

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

Imagine this

You're ascending a steep grade—faster than you've ever risen before. There seems no end in sight. Yet suddenly, you reach a crest. And out there—ahead of you—a breathtaking vertical drop.

Look familiar? It does to us. In fact, it looks a whole lot like a graph of sales and earnings for the years 2000 and 2001. That crest you see? That was December 2000.

Welcome aboard the ceaseless roller coaster we call the semiconductor equipment industry—where the ramps seem to come steeper, faster, and closer together. Where we've learned to ride the ups and downs with equal tenacity. And where we've found that it's from a decline that we build momentum . . . just as it's from a recession that the best companies emerge stronger than before.

Year 2001 results. But first, there's that downhill run. Net sales in 2001 were \$193.6 million compared with \$359.8 million in 2000—a 46% decrease. Our net loss this year was \$31.4 million, or \$0.99 per diluted share, compared with a profit of \$68 million, or \$2.10 per diluted share, in 2000. Gross profit fell to \$57.4 million from \$176.5 million. Gross margin was 30% in 2001 compared with 49%, in 2000.

We ended the year with \$272 million of cash and marketable securities; \$350 million of working capital; \$450 million of total assets; and \$214 million of stockholders' equity.



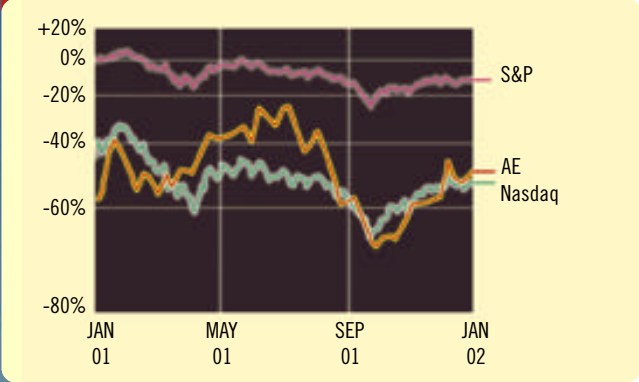
At AE, we adhere to a conservative fiscal strategy that includes maintaining a strong balance sheet to meet whatever opportunities—or crises—come along. In August we issued convertible notes and realized a net amount of \$121.25 million. We wanted the resources to act quickly on any strategically attractive acquisitions, and we wanted the flexibility of a strong cash position if the down cycle continued for a long time. It was a good decision.

Year in review. This year was all about decisions. Tough ones. When you're hurtling downhill at the front of a roller coaster, you can do the cowardly thing and close your eyes; you can do the foolish thing and just let go; or you can do the smart thing: brace for the bottom, lean into the curves, and stay on track for the upturn. We did the smart thing.

momentum



Stock Price 2001



First our executives, later our management, and then all employees took pay cuts proportionate to their pay levels. We instituted shutdown days. And we were forced to reduce headcount. Through three separate layoffs and some attrition, we lost about 400 people. However, we also stepped up communications with our employees to help ensure that the layoffs were no surprise—but in fact, a last resort. Good relations mean that when the upturn comes, we have a better chance to attract and retain key people.

We made it clear that every penny counts. We eliminated all but customer-critical travel, scrutinized every requisition, and challenged every employee to find cost-saving measures. Our financial fundamentals training classes equipped employees with the skills to identify over \$1 million in savings.

We accelerated efforts at streamlining our infrastructure. We consolidated operations where we could,

further integrating and assimilating acquired resources where opportunistic or redundant. And we developed even smarter ways for working with our suppliers.

Still, we never wavered in our commitment to technical innovation, technological leadership, product quality, and customer service. We stayed on track by retaining a strong talent pool. By earning design wins. By extending the breadth and depth of our market share—especially in the 300mm wafer and thermal management sectors. And by remaining savvy and aggressive. At year's end, we initiated the crucial acquisition of Aera, which significantly increases our leverage in the mass flow control market and our visibility worldwide. The impact will be momentous. The effect will be *momentum*.

At AE, we build a lot of our momentum by being flexible, using foresight, and having fun. The fun is in the people—our customers and our employees.

Flexibility. During cycles when we're speeding up ramp, all our time and attention focuses on customer service, production, and shipping. On the down slope, we find more energy for strategy and process. This year we had a long slope to ride; we accomplished a lot.

We continued to move forward our strategy of convergent technologies—expanding our capabilities beyond process power. Our approach has always been to ask customers “What do you want to have happen” not “What do you want this product to do.” But today, we have the technology and resources to offer far more powerful results. With each engineering project, with each design win, we're becoming a larger proportion of our customers' structures, adding value, gaining leverage, and assuming scale.

We decentralized by organizing into strategic product divisions based on product families to provide more direct channels for working with customers and meeting their needs. It gives us better insight into product lifecycles. And it helps us better manage costs, product complexity, and diversification.

We also identified opportunities for outsourcing our mature product lines to manufacturers who can maintain quality and reduce our costs so that we can devote attention to our new and developing products.

At AE, momentum is more than just velocity. It's agility.

Foresight. On the down run, we kept our eyes wide open. We acquired Aera, completing the deal in January 2002. Headquartered in Japan, Aera is one of the world's leading suppliers of mass flow controllers to the semiconductor equipment industry. Aera aligns perfectly with our convergence strategy and our best-of-breed criteria to attract companies with the best technology or the largest market shares.

With its global presence and excellent reputation for quality, reliability, service, and support, Aera has the power to propel the Mach One mass flow controller—a breakthrough technology developed by another of

our acquisitions, EMCO—into widespread use. With Aera's end-user sales expertise and AE's OEM sales expertise, we can build significant market momentum.

Momentum is growing for 300mm applications, too—at a faster rate than 200mm. That's good news. Because this year our major OEMs awarded us a number of 300mm design wins on a number of platforms. More and more, we're invited into engineering partnerships with our customers. More and more, we win in bigger and bigger ways.

This whole, long year we continued our investment in R&D. It takes courage, because we know that it may affect shareholder value in the short term and contribute to operating losses. But—experience tells us that it enhances shareholder value in the long term. And we know it builds momentum.

At AE we imagine more. We prepare earlier. We execute better. And we rise ahead of our peers.

Fun. Uphill or downhill—our corporate culture depends heavily on keeping the business fun. In light of world events, it seems an even stronger imperative. We define it—and effect it—in lots of different ways: exciting challenges, professional growth and change, industry leadership, autonomy, success, camaraderie, and ultimately—customer delight. At AE, fun is our people, our progress, our power, and our passion.

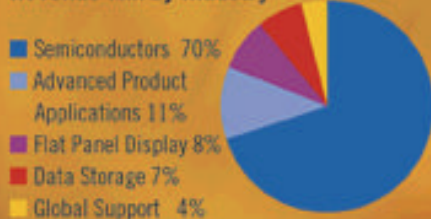
And at AE, fun is that every time we go around this roller coaster, we rise to a higher level. At AE—we've got the momentum.

Along with the AE family and our board of directors, I thank you for taking the ride.

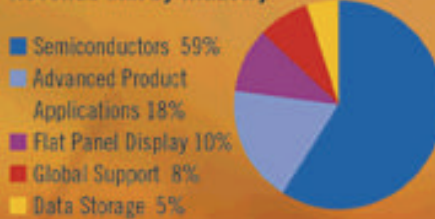


Douglas S. Schatz
Chairman, CEO, and President

2000
Revenue Mix by Industry



2001
Revenue Mix by Industry



2001
Markets by Geographic Area



momentum