

TO OUR STOCKHOLDERS, CUSTOMERS,  
EMPLOYEES, SUPPLIERS, AND FRIENDS

## **BASICS. ELEMENTS. PRINCIPLES.**

We've all heard and read about companies *getting back* to them this year—as though standards are stored away with unsuccessful prototypes.

At AE, the principles of business are—and have always been—as important to our conduct and philosophy as the laws of science are to our products and solutions.

**Accountability. Balance. Clarity. Determination.  
Excellence. Fairness. Generosity. Honor. Integrity . . .**

To us, they're as basic as A-B-C.

And if there was ever a time to test them, this year's repeat industry downturn offered the opportunity.

**YEAR 2002 RESULTS.** Net sales in 2002 were \$238.9 million compared with \$193.6 million in 2001—a 23% increase. Our net loss this year was \$41.4 million, or \$1.38 per diluted share, compared with a net loss of \$31.4 million, or \$0.99 per diluted share, in 2001. Gross profit increased to \$68.8 million from \$57.4 million. And gross margin was 29% in 2002 compared with 30%, in 2001.

The results of operations for 2002 reflect our acquisition of Aera Japan, Ltd., in January 2002 and our acquisition of Dressler HF Technik GmbH in March 2002. Excluding the 2002 revenue attributable to these acquisitions, revenue for the full year 2002 would have been flat year over year.

We ended the year with \$172 million of cash and marketable securities; \$248 million of working capital; \$456 million of total assets; and \$183 million of stockholders' equity.

**YEAR IN REVIEW.** So, what became of P-R-O-F-I-T? This year it fell victim to speed and direction. We don't need to explain about the speed and direction of the industry or the global economy. But what about our own?

## **PRINCIPLES**

**The essential qualities  
and elements that  
determine the  
characteristic behavior  
of people, processes,  
and phenomena.**



We're cutting costs. By mid-2003, we'll begin manufacturing in Shenzhen, China, and we're already pursuing an aggressive outsourcing program with Asian suppliers.

## **Accountability**— the ownership of responsibility.

While we were accurately cautious about the upturn some were predicting, and we were quick to respond to the first of the downturn, we were too slow to recognize its depth. Visibility was poor in both directions. But it's never poor in hindsight. Now we know exactly the situations where we needed to act faster, turn sharper, and play harder—like reducing the workforce to the full extent necessary sooner. Like making some critical organizational changes earlier. And like integrating our acquisitions more quickly. On a quarterly basis, we met or exceeded our goals, but it's clear that our fixed costs ran too high too far into the year.

Today, it's behind us. We're back on the fast track—headed in a positive direction—regardless of industry or global conditions. And we've got a detailed road map toward profitability.

Take what we did with the organization, for example. As I write this letter, we're now a leaner, more focused organization led by a smaller, highly specialized and experienced management team. We believe they represent the industry's best and brightest—making quick, strong, effective contributions.

Throughout the organization, we have the right people in the right places and their impact is already becoming obvious. We're steadily reducing our cost structures and moving toward positive territory in 2003.

**Accountability, we've learned, is stronger with fewer points of contact. And a lot more meaningful.**

## **Balance**— the symmetry of risk and certainty.

AE has a long history of making intrepid decisions based on rational intent and solid scrutiny.

Take the acquisitions we've made over the last few years. Each one contributed to our transition from an innovative component manufacturer to the world's preeminent process-centered solutions provider.

But growing to global proportions is costly. Today, we're reigning in hard on expenses. We've consolidated our domestic manufacturing sites in Fort Collins. And we've integrated our acquisitions for optimal benefit. With Aera Japan, Ltd., acquired in January 2002, we closed out manufacturing in Texas, transferring the products to our Japanese operations in November. And we consolidated sales support and engineering in Colorado and Texas.

Aera gave us special leverage. Established and respected worldwide for its mass flow controllers and support network, Aera opened the door to Japan's largest semiconductor OEMs for some of AE's other technologies. Today, in Japan, we are providing oxide etch solutions for the fast-growing 300mm market.

Acquisitions gave us leverage to penetrate new customers and new markets. For example, Dressler's RF products gave us entry into industrial lasers and medical applications, such as MRI—a profitable market this year.

Dressler HF Technik GmbH, acquired in March 2002, rounded out our RF power offerings and allowed us to enter new market niches—such as MRI technology and high tech industrial lasers—as well as specialized areas of the semiconductor industry. Dressler generated profits throughout the year.

We're passionate about reducing the cost of goods sold and cutting our materials costs. We're on a path to lower our breakeven to be profitable at revenue of \$55 to \$60 million by Q4 of 2003.

China is a main route to profitability. Our big news is that by mid-2003 we'll start producing selected power and mass flow control products at our new 87,000 square foot facility in Shenzhen. This may lower our labor costs by as much as 85%—a big impact on our gross margin. And we're pursuing an aggressive outsourcing program with Asian suppliers to significantly reduce our materials costs. Proper execution of these initiatives is crucial—and today we have the right resources dedicated to the plan.

**Balance, we know, is a fine line between action and restraint.**

## **Clarity**—the lucidity of vision.

Quite simply, our minimum standard is to be the best. We know that it takes winning on today's merits, not past performance. That it takes building enduring, coactive relationships with our customers, our suppliers, our shareholders, and our employees.

Today, our market share is moving upward in almost all our product categories. We're achieving critical design wins—particularly in the 300mm semiconductor manufacturing space. We hold the premier position in the flat panel markets—an area seeing strengthening demand. We continue to account for nearly all of the market in the manufacture of compact and video discs. And we're creating new markets. For example, we're partnering with industrial glass manufacturers in applying high-power solutions, innovative engineering, and technological advances to new applications.

**Clarity starts with visibility. Today we're keeping our customers'—and our own—priorities in even sharper focus.**

## **Determination**—the application of resolve.

Today we face a new fiscal year with a list of strong initiatives. World and market conditions may be uncertain, but we are not. We're making impactful changes in our development and production processes. We've implemented better simulation and analytic tools—and initiated them earlier in the production cycle. We're already experiencing fewer iterations and demonstrating improved reliability.



Today, we're applying resources to better understand and manage our product life cycles. We're getting faster at identifying opportunities, sharper at defining solutions, smarter about choosing methodologies, and more accurate about setting schedules. And we're more certain than ever of our employees' commitment and expertise. Today, our progress is directed and compelling.

**Determination and persistence, we've seen, are as important to solving problems as talent and genius.**

Critical design wins as well as industry consolidation helped grow and maintain AE's presence in dominant and emerging markets.

## **Excellence** — the merit of value.

We believe you'll soon see that the actions we've taken this year will catalyze our growth and profitability as business conditions improve. At AE we're more committed than ever to excellence. To us, it's the natural outcome of earning satisfaction and respect from our customers, our employees, our suppliers, and our shareholders.

## **For us, it's the principle of the thing.**

I thank you all for your trust, loyalty, and support—and I commend our directors for their continued vigilance and guidance.

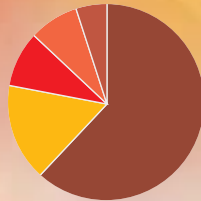


Douglas S. Schatz

Chairman, President, and Chief Executive Officer

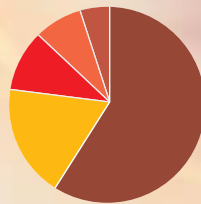
### 2002 REVENUE MIX BY INDUSTRY

- Semiconductors 62%
- Advanced Product Applications 16%
- Global Support 9%
- Flat Panel Display 8%
- Data Storage 5%



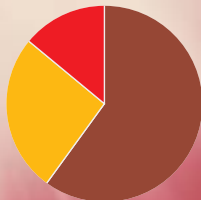
### 2001 REVENUE MIX BY INDUSTRY

- Semiconductors 59%
- Advanced Product Applications 18%
- Flat Panel Display 10%
- Global Support 8%
- Data Storage 5%



### 2002 MARKETS BY GEOGRAPHIC AREA

- USA/Canada 60%
- Asia Pacific 26%
- Europe 14%



### 2002 STOCK PRICE

