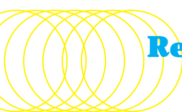

Report of Independent Public Accountants

To Advanced Energy Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Advanced Energy Industries, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Advanced Energy Industries, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule attached to the consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Denver, Colorado
February 12, 2001.

ARTHUR ANDERSEN LLP

Consolidated Balance Sheets

	December 31,	
(In thousands)	**2000**	1999
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 31,716**	$ 21,043
Marketable securities—trading	**157,811**	186,440
Accounts receivable		
Trade (less allowances for doubtful accounts of approximately $784 and $639 at December 31, 2000 and 1999, respectively)	**72,732**	44,652
Related parties	**38**	32
Other	**3,775**	1,787
Notes receivable	**2,472**	—
Income tax receivable	**74**	1,453
Inventories	**45,266**	28,410
Other current assets	**2,508**	1,803
Deferred income tax assets, net	**7,483**	3,753
Total current assets	**323,875**	289,373
Property and equipment, at cost, net of accumulated depreciation of $24,427 and $18,629 at December 31, 2000 and 1999, respectively	**24,101**	17,699
Other assets:		
Deposits and other	**995**	559
Goodwill and intangibles, net of accumulated amortization of $6,061 and $3,860 at December 31, 2000 and 1999, respectively	**9,890**	11,040
Investments—available for sale	**1,824**	—
Demonstration and customer service equipment, net of accumulated depreciation of $2,302 and $2,235 at December 31, 2000 and 1999, respectively	**2,889**	2,352
Deferred debt issuance costs, net	**2,261**	4,410
	17,859	18,361
Total assets	**$365,835**	$325,433

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

Consolidated Balance Sheets (Continued)

	December 31,	
	2000	1999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	**$ 18,250**	$ 15,702
Accrued payroll and employee benefits	**11,723**	7,606
Other accrued expenses	**4,383**	3,040
Customer deposits	**104**	804
Accrued income taxes payable	**7,923**	1,266
Capital lease obligations, current portion	**53**	100
Notes payable, current portion	**1,284**	2,485
Accrued interest payable on convertible subordinated notes	**529**	886
Total current liabilities	**44,249**	31,889
Long-term liabilities:		
Capital lease obligations, net of current portion	**—**	46
Notes payable, net of current portion	**1,043**	1,381
Convertible subordinated notes payable	**81,600**	135,000
	82,643	136,427
Total liabilities	**126,892**	168,316
Commitments and contingencies (Note 14)		
Minority interest	**145**	128
Stockholders' equity:		
Preferred stock, $0.001 par value, 1,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.001 par value, 40,000 shares authorized; 31,537 and 30,981 shares issued and outstanding at December 31, 2000 and 1999, respectively	**32**	31
Additional paid-in capital	**124,930**	108,997
Retained earnings	**116,971**	48,937
Deferred compensation	**(1,620)**	(86)
Accumulated other comprehensive loss	**(1,515)**	(890)
Total stockholders' equity	**238,798**	156,989
Total liabilities and stockholders' equity	**$365,835**	$325,433

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

Consolidated Statement of Operations

	Years Ended December 31,		
(In thousands, except per share amounts)	**2000**	1999	1998
Sales	**$359,782**	$202,849	$134,019
Cost of sales	**183,329**	110,647	94,000
Gross profit	**176,453**	92,202	40,019
Operating expenses:			
Research and development	**36,996**	28,326	24,405
Sales and marketing	**24,101**	18,325	14,616
General and administrative	**24,573**	16,225	13,121
Restructuring charges	**1,000**	—	1,000
Merger costs	**4,583**	—	2,742
Storm recoveries	**—**	—	(1,117)
Total operating expenses	**91,253**	62,876	54,767
Income (loss) from operations	**85,200**	29,326	(14,748)
Other income (expense):			
Interest income	**10,727**	2,174	1,111
Interest expense	**(7,698)**	(1,430)	(340)
Foreign currency (loss) gain	**(196)**	1,504	369
Other income (expense), net	**4,652**	(698)	(939)
	7,485	1,550	201
Net income (loss) before income taxes, minority interest and extraordinary item	**92,685**	30,876	(14,547)
Provision (benefit) for income taxes	**32,241**	11,741	(3,522)
Minority interest in net income	**20**	69	—
Net income (loss) before extraordinary item	**60,424**	19,066	(11,025)
Extraordinary item (less applicable income taxes of $4,566) (Note 11)	**7,610**	—	—
Net income (loss)	**$ 68,034**	$ 19,066	$(11,025)
Net earnings (loss) per share before extraordinary item:			
Basic	**$ 1.93**	$ 0.64	$ (0.38)
Diluted	**$ 1.86**	$ 0.62	$ (0.38)
Earnings per share from extraordinary item:			
Basic	**$ 0.24**	$ —	$ —
Diluted	**$ 0.24**	$ —	$ —
Net earnings (loss) per share:			
Basic	**$ 2.17**	$ 0.64	$ (0.38)
Diluted	**$ 2.10**	$ 0.62	$ (0.38)
Basic weighted-average common shares outstanding	**31,336**	29,706	29,007
Diluted weighted-average common shares outstanding	**32,425**	30,934	29,007

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Consolidated Statement of Stockholders' Equity

For the years ended December 31, 2000, 1999, and 1998

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Stockholders' Notes Receivable	Deferred Compensation	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
BALANCES, December 31, 1997	27,241	$27	$ 59,357	$ 41,378	$ (67)	$ (34)	$ (692)	$ 99,969
Exercise of stock options for cash	219	—	728	—	—	—	—	728
Proceeds from stockholders' notes receivable	—	—	—	—	67	—	—	67
Sale of common stock through employee stock purchase plan	20	—	133	—	—	—	—	133
Amortization of deferred compensation	—	—	—	—	—	34	—	34
Issuance of common stock for intangibles	1,680	2	2,094	—	—	—	—	2,096
Tax benefit related to shares acquired by employees under stock compensation plans	—	—	365	—	—	—	—	365
Adjustment to conform year-end of merged entity	—	—	—	(482)	—	—	—	(482)
Comprehensive loss:								
Equity adjustment from foreign currency translation	—	—	—	—	—	—	278	—
Net loss	—	—	—	(11,025)	—	—	—	—
Total comprehensive loss	—	—	—	—	—	—	—	(10,747)
BALANCES, December 31, 1998	29,160	29	62,677	29,871	—	—	(414)	92,163
Exercise of stock options for cash	490	1	4,147	—	—	—	—	4,148
Sale of common stock through employee stock purchase plan	22	—	345	—	—	—	—	345
Issuance of common stock for intangibles	227	—	2,335	—	—	—	—	2,335
Tax benefit related to shares acquired by employees under stock compensation plans	—	—	1,422	—	—	—	—	1,422
Sale of common stock through private and public offerings, net of approximately $2,448 of expenses	1,070	1	37,826	—	—	—	—	37,827
Issuance of common stock for services rendered	12	—	136	—	—	—	—	136
Deferred compensation on stock options issued	—	—	109	—	—	(109)	—	—
Amortization of deferred compensation	—	—	—	—	—	23	—	23
Comprehensive income:								
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(476)	—
Net income	—	—	—	19,066	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	18,590
BALANCES, December 31, 1999	30,981	31	108,997	48,937	—	(86)	(890)	156,989
Exercise of stock options for cash	488	1	4,393	—	—	—	—	4,394
Issuance of common stock for services provided and merger costs	55	—	2,430	—	—	—	—	2,430
Sale of common stock through employee stock purchase plan	13	—	520	—	—	—	—	520
Tax benefit related to shares acquired by employees under stock compensation plans	—	—	6,595	—	—	—	—	6,595
Deferred compensation on stock options issued	—	—	1,995	—	—	(1,995)	—	—
Amortization of deferred compensation	—	—	—	—	—	461	—	461
Comprehensive income:								
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(1,990)	—
Unrealized holding gains	—	—	—	—	—	—	1,365	—
Net income	—	—	—	68,034	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	67,409
BALANCES, December 31, 2000	**31,537**	**$32**	**$124,930**	**$116,971**	**$ —**	**$ (1,620)**	**$ (1,515)**	**$238,798**

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Consolidated Statement of Cash Flows

	Years Ended December 31,		
(In thousands)	**2000**	1999	1998
Cash flows from operating activities:			
Net income (loss)	**$ 68,034**	$ 19,066	$(11,025)
Adjustment for conforming year-end of merged entity	**—**	—	(482)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -			
Depreciation and amortization	**10,506**	8,356	7,113
Amortization of deferred debt issuance costs	**616**	81	—
Provision for restructuring	**1,000**	—	1,000
Minority interest	**17**	69	—
Stock issued for services rendered and merger costs	**2,430**	136	—
Provision for deferred income taxes	**(3,730)**	851	(1,620)
Amortization of deferred compensation	**461**	23	34
(Gain) loss on disposal of property and equipment	**(54)**	(15)	120
Gain on sale of investment	**(4,841)**	—	—
Gain on retirement of convertible subordinated notes	**(12,176)**	—	—
Earnings from marketable securities, net	**(9,471)**	(1,724)	(765)
Writedown of LITMAS investment	**—**	322	600
Changes in operating assets and liabilities -			
Accounts receivable-trade, net	**(28,080)**	(28,822)	20,648
Related parties and other receivables	**(1,994)**	(1,306)	1,473
Notes receivable	**(2,472)**	—	—
Inventories	**(16,856)**	(4,882)	10,305
Other current assets	**(705)**	(252)	2,109
Deposits and other	**(502)**	280	(991)
Demonstration and customer service equipment	**(1,282)**	(563)	(1,034)
Accounts payable trade	**2,548**	9,171	(9,603)
Accrued payroll and employee benefits	**4,117**	4,467	(2,585)
Customer deposits and other accrued expenses	**558**	1,022	916
Income taxes payable/receivable, net	**14,631**	4,088	(5,929)
Net cash provided by operating activities	**22,755**	10,368	10,284
Cash flows from investing activities:			
Purchase of marketable securities	**(10,000)**	(170,805)	(1,000)
Sale of marketable securities	**48,100**	1,928	6,100
Proceeds from sale of investment	**4,464**	—	—
Proceeds from sale of equipment	**150**	—	—
Purchase of property and equipment, net	**(14,062)**	(7,168)	(5,410)
Purchase of technology	**(981)**	—	—
Purchase of LITMAS, net of cash acquired	**(250)**	(175)	(1,000)
Acquisition of assets of Fourth State Technology, Inc.	**—**	—	(2,500)
Net cash provided by (used in) investing activities	**27,421**	(176,220)	(3,810)

Consolidated Statement of Cash Flows (Continued)

	Years Ended December 31,		
(In thousands)	**2000**	1999	1998
Cash flows from financing activities:			
Proceeds from notes payable	**1,491**	3,304	2,201
Repayment of notes payable and capital lease obligations	**(3,123)**	(1,637)	(9,382)
Proceeds from convertible debt, net	**—**	130,509	—
Repurchase of convertible debt, net	**(40,795)**	—	—
Sale of common stock, net of expenses	**—**	37,827	—
Sale of common stock through employee stock purchase plan	**520**	345	133
Proceeds from exercise of stock options and warrants	**4,394**	4,148	728
Proceeds from stockholders' notes receivable	**—**	—	67
Net cash (used in) provided by financing activities	**(37,513)**	174,496	(6,253)
Effect of currency translation on cash	**(1,990)**	(476)	278
Increase in cash and cash equivalents	**10,673**	8,168	499
Cash and cash equivalents, beginning of period	**21,043**	12,875	12,376
Cash and cash equivalents, end of period	**$ 31,716**	$ 21,043	$12,875
Supplemental disclosure of non-cash investing and financing activities:			
Tax benefit related to shares acquired by employees under stock option plans	**$ 6,595**	$ 1,422	$ 365
Conversion of royalty payable to note payable	**$ —**	$ 742	$ —
Deferred compensation on stock options issued	**$ 1,995**	$ 109	$ —
Supplemental disclosure of cash flow information:			
Cash paid for interest	**$ 7,385**	$ 459	$ 423
Cash paid for income taxes, net	**$ 25,791**	$ 6,221	$ 2,395

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

1 COMPANY OPERATIONS

Advanced Energy Industries, Inc. (the "Company") was incorporated in Colorado in 1981 and reincorporated in Delaware in 1995. The Company is primarily engaged in the development and production of products and systems critical to plasma-based manufacturing processes, which are used by manufacturers of semiconductors and in industrial thin film manufacturing processes. The Company owns 100% of each of the following subsidiaries: Advanced Energy Japan K.K. ("AE-Japan"), Advanced Energy Industries GmbH ("AE-Germany"), Advanced Energy Industries U.K. Limited ("AE-UK"), Advanced Energy Industries Korea, Inc. ("AE-Korea") and Advanced Energy Taiwan, Ltd. ("AE-Taiwan"). The Company also owns 100% of Advanced Energy Voorhees, Inc. ("AEV"), formerly RF Power Products, Inc. ("RFPP"), Tower Electronics, Inc. ("Tower"), Noah Holdings, Inc. ("Noah") and Sekidenko, Inc. ("Sekidenko") and 59.5% of LITMAS. As discussed in Note 3, Noah was merged into the Company on April 6, 2000, and Sekidenko was merged into the Company on August 18, 2000. The acquisitions of Noah and Sekidenko have been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements have been restated to include Noah and Sekidenko as though they had always been part of the Company. AEV is a New Jersey-based designer and manufacturer of radio frequency power systems, matching networks and peripheral products primarily used by original equipment providers in the semiconductor capital equipment, commercial coating, flat panel display and analytical instrumentation markets. Tower is a Minnesota-based designer and manufacturer of custom, high-performance switchmode power supplies used principally in the telecommunications, medical and non-impact printing industries. Noah is a California-based manufacturer of solid state temperature control systems used to control process temperatures during semiconductor manufacturing. Sekidenko is a Washington-based manufacturer and supplier of optical fiber thermometers to the semiconductor capital equipment industry. LITMAS is a start-up company that designs and manufactures plasma gas abatement systems and high-density plasma sources.

The Company continues to be subject to certain risks similar to other companies in its industry. These risks include significant fluctuations of quarterly operating results, the volatility of the semiconductor and semiconductor capital equipment industries, customer concentration within the markets the Company serves, manufacturing facilities risks, recent and potential future acquisitions, management of growth, supply constraints and dependencies, dependence on design wins, barriers to obtaining new customers, the high level of customized designs, rapid technological changes, competition, international sales risks, the Asian financial markets, intellectual property rights, governmental regulations, and the volatility of the market price of the Company's common stock. A significant change in any of these risk factors could have a material impact on the Company's business.

2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION — The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS — For cash flow purposes, the Company considers all cash and highly liquid investments with an original maturity of 90 days or less to be cash and cash equivalents.

INVENTORIES — Inventories include costs of materials, direct labor and manufacturing overhead. Inventories are valued at the lower of market or cost, computed on a first-in, first-out basis.

MARKETABLE SECURITIES–TRADING — The Company has investments in marketable equity securities and municipal bonds, which have original maturities of 90 days or more. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the investments are classified as trading securities and reported at fair value with unrealized gains and losses included in earnings.

DEMONSTRATION AND CUSTOMER SERVICE EQUIPMENT — Demonstration and customer service equipment are manufactured products utilized for sales demonstration and evaluation purposes. The Company also utilizes this equipment in its customer service function as replacement and loaner equipment to existing customers.

The Company depreciates the equipment based on its estimated useful life in the sales and customer service functions. The depreciation is computed based on a three-year life.

PROPERTY AND EQUIPMENT — Property and equipment is stated at cost. Additions, improvements, and major renewals are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred.

Depreciation is provided using straight-line and accelerated methods over three to ten years for machinery and equipment and furniture and fixtures, with computers and communication equipment depreciated over a three-year life. Amortization of leasehold improvements and leased equipment is provided using the straight-line method over the life of the lease term or the life of the assets, whichever is shorter.

GOODWILL AND INTANGIBLES — Goodwill and intangibles are recorded at the date of acquisition at their allocated cost. Amortization is provided over the estimated useful lives ranging from five to seven years for both the goodwill and the intangible assets.

CONCENTRATIONS OF CREDIT RISK — The Company's revenues generally are concentrated among a small number of customers, the majority of which are in the semiconductor capital equipment industry. The Company's foreign subsidiaries sales are primarily denominated in currencies other than the U.S. dollar (see Note 15). The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

WARRANTY POLICY — The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The Company offers warranty coverage for its systems for periods ranging from 12 to 30 months after shipment.

CUMULATIVE TRANSLATION ADJUSTMENT — The functional currency for the Company's foreign operations is the applicable local currency.

The Company records a cumulative translation adjustment from translation of the financial statements of AE-Japan, AE-Germany, AE-Korea, AE-UK and AE-Taiwan. This equity account includes the results of translating balance sheet assets and liabilities at current exchange rates as of the balance sheet date, and the statements of operations and cash flows at the average exchange rates during the respective year.

The Company recognizes gain or loss on foreign currency transactions, which are not considered to be of a long-term investment nature. The Company recognized a loss on foreign currency transactions of $196,000 for the year ended December 31, 2000, and gains on foreign currency transactions of $1,504,000 and $369,000 for the years ended December 31, 1999 and 1998, respectively.

REVENUE RECOGNITION — The Company recognizes revenue upon shipment of its systems and spare parts, at which time title passes to the customer. For most of its customers, the Company has established a warranty policy as part of its contract with the customer, to provide for repairs and replacement of defective systems. The Company records an estimate for such repairs based upon its experience, and does not record an offset against revenue for such temporary returns.

The Company has an arrangement with one of its major customers, a semiconductor capital equipment manufacturer, in which completed systems are shipped to the customer and held by them on a consignment basis. The customer draws systems from this inventory as needed, at which time title passes to the customer and the Company recognizes revenue. The customer is subject to the Company's normal warranty policy for repair of defective systems.

In some instances the Company delivers systems to customers for evaluation purposes. In these arrangements, the customer retains the systems for specified periods of time without commitment to purchase. On or before the expiration of the evaluation period, the customer either rejects the system and returns it to the Company, or accepts the system. Upon acceptance, title passes to the customer, the Company invoices the customer for the system, and revenue is recognized. Pending acceptance by the customer, such systems are reported on the Company's balance sheet at an estimated value based on the lower of cost or market, and are included in the amount for demonstration and customer service equipment, net of accumulated depreciation.

INCOME TAXES — The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires deferred tax assets and liabilities to be recognized for temporary differences between the tax basis and financial reporting basis of assets and liabilities, computed at current tax rates. Also, the Company's deferred income tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of those deferred income tax assets which it believes it will more likely than not fail to realize.

EARNINGS PER SHARE — Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to include certain charges which would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the treasury stock and if-converted methods) if potentially dilutive common shares had been issued. For the periods presented, certain stock options outstanding and conversion of the convertible subordinated notes payable were not included in this calculation because to do so would be anti-dilutive. Basic and diluted EPS were the same for fiscal 1998 as the Company incurred losses from operations, therefore, making the effect of all potentially dilutive common shares anti-dilutive.

COMPREHENSIVE INCOME (LOSS) — SFAS No. 130, "Reporting Comprehensive Income," established rules for the reporting of comprehensive income (loss) and its components. Comprehensive income (loss) for the Company consists of net income (loss), foreign currency translation adjustments and unrealized holding gains and is presented in the Consolidated Statement of Stockholders' Equity.

SEGMENT REPORTING — SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," requires a public business enterprise to report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Management operates and manages the Company's business as one operating segment because all of its products and systems have similar economic characteristics and production processes.

RECENT ACCOUNTING PRONOUNCEMENTS — In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company is required to adopt SFAS No. 133, as amended by SFAS No. 137, on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activity by requiring all derivatives to be recorded on the balance sheet as either an asset or liability and measured at their fair value. Changes in the derivative's fair value will be recognized currently in earnings unless specific hedging accounting criteria are met. SFAS No. 133 also establishes uniform hedge accounting criteria for all derivatives. The Company will not seek specific hedge accounting treatment for its foreign currency forward contracts (Note 18). The Company has assessed its position with regard to its derivative and hedging activities and does not believe that the adoption of SFAS No. 133 will have a material impact on the Company's financial condition or results of operations.

In December 1999 the staff of the Securities and Exchange Commission issued its Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition." SAB No. 101 provides guidance on the measurement and timing of revenue recognition in financial statements of public companies. Changes in accounting policies to apply the guidance of SAB No. 101 must be adopted by recording the cumulative effect of the change in the fiscal quarter ending December 31, 2000. The adoption of SAB No. 101 did not have a material effect on the Company's financial position or results of operations.

In March 2000 the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"). FIN No. 44 provides clarification and guidance on applying APB No. 25. Generally, FIN No. 44 provides for prospective application for grants or modifications to existing stock options or awards made after June 30, 2000. The adoption of FIN No. 44 in 2000 did not have a material effect on the Company's financial condition or results of operations.

ESTIMATES AND ASSUMPTIONS — The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

ASSET IMPAIRMENTS — The Company reviews its long-lived assets and certain identifiable intangibles to be held and used by the Company for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, the Company estimates the future net cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets and certain identifiable intangibles to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

RECLASSIFICATIONS — Certain reclassifications have been made to the 1998 and 1999 financial statements to conform to the 2000 presentation.

3 ACQUISITIONS

SEKIDENKO, INC. — On August 18, 2000, Sekidenko, Inc. ("Sekidenko"), a privately held, Vancouver, Washington-based supplier of optical fiber thermometers to the semiconductor capital equipment industry, was merged with a wholly owned subsidiary of the Company. The Company issued 2.1 million shares of its common stock to the former shareholders of Sekidenko. In connection with the merger, the Company recorded in the third quarter of 2000 a charge to operating expenses of $2.3 million for direct merger-related costs.

NOAH HOLDINGS, INC. — On April 6, 2000, Noah Holdings, Inc. ("Noah"), a privately held, California-based manufacturer of solid state temperature control systems used to control process temperatures during semiconductor manufacturing, was merged with a wholly owned subsidiary of the Company. The Company issued approximately 687,000 shares of its common stock in connection with the acquisition. In addition, outstanding Noah stock options were converted into options to purchase approximately 40,000 shares of the Company's common stock. In connection with the merger, the Company recorded in the second quarter of 2000 a charge to operating expenses of $2.3 million for direct merger-related costs.

AEV — On October 8, 1998, RF Power Products, Inc., since renamed Advanced Energy Voorhees, Inc. (“AEV”), a New Jersey-based designer and manufacturer of radio frequency power systems, matching networks and peripheral products primarily for original equipment providers in the semiconductor capital equipment, commercial coating, flat panel display and analytical instrumentation markets, was merged with a wholly owned subsidiary of the Company. The Company issued approximately four million shares of its common stock to the former shareholders of AEV. In addition, outstanding AEV stock options were converted into options to purchase approximately 148,000 shares of the Company’s common stock.

AEV’s operating results for the month of December 1998 are not reflected in the accompanying consolidated statement of operations. This is due to changing AEV’s year-end from November 30 to December 31 to conform to the Company’s year-end. AEV’s month of December 1998 operating results were revenues of approximately $723,000 and a net loss of $482,000, which has been charged directly to retained earnings in order to report only twelve months’ operating results. In connection with the merger, the Company recorded in the fourth quarter of 1998 a charge to operating expenses of $2,742,000 for direct merger-related costs.

Each of the above mergers constituted a tax-free reorganization and have been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined balance sheet, statements of operations and cash flows of AEV, Noah and Sekidenko as though each had always been part of the Company. There were no transactions between the Company, AEV, Noah and Sekidenko prior to the combinations, and immaterial adjustments were recorded at AEV, Noah and Sekidenko to conform their accounting policies. Certain reclassifications were made to conform the AEV, Noah and Sekidenko financial statements to the Company’s presentations. The results of operations for the separate companies and combined amounts presented in the consolidated financial statements follow:

	Years Ended December 31,		
(In thousands)	**2000**	1999	1998
Sales:			
Pre-AEV merger			
Advanced Energy	**$ —**	$ —	$ 86,289
AEV	**—**	—	18,436
Advanced Energy and AEV combined before Noah and Sekidenko mergers	**67,171**	183,958	19,973
Noah before Noah and Sekidenko mergers	**3,080**	7,617	5,639
Sekidenko before Noah and Sekidenko mergers	**4,777**	11,274	3,682
Post-Noah merger			
Advanced Energy combined with AEV and Noah	**123,190**	—	—
Sekidenko	**7,034**	—	—
Post-Sekidenko merger	**154,530**	—	—
Consolidated	**$359,782**	$202,849	$134,019
Net income (loss):			
Pre-AEV merger			
Advanced Energy	**$ —**	$ —	$ (2,748)
AEV	**—**	—	(3,859)
Advanced Energy and AEV combined before Noah and Sekidenko mergers	**9,996**	16,838	(168)
AEV merger costs	**—**	—	(2,742)
Noah before Noah and Sekidenko mergers	**43**	184	(1,620)
Sekidenko before Noah and Sekidenko mergers	**1,199**	2,044	112
Post-Noah merger			
Advanced Energy combined with AEV and Noah	**20,809**	—	—
Sekidenko	**1,367**	—	—
Noah merger costs	**(2,333)**	—	—
Post-Sekidenko merger	**39,203**	—	—
Sekidenko merger costs	**(2,250)**	—	
Consolidated	**$ 68,034**	$19,066	$(11,025)

OTHER INTANGIBLES — During 1999 Noah acquired various intangible assets, primarily a license agreement and patents, by issuing approximately 214,000 shares of common stock valued at $1,950,000. The entire purchase price was allocated to other intangibles and is being amortized over a seven-year useful life.

During 1998 Sekidenko acquired various intangible assets, primarily a license agreement, by issuing approximately 1,680,000 shares of common stock valued at $2,096,000. The entire purchase price was allocated to other intangibles and is being amortized over a five-year useful life.

LITMAS — During 1998 the Company acquired a 29% ownership interest in LITMAS, a privately held, North Carolina-based start-up company that designs and manufactures plasma gas abatement systems and high-density plasma sources. The purchase price consisted of $1 million in cash. On October 1, 1999, the Company acquired an additional 27.5% interest in LITMAS for an additional $560,000. The purchase price consisted of $385,000 in the Company's common stock and $175,000 in cash. The acquisition was accounted for using the purchase method of accounting and resulted in $523,000 allocated to intangible assets as goodwill. The results of operations of LITMAS are included within the accompanying consolidated financial statements from the date the controlling interest of 56.5% was acquired. On October 1, 2000, the Company acquired an additional 3.0% interest in LITMAS for an additional $250,000, bringing the Company's ownership interest in LITMAS to 59.5%.

FST — Effective September 3, 1998, the Company acquired substantially all of the assets of Fourth State Technology, Inc. ("FST"), a privately held, Texas-based designer and manufacturer of process controls used to monitor and analyze data in the RF process. The purchase price consisted of $2.5 million in cash, assumption of a $113,000 liability, and an earn-out provision, which is based on profits over a twelve-quarter period beginning October 1, 1998. Approximately $2.6 million of the initial purchase price was allocated to intangible assets. During the fourth quarter of 1999, the Company accrued $240,000 to intangible assets as a result of the earn-out provision being met during the fifth quarter period. The results of operations of FST are included within the accompanying consolidated financial statements from the date of acquisition.

4 PUBLIC OFFERING OF COMMON STOCK

In November 1999 the Company closed on an additional offering of its common stock. In connection with the offering, 1,000,000 shares of common shares were sold at a price of $39 per share, providing gross proceeds of $39,000,000, less $2,448,000 in offering costs.

5 MARKETABLE SECURITIES – TRADING

MARKETABLE SECURITIES–TRADING are reported at their fair value and consisted of the following:

	December 31,	
(In thousands)	**2000**	1999
Commercial paper	**$ 85,827**	$118,894
Municipal bonds and notes	**54,022**	67,453
Mutual funds	**17,962**	93
	$157,811	$186,440

These marketable securities have original costs of $157,112,000 and $185,069,000 as of December 31, 2000 and 1999, respectively.

6 ACCOUNTS RECEIVABLE – TRADE

ACCOUNTS RECEIVABLE – TRADE consisted of the following:

	December 31,	
(In thousands)	**2000**	1999
Domestic	**$41,545**	$21,877
Foreign	**31,971**	23,414
Allowance for doubtful accounts	**(784)**	(639)
	$72,732	$44,652

7 INVENTORIES

INVENTORIES consisted of the following:

	December 31,	
(In thousands)	**2000**	1999
Parts and raw materials	**$34,462**	$19,381
Work in process	**3,777**	2,526
Finished goods	**7,027**	6,503
	$45,266	$28,410

8 PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT consisted of the following:

	December 31,	
(In thousands)	**2000**	1999
Machinery and equipment	**$ 25,075**	$ 18,121
Computers and communication equipment	**12,484**	8,967
Furniture and fixtures	**4,026**	3,781
Vehicles	**197**	161
Leasehold improvements	**6,746**	5,298
	48,528	36,328
Less – accumulated depreciation	**(24,427)**	(18,629)
	$ 24,101	$ 17,699

9 INVESTMENTS IN MARKETABLE SECURITIES, AVAILABLE FOR SALE

In the third quarter of 2000 the Company exercised warrants of a supplier in a cashless transaction and received 458,000 shares of the supplier's common stock, which is publicly traded. Concurrent with the exercise, the Company sold 320,000 shares of the supplier's common stock and recognized a gain of approximately $4.8 million. The remaining 138,000 shares have been classified as available-for-sale securities and are reflected as an investment of approximately $1.7 million in the accompanying balance sheet.

10 NOTES PAYABLE

	December 31,	
(In thousands)	**2000**	1999
Revolving line of credit of $30,000,000, expiring April 7, 2001, interest at bank's prime rate minus 1.25% or the LIBOR 360-day rate plus 150 basis points, (average 1.98718% during 2000, 2.39857% at December 31, 2000). This line includes $20,000,000 available for general use, with an option to convert up to $10,000,000 to a three-year term loan; additional advances up to $5,000,000 each for Optional Currency Rate Advances and Foreign Exchange Contracts. Borrowing base consists of the sum of 80% of eligible accounts receivable plus the lesser of 20% of eligible inventory or $5,000,000. Loan covenants provide certain financial restrictions related to working capital, leverage, net worth, payment and declaration of dividends and profitability.	**$ 875**	$1,958
Revolving line of credit of $1,875,000, expired January 2001, interest at bank's prime rate plus 3.5% (minimum 12% plus 1% discount rate). Loan is secured by a Certificate of Deposit, certain accounts receivable, inventory, equipment and intangibles, and is guaranteed by a stockholder. Agreement provides for an early termination fee of $30,000 if the line is terminated prior to maturity.	**—**	241
Note payable, shareholder (see Note 16)	**356**	447
Note payable, royalties, with interest at 7%, with monthly payments ranging from $5,000 to $15,000, including interest, due July 2002. The note is unsecured.	**704**	738
Note payable, other	**120**	—
Note payable to the New Jersey Economic Development Authority, with interest at 5%, principal and interest due monthly, matures January 2002 and secured by machinery and equipment.	**109**	216
Note payable, shareholder (see Note 16)	**163**	266
	2,327	3,866
Less — current portion	**(1,284)**	(2,485)
	$1,043	$1,381

11 CONVERTIBLE SUBORDINATED NOTES PAYABLE

In November 1999 the Company issued $135 million of convertible subordinated notes payable at 5.25%. These notes mature November 15, 2006, with interest payable on May 15th and November 15th each year beginning May 15, 2000. Net proceeds to the Company were approximately $130.5 million, after deducting $4.5 million of offering costs, which have been capitalized and are being amortized over a period of seven years. Holders of the notes may convert the notes at any time into shares of the Company's common stock, at $49.53 per share. The Company may convert the notes on or after November 19, 2002 at a redemption price of 103.00% times the principal amount, and may convert at successively lesser amounts thereafter until November 15, 2006, at which time the Company may convert at a redemption price equal to the principal amount. At December 31, 2000, $529,000 of interest expense was accrued as a current liability.

In October and November 2000, the Company repurchased an aggregate of approximately $53.4 million principal amount of its convertible subordinated notes in the open market, for a cost of approximately $40.8 million. These purchases resulted in an after-tax extraordinary gain of $7.6 million. The purchased notes have been cancelled. Approximately $81.6 million principal amount of the notes remains outstanding, which had a fair market value of approximately $66.7 million as of December 31, 2000. The Company may continue to purchase additional notes in the open market from time to time, if market conditions and its financial position are deemed favorable for such purposes.

12 INCOME TAXES

For the years ended December 31, 2000, 1999 and 1998, the provision for income taxes consisted of an amount for taxes currently payable and a provision for tax effects deferred to future periods. In 1997 the Company's statutory U.S. tax rate increased from 34% to 35%.

The provision (benefit) for income taxes for the years ended December 31, 2000, 1999 and 1998 was as follows:

	December 31,		
(In thousands)	**2000**	1999	1998
Federal	**$ 28,869**	$ 8,087	$ (3,843)
State and local	**3,592**	1,376	(561)
Foreign taxes	**4,346**	2,278	882
	$ 36,807	$ 11,741	$ (3,522)
Current	**$ 40,537**	$ 10,890	$ (1,902)
Deferred	**(3,730)**	851	(1,620)
	$ 36,807	$ 11,741	$ (3,522)

The following reconciles the Company's effective tax rate to the federal statutory rate for the years ended December 31, 2000, 1999 and 1998:

	December 31,		
(In thousands)	**2000**	1999	1998
Income tax expense (benefit) per federal statutory rate	**$36,703**	$10,807	$(5,091)
State income taxes, net of federal deduction	**2,232**	894	(365)
Foreign sales corporation	**(2,516)**	(331)	—
Nondeductible merger costs	**1,604**	(228)	960
Nondeductible intangible and goodwill amortization	**618**	553	500
Other permanent items, net	**(2,262)**	(137)	(159)
Effect of foreign taxes	**578**	1,000	80
Foreign operating loss with no benefit provided	—	—	610
Change in valuation allowance	—	(717)	107
Tax credits	**(150)**	(100)	(164)
	$36,807	$11,741	$(3,522)

The Company's deferred income tax assets are summarized as follows:

(In thousands)	**Dec 31, 2000**	Change	Dec 31, 1999
Employee bonuses and commissions	**$1,851**	$1,821	$ 30
Warranty reserve	**1,046**	437	609
Bad debt reserve	**229**	(4)	233
Vacation accrual	**1,076**	551	525
Royalties	—	(280)	280
Obsolete and excess inventory	**2,433**	1,546	887
Investment in LITMAS	**395**	52	343
Depreciation and amortization	**312**	(161)	473
Other	**141**	(232)	373
	$7,483	$ 3,730	$ 3,753

The domestic versus foreign component of the Company's net income (loss) before income taxes at December 31, 2000, 1999 and 1998, was as follows:

	December 31,		
(In thousands)	**2000**	1999	1998
Domestic	**$ 94,094**	$25,177	$(15,021)
Foreign	**10,767**	5,699	474
	$104,861	$30,876	$(14,547)

13 RETIREMENT PLAN

The Company has 401(k) Profit Sharing Plans which cover most full-time employees who have completed six months of full-time continuous service and are age eighteen or older. Depending on the plan in which a participant is enrolled, participants may defer up to either 10% or 15% of their gross pay up to a maximum limit determined by law. Participants are immediately vested in their contributions.

The Company may make discretionary contributions based on corporate financial results for the fiscal year. Effective January 1, 1998, the Company increased its matching contribution for participants in the 401(k) Plans up to a 50% matching on contributions by employees up to 6% of the employee's compensation. The Company's total contributions to the plans were approximately $1,291,000, $848,000 and $754,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Vesting in the profit sharing contribution account is based on years of service, with most participants fully vested after five years of credited service.

The Company also has a Money Purchase Pension Plan, which covers certain employees. This plan was frozen, effective July 1, 1998, and the Company is not required to make contributions to the plan for future years. The Company's contributions to this plan were $63,000 for 1998 and $62,000 for 2000. The Company made no contributions in 1999.

14 COMMITMENTS AND CONTINGENCIES

CAPITAL LEASES

The Company finances a portion of its property and equipment under capital lease obligations at interest rates ranging from 7.63% to 24.7%. The future minimum lease payments under capitalized lease obligations as of December 31, 2000 are as follows:

(In thousands)	
Total minimum lease payments, all 2001	$ 56
Less – amount representing interest	(3)
Less – current portion	(53)
	$ 0

OPERATING LEASES

The Company has various operating leases for automobiles, equipment, and office and production space (Note 16). Lease expense under operating leases was approximately $5,155,000, $4,926,000 and $4,822,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The future minimum rental payments required under noncancelable operating leases as of December 31, 2000 are as follows:

	(In thousands)
2001	$ 5,556
2002	4,980
2003	4,017
2004	3,525
2005	3,200
Thereafter	18,156
	$39,434

GUARANTEE

On April 12, 2000, the Company committed to a lease guarantee of approximately $1,000,000 through April 12, 2005, to a private company. The Company received 25,000 shares of the private company's common stock, which is valued at approximately $4,000 and is reflected on the Company's balance sheet in investments.

15 FOREIGN OPERATIONS

The Company operates in a single operating segment with operations in the U.S., Asia and Europe. The following is a summary of the Company's foreign operations:

	Years Ended December 31,		
(In thousands)	**2000**	1999	1998
Sales:			
Originating in Japan to unaffiliated customers	**$ 32,404**	$ 16,270	$ 6,300
Originating in Europe to unaffiliated customers	**24,375**	12,724	8,489
Originating in U.S. and sold to foreign customers	**35,504**	23,996	21,188
Originating in U.S. and sold to domestic customers	**260,596**	148,424	98,042
Originating in South Korea to unaffiliated customers	**2,989**	1,435	—
Originating in Taiwan to unaffiliated customers	**3,914**	—	—
Transfers between geographic areas	**48,963**	24,053	10,304
Intercompany eliminations	**(48,963)**	(24,053)	(10,304)
	$359,782	$202,849	$134,019
Income (loss) from operations:			
Japan	**$ 6,533**	$ 1,758	$ (1,505)
Europe	**3,805**	2,379	1,722
U.S.	**73,508**	25,390	(14,944)
South Korea	**751**	188	(186)
Taiwan	**594**	—	—
Intercompany eliminations	**9**	(389)	165
	$ 85,200	$ 29,326	$ (14,748)
Identifiable assets:			
Japan	**$ 21,567**	$ 13,967	
Europe	**19,263**	11,950	
U.S.	**387,953**	345,431	
South Korea	**2,609**	1,393	
Taiwan	**5,105**	—	
Intercompany eliminations	**(70,662)**	(47,308)	
	$365,835	$325,433	

Intercompany sales among the Company's geographic areas are recorded on the basis of intercompany prices established by the Company.

16 RELATED PARTY TRANSACTIONS

The Company leases office and production spaces from a limited liability partnership consisting of certain officers of the Company and other individuals. The leases relating to these spaces expire in 2009 and 2011 with monthly payments of approximately $52,000 and $60,000, respectively. The Company also leases other office and production space from another limited liability partnership consisting of certain officers of the Company and other individuals. The lease relating to this space expires in 2002 with a monthly payment of approximately $28,000.

Approximately $1,637,000, $1,693,000 and $1,359,000 were charged to rent expense attributable to these leases for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company also leases office and production space from a shareholder. Approximately $228,000, $197,000 and $199,000 were charged to rent expense attributable to this lease for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company leases, for business purposes, a condominium owned by a partnership of certain stockholders. The Company paid the partnership approximately $36,000 for each of the years ended December 31, 2000, 1999 and 1998, relating to this lease.

During 1999 a shareholder of Sekidenko granted employees options under a preexisting arrangement to purchase shares of his common stock already outstanding at exercise prices below fair market value. Under this agreement, 29,700 and 34,250 of such options were exercised in 1999 and 2000, respectively. These options will result in the Company recognizing $109,000 as compensation expense over the four-year vesting period related to the 1999 purchases, and $1,995,000 as compensation expense over the four-year vesting period related to the 2000 purchases. Compensation expense of $23,000 and $461,000 was recognized in 1999 and 2000, respectively.

In prior years, certain stockholders of the Company exercised options to purchase shares of the Company's common stock in exchange for notes receivable in the amount of the exercise price. These notes receivable and accrued interest have been paid in full.

The Company has an unsecured note payable to a stockholder of $356,000, less current portion of $45,000, with interest at 7%, due November 1, 2002. The note is payable in installments of principal and interest of $135,000 in 2001 and $306,000 in 2002.

The Company has a note payable to a stockholder of $163,000, less current portion of $107,000, with interest at 5%, due January 2002. The note is payable in installments of principal and interest due semi-annually on January 13th and July 13th.

17 MAJOR CUSTOMERS

The Company has a major customer (sales in excess of 10% of total sales) that is a manufacturer of semiconductor capital equipment. Sales to this customer accounted for the following percentages of sales for the years ended December 31, 2000, 1999 and 1998:

	December 31,		
	2000	1999	1998
Customer A	**39%**	34%	24%

18 FORWARD CONTRACTS

AE-Japan enters into foreign currency forward contracts to buy U.S. dollars to offset foreign currency risk for trade purchases payable and intercompany transactions with its parent. Foreign currency forward contracts reduce the Company's exposure to the risk that the eventual net cash outflows resulting from the purchase of products denominated in other currencies will be adversely affected by changes in exchange rates. Foreign currency forward contracts are entered into with a major commercial Japanese bank that has a high credit rating and the Company does not expect the counterparty to fail to meet its obligations under outstanding contracts. Foreign currency gains and losses under the above arrangements are not deferred. The Company generally enters into foreign currency forward contracts with maturities ranging from one to eight months, with contracts outstanding at December 31, 2000, maturing through August 2001. All forward contracts are held until maturity. At December 31, 2000, the Company held foreign forward exchange contracts with nominal amounts of $11,500,000 and market settlement amounts of $10,674,000 for an unrealized gain position of $826,000 that has been included in other income and expense in the accompanying statement of operations.

19 STOCK PLANS

EMPLOYEE STOCK OPTION PLAN — During 1993 the Company adopted an Employee Stock Option Plan (the "Employee Option Plan") which was amended and restated in September 1995, February 1998, February 1999 and December 2000. The Employee Option Plan allows issuance of incentive stock options, non-qualified options, and stock purchase rights. The exercise price of incentive stock options shall not be less than 100% of the stock's fair market value on the date of grant. The exercise price of non-qualified stock options shall not be less than 85% of the stock's fair market value on the date of grant. Options issued in 2000, 1999 and 1998 were issued at 100% of fair market value with typical vesting over three to four years. Under the Employee Option Plan, the Company has the discretion to accelerate the vesting period. The options are exercisable for ten years from the date of grant. The Company has reserved 5,625,000 shares of common stock for the issuance of stock under the Employee Option Plan, which terminates in June 2003.

In connection with the grant of certain stock options in the second quarter of 1995, the Company recorded $142,000 of deferred compensation for the difference between the deemed fair value for accounting purposes and the option price as determined by the Company at the date of grant. This amount was presented as a reduction of stockholders' equity and was amortized over the three-year vesting period of the related stock options.

In connection with the grant of certain stock options in the third quarter of 1999, the Company recorded $109,000 of deferred compensation for the difference between the deemed fair value for accounting purposes and the option price as determined by the Company at the date of grant. In connection with the grant of certain stock options in 2000, the Company recorded $950,000 and $1,045,000 of deferred compensation in the first and second quarters of 2000, respectively. These amounts also reflected the difference between the deemed fair value for accounting purposes and the option price as determined by the Company at the dates of grant. These amounts are presented as a reduction of stockholders' equity, and are being amortized over the four-year vesting period of the related stock options.

EMPLOYEE STOCK PURCHASE PLAN — In September 1995 stockholders approved an Employee Stock Purchase Plan (the "Stock Purchase Plan") covering an aggregate of 200,000 shares of common stock. Employees are eligible to participate in the Stock Purchase Plan if employed by the Company for at least 20 hours per week during at least five months per calendar year. Participating employees may have up to 15% (subject to a 5% limitation set by the Company) of their earnings or a maximum of $1,250 per six month period withheld pursuant to the Stock Purchase Plan. Common stock purchased under the Stock Purchase Plan will be equal to 85% of the lower of the fair market value on the commencement date of each offering period or the relevant purchase date. During 2000, 1999 and 1998, employees purchased an aggregate of 13,025, 22,390 and 20,264 shares under the Stock Purchase Plan, respectively.

NON-EMPLOYEE DIRECTORS STOCK OPTION PLAN — In September 1995 the Company adopted the 1995 Non-Employee Directors Stock Option Plan (the "Directors Plan") covering 50,000 shares of common stock. In February 1999 the plan was amended to increase the number of shares of common stock issuable under such plan to 100,000 shares of common stock. The Directors Plan provides for automatic grants of non-qualified stock options to directors of the Company who are not employees of the Company ("Outside Directors"). Pursuant to the Directors Plan, upon becoming a director of the Company, each Outside Director will be granted an option to purchase 7,500 shares of common stock. Such options will be immediately exercisable as to 2,500 shares of common stock, and will 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 became an Outside Director, an option for an additional 2,500 shares is granted. Such additional options vest on the third anniversary of the date of grant. Options will expire ten years after the grant date, and the exercise price of the options will be equal to the fair market value of the common stock on the grant date. The Directors Plan terminates September 2005.

The following summarizes the activity relating to options for the years ended December 31, 2000, 1999 and 1998:

(In thousands, except share prices)	**2000**		1999		1998	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock options:						
Incentive stock options —						
Options outstanding at beginning of period	**1,850**	**$ 13.90**	1,987	$ 9.01	1,475	$7.02
Granted	**461**	**44.45**	417	30.31	937	10.23
Exercised	**(488)**	**9.12**	(487)	8.44	(219)	3.35
Terminated	**(104)**	**19.26**	(67)	10.44	(206)	6.35
Options outstanding at end of period	**1,719**	**23.29**	1,850	13.90	1,987	9.01
Options exercisable at end of period	**689**	**14.09**	801	9.10	651	6.89
Weighted-average fair value of options granted during the period	**$32.75**		$18.78		$ 6.71	
Price range of outstanding options	**$0.67 - $60.75**		$0.67 -$44.97		$0.67 - $31.63	
Price range of options terminated	**$0.83 - $43.69**		$3.88- $28.16		$0.83 - $12.75	
Non-employee directors stock options—						
Options outstanding at beginning of period	**55**	**$ 18.34**	40	$ 12.18	20	$14.67
Granted	**20**	**46.48**	18	32.94	20	7.55
Exercised	**—**	**—**	(3)	11.05	—	—
Terminated	**—**	**—**	—	—	—	—
Options outstanding at end of period	**75**	**26.31**	55	18.34	40	12.18
Options exercisable at end of period	**32**	**18.65**	22	17.27	15	11.40
Weighted-average fair value of options granted during the period	**$30.83**		$20.11		$ 4.93	
Price range of outstanding options	**$6.13 - $64.94**		$6.13 - $36.94		$8.63 - $29.88	
Price range of options terminated	**$ —**		$ —		$ —	

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS No. 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), provided that pro forma disclosures are made of net income or loss and net income or loss per share, assuming the fair value based method of SFAS No. 123 had been applied. The Company has elected to account for stock-based compensation plans under APB No. 25, under which compensation expense, if any, is recognized based on the intrinsic value of stock options and other stock awards, generally measured at the date of grant.

For SFAS No. 123 purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2000	1999	1998
Risk-free interest rates	**6.06%**	5.92%	5.06%
Expected dividend yield rates	**0.0%**	0.0%	0.0%
Expected lives	**4 years**	4 years	4 years
Expected volatility	**103.69%**	77.33%	87.48%

The total fair value of options granted was computed to be approximately $15,719,000, $8,192,000 and $6,056,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

These amounts are amortized ratably over the vesting period of the options. Cumulative compensation cost recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Pro forma stock-based compensation, net of the effect of forfeitures and tax, was approximately $4,554,000, $2,999,000 and $2,033,000 for 2000, 1999 and 1998, respectively.

Had compensation cost for these plans been determined consistent with SFAS No. 123, the Company's net income (loss) would have been reduced (increased) to the following pro forma amounts:

(In thousands, except per share data)	**2000**	1999	1998
Net Income (Loss):			
As reported	**$68,034**	$ 19,066	$(11,025)
Pro forma	**63,480**	16,067	(13,058)
Diluted Earnings (Loss) Per Share:			
As reported	**$ 2.10**	$ 0.62	$ (0.38)
Pro forma	**1.96**	0.52	(0.45)

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following table summarizes information about the stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.67 to $2.57	17,000	2.8 years	$ 1.19	17,000	$ 1.19
$3.11 to $6.75	200,000	6.9 years	$ 5.68	106,000	$ 4.91
$7.13 to $9.00	308,000	6.6 years	$ 8.19	154,000	$ 8.37
$11.05 to $16.52	391,000	6.8 years	$13.18	279,000	$ 12.94
$17.32 to $26.63	90,000	8.7 years	$20.47	42,000	$ 19.86
$28.16 to $40.00	326,000	8.4 years	$29.94	98,000	$ 29.25
$43.69 to $64.94	462,000	9.1 years	$47.08	25,000	$ 47.17
	1,794,000	7.7 years	$ 23.51	721,000	$ 14.29

20 SUBSEQUENT EVENTS

ENGINEERING MEASUREMENTS CO.— On July 6, 2000, the Company entered into a definitive agreement to acquire Engineering Measurements Company ("EMCO"), a Longmont, Colorado-based company which manufactures electronic and electromechanical precision instruments for measuring and controlling the flow of liquids, steam and gases, for 900,000 shares of the Company's common stock. The Company and EMCO renegotiated the agreement as of October 20, 2000 to change the consideration from stock to cash. Completion of the merger was subject to approval by EMCO's shareholders and certain other conditions. On January 2, 2001, the merger was completed, and the Company paid the EMCO shareholders cash in an aggregate amount of approximately $30 million, which included the exercise prices paid in cash by EMCO option holders on exercise of any EMCO stock options after October 20, 2000 and before the completion of the merger. Options not exercised before the completion of the merger were converted into options to acquire the Company's common stock. The acquisition will be accounted for using the purchase method of accounting.

21 QUARTERLY FINANCIAL DATA

The following table presents unaudited quarterly financial data for each of the eight quarters in the period ended December 31, 2000. The quarters ended March 31, 1999 through June 30, 2000 have been restated to include the combined selected financial data of Noah and Sekidenko as though each had always been part of the Company. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly such quarterly information. The operating results for any quarter are not necessarily indicative of results for any subsequent period.

	Quarters Ended							
(In thousands, except per share data)	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	**Mar. 31, 2000**	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**
Sales	$36,419	$45,363	$55,626	$65,441	**$75,028**	**$85,701**	**$96,317**	**$102,736**
Gross profit	15,232	20,270	24,951	31,749	**36,667**	**42,363**	**46,825**	**50,598**
Income from operations	2,262	5,354	8,714	12,996	**17,048**	**20,343**	**20,884**	**26,925**
Net income before extraordinary item	1,231	3,290	6,090	8,455	**11,238**	**13,118**	**16,289**	**19,779**
Extraordinary item (net of income taxes)	—	—	—	—	**—**	**—**	**—**	**7,610**
Net income	$ 1,231	$ 3,290	$ 6,090	$ 8,455	**$11,238**	**$13,118**	**$16,289**	**$ 27,389**
Diluted earnings per share before extraordinary item	$ 0.04	$ 0.11	$ 0.20	$ 0.27	**$ 0.35**	**$ 0.40**	**$ 0.50**	**$ 0.61**
Diluted earnings per share from extraordinary item	$ —	$ —	$ —	$ —	**$ —**	**$ —**	**$ —**	**$ 0.22**
Diluted earnings per share	$ 0.04	$ 0.11	$ 0.20	$ 0.27	**$ 0.35**	**$ 0.40**	**$ 0.50**	**$ 0.83**

The following table presents unaudited quarterly financial data for the quarters ended March 31, 1999 through June 30, 2000, retroactively combining the selected financial data of Noah and Sekidenko for the periods prior to the periods in which each was merged with the Company.

	Quarters Ended							
(In thousands, except per share data)	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	**Mar. 31, 2000**	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**
Sales	$ 3,691	$ 3,848	$ 4,484	$ 6,868	**$ 7,857**	**$ 5,115**	**$ —**	**$ —**
Gross profit	2,134	1,977	2,407	3,827	**4,493**	**3,024**	**—**	**—**
Income from operations	1,191	886	1,007	901	**2,179**	**1,809**	**—**	**—**
Net income before extraordinary item	697	520	555	456	**1,242**	**1,088**	**—**	**—**
Extraordinary item (net of income taxes)	—	—	—	—	**—**	**—**	**—**	**—**
Net income	$ 697	$ 520	$ 555	$ 456	**$ 1,242**	**$ 1,088**	**$ —**	**$ —**
Diluted earnings per share before extraordinary item	$ 0.02	$ 0.01	$ —	$ (0.01)	**$ 0.01**	**$ —**	**$ —**	**$ —**
Diluted earnings per share from extraordinary item	$ —	$ —	$ —	$ —	**$ —**	**$ —**	**$ —**	**$ —**
Diluted earnings per share	$ 0.02	$ 0.01	$ —	$ (0.01)	**$ 0.01**	**$ —**	**$ —**	**$ —**

Notes to Consolidated Financial Statements

The following table presents unaudited quarterly financial data for the Company for each of the eight quarters in the period ended December 31, 2000, as each period had been originally presented in quarterly financial statements as reported on Forms 10-Q for the quarterly periods ended March 31, 1999, June 30, 1999, September 30, 1999, March 31, 2000 and June 30, 2000, and on Form 10-K for the quarterly period ended December 31, 1999. The quarterly period ended September 30, 2000 reflects the same financial data as previously reported on the Company's Form 10-Q for that period, and the quarterly period ended December 31, 2000 reflects the same financial data as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this document.

	Quarters Ended							
(In thousands, except per share data)	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	**Mar. 31, 2000**	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**
Sales	$32,728	$41,515	$51,142	$58,573	**$67,171**	**$80,586**	**$96,317**	**$102,736**
Gross profit	13,098	18,293	22,544	27,922	**32,174**	**39,339**	**46,825**	**50,598**
Income from operations	1,071	4,468	7,707	12,095	**14,869**	**18,534**	**20,884**	**26,925**
Net income before extraordinary item	534	2,770	5,535	7,999	**9,996**	**12,030**	**16,289**	**19,779**
Extraordinary item (net of income taxes)	—	—	—	—	**—**	**—**	**—**	**7,610**
Net income	$ 534	$ 2,770	$ 5,535	$ 7,999	**$ 9,996**	**$12,030**	**$16,289**	**$ 27,389**
Diluted earnings per share before extraordinary item	$ 0.02	$ 0.10	$ 0.20	$ 0.28	**$ 0.34**	**$ 0.40**	**$ 0.50**	**$ 0.61**
Diluted earnings per share from extraordinary item	$ —	$ —	$ —	$ —	**$ —**	**$ —**	**$ —**	**$ 0.22**
Diluted earnings per share	$ 0.02	$ 0.10	$ 0.20	$ 0.28	**$ 0.34**	**$ 0.40**	**$ 0.50**	**$ 0.83**

Schedule II—Valuation and Qualifying Accounts

(In thousands)	Balance at Begining of Period	Additions Charged to Expense	Deductions	Balance at End of Period
Year ended December 31, 1998:				
Inventory obsolescence reserve	$ 3,281	$ 6,712	$ 7,367	$ 2,626
Allowance for doubtful accounts	587	229	194	622
	$ 3,868	$ 6,941	$ 7,561	$ 3,248
Year ended December 31, 1999:				
Inventory obsolescence reserve	$ 2,626	$ 5,254	$ 5,576	$ 2,304
Allowance for doubtful accounts	622	101	84	639
	$ 3,248	$ 5,355	$ 5,660	$ 2,943
Year ended December 31, 2000:				
Inventory obsolescence reserve	$ 2,304	$ 1,437	$ 1,488	$ 2,253
Allowance for doubtful accounts	639	145	—	784
	$ 2,943	**$ 1,582**	**$ 1,488**	**$ 3,037**