

To our stockholders,
customers, employees,
suppliers, and friends



**Sometimes
things come
together**

perfectly.

Planets align. Fires ignite. Storms erupt. Technologies converge. People connect. Minds meet. Visions unite.

And sometimes the effects are so powerful, they create new forces and reveal new opportunities.

We like the concept. We call it **CONVERGENCE**. And this year, we embraced it. During 2000, we brought together ideas and technologies and people in unprecedented ways—ways we believe will create exponential value in the years ahead for our customers, our stockholders, and our employees.

Could we call 2000 a perfect year? Not exactly. But we've never had a better one. Our financial results were record setting in every respect.

Year 2000 results. Net sales in 2000 were a record \$360 million compared with \$203 million in 1999—more than a 77% increase. Net income this year was a record \$68 million, or \$2.10 per diluted share, compared with just over \$19 million, or 62 cents per share, in 1999. We saw cash earnings per share of \$2.29. Gross profit grew to over \$176 million, or 49% in 2000 from just over \$92 million, or more than 45%, in 1999. We increased cash flow from operations to more than \$22 million.

We ended the year with nearly \$190 million of cash and marketable securities; \$280 million of working capital; \$366 million of total assets; and \$239 million of stockholders' equity.



- Solid state tuner technology
- FTMS matching technology



- Multi-output barrier discharge supply for UV
- New technique for reactive sputtering

By continuing to make improvements in the efficiencies of operations, we reduced our cost of goods sold (COGS) to 51% of revenues from 55% in 1999. Our efforts in this area contributed \$8 million to our bottom line.

We strive to maintain a strong balance sheet and a level of cash reserves that provide us with the ability to act quickly and decisively to great advantage. For example, in the fourth quarter we repurchased, on the open market, convertible notes with a face value of \$53 million at a price of approximately \$41 million. This buy-back saved the company almost \$3 million per year in interest costs and resulted in an extraordinary gain of almost \$8 million after tax.

It also eliminated a potential dilution of the stock had the notes been converted.

In another case, when faced with renegotiating a planned acquisition, we were able to quickly shift from an exchange of stock to cash—and, again, prevent stock dilution.

Year in review. There's a story behind the numbers. In 2000, customer demand was unprecedented. And so were our employees' efforts; in fact, revenue per employee grew 46% over 1999. We grew market share in all of our core industry segments, earning design wins with both old and new customers. We introduced new core products and enhanced existing ones. We completed a 63,000 square foot manufacturing facility in Fort Collins. And we opened a representative office in China.

Unfortunately, we also rode out a few rough seas. In the third quarter, we missed our own expectations for company growth. We took a hard look at our Tower subsidiary and made the difficult decision to move its operations from Minnesota to our Voorhees, New Jersey, facility. And, in spite of record-breaking quarters, we watched our stock price decline along with the rest of the market.

But of all the things we did in 2000, the best are these: We recruited and retained exceptional people—always our priority. And then, we created an even more exciting place for them to work. Because this year, we concluded three acquisitions (well, one took until January 2, 2001), and we established three business alliances, setting our convergence strategy in full forward motion.

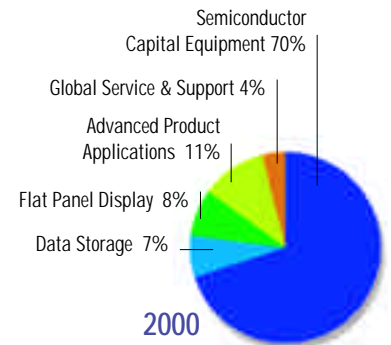
Converging on a new future. For a few years now, we've been moving toward an industry model we've called technology integration. It involves designing more and more capability into our products, elevating them from stand-alone power supplies to intelligent subsystems that offer better control over processes. Whether this integration is the chicken or the egg of the industry's trend toward fewer suppliers is hard to say. But the point is, we've been making steady progress in this direction.

This year, however, steady became accelerated as we made key acquisitions in technology and talent. We acquired Noah Precision in April, Sekidenko in August, and EMCO in January 2001. In addition, we made strategic investments in Symphony Systems and in Dressler HF Technik, whose RF power supply increases our market share in a niche we didn't serve. And we also created an alliance with Berkeley Process Control.

Our acquisition criteria were straightforward. We wanted companies with strong principles and values, a can-do culture, and a technical orientation. We looked only at those who were, or were about to become, number one in their niche.

Suddenly, it seemed to us that we had gathered together the potential to go beyond integration—even beyond synergy—to something more catalytic. Something powerful enough to alter the landscape. **CONVERGENCE** best describes it. Because it's not just about the way we'll design, build, and configure our products, it's about the way our AE family—now, community—will work together. It's about the way we'll work with our customers and their customers. It's about the way our customers will work—period. And, finally, it's about the results both OEMs and end users will see.

Revenue Mix by Industry



- RF gas abatement source.
- Second-generation integrated RF System



- RF endpoint sensor
- 2nd generation integrated RF system



- Multi-channel electroplating
- New Power Supply Architecture (NPSA)

What does convergence look like? From a technology point of view, it means that we bring together critical process components, coordinate them, and build them into a subsystem architecture that offers highly specialized solutions for our customers.

Here's a simple scenario for the semiconductor industry: The AE RF power delivery system heats the wafer chamber, our e-chuck power supply holds the wafer, Sekidenko's solution senses the wafer temperature and sends the information to Berkeley Process's controller, which then programs Noah's technology to cool the wafer. All during this process, EMCO's technology measures and controls the flow of liquids and gases, and Symphony Systems provides connectivity between the Internet and subsystems within the fabrication tool.

From our customers' point of view, our convergence strategy means that process information becomes not only real time, but interactive. The subsystem now offers predictive, diagnostic, and prescriptive information. As our customers' revenues become hinged to wafer production—intelligent, precise process control will contribute to their bottom line.

Our convergence strategy also aligns with our customers' supplier-reduction initiatives. In the last three years, one of our customers has reduced its vendor list from 1200 suppliers down to about 327. Today, consolidation is a must.

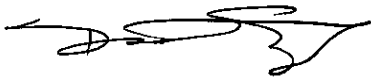
From an employee point of view, we believe our convergence strategy is inspiring our employees to new levels of curiosity, competency, and performance. Upsetting status quo opens new opportunities. We're bringing together groups of people from different disciplines who share the experience of having worked with many of the same customers. This means better cooperation, better insight, better product design, and better customer relationships. We learn more, we understand more. We communicate and listen better. And we're bound by shared principles, strong values, and a culture that says YES! to change.

And what does convergence mean for our investors? First, we know that success comes from creating superior products and services that are in demand by our customers—and we believe we're delivering better than ever on those expectations. Second, our vision supports long-term growth. And third, we remain focused on combining strong fundamentals with strong results and strong governance.

As I write this, the view of 2001 is foggy and limited. But the work goes on. Our customers are tooling for 300mm, copper, and the new geometries. End users seek retrofits. New applications surface.

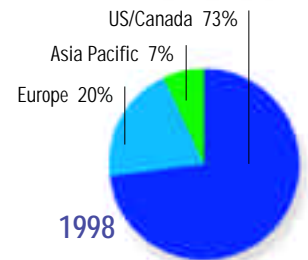
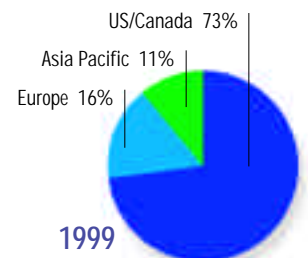
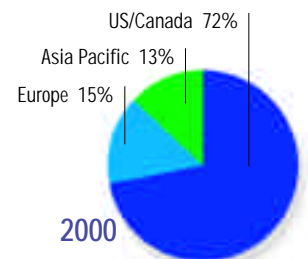
We're converging. It's the wave of our future.

On behalf of the AE family and our board of directors, thank you for your interest, confidence, and support.



Douglas S. Schatz
Chairman and CEO

Markets by Geographic Area



We're converging. It's the wave of our future.



- Small, combined reactive gas supply and ion source unit
- Low cost, low voltage/high current converters for powering microprocessors
- Wafer temperature controller
- Digitized mass flow controller
- Small, water-cooled dc power supply
- Integrated dc power supply and pulsing unit
- e-diagnostic technology
- Deposition rate monitor