the principal anticipated United States federal income tax considerations of the grant and exercise of an Option to and by an Eligible Optionee who is resident in the United States. It is based on the current provisions of the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder (the "Current Tax Rules"). This discussion is general only and is not a substitute for independent advice from an individual's own tax and other advisors.

GRANT OF OPTIONS. An optionee will not recognize any taxable income at the time an Option is granted.

EXERCISE OF NONSTATUTORY STOCK OPTIONS. Upon exercise of a Nonstatutory Stock Option, an optionee generally will recognize ordinary income, for United States income tax purposes, equal to the excess, if any, of the then fair market value of the Common Stock acquired ("NSO Stock") over the exercise price of the Option. Any taxable income recognized in connection with the exercise of a Nonstatutory Stock Option generally will be subject to tax withholding by the Company, and the Company generally will be entitled to United States income tax deductions to the extent and in the year that such taxable income is recognized by the optionee.

EXERCISE OF INCENTIVE STOCK OPTIONS. Upon exercise of an Incentive Stock Option, an optionee will not recognize taxable income if the optionee (a) does not dispose of the Common Stock so acquired ("ISO Stock") within two years after the date the Option is initially granted or one year after the date of exercise (collectively, the "Holding Periods"), and (b) is an employee of the Company or an affiliate of the Company from the date the Option is initially granted until three months prior to the date of exercise of the Incentive Stock Option (together, the "ISO Requirements"). If the ISO Requirements are met, the basis of the ISO Stock will be the price paid by the optionee on exercise of the Option. If the market value of the ISO Stock on the exercise date of the Option is greater than the exercise price of such Option, the difference between such amounts would be an item of tax preference, potentially subject to alternative minimum tax. If the ISO Requirements are met, the Company will not be entitled to any United States income tax deductions with respect to the exercise of Incentive Stock Options.

DISPOSITION OF COMMON STOCK. When an optionee sells NSO Stock, any difference between the sale price and the optionee's tax basis in the NSO Stock will be treated as capital gain or loss. When an optionee sells ISO Stock, any difference between the sale price and the optionee's tax basis in the ISO Stock will be taxed as long-term capital gain.

If an optionee disposes of ISO Stock prior to expiration of either of the Holding Periods, the optionee will recognize ordinary income, and the Company will be entitled to a tax deduction, equal to the lesser of (i) the fair market value of the ISO Stock on the exercise date less the exercise price of the related Option, and (ii) the amount realized on disposition of the ISO Stock minus the exercise price of the related Option. Any gain realized in excess of the ordinary income portion would be taxable as long-term or short-term capital gain, as applicable.

CAPITAL GAINS. For dispositions of NSO Stock or ISO Stock occurring after July 28, 1997, long term capital gains will be taxed at a rate of 10% (for persons in the 15% tax bracket) or 20% (for other individuals) if the stock is held for more than 18 months from the exercise date. A rate of 28% will apply in the case of Common Stock held more than one year from the exercise date but not more than 18 months.

DIVIDENDS. Dividends payable on Common Stock out of earnings and profits of the Company are ordinary income taxable at ordinary income rates.

PROPOSAL NO. 3
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Unless marked to the contrary, proxies received will be voted "FOR" the ratification of the appointment of Arthur Andersen LLP as the independent auditors for the Company for the current year. Arthur Andersen LLP has been the Company's independent auditors since 1994. If the stockholders fail to ratify the appointment of Arthur Andersen LLP, the Board of Directors will reconsider its selection.

Audit services of Arthur Andersen LLP during the 1997 fiscal year included the examination of the consolidated financial statements of the Company and services related to filings with the Securities and Exchange Commission ("SEC") and other regulatory bodies.

The Audit Committee of the Company will meet with Arthur Andersen LLP on an annual or more frequent basis. At such time the Audit Committee will review the services performed by Arthur Andersen LLP for the preceding year, as well as the fees charged for such services.

A representative of Arthur Andersen LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she so desires. Moreover, the representative is expected to be available to respond to appropriate questions from the stockholders.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" THE
RATIFICATION OF THE APPOINTMENT OF ARTHUR ANDERSEN LLP AS INDEPENDENT AUDITORS.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors and persons who own more than ten percent of a registered class of the Company's equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or 5 with the SEC. Executive officers, directors and greater than ten percent stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during the last fiscal year, all Section 16(a) filing requirements applicable to its officers, directors and ten percent stockholders were complied with.

PROPOSALS OF STOCKHOLDERS

Proposals that stockholders desire to have included in the Company's proxy materials for the 1999 Annual Meeting of Stockholders of the Company must be received by the Secretary of the Company at its principal office (1625 Sharp Point Drive, Fort Collins, Colorado 80525) no later than December 3, 1998 in order to be considered for inclusion in such proxy materials.

FORM 10-K

A copy of the Company's 1997 Annual Report on Form 10-K will be available without charge upon request to: Investor Relations, Advanced Energy Industries, Inc. 1625 Sharp Point Drive, Fort Collins, Colorado 80525.

OTHER MATTERS

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

It is important that your stock be represented at the meeting, regardless of the number of shares which you hold. You are, therefore, urged to execute and return, at your earliest convenience, the accompanying proxy card in the envelope which has been enclosed.

THE BOARD OF DIRECTORS

Dated: April 2, 1998

[LOGO] THIS IS YOUR PROXY

YOUR VOTE IS IMPORTANT

Regardless of whether you plan to attend the Annual Meeting of Stockholders, you can be sure your shares are represented at the meeting by promptly returning your proxy in the enclosed envelope.

In addition to the election of Directors there are two proposals being submitted by the Board of Directors and the Board of Directors recommends a vote in favor of both proposals submitted.

Proposal No. 1: Nominees for Director: Douglas S. Schatz, G. Brent Backman, Richard P. Beck, Hollis L. Caswell, Arthur A. Noeth and Elwood Spedden. _____For all nominees _____Withhold authority to vote for all nominees

For all nominees, except vote withheld from the following nominees:

Proposal No. 2 Amendment to the 1995 Employee Stock Option Plan

_____For _____Against _____ Abstain

Proposal No. 3: Ratification of Appointment of Independent Auditors

_____For _____Against _____ Abstain

Please sign exactly as your name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If signer is a corporation, please give full corporate name and have a duly authorized officer sign, stating title. If signer is a partnership, please sign in partnership name by authorized person.

Signature:_____Date:_____ Signature:_____Date:_____

REVERSE SIDE

ADVANCED ENERGY INDUSTRIES, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 6, 1998

The undersigned hereby constitutes and appoints Douglas S. Schatz and Richard P. Beck, and each of them, his or her lawful agents and proxies with full power of substitution in each, to represent the undersigned, and to vote all of the shares of stock of Advanced Energy Industries, Inc. which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of Advanced Energy Industries, Inc. to be held at the corporate offices of Advanced Energy Industries, Inc., 1625 Sharp Point Drive, Fort Collins, Colorado on Wednesday, May 6, 1998 at 10:00am, local time, and at any adjournment thereof, on all matters coming before said meeting.

You are encouraged to specify your choice for the proposals by marking the appropriate box on the reverse side. The Proxies cannot vote your shares unless you sign and return this card.

UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSALS 2 AND 3. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

ADVANCED ENERGY INDUSTRIES, INC.

1995 STOCK OPTION PLAN

**ADOPTED JUNE 6, 1993
AS AMENDED AND RESTATED SEPTEMBER 20, 1995
AND AS FURTHER AMENDED FEBRUARY 10, 1998**

1. PURPOSES.

- (a) The purpose of the Plan is to provide a means by which selected Employees and Directors of and Consultants to the Company, and its Affiliates, may be given an opportunity to purchase stock of the Company.
- (b) The Company, by means of the Plan, seeks to retain the services of persons who are now Employees or Directors of or Consultants to the Company or its Affiliates, to secure and retain the services of new Employees, Directors and Consultants, and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.
- (c) The Company intends that the Options issued under the Plan shall, in the discretion of the Board or any Committee to which responsibility for administration of the Plan has been delegated pursuant to subsection 3(c), be either Incentive Stock Options or Nonstatutory Stock Options. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and in such form as issued pursuant to Section 6, and a separate certificate or certificates will be issued for shares purchased on exercise of each type of Option.

2. DEFINITIONS.

- (a) "AFFILIATE" means any parent corporation or subsidiary corporation, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) respectively, of the Code.
- (b) "BOARD" means the Board of Directors of the Company.
- (c) "CODE" means the Internal Revenue Code of 1986, as amended.
- (d) "COMMITTEE" means a Committee appointed by the Board in accordance with subsection 3(c) of the Plan.

(e) "COMPANY" means Advanced Energy Industries, Inc., a Delaware corporation.

(f) "CONSULTANT" means any person, including an advisor, engaged by the Company or an Affiliate to render consulting services and who is compensated for such services, provided that the term "Consultant" shall not include Directors who are paid only a director's fee by the Company or who are not compensated by the Company for their services as Directors.

(g) "CONTINUOUS STATUS AS AN EMPLOYEE, DIRECTOR OR CONSULTANT" means the employment or relationship as a Director or Consultant is not interrupted or terminated. The Board, in its sole discretion, may determine whether Continuous Status as an Employee, Director or Consultant shall be considered interrupted in the case of: (i) any leave of absence approved by the Board, including sick leave, military leave, or any other personal leave; or (ii) transfers between locations of the Company or between the Company, Affiliates or their successors.

(h) "COVERED EMPLOYEE" means the Chief Executive Officer and the four (4) other highest compensated officers of the Company.

(i) "DIRECTOR" means a member of the Board.

(j) "DISINTERESTED PERSON" means a Director who either (i) was not during the one year prior to service as an administrator of the Plan granted or awarded equity securities pursuant to the Plan or any other plan of the Company or any of its affiliates entitling the participants therein to acquire equity securities of the Company or any of its affiliates except as permitted by Rule 16b-3(c)(2)(i); or (ii) is otherwise considered to be a "disinterested person" in accordance with Rule 16b-3(c)(2)(i), or any other applicable rules, regulations or interpretations of the Securities and Exchange Commission.

(k) "EMPLOYEE" means any person, including Officers and Directors, employed by the Company or any Affiliate of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

- (m) "FAIR MARKET VALUE" means the value of the common stock as determined in good faith by the Board and in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations.
- (n) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (o) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.
- (p) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (q) "OPTION" means a stock option granted pursuant to the Plan.
- (r) "OPTION AGREEMENT" means a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.
- (s) "OPTIONEE" means an Employee, Director or Consultant who holds an outstanding Option.
- (t) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (as defined in the Treasury regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an affiliated corporation receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an affiliated corporation at any time, and is not currently receiving compensation for personal services in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.
- (u) "PLAN" means this 1995 Stock Option Plan.
- (v) "RULE 16B-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

3. ADMINISTRATION.

(a) The Plan shall be administered by the Board unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(1) To determine from time to time which of the persons eligible under the Plan shall be granted Options; when and how each Option shall be granted; whether an Option will be an Incentive Stock Option or a Nonstatutory Stock Option; the provisions of each Option granted (which need not be identical), including the time or times such Option may be exercised in whole or in part; and the number of shares for which an Option shall be granted to each such person.

(2) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(3) To amend the Plan as provided in Section 11.

(c) The Board may delegate administration of the Plan to a committee composed of not fewer than two (2) members (the "Committee"), all of the members of which Committee shall be Disinterested Persons and may also be, in the discretion of the Board, Outside Directors. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be to the Committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. Additionally, prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act, and notwithstanding anything to the contrary contained

herein, the Board may delegate administration of the Plan to any person or persons and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. Notwithstanding anything in this Section 3 to the contrary, the Board or the Committee may delegate to a committee of one or more members of the Board the authority to grant Options to eligible persons who (1) are not then subject to Section 16 of the Exchange Act and/or

(2) are either (i) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Option, or (ii) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code.

(d) Any requirement that an administrator of the Plan be a Disinterested Person shall not apply (i) prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act, or (ii) if the Board or the Committee expressly declares that such requirement shall not apply. Any Disinterested Person shall otherwise comply with the requirements of Rule 16b-3.

4. SHARES SUBJECT TO THE PLAN.

(a) Subject to the provisions of Section 10 relating to adjustments upon changes in stock, the stock that may be sold pursuant to Options shall not exceed in the aggregate four million six hundred twenty-five thousand (4,625,000) shares of the Company's common stock. If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the stock not purchased under such Option shall revert to and again become available for issuance under the Plan.

(b) The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) Incentive Stock Options may be granted only to Employees. Nonstatutory Stock Options may be granted only to Employees, Directors or Consultants.

(b) A Director shall in no event be eligible for the benefits of the Plan unless at the time discretion is exercised in the selection of the Director as a person to whom Options may be granted, or in the determination of the number of shares which may be covered by Options granted to the Director: (i) the Board has delegated its discretionary authority over the Plan to a Committee which consists solely of Disinterested Persons; or (ii) the Plan otherwise complies with the requirements of Rule 16b-3. The Board shall otherwise comply with the requirements of Rule 16b-3. This subsection 5(b) shall not apply (i) prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act, or (ii) if the Board or Committee expressly declares that it shall not apply.

(c) No person shall be eligible for the grant of an Option if, at the time of grant, such person owns (or is deemed to own pursuant to Section 424 (d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of such stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(d) Subject to the provisions of Section 10 relating to adjustments upon changes in stock, no person shall be eligible to be granted Options covering more than three hundred thousand (300,000) shares of the Company's common stock in any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) **PRICE.** The exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. The exercise price of each Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted.

(c) **CONSIDERATION.** The purchase price of stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised, or (ii) at the discretion of the Board or the Committee, either at the time of the grant or exercise of the Option, (A) by delivery to the Company of other common stock of the Company, (B) according to a deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other common stock of the Company) with the person to whom the Option is granted or to whom the Option is transferred pursuant to subsection 6(d), or (C) in any other form of legal consideration that may be acceptable to the Board.

In the case of any deferred payment arrangement, interest shall be payable at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(d) **TRANSFERABILITY.** An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the Incentive Stock Option is granted only by such person. A Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order satisfying the requirements of Rule 16b-3 and the rules thereunder (a "QDRO"), and shall be exercisable during the lifetime of the person to whom the Option is granted only by such person or any transferee pursuant to a QDRO. The person to whom the Option is granted may, by delivering written notice to the Company, in a form satisfactory to

the Company, designate a third party who, in the event of the death of the Optionee, shall thereafter be entitled to exercise the Option.

(e) VESTING. The total number of shares of stock subject to an Option may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Option Agreement may provide that from time to time during each of such installment periods, the Option may become exercisable ("vest") with respect to some or all of the shares allotted to that period, and may be exercised with respect to some or all of the shares allotted to such period and/or any prior period as to which the Option became vested but was not fully exercised. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary but in each case will provide for vesting of at least twenty percent (20%) per year of the total number of shares subject to the Option. The provisions of this subsection 6(e) are subject to any Option provisions governing the minimum number of shares as to which an Option may be exercised.

(f) SECURITIES LAW COMPLIANCE. The Company may require any Optionee, or any person to whom an Option is transferred under subsection 6(d), as a condition of exercising any such Option, (1) to give written assurances satisfactory to the Company as to the Optionee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (2) to give written assurances satisfactory to the Company stating that such person is acquiring the stock subject to the Option for such person's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise of the Option has been registered under a then currently effective registration statement under the Securities Act

of 1933, as amended (the "Securities Act"), or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(g) TERMINATION OF EMPLOYMENT OR RELATIONSHIP AS A DIRECTOR OR

CONSULTANT. In the event an Optionee's Continuous Status as an Employee, Director or Consultant terminates (other than upon the Optionee's death or disability), the Optionee may exercise his or her Option (to the extent that the Optionee was entitled to exercise it at the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months after the termination of the Optionee's Continuous Status as an Employee, Director or Consultant (or such longer or shorter period, which in no event shall be less than thirty (30) days, specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionee does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan.

(h) DISABILITY OF OPTIONEE. In the event an Optionee's Continuous Status as an Employee, Director or Consultant terminates as a result of the Optionee's disability, the Optionee may exercise his or her Option (to the extent that the Optionee was entitled to exercise it at the date of termination), but only within such period of time ending on the earlier of

(i) the date twelve (12) months following such termination (or such longer or shorter period, which in no event shall be less than six (6) months, specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after termination,

the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan.

(i) **DEATH OF OPTIONEE.** In the event of the death of an Optionee during, or within a period specified in the Option after the termination of, the Optionee's Continuous Status as an Employee, Director or Consultant, the Option may be exercised (to the extent the Optionee was entitled to exercise the Option at the date of death) by the Optionee's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionee's death pursuant to subsection 6(d), but only within the period ending on the earlier of (i) the date eighteen (18) months following the date of death (or such longer or shorter period, which in no event shall be less than six (6) months, specified in the Option Agreement), or (ii) the expiration of the term of such Option as set forth in the Option Agreement. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan.

(j) **EARLY EXERCISE.** The Option may, but need not, include a provision whereby the Optionee may elect at any time while an Employee, Director or Consultant to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased shall be subject to a repurchase right in favor of the Company, with the repurchase price to be equal to the original purchase price of the stock, or to any other restriction the Board determines to be appropriate; provided, however, that (i) the right to repurchase at the original purchase price shall lapse at a minimum rate of twenty percent (20%) per year over five (5) years from the date the Option was granted, and (ii) such right shall be exercisable only within (A) the ninety (90) day period following the termination of employment [or

the relationship as a Director or Consultant, or (B) such longer period as may be agreed to by the Company and the Optionee (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code (regarding "qualified small business stock")), and (iii) such right shall be exercisable only for cash or cancellation of purchase money indebtedness for the shares. Should the right of repurchase be assigned by the Company, the assignee shall pay the Company cash equal to the difference between the original purchase price and the stock's Fair Market Value if the original purchase price is less than the stock's Fair Market Value.

(k) **WITHHOLDING.** To the extent provided by the terms of an Option Agreement, the Optionee may satisfy any federal, state or local tax withholding obligation relating to the exercise of such Option by any of the following means or by a combination of such means: (1) tendering a cash payment; (2) authorizing the Company to withhold shares from the shares of the common stock otherwise issuable to the participant as a result of the exercise of the Option; or (3) delivering to the Company owned and unencumbered shares of the common stock of the Company.

7. COVENANTS OF THE COMPANY.

(a) During the terms of the Options, the Company shall keep available at all times the number of shares of stock required to satisfy such Options.

(b) The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the Options; provided, however, that this undertaking shall not require the Company to register under the Securities Act either the Plan, any Option or any stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Options unless and until such authority is obtained.

8. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Options shall constitute general funds of the Company.

9. MISCELLANEOUS.

- (a) Neither an Optionee nor any person to whom an Option is transferred under subsection 6(d) shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Option unless and until such person has satisfied all requirements for exercise of the Option pursuant to its terms.
- (b) Throughout the term of any Option, the Company shall deliver to the holder of such Option, not later than one hundred twenty (120) days after the close of each of the Company's fiscal years during the Option term, a balance sheet and an income statement. This section shall not apply when issuance is limited to key employees whose duties in connection with the Company assure them access to equivalent information.
- (c) Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Employee, Director, Consultant or Optionee any right to continue in the employ of the Company or any Affiliate or to continue acting as a Director or Consultant or shall affect the right of the Company or any Affiliate to terminate the employment or relationship as a Director or Consultant of any Employee, Director, Consultant or Optionee with or without cause.
- (d) To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options granted after 1986 are exercisable for the first time by any Optionee during any calendar year under all plans of the Company and its Affiliates exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.
- (e) (1) The Board or the Committee shall have the authority to effect, at any time and from time to time (i) the repricing of any outstanding Options under the Plan and/or (ii) with the consent of the affected holders of Options, the cancellation of any outstanding Options and the

grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock, but having an exercise price per share not less than eighty-five percent (85%) of the Fair Market Value (one hundred percent (100%) of the Fair Market Value in the case of an Incentive Stock Option or, in the case of a ten percent (10%) stockholder (as defined in subsection 5(c)), not less than one hundred and ten percent (110%) of the Fair Market Value) per share of Common Stock on the new grant date.

(2) Shares subject to an Option canceled under this subsection 9(e) shall continue to be counted against the maximum award of Options permitted to be granted pursuant to subsection 5(d) of the Plan. The repricing of an Option under this subsection 9(e), resulting in a reduction of the exercise price, shall be deemed to be a cancellation of the original Option and the grant of a substitute Option; in the event of such repricing, both the original and the substituted Options shall be counted against the maximum awards of Options permitted to be granted pursuant to subsection 5(d) of the Plan. The provisions of this subsection 9(e) shall be applicable only to the extent required by Section 162(m) of the Code.

10. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any Option (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), the Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan pursuant to subsection 4(a) and the maximum number of shares subject to award to any person during any calendar year pursuant to subsection 5(d), and the outstanding Options will be appropriately adjusted in the class(es) and number of shares and price per share of stock subject to such outstanding Options.

(b) In the event of: (1) a merger or consolidation in which the Company is not the surviving corporation or (2) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are

converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise then to the extent permitted by applicable law:

(i) any surviving corporation shall assume any Options outstanding under the Plan or shall substitute similar Options for those outstanding under the Plan, or (ii) such Options shall continue in full force and effect. In the event any surviving corporation refuses to assume or continue such Options, or to substitute similar options for those outstanding under the Plan, then such Options shall be terminated if not exercised prior to such event. In the event of a dissolution or liquidation of the Company, any Options outstanding under the Plan shall terminate if not exercised prior to such event.

11. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 10 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(1) Increase the number of shares reserved for Options under the Plan;

(2) Modify the requirements as to eligibility for participation in the Plan (to the extent such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code); or

(3) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code or to comply with the requirements of Rule 16b-3.

(b) The Board may in its sole discretion submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations promulgated thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide Optionees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) Rights and obligations under any Option granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan unless

(i) the Company requests the consent of the person to whom the Option was granted and (ii) such person consents in writing.

12. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on June 5, 2003 which shall be within ten (10) years from the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any Option granted while the Plan is in effect shall not be altered or impaired by suspension or termination of the Plan, except with the consent of the person to whom the Option was granted.

13. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Options granted under the Plan shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board, and, if required, an appropriate permit has been issued by the Commissioner of Corporations of the State of California.