ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q
(Quarterly Report)

Filed 8/4/2000 For Period Ending 6/30/2000

Address	1625 SHARP POINT DR
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Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549 **FORM 10-Q**

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2000.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission file number: 000-26966

ADVANCED ENERGY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	84-0846841
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1625 SHARP POINT DRIVE, FORT COLLINS, CO	80525
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (970) 221-4670

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

As of July 31, 2000, there were 29,243,096 shares of the Registrant's Common Stock, par value $0.001 per share, outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,790	$ 20,303
Marketable securities - trading	201,221	186,440
Accounts receivable, net	53,528	44,759
Income tax receivable	149	1,353
Inventories	33,910	26,456
Other current assets	1,610	1,707
Deferred income tax assets, net	3,668	3,668
Total current assets	311,876	284,686
PROPERTY AND EQUIPMENT, net	18,938	17,295
OTHER ASSETS:		
Deposits and other	517	535
Goodwill and intangibles, net	9,460	9,783
Demonstration and customer service equipment, net	2,598	2,352
Deferred debt issuance costs, net	4,090	4,410
Total assets	$ 347,479	$ 319,061
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	$ 15,826	$ 15,020
Accrued payroll and employee benefits	8,368	7,448
Other accrued expenses	2,820	2,759
Customer deposits	441	804
Accrued income taxes payable	1,843	1,266
Current portion of capital lease obligations and long-term debt	2,292	2,535
Accrued interest payable on convertible subordinated notes	886	886
Total current liabilities	32,476	30,718
LONG-TERM LIABILITIES:		
Capital lease obligations and notes payable, net of current portion	1,143	1,263
Convertible subordinated notes payable	135,000	135,000
	136,143	136,263
Total liabilities	168,619	166,981
MINORITY INTEREST	44	128
STOCKHOLDERS' EQUITY	178,816	151,952
Total liabilities and stockholders' equity	$ 347,479	$ 319,061

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30,	
	2000 (UNAUDITED)	1999 (UNAUDITED)
SALES	$ 80,586	$ 43,272
COST OF SALES	41,247	24,326
Gross profit	39,339	18,946
OPERATING EXPENSES:		
Research and development	8,100	6,831
Sales and marketing	5,049	4,062
General and administrative	5,323	3,548
Merger costs	2,333	--
Total operating expenses	20,805	14,441
INCOME FROM OPERATIONS	18,534	4,505
OTHER INCOME (EXPENSE)	734	31
Net income before income taxes and minority interest	19,268	4,536
PROVISION FOR INCOME TAXES	7,305	1,759
MINORITY INTEREST IN NET LOSS	(67)	--
NET INCOME	$ 12,030	$ 2,777
BASIC EARNINGS PER SHARE	$ 0.41	$ 0.10
DILUTED EARNINGS PER SHARE	$ 0.40	$ 0.10
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	29,214	27,275
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	30,443	28,504

	SIX MONTHS ENDED JUNE 30,	
	2000 (UNAUDITED)	1999 (UNAUDITED)
SALES	$ 150,837	$ 77,205
COST OF SALES	77,797	44,583
Gross profit	73,040	32,622
OPERATING EXPENSES:		
Research and development	15,906	12,696
Sales and marketing	10,679	7,430
General and administrative	10,547	6,848
Merger costs	2,333	--
Total operating expenses	39,465	26,974
INCOME FROM OPERATIONS	33,575	5,648
OTHER INCOME (EXPENSE)	925	(42)
Net income before income taxes and minority interest	34,500	5,606
PROVISION FOR INCOME TAXES	12,515	2,272
MINORITY INTEREST IN NET LOSS	(84)	--
NET INCOME	$ 22,069	$ 3,334
BASIC EARNINGS PER SHARE	$ 0.76	$ 0.12
DILUTED EARNINGS PER SHARE	$ 0.73	$ 0.12
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	29,114	27,222
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	30,425	28,433

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2000 (UNAUDITED)	1999 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 22,069	$ 3,334
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	4,565	3,625
Amortization of deferred debt issuance costs	320	--
Minority interest	(84)	--
Stock issued for services rendered	2,430	--
Provision for deferred income taxes	--	537
(Gain) loss on disposal of property and equipment	(90)	4
Earnings from marketable securities, net	(4,781)	(299)
Writedown of LITMAS investment	--	200
Changes in operating assets and liabilities --		
Accounts receivable-trade, net	(8,287)	(15,312)
Related parties and other receivables	(482)	152
Inventories	(7,454)	(2,198)
Other current assets	98	(803)
Deposits and other	(514)	(1)
Demonstration and customer service equipment	(614)	(103)
Accounts payable, trade	771	5,279
Accrued payroll and employee benefits	921	1,723
Customer deposits and other accrued expenses	(304)	(69)
Income taxes payable/receivable, net	1,781	1,602
Net cash provided by (used in) operating activities	10,345	(2,329)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Marketable securities transactions	(10,000)	1,928
Proceeds from sale of equipment	150	--
Purchase of property and equipment, net	(5,011)	(3,093)
Net cash used in investing activities	(14,861)	(1,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change from notes payable and capital lease obligations	(363)	1,616
Proceeds from common stock transactions	3,032	1,812
Net cash provided by financing activities	2,669	3,428
EFFECT OF CURRENCY TRANSLATION ON CASH	(666)	(860)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,513)	(926)
CASH AND CASH EQUIVALENTS, beginning of period	20,303	12,324
CASH AND CASH EQUIVALENTS, end of period	$ 17,790	$ 11,398
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 3,780	$ 201
Cash paid for income taxes, net	$ 12,066	$ 308

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION AND MANAGEMENT OPINION

In the opinion of management, the accompanying unaudited consolidated balance sheets and statements of operations and cash flows contain all adjustments, consisting only of normal recurring items, necessary to present fairly the financial position of Advanced Energy Industries, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company") at June 30, 2000 and December 31, 1999, and the results of the Company's operations for the three- and six-month periods ended June 30, 2000 and 1999, and cash flows for the six month periods ended June 30, 2000.

The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by generally accepted accounting principles. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(2) ACQUISITIONS

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 to the former shareholders of Noah, including approximately 33,000 shares issued for a financial advisory fee for Noah, which was accounted for as merger costs of the acquisition. Each share of Noah common stock was exchanged for 0.0577 of one share of the Company's common stock. In addition, outstanding Noah stock options were converted into options to purchase approximately 29,000 shares of the Company's common stock.

The merger constituted a tax-free reorganization and has 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 Noah as though it had always been part of the Company. There were no transactions between the Company and Noah prior to the combination, and immaterial adjustments were recorded to conform Noah's accounting policies. Certain reclassifications were made to conform the Noah 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:

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	(IN THOUSANDS)	
Sales:		
Pre-merger		
Advanced Energy	$ 67,171	$ 74,243
Noah	3,080	2,962
Post-merger	80,586	--
Consolidated	$ 150,837	$ 77,205
Net income:		
Pre-merger		
Advanced Energy	$ 9,996	$ 3,304
Noah	43	30
Post-merger	14,363	--
Merger costs	(2,333)	--
Consolidated	$ 22,069	$ 3,334

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 have been consolidated in the accompanying consolidated financial statements from the date the controlling interest of 56.5% was acquired.

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 4 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. The merger constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented were restated to include the combined balance sheet, statements of operations and cash flows of AEV as though it had always been part of the Company.

FST -- On 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. During the fourth quarter of 1999 and the first six months of 2000, the Company accrued $240,000 and $36,000, respectively, to intangible assets as a result of the earn-out provision being met during those periods. Approximately $2.6 million of the initial purchase price was allocated to intangible assets. The results of operations of FST are included within the accompanying consolidated financial statements from the date of acquisition.

(3) MARKETABLE SECURITIES - TRADING

MARKETABLE SECURITIES - TRADING consisted of the following:

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Commercial paper	$ 151,263	$ 118,894
Municipal bonds and notes	39,989	67,453
Money market mutual funds	9,969	93
Total marketable securities	$ 201,221	$ 186,440

(4) ACCOUNTS RECEIVABLE - TRADE

ACCOUNTS RECEIVABLE - TRADE consisted of the following:

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Domestic	$ 25,250	$ 20,126
Foreign	26,559	23,391
Allowance for doubtful accounts	(582)	(577)
Trade accounts receivable	51,227	42,940
Related parties	139	32
Other	2,162	1,787
Total accounts receivable	$ 53,528	$ 44,759

(5) INVENTORIES

INVENTORIES consisted of the following:

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Parts and raw materials	$ 22,375	$ 17,512
Work in process	4,532	2,526
Finished goods	7,003	6,418
Total inventories	$ 33,910	$ 26,456

(6) STOCKHOLDERS' EQUITY

STOCKHOLDERS' EQUITY consisted of the following:

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS, EXCEPT PAR VALUE)	
Common stock, $0.001 par value, 40,000 shares authorized; 29,237 and 28,881 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	$ 29	$ 29
Additional paid-in capital	112,155	106,694
Retained earnings	68,188	46,119
Accumulated other comprehensive loss	(1,556)	(890)
Total stockholders' equity	$ 178,816	$ 151,952

(7) ACCOUNTING STANDARDS

COMPREHENSIVE INCOME -- In June 1997 the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes rules for the reporting of comprehensive income and its components. Comprehensive income for the Company consists of net income and foreign currency translation adjustments as presented below. The adoption of SFAS No. 130 in fiscal 1998 had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform to the SFAS No. 130 requirements.

	SIX MONTHS ENDED JUNE 30, 2000 (UNAUDITED)	SIX MONTHS ENDED JUNE 30, 1999 (UNAUDITED)
	(IN THOUSANDS)	
Net income, as reported	$ 22,069	$ 3,334
Adjustment to arrive at comprehensive net income:		
Cumulative translation adjustment	(666)	(860)
Comprehensive net income	$ 21,403	$ 2,474

SEGMENT REPORTING -- In June 1997 the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which 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. SFAS No. 131 was effective for the Company beginning fiscal 1998. Management operates and manages its business of supplying power conversion and control systems as one operating segment, as their products have similar economic characteristics and production processes.

DERIVATIVE HEDGING ACTIVITIES -- In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and for hedging activity. SFAS No. 133, as amended by SFAS No. 137 in June 1999, is effective for the Company for all periods in fiscal year 2001. SFAS No. 133 requires 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 has not yet evaluated the impact that the adoption of SFAS No. 133 will have on the financial statements.

REVENUE RECOGNITION -- 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. Management does not believe that the adoption of SAB No. 101 will have a material effect on the Company's financial position or results of operations.

(8) 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 7 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 June 30, 2000, $0.9 million of interest expense was accrued as a current liability, and there had been no conversion of notes into the Company's common stock.

(9) SUBSEQUENT EVENTS

On July 6, 2000, the Company entered into a definitive agreement to acquire Engineering Measurements Company ("EMCO") in an exchange of stock. The shareholders and option holders of EMCO will receive approximately 900,000 shares of Advanced Energy common stock in the transaction, which is subject to approval by EMCO's stockholders and certain other conditions. The Company believes the acquisition will be accounted for as a pooling of interests, and will operate EMCO as a wholly owned subsidiary. EMCO, a Longmont, Colorado-based company, manufactures electronic and electromechanical precision instruments for measuring and controlling the flow of liquids, steam and gases.

On July 24, 2000, the Company entered into a definitive agreement to acquire Sekidenko, Inc. ("Sekidenko") in an exchange of stock. The Company believes the acquisition will be accounted for as a pooling of interests, and will operate Sekidenko as a wholly owned subsidiary. Sekidenko, a Vancouver, Washington-based company, is a supplier of optical fiber thermometers to the semiconductor capital equipment industry.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

The following discussion contains, in addition to historical information, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For example, statements relating to our beliefs, expectations and plans are forward-looking statements, as are statements that certain actions, conditions or circumstances will occur or continue. Forward-looking statements involve risks and uncertainties. As a result, our actual results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences or prove any forward-looking statements, by hindsight, to be overly optimistic or unachievable, include, but are not limited to the following:

o the significant fluctuations in our quarterly operating results;

o the volatility of the semiconductor and semiconductor capital equipment industries;

o timing and success of integration of recent and potential future acquisitions; and

o supply constraints and technological changes.

For a discussion of these and other factors that may impact our realization of our forward-looking statements, see our Annual Report on Form 10-K for the year ended December 31, 1999, Part I "Cautionary Statements - Risk Factors."

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2000 AND 1999

SALES

We sell power conversion and control systems and plasma gas abatement systems primarily to the semiconductor capital equipment, data storage and emerging markets in the United States, to the flat panel display and data storage markets in Japan, and to data storage and emerging markets in Europe. We also sell spare parts and repair services worldwide through our customer service and technical support organization.

Sales were $43.3 million in the second quarter of 1999 and $80.6 million in the second quarter of 2000, representing an increase of 86%. The second quarter of 2000 achieved a record quarterly level of sales for us and was the sixth consecutive quarter of sales growth. Our sales in the second quarter of 2000 continued to reflect the recovery in the

semiconductor capital equipment industry from the severe downturn of 1998. The recovery, which was attributable to capacity expansion and increased investment in advanced technology by the semiconductor industry, resulted in increased demand for our systems from manufacturers of semiconductor capital equipment, including our largest customer. Our experience has shown that our sales to semiconductor capital equipment customers is dependent on the volatility of that industry, as a result of sudden changes in semiconductor supply and demand, and rapid technological advances in both semiconductor devices and wafer fabrication processes.

Our sales in the second quarter of 2000 when compared to the second quarter of 1999 were also higher because of increased sales to the data storage, flat panel display and emerging markets. Sales to the flat panel display industry were significantly higher due to increased demand by that industry in Japan. Sales to the data storage industry were significantly higher due to increased sales to that industry's entertainment customer group and to its computer customer group. We also achieved significantly higher sales of customer service and technical support. These increases to all our industries also resulted in higher sales to all our major geographic regions, including the United States, Asia Pacific and Europe.

The following tables summarize net sales and percentages of net sales by customer type for us for the three-month periods ended June 30, 2000 and 1999:

	THREE MONTHS ENDED JUNE 30,	
	2000	1999
	(IN THOUSANDS)	
Semiconductor capital equipment	$ 56,413	$ 27,345
Data storage	7,089	4,437
Flat panel display	6,138	2,342
Emerging markets	7,302	6,704
Customer service technical support	3,644	2,444
	$ 80,586	$ 43,272

	THREE MONTHS ENDED JUNE 30,	
	2000	1999
Semiconductor capital equipment	70%	63%
Data storage	9	10
Flat panel display	8	5
Emerging markets	9	16
Customer service technical support	4	6
	100%	100%

The following tables summarize net sales and percentages of net sales by geographic region for us for the three-month periods ended June 30, 2000 and 1999:

	THREE MONTHS ENDED JUNE 30,	
	2000	1999
	(IN THOUSANDS)	
United States and Canada	$ 57,425	$ 32,249
Europe	12,420	6,311
Asia Pacific	10,655	4,668
Rest of world	86	44
	$ 80,586	$ 43,272

	THREE MONTHS ENDED JUNE 30,	
	2000	1999
United States and Canada	71%	74%
Europe	16	15
Asia Pacific	13	11
Rest of world	--	--
	100%	100%

GROSS MARGIN

Our gross margin was 43.8% in the second quarter of 1999 and 48.8% in the second quarter of 2000. The improvement was due to more favorable absorption of manufacturing overhead from the higher sales base, lower material costs, and lower costs of customer service and technical support. We intend to add new facilities in Fort Collins, Colorado in the fourth quarter of 2000, which could adversely impact absorption of overhead.

RESEARCH AND DEVELOPMENT EXPENSES

We invest in research and development to investigate new technologies, develop new products, and improve existing product designs. Our research and development expenses were $6.8 million in the second quarter of 1999 and $8.1 million in the second quarter of 2000, representing an increase of 19%. The increase is primarily due to increases in payroll, depreciation, and higher infrastructure costs for new product development. As a percentage of sales, research and development expenses decreased from 15.8% in the second quarter of 1999 to 10.1% in the second quarter of 2000 because of the higher sales base.

We believe continued research and development investment for development of new systems is critical to our ability to serve new and existing markets. Since our inception, the majority of our research and development costs have been internally funded and all have been expensed as incurred.

SALES AND MARKETING EXPENSES

Our sales and marketing expenses support domestic and international sales and marketing activities which include personnel, trade shows, advertising, and other marketing activities. Sales and marketing expenses were $4.1 million in the second quarter of 1999 and $5.0 million in the second quarter of 2000, representing a 24% increase. The increase is primarily due to higher payroll, promotion, distribution and depreciation costs incurred as we continue to increase our sales management and product management capabilities. As a percentage of sales, sales and marketing expenses decreased from 9.4% in the second quarter of 1999 to 6.3% in the second quarter of 2000 because of the higher sales base.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses support our worldwide financial, administrative, information systems and human resources functions. General and administrative expenses were $3.5 million in the second quarter of 1999 and $5.3 million in the second quarter of 2000, representing a 50% increase. The increase is primarily due to higher spending for payroll and purchased services. As a percentage of sales, general and administrative expenses decreased from 8.2% in the second quarter of 1999 to 6.6% in the second quarter of 2000 because of the higher sales base.

We continue to implement our management system software, including the replacement of existing systems in our domestic and foreign locations. We expect that charges related to training and implementation of the new software will continue through 2000.

ONE-TIME CHARGES

On April 6, 2000, Advanced Energy acquired Noah Holdings, Inc. ("Noah") in a merger that was accounted for as a pooling of interests. This merger involved the exchange of approximately 687,000 shares of Advanced Energy common stock for the privately held common stock of Noah. In addition, outstanding Noah stock options were converted into options to purchase approximately 29,000 shares of our common stock. As part of the business combination, we took a one-time charge of $2.3 million in the second quarter of 2000 for merger costs, which cannot be capitalized and are generally nondeductible for income tax purposes. We expect to incur additional operating expenses during 2000 related to consolidating and integrating operations of this business combination.

OTHER INCOME (EXPENSE)

Other income consists primarily of interest income and expense, foreign exchange gains and other miscellaneous items. Other income was $31,000 in the second quarter of 1999. Other income was $734,000 in the second quarter of 2000, primarily due to net interest income from marketable securities we hold and foreign currency gains.

PROVISION FOR INCOME TAXES

The income tax provision for the second quarter of 1999 was $1.8 million and represented an effective tax rate of 39%. The income tax provision for the second quarter of 2000 was $7.3 million and represented an effective tax rate of 38%. We have implemented several strategic tax reduction initiatives to reduce our overall effective rate, and we adjust our income taxes periodically based upon the anticipated tax status of all foreign and domestic entities.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 1999

SALES

Sales were $77.2 million for the first six months of 1999 and $150.8 million for the first six months of 2000. The increase was attributable to increased sales to all the industries to which we sell, and also included increases to all of our geographic regions.

The following tables summarize net sales and percentages of net sales by customer type for us for the six-month periods ended June 30, 2000 and 1999:

	SIX MONTHS ENDED JUNE 30, 2000	1999
	(IN THOUSANDS)	
Semiconductor capital equipment	$ 102,193	$ 46,816
Data storage	14,137	9,040
Flat panel display	10,863	3,559
Emerging markets	16,143	13,745
Customer service technical support	7,501	4,045
	$ 150,837	$ 77,205

	SIX MONTHS ENDED JUNE 30, 2000	1999
Semiconductor capital equipment	68%	61%
Data storage	9	12
Flat panel display	7	4
Emerging markets	11	18
Customer service technical support	5	5
	100%	100%

The following tables summarize net sales and percentages of net sales by geographic region for us for the six-month periods ended June 30, 2000 and 1999:

	SIX MONTHS ENDED JUNE 30, 2000	1999
	(IN THOUSANDS)	
United States and Canada	$ 106,434	$ 56,193
Europe	23,637	12,193
Asia Pacific	20,479	8,457
Rest of world	287	362
	$ 150,837	$ 77,205

	SIX MONTHS ENDED JUNE 30, 2000	1999
United States and Canada	71%	73%
Europe	16	16
Asia Pacific	13	11
Rest of world	--	--
	100%	100%

GROSS MARGIN

Our gross margin was 42.3% in the first six months of 1999 and 48.4% in the first six months of 2000. The improvement was due to more favorable absorption of

manufacturing overhead from the higher sales base, and from lower costs of customer service and technical support.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were $12.7 million in the first six months of 1999 and $15.9 million in the first six months of 2000, representing an increase of 25%. The increase is primarily due to increases in payroll, materials and supplies, depreciation and higher infrastructure costs for new product development. As a percentage of sales, research and development expenses decreased from 16.4% in the first six months of 1999 to 10.5% in the first six months of 2000 because of the higher sales base.

SALES AND MARKETING EXPENSES

Sales and marketing expenses were $7.4 million in the first six months of 1999 and $10.7 million in the first six months of 2000, representing a 44% increase. The increase is primarily due to higher payroll, promotion and distribution costs. As a percentage of sales, sales and marketing expenses decreased from 9.6% in the first six months of 1999 to 7.1% in the first six months of 2000 because of the higher sales base.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $6.8 million in the first six months of 1999 and $10.5 million in the first six months of 2000, representing a 54% increase. The increase is primarily due to higher spending for payroll and purchased services. As a percentage of sales, general and administrative expenses decreased from 8.9% in the first six months of 1999 to 7.0% in the first six months of 2000 because of the higher sales base.

OTHER INCOME (EXPENSE)

Other income was $925,000 in the first six months of 2000, primarily due to net interest income from marketable securities we hold, partially offset by foreign currency losses.

PROVISION FOR INCOME TAXES

The income tax provision for the first six months of 1999 was $2.3 million and represented an effective tax rate of 41%. The income tax provision for the first six months of 2000 was $12.5 million and represented an effective tax rate of 36%. We have implemented several strategic tax reduction initiatives to reduce our overall effective rate, and we adjust our income taxes periodically based upon the anticipated tax status of all foreign and domestic entities.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations, acquired equipment and met our working capital requirements through borrowings under our revolving line of credit, long-term loans secured by property and equipment, cash flow from operations and proceeds from underwritten public offerings of our common stock and convertible subordinated debt.

Operating activities used cash of $2.3 million in the first six months of 1999, primarily as a result of increases in accounts receivable and inventories, partially offset by net income, depreciation and amortization, increases in accounts payable and increased accruals for payroll, employee benefits and income taxes. Operating activities provided cash of $10.3 million in the first six months of 2000, primarily as a result of net income, depreciation and amortization, partially offset by increases in accounts receivable and inventories. We expect future receivable and inventory balances to fluctuate with net sales. We provide just-in-time deliveries to certain of our customers and may be required to maintain higher levels of inventory to satisfy our customers' delivery requirements. Any increase in our inventory levels will require the use of cash to purchase the inventory.

Investing activities used cash of $1.2 million in the first six months of 1999, and included the purchase of property and equipment for $3.1 million offset by a decrease of marketable securities of $1.9 million. Investing activities used cash of $14.9 million in the first six months of 2000, and included the purchase of marketable securities of $10.0 million and the purchase of property and equipment for $5.0 million, partially offset by proceeds from the sale of equipment of $150,000.

Financing activities provided cash of $3.4 million in the first six months of 1999, and consisted primarily of $1.8 million from the exercise of employee stock options and sale of common stock through our employee stock purchase plan ("ESPP") and $1.6 million of net changes in notes payable and capital lease obligations. Financing activities provided cash of $2.7 million in the first six months of 2000, and included $3.0 million from the exercise of employee stock options and sale of common stock through our ESPP, partly offset by $363,000 of net changes in notes payable and capital lease obligations.

We plan to spend approximately $11 million through the remainder of 2000 for the acquisition of equipment, leasehold improvements and furnishings, with depreciation expense projected to be $4.1 million.

As of June 30, 2000, we had working capital of $279.4 million. Our principal sources of liquidity consisted of $17.8 million of cash and cash equivalents, $201.2 million of marketable securities, and a credit facility consisting of a $30.0 million revolving line of credit, with options to convert up to $10.0 million to a three-year term loan. Advances

under the revolving line of credit bear interest at either the prime rate (9.5% at July 31, 2000) minus 1.25% or the LIBOR 360-day rate (7.08% at July 31, 2000) plus 150 basis points, at our option. All advances under the revolving line of credit will be due and payable in December 2000. As of June 30, 2000 there was an advance outstanding of $1.9 million on our line of credit by our Japanese subsidiary, Advanced Energy Japan K.K. We also have a line of credit of $1.9 million of which $94,000 was outstanding at June 30, 2000.

We believe that our cash and cash equivalents, marketable securities, cash flow from operations and available borrowings, will be sufficient to meet our working capital needs through at least the end of 2001. After that time, we may require additional equity or debt financing to address our working capital, capital equipment or expansion needs. In addition, any significant acquisitions we make may require additional equity or debt financing to fund the purchase price, if paid in cash. There can be no assurance that additional funding will be available when required or that it will be available on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt obligations. We generally place our investments with high credit quality issuers and by policy are averse to principal loss and seek to protect and preserve our invested funds by limiting default risk, market risk and reinvestment risk. As of June 30, 2000, our investments consisted of commercial paper and municipal bonds and money market mutual funds.

Our interest expense is sensitive to changes in the general level of U.S. interest rates with respect to our bank facilities of which $2.0 million was outstanding as of June 30, 2000. Our other debt, including our convertible subordinated notes, is fixed rate in nature and mitigates the impact of fluctuations in interest rates. The fair value of our debt approximates the carrying amount at June 30, 2000. We believe the potential effects of near-term changes in interest rates on our debt is not material.

FOREIGN CURRENCY EXCHANGE RATE RISK

We transact business in various foreign countries. Our primary foreign currency cash flows are generated in countries in Asia and Europe. We have entered into various forward foreign exchange contracts as a hedge against currency fluctuations in the Japanese yen. We will continue to evaluate various methods to minimize the effects of currency fluctuations.

Eleven European countries have adopted a Single European Currency (the "euro") as of January 1, 1999 with a transition period continuing through January 1, 2002. As of January 1, 1999, these eleven of the fifteen member countries of the European Union (the "participating countries") established fixed conversion rates between their existing sovereign currencies and the euro. For three years after the introduction of the euro, the participating countries can perform financial transactions in either the euro or their original local currencies. This will result in a fixed exchange rate among the participating countries, whereas the euro (and the participating countries' currencies in tandem) will continue to float freely against the U.S. dollar and other currencies of non-participating countries. Although we do not expect the introduction of the euro currency to have a significant impact on our revenues or results of operations, we are unable to determine what effects, if any, the currency change in Europe will have on competition and competitive pricing in the affected regions.

OTHER RISK

We have invested in start-up companies and may in the future make additional investments in start-up companies that develop products which we believe may provide future benefits. The current and any future start-up investments will be subject to all of the risks inherent in investing in companies that are not established.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not aware of any legal proceedings that are expected to have a material effect on our business, assets or property.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2000 Annual Meeting of Stockholders on Wednesday, May 10, 2000, to vote on two proposals. Proxy statements were sent to all shareholders. The first proposal was for the election of the following eight people as directors:
Douglas S. Schatz, G. Brent Backman, Richard P. Beck, Hollis L. Caswell, Ph.D., Arthur A. Noeth, Elwood Spedden, Gerald Starek and Arthur Zafiropoulo. All eight directors were elected with the following votes tabulated:

NAME OF DIRECTOR	TOTAL VOTE FOR EACH DIRECTOR	TOTAL VOTE WITHHELD FROM EACH DIRECTOR
Mr. Schatz	24,217,511	152,913
Mr. Backman	24,217,511	152,913
Mr. Beck	24,217,511	152,913
Dr. Caswell	24,217,285	153,139
Mr. Noeth	24,342,710	27,714
Mr. Spedden	24,342,829	27,595
Mr. Starek	24,342,929	27,495
Mr. Zafiropoulo	24,342,912	27,512

The second proposal was for the ratification of the appointment of independent auditors for the year 2000. The appointment of the current auditors, Arthur Andersen LLP, was ratified, with the following votes tabulated:

FOR	AGAINST	ABSTAIN
24,363,003	4,802	2,619

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3.1 The Company's Restated Certificate of Incorporation, as amended(1)

3.2 The Company's By-laws(2)

4.1 Form of Specimen Certificate for the Company's Common Stock(2)

4.2 Indenture dated November 1, 1999 between State Street Bank and Trust Company of California, N.A., as trustee, and the Company (including form of 5 1/4% Convertible Subordinated Note due 2006)(3)

4.3 The Company hereby agrees to furnish to the SEC, upon request, a copy of the instruments which define the rights of holders of long-term debt of the Company. None of such instruments not included as exhibits herein represents long-term debt in excess of 10% of the consolidated total assets of the Company.

10.1 Comprehensive Supplier Agreement, dated May 18, 1998, between Applied Materials Inc. and the Company(4)+

10.2 Purchase Order and Sales Agreement, dated October 12, 1999, between Lam Research Corporation and the Company(3)

10.3 Purchase Agreement, dated November 1, 1995, between Eaton Corporation and the Company(5)+

10.4 Loan and Security Agreement, dated August 15, 1997, among Silicon Valley Bank, Bank of Hawaii and the Company(6)

10.5 Loan Agreement dated December 8, 1997, by and among Silicon Valley Bank, as Servicing Agent and a Bank, and Bank of Hawaii, as a Bank, and the Company, as borrower(7)

10.6 Lease, dated June 12, 1984, amended June 11, 1992, between Prospect Park East Partnership and the Company for property in Fort Collins, Colorado(2)

10.7 Lease, dated March 14, 1994, as amended, between Sharp Point Properties, L.L.C., and the Company for property in Fort Collins, Colorado(2)

10.8 Lease, dated May 19, 1995, between Sharp Point Properties, L.L.C. and the Company for a building in Fort Collins, Colorado(2)

10.9 Lease agreement, dated March 18, 1996, and amendments dated June 21, 1996 and August 30, 1996, between RF Power Products, Inc., and Laurel Oak Road, L.L.C. for property in Voorhees, New Jersey(8)

10.10 Form of Indemnification Agreement(2)

10.11 Employment Agreement, dated June 1, 1998, between RF Power Products, Inc., and Joseph Stach(9)

10.12 1995 Stock Option Plan, as amended and restated(9)*

10.13 1995 Non-Employee Directors' Stock Option Plan(9)*

10.14 License Agreement, dated May 13, 1992 between RF Power Products and Plasma-Therm, Inc.(10)

10.15 Lease Agreement dated March 18, 1996 and amendments dated June 21, 1996 and August 30, 1996 between RF Power Products, Inc. and Laurel Oak Road, L.L.C. for office, manufacturing and warehouse space at 1007 Laurel Oak Road, Voorhees, New Jersey(8)

10.16 Direct Loan Agreement dated December 20, 1996 between RF Power Products, Inc. and the New Jersey Economic Development Authority(8)

10.17 Lease, dated April 15, 1998, between Cross Park Investors, Ltd., and the Company for property in Austin, Texas(4)

10.18 Lease, dated April 15, 1998, between Cameron Technology Investors, Ltd., and the Company for property in Austin, Texas(4)

10.19 Agreement and Plan of Reorganization, dated April 5, 2000, between the Registrant, Noah Holdings, Inc. and AE Cal Merger Sub, Inc. (11)

10.20 Escrow and Indemnity Agreement, dated April 5, 2000, between the Registrant, the former stockholders of Noah Holdings, Inc. and Commercial Escrow Services, Inc.(11)

10.21 Agreement and Plan of Reorganization, dated July 21, 2000, by and among the Company, Mercury Merger Corporation, a wholly owned subsidiary of the Company, Sekidenko, Inc., and Dr. Ray R. Dils

10.22 Agreement and Plan of Reorganization, dated July 6, 2000, by and among the Company, Flow Acquisition Corporation, a wholly owned subsidiary of the Company, and Engineering Measurements Company

27.1 Financial Data Schedule for the six-month period ended June 30, 2000

27.2 Financial Data Schedules as restated for the year ended December 31, 1998, the three-month period ended March 31, 1999, the six-month period ended June 30, 1999, the nine-month period ended September 30, 1999 and the year ended December 31, 1999

27.3 Financial Data Schedule as restated for the three-month period ended March 31, 2000

(1) Incorporated by reference to the Company's quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-26966), filed July 28, 1999.

(2) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-97188), filed September 20, 1995, as amended.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-26966), filed March 20, 2000.

(4) Incorporated by reference to the Company's quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 0-26966), filed August 7, 1998.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 0-26966), filed March 28, 1996, as amended.

(6) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-34039), filed August 21, 1997, as amended.

(7) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-26966), filed March 24, 1998.

(8) Incorporated by reference to RF Power Products' Annual Report on Form 10-K for the fiscal year ended November 30, 1996 (File No. 0-20229), filed February 25, 1997.

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(10) Incorporated by reference to RF Power Products' Registration Statement on Form 10 (File No. 0-020229), filed May 19, 1992 as amended.

(11) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-37378), filed May 19, 2000.

* Compensation Plan

+ Confidential treatment has been granted for portions of this agreement.

(b) No reports on Form 8-K were filed by the Company during the quarter ended June 30, 2000.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED ENERGY INDUSTRIES, INC.

/s/ Richard P. Beck *----------* *Richard P. Beck* *Senior Vice President, Chief Financial Officer, Assistant Secretary and Director (Principal Financial Officer and Principal Accounting Officer)*	*August 4, 2000*

EXHIBIT INDEX

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* Compensation Plan

+ Confidential treatment has been granted for portions of this agreement.

EXHIBIT 10.21

MERGER AGREEMENT

AMONG

SEKIDENKO, INC.
("SEKIDENKO")

DR. RAY R. DILS
(AS THE "PRINCIPAL SHAREHOLDER")

ADVANCED ENERGY INDUSTRIES, INC.
(AS THE "PARENT CORPORATION")

AND

MERCURY MERGER CORPORATION
(AS THE "MERGER SUB")

DATED JULY 21, 2000

TABLE OF CONTENTS

EXHIBITS

The following Exhibits are attached to and are incorporated by reference into this Agreement as if fully set forth herein.

Exhibit 1.1	Form of Articles of Merger
Exhibit 2.3	Form of Escrow Agreement
Exhibit 3.2.3	Form of Employment Agreement
Exhibit 7.8	Form of Opinion of Legal Counsel to Sekidenko
Exhibit 8.6	Form of Opinion of Legal Counsel to the Parent Corporation

SCHEDULES

The following Schedules have been provided separately, but concurrently with delivery of this Agreement, by Sekidenko to the Parent Corporation and are incorporated by reference into this Agreement as if fully set forth herein.

Schedule 2.1	List of Sekidenko Shareholders
Schedule 4.2.4	Consents
Schedule 4.6	Litigation, Orders and Judgments
Schedule 4.7	Financial Statements
Schedule 4.11	Material Contracts
Schedule 4.12	Intellectual Property
Schedule 4.13	Compliance with Employment Laws and Labor Relations
Schedule 4.14	Hazardous Substances
Schedule 4.15	Benefit Plans
Schedule 4.16	Finders Fees
Schedule 4.17	Changes or Events

INDEX OF DEFINED TERMS

Term	Location of Definition
Agreement	Preface
APB No. 16	Recital E
Applied Materials	Section 4.18
Articles of Merger	Section 1.1
Benefit Plans	Section 4.15
Closing	Section 3.1
Closing Date	Section 3.1
Code	Recital D
Effective Time	Section 1.2
Environmental Requirements	Section 4.14
ERISA	Section 4.15
Escrow Agent	Section 2.3
Escrow Agreement	Section 2.3
Exchange Price	Section 2.1
Exchange Ratio	Section 2.1.1
Form S-3 Registration	Section 6.7
Hazardous Substances	Section 4.14
HSR Act	Section 4.2.4
Material Contract	Section 4.11
Merger	Section 1.1
Merger Shares	Section 2.1.1
Merger Sub	Parties
Principal Shareholder	Parties
Parent Corporation	Parties
Parent Corporation's Securities Filings	Section 5.5
Sekidenko	Parties
Sekidenko Financial Statements	Section 4.7
Sekidenko Intellectual Property	Section 4.12
Sekidenko Shareholders	Section 2.1
Surviving Corporation	Section 1.3

MERGER AGREEMENT

THIS MERGER AGREEMENT (the "AGREEMENT") is dated for reference purposes as of July 21, 2000 and is by and among the following:

PARTIES

Sekidenko, Inc., a corporation duly incorporated under the laws of the State of Washington having its principal office located at:
2501 S.E. Columbia Way, Suite 230
Vancouver, Washington 98661 ("SEKIDENKO")

Dr. Ray R. Dils, an individual residing at:
1416 N.E. 145th Avenue
Vancouver, Washington 98684 (the "PRINCIPAL SHAREHOLDER")

Advanced Energy Industries, Inc., a corporation duly incorporated under the laws of the State of Delaware and having its principal office located at:
1625 Sharp Point Drive
Fort Collins, CO 80525 (the "PARENT CORPORATION")

Mercury Merger Corporation, a corporation duly incorporated under the laws of the State of Washington and having its principal office located at:
1625 Sharp Point Drive
Fort Collins, CO 80525 (the "MERGER SUB")

RECITALS

A. The Boards of Directors of Sekidenko and Parent Corporation each have determined that a business combination involving Sekidenko and Parent Corporation would enable each of those companies to better achieve their long-term strategic and financial objectives and, accordingly, would be in the best interest of their respective shareholders and each desires to effect the Merger (as defined herein) on the terms and subject to the conditions set forth herein.

B. The Principal Shareholder is the record and beneficial holder of a majority of the outstanding capital stock of Sekidenko and desires to cause Sekidenko to enter into this Agreement and to consummate the transactions contemplated hereby.

C. The Parent Corporation has caused the formation of Merger Sub for the sole purpose of effecting the Merger.

D. The parties intend that the Merger qualify for federal income tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "CODE").

E. The parties intend that the Merger be accounted for as a pooling of interests for financial accounting purposes in accordance with Accounting Principles Board Opinion Number 16, the interpretive releases issued pursuant thereto and the pronouncements of the Securities and Exchange Commission relating thereto (collectively, "APB NO. 16").

AGREEMENT

NOW THEREFORE, for and in consideration of the premises and the mutual covenants and agreements contained herein, and, subject to the terms and conditions set forth herein, intending to be legally bound hereby, the parties hereto agree as follows:

1. THE MERGER.

1.1 Articles and Plan of Merger. On the terms and subject to the conditions of this Agreement, on the Closing Date (as defined in Section 3.1, below), Sekidenko and the Merger Sub will execute Articles of Merger, including a Plan of Merger, in the form attached hereto as Exhibit 1.1 (the "ARTICLES OF MERGER"), and file such Articles of Merger with the Secretary of State of the State of Washington. Pursuant to these Articles of Merger, the Merger Sub will be merged with and into Sekidenko (the "MERGER").

1.2 Effective Time. The Merger will become effective as of the date on which Sekidenko and the Merger Sub file the Articles of Merger with the Secretary of State of the State of Washington (the "EFFECTIVE Time").

1.3 Effect of the Merger. The Merger shall have the effects set forth in
Section 23B.11.060 of the Washington Business Corporation Act. Pursuant to the Merger, the separate existence of the Merger Sub will cease and Sekidenko shall, for all purposes, be considered the surviving corporation (the "SURVIVING CORPORATION").

1.3.1 The Articles of Incorporation, as amended, of Sekidenko in effect at and as of the Effective Time will be the Articles of Incorporation of the Surviving Corporation.

1.3.2 The Bylaws of the Merger Sub in effect at and as of the Effective Time shall be the Bylaws of the Surviving Corporation.

1.3.3 The officers and directors of the Merger Sub, as of the Effective Time, will be the officers and directors of the Surviving Corporation, and all other persons who hold or who may claim to hold any position as an officer or director of Sekidenko shall, as of the Effective Time, be deemed to have been removed from such position.

1.3.4 The Surviving Corporation may, at any time after the Effective Time, take any action, including executing and delivering any document, in the name of and on behalf of either Sekidenko or the Merger Sub in order to carry out and effectuate the transactions contemplated by this Agreement.

1.4 Anticipated Tax Treatment of the Merger. The parties intend that the Merger qualify for federal income tax purposes as a reorganization within the meaning of Section 368 of the Code. However, no party makes any representation herein to any other party or to the shareholders of any other party as to the actual tax treatment of the Merger, except as specifically set forth in Sections 4.20, 5.6 and 5.7 of this Agreement.

1.5 Anticipated Accounting Treatment of the Merger. The parties intend that the Merger be accounted for as a pooling of interests for financial accounting purposes in accordance with APB No. 16. However, no party makes any representation herein to any other party as to the actual accounting treatment of the Merger, except as specifically set forth in Sections 4.20, 5.6 and 5.7 of this Agreement.

2. CONVERSION AND EXCHANGE OF SHARES.

2.1 Conversion of Capital Stock of Sekidenko. Schedule 2.1 sets forth the record holders of all of the issued and outstanding shares of Sekidenko capital stock as of the date of this Agreement (the "SEKIDENKO SHAREHOLDERS", which term shall hereinafter also include any person who becomes a record holder of Sekidenko capital stock after the date of this Agreement prior to the Closing) and the number of shares of Sekidenko capital stock held by each of them. For purposes of this Agreement, the "EXCHANGE PRICE" shall mean the average over a 10 trading day period which ends with the fifth trading day prior to the Closing Date (as hereinafter defined) of the last sale price for shares of the Parent Corporation's common stock as publicly reported on the Nasdaq National Market.

2.1.1 At the Effective Time, each share of Sekidenko common stock that is then issued and outstanding shall automatically be converted into the right to receive shares of the common stock of the Parent Corporation ("MERGER SHARES"), as determined by this Section 2.1. The number of Merger Shares to be exchanged for each share of Sekidenko common stock (the "EXCHANGE RATIO") shall be determined by dividing (i) $98,050,000 by (ii) the product of the Exchange Price and 500,000, provided, however, that the number of Merger Shares shall not be less than 1,500,000 nor more than 2,000,000. If the number of Merger Shares, calculated as set forth in the second sentence of this Section 2.1.1, is less than 1,500,000, then the Exchange Ratio shall be adjusted upwards so that the number of Merger Shares equals 1,500,000. If the number of Merger Shares, calculated as set forth in the second sentence of this Section 2.1.1, exceeds 2,000,000, then the Exchange Ratio shall be adjusted downwards so that the number of Merger Shares equals 2,000,000. The outstanding shares of Sekidenko common stock shall be exchanged for Merger Shares in accordance with Section 2.2.

2.1.2 No fractional shares shall be issued to any Sekidenko Shareholder. In lieu of the issuance of any fractional shares, a Sekidenko Shareholder shall be entitled to receive a cash payment equal to the fractional share which such holder would otherwise be entitled to receive multiplied by the Exchange Price. No interest will be paid or accrued on the cash payable pursuant to this Section 2.1.2.

2.1.3 At the Effective Time, as a result of the effectiveness of the Merger and without any further action on the part of Sekidenko or the Sekidenko Shareholders, all outstanding shares of Sekidenko common stock shall cease to be outstanding, shall be cancelled and shall cease to exist and each Sekidenko Shareholder shall thereafter cease to have any rights with respect to such shares except for the right to receive Merger Shares and cash in lieu of fractional shares in accordance with this Section 2.1.

2.2 Procedures for Exchange of Certificates for Merger Shares. At Closing, the Parent Corporation shall deliver to the Sekidenko Shareholders: (i) one or more certificates in the name of each of the Sekidenko Shareholders for the number of Merger Shares to be issued to such Sekidenko Shareholder pursuant to
Section 2.1.1 of this Agreement, except for those Merger Shares which are to be deposited with

the Escrow Agent pursuant to Section 2.3 and (ii) cash in lieu of fractional shares to be paid to the Sekidenko Shareholders pursuant to Section 2.1.2 of this Agreement. At Closing, Sekidenko shall cause each of the Sekidenko Shareholders to deliver to the Parent Corporation the stock certificate or certificates representing the shares of Sekidenko common stock held by such Sekidenko Shareholder.

2.3 Merger Shares to be Escrowed. A stock certificate representing 10% of the Merger Shares to which each Sekidenko Shareholder would otherwise be entitled to receive in exchange for his or its Sekidenko common stock shall, in lieu of being delivered to such Sekidenko Shareholder at Closing, be delivered by the Parent Corporation to an escrow agent reasonably acceptable to the Principal Shareholder and the Parent Corporation (the "ESCROW AGENT") to be held by the Escrow Agent (or its successor as escrow agent) and dispersed in accordance with the terms of an escrow agreement among Escrow Agent, the Sekidenko Shareholders and the Parent Corporation in the form of Exhibit 2.3 hereto ("ESCROW AGREEMENT").

2.4 Merger Sub's Capital Stock. At the Effective Time, each share of capital stock of the Merger Sub outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and non-assessable share of common stock of the Surviving Corporation.

3. CLOSING.

3.1 Date, Time and Place of Closing. The closing of the transactions contemplated by Section 1 hereof (the "CLOSING") will take place at the offices of Foster Pepper & Shefelman, LLP, in Portland, Oregon, at 10:00 a.m. local time, on August 18, 2000, or at such other date, time and place as Sekidenko and the Parent Corporation may mutually agree in writing ("CLOSING DATE").

3.2 Documents to be Delivered at Closing by Sekidenko. At Closing, Sekidenko will execute and deliver and/or cause to be executed and delivered to the Parent Corporation the following instruments and other documents:

3.2.1 the Articles of Merger duly executed by Sekidenko;

3.2.2 the Escrow Agreement duly executed by the Escrow Agent and each Sekidenko Shareholder;

3.2.3 a copy of an Employment Agreement by and between the Principal Shareholder and Sekidenko in the form attached hereto as Exhibit 3.2.3 duly executed by the Principal Shareholder and by Sekidenko;

3.2.4 the closing certificate required by Section 7.5 duly executed by Sekidenko;

3.2.5 the opinion of legal counsel to Sekidenko required by Section 7.8 of this Agreement;

3.2.6 the stock certificates representing all of the outstanding shares of Sekidenko common stock;

3.2.7 a representation letter signed by each of the Sekidenko Shareholders, including any person who becomes a Sekidenko Shareholder after the date of this agreement and prior to the Closing Date, certifying that such person (a) is an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933 (the "Securities Act"), (b) is acquiring the Merger Shares for himself, herself or itself and not for any other person, (c) understands that the Merger

Shares are being issued without registration under the Securities Act and, therefore, cannot be resold or otherwise transferred without registration of such shares or availability of an exemption from registration, and (d) acknowledges that one or more legends relating to the resale restrictions may be placed on the certificates representing the Merger Shares; and

3.2.8 written agreements from each of the Sekidenko Shareholders not to transfer or dispose of any of the Merger Shares issued to them (a) until such time as financial results have been published by the Parent Corporation that include at least 30 days of combined operations following the Effective Date and (b) in the case of each Sekidenko Shareholder who may be deemed to be an "affiliate" of Sekidenko within the meaning of Rule 145 under the Securities Act, except in accordance with such Section 145.

3.3 Documents to be Delivered at Closing by the Parent Corporation. At Closing, the Parent Corporation will execute and deliver and/or cause to be executed and delivered to Sekidenko the following instruments and other documents:

3.3.1 the Articles of Merger duly executed by the Merger Sub;

3.3.2 the Escrow Agreement duly executed by the Parent Corporation and the Escrow Agent;

3.3.3 the closing certificate required by Section 8.3 duly executed by the Parent Corporation.

3.3.4 the opinion of legal counsel to the Parent Company required by
Section 8.6 of this Agreement;

3.3.5 the stock certificates representing the Merger Shares and the cash payments in lieu of any fractional shares as provided by Section 2.1.

4. REPRESENTATIONS AND WARRANTIES OF SEKIDENKO AND THE PRINCIPAL SHAREHOLDER.

Sekidenko and the Principal Shareholder do hereby, jointly and severally, make the following representations and warranties to the Parent Corporation and the Merger Sub as of the date of this Agreement and as of the Closing Date:

4.1 Corporate Existence and Powers of Sekidenko and the Principal Shareholder.

4.1.1 Sekidenko is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington. Sekidenko is not required to be qualified to do business as a foreign corporation in any state or other jurisdiction where the failure to be so qualified and in good standing would have a material adverse effect on the business, financial condition or results of operations of Sekidenko. Sekidenko has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated herein.

4.1.2 The Principal Shareholder has the power and capacity to execute, deliver and perform this Agreement and to consummate the transactions contemplated herein.

4.1.3 Neither Sekidenko nor the Principal Shareholder has (a) filed or had filed against it a petition in bankruptcy or a petition to take advantage of any insolvency act, (b) admitted in writing its inability to pay its debts generally, (c) made an assignment for the benefit of creditors, (d) consented to the appointment of a receiver for itself or himself or any substantial portion of its or his properties, or (e) generally committed any act of insolvency or bankruptcy.

4.2 Authorizations, Enforceability and Effect of Agreement.

4.2.1 The Board of Directors of Sekidenko and the Sekidenko Shareholders have duly and validly authorized the execution, delivery and performance of this Agreement by Sekidenko. All corporate actions necessary for Sekidenko to enter into this Agreement and to perform its obligations hereunder have been duly taken.

4.2.2 Assuming that this Agreement is a valid and binding obligation of the Parent Corporation and the Merger Sub, this Agreement constitutes a valid and binding obligation of each of Sekidenko and the Principal Shareholder, fully enforceable against each of them in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or similar laws relating to creditors' rights or general principles of equity and public policy considerations.

4.2.3 The execution, delivery and performance of this Agreement by Sekidenko and by the Principal Shareholder and the consummation of the transactions contemplated hereby will not, with or without the giving of notice or the lapse of time, or both: (a) violate the articles of incorporation, bylaws or any resolutions adopted by the board of directors or shareholders of Sekidenko, (b) violate any provision of law, statute, rule or regulation to which Sekidenko or the Principal Shareholder is subject; (c) violate any judgment, order, writ or decree of any court, arbitrator or governmental agency applicable to Sekidenko, the Principal Shareholder or the shares of Sekidenko common stock held by the Principal Shareholder; or (d) result in the breach of or a conflict with any term, covenant, condition or provision of, result in the modification or termination of, constitute a default under, or result in the creation or imposition of any new lien, security interest, charge or encumbrance upon any of the assets or other properties of Sekidenko or the shares of Sekidenko common stock held by the Principal Shareholder pursuant to any contract, agreement or instrument to which Sekidenko or the Principal Shareholder is a party or by which any of the assets or other properties of Sekidenko, the Principal Shareholder or the shares of Sekidenko common stock held by the Principal Shareholder are or may be bound or affected or from which Sekidenko derives any material benefit.

4.2.4 No consent, authorization or approval of, or exemption by, or filing with any governmental, public or self-regulatory body or authority is required in connection with the execution, delivery and performance by Sekidenko and the Principal Shareholder of this Agreement or any of the instruments or agreements herein referred to, or the taking of any action herein contemplated, except for (a) the filing of a Premerger Notification Form to comply with the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR ACT") and termination or expiration of the waiting period relating thereto, (b) notices and filings required in order to comply with the Securities Act and any state securities or "blue sky" laws, (c) the filing of Articles of Merger with the Secretary of State of the State of Washington, and (d) the filing of a Notice of Sale of Securities on Form D with the Securities and Exchange Commission. Except as set forth on Schedule 4.2.4, the execution, delivery or performance of this Agreement by Sekidenko or the Principal Shareholder does not require the notification or consent of any other party to any of the Material Contracts as such term is hereinafter defined.

4.2.5 There is no action, suit, proceeding, arbitration, investigation or hearing or notice of hearing pending or threatened against Sekidenko or the Principal Shareholder that (a) questions the validity of this Agreement or the right of Sekidenko or the Principal Shareholder to enter into this Agreement or to consummate the transaction contemplated hereby, or (b) has resulted in or, if decided adversely, might result in, an injunction or the entry of an order that would prevent or delay the consummation of the transactions contemplated by this Agreement.

4.3 Capital Stock of Sekidenko. The authorized capital stock of Sekidenko consists of 1,000,000 shares of common stock (without par value), of which 500,000 shares are issued and outstanding, and no shares of preferred stock. Sekidenko does not have outstanding any stock subscriptions, preemptive rights, options, warrants or other rights entitling any party to acquire, directly or indirectly, (a) capital stock or other securities of Sekidenko or (b) rights to acquire capital stock or other securities of Sekidenko. All of the outstanding shares of Sekidenko common stock have been duly authorized and validly issued and are fully paid, non-assessable and free of preemptive rights.

4.4 Subsidiaries. Sekidenko does not own, directly or indirectly, any ownership or management interest in any other corporation, company, limited liability company, business trust, partnership, limited partnership, joint venture, or other entity or association, including without limitation the Parent Corporation.

4.5 Permits and Compliance with Applicable Laws. Sekidenko has all requisite corporate power and authority, and all permits, licenses and approvals of governmental and administrative authorities, to own, lease and operate its properties and to carry on its business as presently conducted. Each of such permits, licenses and approvals is in full force and effect, and Sekidenko is in material compliance with each of them. Neither Sekidenko nor the Principal Shareholder has received any notice of any violation by Sekidenko of any laws, rules, regulations or orders applicable to Sekidenko's business or of any default in or violations of any of its permits or licenses.

4.6 Litigation, Orders and Judgments. Except as set forth in Schedule 4.6, there are no claims, actions, suits or proceedings pending before any federal, state, municipal, foreign or other court or any governmental, administrative or self-regulatory body or agency, or any private arbitration tribunal or, to the knowledge of Sekidenko or the Principal Shareholder, threatened against, involving or otherwise directly relating to Sekidenko, its business or its properties or the shares of Sekidenko common stock held by the Principal Shareholder. Neither Sekidenko nor any officer, director, agent or employee of Sekidenko (including but not limited to the Principal Shareholder) has been permanently or temporarily enjoined or barred by order, judgment or decree of any court or other tribunal or any agency or self-regulatory body from engaging in or continuing any conduct or practice in connection with the business engaged in by Sekidenko. There is not in existence at present any order, judgment or decree of any court or other tribunal or any agency or self-regulatory body to which Sekidenko or its assets, other properties or business or the shares of Sekidenko common stock held by the Principal Shareholder are subject or by which it or they are bound.

4.7 Financial Statements. Sekidenko's fiscal year ends on December 31st of each year. Sekidenko has provided to the Parent Corporation, true and correct copies of the unaudited balance sheets of Sekidenko as of December 31, 1998 and 1999 and unaudited statements of operations for the fiscal years then ended (the "SEKIDENKO FINANCIAL STATEMENTS"). Subject to normal adjustments which could be anticipated if such statements had been audited, which adjustments, taken as a whole, would not be material in amount or effect and except as set forth on Schedule 4.7, the Sekidenko Financial Statements fairly present in all material respects the financial position and results of operations for Sekidenko for the periods set forth therein and were prepared in accordance with United States generally accepted accounting principles applied on a basis consistent with that of prior years. The Sekidenko Financial Statements do not

reflect any items of special or nonrecurring income or any other income not earned in the ordinary course of Sekidenko's business except as expressly specified therein. The accounts receivable reflected on the Sekidenko Financial Statements and all accounts receivable arising since December 31, 1999 through the date of this Agreement arose from bona fide transactions in the ordinary course of Sekidenko's business and either will have been collected in full on or before the Closing Date or will, as of the Closing Date, be fully collectible at their face amounts (less any applicable reserves reflected in the Sekidenko Financial Statements) within ninety (90) days after the Closing Date. The notes receivable reflected on the Sekidenko Financial Statements and all notes receivable arising since December 31, 1999 through the date of this Agreement arose from bona fide advances made by Sekidenko to its employees, are evidenced by promissory notes that bear interest at a reasonable rate and have been or will be repaid in full in accordance with their terms. Except to the extent reflected or reserved against or otherwise disclosed in the Sekidenko Financial Statements, Sekidenko did not, as of the dates of the balance sheets contained therein, have any liabilities, debts or obligations of any nature required under generally accepted accounting principals to be shown or provided for in financial statements. Since December 31, 1999, Sekidenko has not incurred any liabilities, debts or obligations other than those incurred in the ordinary course of business consistent with past practices or incurred in connection with the transactions contemplated by this Agreement. Since December 31, 1999, Sekidenko has properly recorded in its books of account all items of income and expense and all other proper charges and accruals required to be made in accordance with generally accepted accounting principles and practice. Since December 31, 1999, no accounts receivable, notes receivable or other debts or obligations owed to Sekidenko have been forgiven, settled or compromised except for full consideration or except in the ordinary course of business.

4.8 Tax Matters. Sekidenko has prepared and filed with all applicable federal, state and local governmental agencies and all applicable foreign governmental agencies, all income, gross receipts, franchise, customs, value added, employee income tax withholding, social security, Federal Insurance Contribution Act, unemployment, property, sales, use, excise and other tax returns required to be filed by Sekidenko for all periods for which the due date of such return (including any extension periods which Sekidenko is entitled to make use of) was prior to the date of this Agreement. Schedule 4.8 provides a list of all extension periods which Sekidenko has made use of, which extension periods are due to terminate following the date of this Agreement. Sekidenko has paid all taxes payable or which have become due and has accrued and properly reflected as accrued liabilities such taxes not yet due and payable but relating to the operations of its business in the periods reflected in the Sekidenko Financial Statements. Sekidenko has not executed or filed with the Internal Revenue Service or any other domestic or foreign taxing authority any agreement extending the period for assessment or collection of any taxes and is not a party to any pending action or proceeding by any governmental authority for assessment or collection of taxes, and no claim for assessment or collection of taxes has been asserted or threatened against Sekidenko for which provision has not been made in the Sekidenko Financial Statements. Complete and correct copies of the federal income tax returns of Sekidenko for the two fiscal years ended December 31, 1998 and 1999, as filed with the Internal Revenue Service, together with all related correspondence and notices, have previously been delivered to the Parent Corporation. Sekidenko is not a member of any affiliated group within the meaning of Section 1504 of the Internal Revenue Code of 1986, as amended.

4.9 Offices and Equipment. The offices and capital equipment of Sekidenko are in good condition and repair (except for ordinary wear and tear which does not adversely affect their use) and are suitable for the uses for which they are intended.

4.10 Insurance. Sekidenko maintains fire, casualty, product liability, workers compensation and other insurance policies issued by reputable companies with policy limits, deductibles and exclusions which are customarily carried by other companies whose size and business is similar to that of Sekidenko.

4.11 Material Contracts. As used in this Agreement "MATERIAL CONTRACT" shall mean any agreement, contract or understanding which involves a commitment by Sekidenko in excess of $25,000.00 during the remaining term of such agreement contract or understanding (excluding any renewal periods which are at the sole discretion of Sekidenko unless Sekidenko has already exercised such renewal option or will need to decide whether or not to exercise such renewal option within 180 days of the date of this Agreement) or any other agreement, contract or understanding that is material to the conduct of Sekidenko's business. Schedule 4.11 sets forth a complete list of all Material Contracts, and correct and complete copies of all Material Contracts have been delivered to the Parent Company prior to the date hereof. Each of the Material Contracts is valid, binding, in full force and effect and enforceable in accordance with its terms. With respect to each of the Material Contracts, there has not occurred any material default by Sekidenko or any event which, with the lapse of time or the election of any person other than Sekidenko, or any combination thereof, will become a default of Sekidenko. To the knowledge of Sekidenko or the Principal Shareholder, there has not occurred any default by any of the other parties to any of the Material Contracts or any event which, with the lapse of time or the election of any person, will become a default by any other party under any of the Contracts.

4.12 Intellectual Property. Schedule 4.12 sets forth a correct and complete list of all patents, registered trademarks, registered copyrights and all pending applications for any of the foregoing of Sekidenko. Schedule 4.12 also sets forth all licenses, joint development agreements or other contracts or agreements to which Sekidenko is a party (either as licensor or as licensee). The items set forth on Schedule 4.12, together with all trade secrets, know-how, inventions, discoveries, designs, formulae, computer software and documentation and other proprietary information used or useful in Sekidenko's business, whether patentable or not, used by Sekidenko in its business or owned by Sekidenko and relating to its business and blueprints, drawings and other technical papers relating to such are herein referred to as the "SEKIDENKO INTELLECTUAL PROPERTY." Except as disclosed in Schedule 4.12, (a) Sekidenko owns or has the right to use all of the Sekidenko Intellectual Property to the extent necessary for the conduct by Sekidenko of its business as presently conducted;
(b) the validity of such items and the title thereto of Sekidenko have not been questioned in any litigation to which Sekidenko is a party, nor is any such litigation threatened; and (c) to the knowledge of Sekidenko and the Principal Shareholder, the conduct of Sekidenko's business as now conducted does not and will not in any manner conflict with patents, patent rights, licenses, trademarks, trademark rights, trade names, trade name rights, copyrights or trade secret rights of others, nor has Sekidenko received any notice or other communication claiming any such conflict. Each employee or independent contractor of Sekidenko that has provided technical services to Sekidenko has executed an Employee Intellectual Property and Non-Compete Agreement in the form provided by Sekidenko to the Parent Corporation. Sekidenko has used its best efforts to enforce the provisions of those agreements and is not aware of any person who is or has been in violation of the terms of such agreements.

4.13 Compliance with Employment Laws and Labor Relations. Sekidenko is in compliance in all material respects with all applicable laws, rules and regulations respecting employment conditions and practices and is not liable for any material arrearages of wages or any material taxes or penalties for failure to comply with any of the foregoing. Sekidenko has not engaged in any unfair labor practice, nor has it discriminated on the basis of race, religion, age or sex, or other protected category in its employment conditions or practices. Except as set forth in Schedule 4.13, there are no: (a) unfair labor practice or race, religion, age, sex or other discrimination complaints pending or threatened against Sekidenko before any board, department, commission or agency nor does any basis exist therefor; (b) existing or threatened labor strikes, disputes, grievances, controversies or other labor troubles affecting Sekidenko; or (c) pending or threatened union representation questions regarding the employees of Sekidenko. Sekidenko is not presently and has not at any time within the past five years been party to any union or collective bargaining agreement and has not been affected by any labor strike, dispute, grievance, controversy or other labor trouble involving its employees.

4.14 Hazardous Substances. For purposes of this Section 4.14 "HAZARDOUS SUBSTANCES" will mean any toxic, corrosive, inflammable or ignitable substance; any flammable explosives, asbestos, radioactive materials, hazardous wastes, petroleum products including crude oil or any petroleum by-product or derivative, biological wastes, or related injurious materials, whether injurious by themselves or in combination with other materials; and any other substances defined as "hazardous materials" or "toxic substances" under federal, state or local laws applicable to Sekidenko but shall not include commercially available office cleaning or janitorial supplies. For purposes of this Section 4.14, "ENVIRONMENTAL REQUIREMENTS" shall mean all laws, regulations, ordinances or other administrative, judicial or other governmental actions, orders, requests, determinations or pronouncements which have the effect of law which relate to the protection of the environment or human health, the generation, processing, distribution, use, treatment, storage, transportation, handling or disposal of Hazardous Substances, air or water quality or emission standards that are applicable to Sekidenko.

4.14.1 Except as set forth in Schedule 4.14, to the knowledge of Sekidenko after due inquiry and investigation:

(a) There has not been any violation of any Environmental Requirements by Sekidenko nor has there been any third party claim or demand based upon any Environmental Requirements against Sekidenko;

(b) Sekidenko has not disposed of, stored or used any Hazardous Substance on, nor has it transported any Hazardous Substance from, any of the real properties owned, occupied or leased by Sekidenko in violation of any Environmental Requirements;

(c) No underground storage tanks, asbestos-containing material in any friable or damaged form or condition or materials containing polychlorinated biphenyls, landfills or surface impounds exist at any of the real properties owned, occupied or leased by Sekidenko; and

(d) None of the real properties owned, occupied or leased by Sekidenko is contaminated by any Hazardous Substance in a manner that has given or is reasonably likely to give rise to any material liability on the part of Sekidenko.

4.14.2 Neither Sekidenko nor the Principal Shareholder is aware, after due inquiry and investigation, of any event or circumstance that could be reasonably expected to result in any of the matters set forth in Section 4.14.1.

4.14.3 Except as set forth in Schedule 4.14, neither Sekidenko nor the Principal Shareholder is aware of any violations by any other person of any Environmental Requirements on or related to any of the real properties owned, occupied or leased by Sekidenko, irrespective of whether such violations occurred during Sekidenko's ownership, occupancy or lease of such property.

4.15 Employee Benefit Plans. Schedule 4.15 is a correct and complete list of every stock option, stock purchase, stock appreciation right, bonus, deferred compensation, incentive compensation, profit sharing, pension, thrift, savings, retirement, severance or termination pay, excess benefits, medical, hospitalization, disability or life insurance or other plan providing similar benefits, or other employee benefit plan, program, agreement, arrangement, commitment or practice of Sekidenko providing employee or executive benefits or benefits to any person, including, but not limited to, plans administered by trade associations, area-wide plans, plans resulting from collective bargaining and plans covering foreign employees ("BENEFIT PLANS"). None of the Benefit Plans is a "multi-employer pension plan" as that term is

defined in Section 3(37) of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"). Except as set forth in Schedule 4.15:

4.15.1 each of the Benefit Plans has been operated and administered in all material respects in accordance with applicable laws, including, but not limited to, ERISA and the Code;

4.15.2 all contributions required to be made as of the date of this Agreement have been made or adequate provision has been made for their payment;

4.15.3 the consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former employee or officer of Sekidenko to severance pay, unemployment compensation or any other payment or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer; and

4.15.4 there are no pending claims by or on behalf of any of the Benefit Plans, by any employee or beneficiary covered under any such Benefit Plan, or otherwise involving any such Benefit Plan (other than routine claims for benefits not individually exceeding $10,000).

Sekidenko has previously made available to Parent Corporation true and complete copies of each of the following documents: (i) a copy of each Benefit Plan (including all amendments thereto); (ii) a copy of the annual report, if required under ERISA or the Code, with respect to each such Benefit Plan for any plan year beginning after December 31, 1997; (iii) a copy of the most recent actuarial report, if required under applicable law, with respect to each such Benefit Plan; (iv) a copy of the most recent Summary Plan Description or a summary of plan benefits; (v) if the Benefit Plan is funded through a trust or any third party funding vehicle, a copy of the trust or other funding agreement (including all amendments thereto) and the latest financial statements thereof;
(vi) all other records of any Benefit Plan requested by Parent Corporation reasonably related to such Benefit Plan's compliance with applicable laws, and
(vii) the most recent determination letter received from the Internal Revenue Service with respect to each Benefit Plan that is intended to be qualified under
Section 401(a) of the Code.

4.16 Finders. Except as set forth on Schedule 4.16, neither Sekidenko nor the Principal Shareholder has taken any action which would give to any firm, corporation, agency or other person a right to a consultant's or finder's fee, investment banking fee or any type of brokerage commission in relation to or in connection with the transactions contemplated by this Agreement.

4.17 Absence of Certain Changes or Events. Except as set forth in Schedule 4.17, since December 31, 1999, (i) Sekidenko has conducted its business only in the ordinary course of such business, (ii) Sekidenko has not suffered the occurrence of any events which, individually or in the aggregate, have had, or might reasonably be expected to have, a material and adverse effect on Sekidenko's business, financial condition or results of operations; (iii) Sekidenko has not declared or paid, or agreed to declare or pay, any dividend or distribution with respect to any of its capital stock or redeemed or agreed to redeem any of its capital stock and (iv) Sekidenko has not made any increase in or commitment to increase the rate of compensation of any employee (except for increases in keeping with its past practices), made any change or commitment to change any of the Benefit Plans or adopted or made any commitment to adopt any new Benefit Plan.

4.18 Relations with Major Customer. Sales to Applied Materials, Inc. ("Applied Materials") have constituted a substantial portion of Sekidenko's revenues and are expected to continue to do so. Under certain agreements and understandings between Sekidenko and Applied Materials, the consummation of the transactions contemplated by this Agreement either require the prior consent of Applied Materials or can result in Applied Materials exercising rights to terminate such agreements. Neither Sekidenko nor the

Principal Shareholder has any knowledge of (a) any actual or contemplated termination, cancellation or limitation of, or any adverse modification or change in, the business relationship of Sekidenko with Applied Materials or (b) any reason to believe that Applied Materials will not carry on such business relationships with Sekidenko following Closing. Neither Sekidenko nor the Principal Shareholder believes or has any knowledge that would suggest that Applied Materials will either withhold its consent to the transactions contemplated by this Agreement or terminate its agreements with Sekidenko following the consummation of the Merger.

4.19 Books and Records. The books and records of Sekidenko are located at Sekidenko's principal offices in Vancouver, Washington. The books of account and other financial and corporate records of Sekidenko are in all material respects complete and correct, are maintained in accordance with good business practices, and are accurately reflected in the Sekidenko Financial Statements. The minute books of Sekidenko, as previously made available to Parent Corporation and its counsel, contain complete and accurate records of all meetings and accurately reflect all other corporate action of the shareholders and directors (and committees thereof) of Sekidenko through the date hereof.

4.20 Pooling of Interests; Tax Reorganization. To the knowledge of Sekidenko and the Principal Shareholder, having sought and obtained the advice of Sekidenko's accounting advisors, Sekidenko has not taken (or, as of the date hereof, failed to take) any action which would prevent the accounting for the Merger as a pooling of interests in accordance with APB No. 16. To the knowledge of Sekidenko and the Principal Shareholder, Sekidenko has not taken or failed to take any action which would prevent the Merger from constituting a reorganization within the meaning of Section 368 of the Code.

5. REPRESENTATIONS AND WARRANTIES OF THE PARENT CORPORATION AND THE MERGER SUB.

The Parent Corporation and the Merger Sub do hereby, jointly and severally, make the following representations and warranties to Sekidenko as of the date of this Agreement and as of the Closing Date:

5.1 Corporate Existence and Powers of the Parent Corporation. The Parent Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Parent Corporation has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated herein.

5.2 Corporate Existence and Powers of the Merger Sub. The Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington. The Merger Sub has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated herein. The Merger Sub was organized by the Parent Corporation solely for the purpose of consummating the transactions contemplated by this Agreement and the Merger Sub has not engaged in any business or other activities and, as of the date of this Agreement, has no liabilities of any nature, contingent or otherwise, except for liabilities or obligations arising out of or in connection with the transactions contemplated by this Agreement. Prior to the Effective Time, the Parent Corporation will be in control (within the meaning of Section 368(c)(1) of the Code) of the Merger Sub.

5.3 Authorizations, Enforceability and Effect of Agreement.

5.3.1 This Agreement has been duly and validly authorized, executed and delivered by the Parent Corporation and the Merger Sub and all corporate actions necessary for the Parent Corporation and the Merger Sub to enter into this Agreement and to perform their respective

obligations hereunder have been duly taken. No approval of the shareholders of the Parent Corporation is required by any applicable law or the listing requirements of the Nasdaq National Market.

5.3.2 Assuming that this Agreement is a valid and binding obligation of Sekidenko and the Principal Shareholder, this Agreement constitutes a valid and binding obligation of each of the Parent Corporation and the Merger Sub, fully enforceable against each of them in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or similar laws relating to creditors' rights or general principles of equity and public policy considerations.

5.3.3 The execution, delivery and performance of this Agreement by the Parent Corporation and by the Merger Sub and the consummation of the transactions contemplated hereby will not, with or without the giving of notice or the lapse of time, or both: (a) violate the articles of incorporation, bylaws or any resolutions adopted by the board of directors or shareholders of either the Parent Corporation or the Merger Sub, (b) violate any provision of law, statute, rule or regulation to which the Parent Corporation or the Merger Sub is subject; (c) violate any judgment, order, writ or decree of any court, arbitrator or governmental agency applicable to the Parent Corporation or the Merger Sub; or (d) result in the breach of or conflict with any term, covenant, condition or provision of, result in the modification or termination of, constitute a default under, or result in the creation or imposition of, any new lien, security interest, charge or encumbrance upon any of the assets or other properties of the Parent Corporation or the Merger Sub pursuant to any contract, agreement or instrument to which the Parent Corporation or the Merger Sub is a party or by which any of the assets or other properties of the Parent Corporation or the Merger Sub are or may be bound or affected or from which the Parent Corporation or the Merger Sub derives any material benefit.

5.3.4 No consent, authorization or approval of, or exemption by, or filing with any governmental, public or self-regulatory body or authority is required in connection with the execution, delivery and performance by the Parent Corporation or the Merger Sub of this Agreement or any of the instruments or agreements herein referred to, or the taking of any action herein contemplated, except for (a) the filing of a Premerger Notification Form required to comply with the HSR Act and termination of the waiting period relating thereto, (b) notices and filings required in order to comply with the Securities Act and any state securities or "blue sky" laws,
(c) the filing of Articles of Merger with the Secretary of State of the State of Washington, and (d) the filing of a Notice of Sale of Securities on Form D with the Securities and Exchange Commission.

5.3.5 There is no action, suit, proceeding, arbitration, investigation or hearing or notice of hearing pending or threatened against the Parent Corporation or the Merger Sub that (a) questions the validity of this Agreement or the right of the Parent Corporation or the Merger Sub to enter into this Agreement or consummate the transaction contemplated hereby or
(b) has resulted in or, if decided adversely, might result in, an injunction or the entry of an order that would prevent or delay the consummation of the transactions contemplated by this Agreement.

5.3.6 The Merger Shares, when issued in accordance with the terms of this Agreement, will be duly authorized, validly issued, fully paid, non-assessable and free of any preemptive rights.

5.4 Capital Stock of the Parent Corporation. The authorized capital stock of the Parent Corporation consists of (i) 40 million shares of common stock ($0.001 par value) and (ii) 1 million shares of preferred stock ($0.001 par value) of which no shares have been designated or issued. As of July 14, 2000, the Parent Corporation had issued and outstanding (i) 29,238,252 shares of common stock and (ii) no shares of preferred stock. Since July 14, 2000, the Parent Corporation has not issued any capital stock except

pursuant to the exercise of stock options, warrants or other rights to acquire shares of the Parent Corporation's capital stock identified in the Parent Corporation's Securities Filings (as hereinafter defined) and has not issued any options, warrants or other rights to acquire shares of the Parent Corporation's capital stock except pursuant to plans or agreements referred to in the Parent Corporation's Securities Filings and in accordance with the Parent Corporation's past practices with respect to such issuances.

5.5 Securities Filings Made by the Parent Corporation. Since January 1, 1997, the Parent Corporation has, in a timely manner, filed all reports, forms, filings and notices required to be filed by the Parent Corporation with the Securities and Exchange Commission and with each exchange on which the Parent Corporation's common stock is listed for trading. The Parent Corporation has delivered or caused to be delivered to Sekidenko and the Principal Shareholder copies of the Parent Corporation's (i) Annual Report on Form 10-K for most recently completed fiscal year, (ii) definitive proxy statement for the most recent annual meeting of the Parent Corporation's shareholders, (iii) Quarterly Reports on Form 10-Q for each fiscal quarter since the end of the most recently completed fiscal year, (iv) Current Reports on Form 8-K filed since the end of the most recently completed fiscal year, (v) amendments filed with respect to any of the foregoing and (vi) any other filings made with the Securities and Exchange Commission (collectively the "PARENT CORPORATION'S SECURITIES FILINGS"). The information contained in the Parent Corporation's Securities Filings did not, when filed, contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements contained in such filings, in light of the circumstances under which such statements were made, not misleading. All financial statements contained in the Parent Corporation's Securities Filings were prepared in accordance with United States generally accepted accounting principles applied on a basis consistent with that of prior years or periods, are correct and complete and fairly present the financial position and results of operations of the Parent Corporation on a consolidated basis as of the dates and for the periods indicated therein in each case in accordance with generally accepted accounting principles subject only to, in the case of unaudited statements for fiscal quarters which ended other than at year-end, normal year-end audit adjustments and the lack of full footnotes to unaudited financial statements.

5.6 Tax Matters. The Parent Corporation intends that following the Effective Time, the Surviving Corporation will continue the historic business of Sekidenko or use a significant portion of Sekidenko's historic business assets in a business, and Parent Corporation intends to continue to hold at least 80 percent of all classes of capital stock issued by the Surviving Corporation. The total fair market value of all Merger Shares issued to the Sekidenko Shareholders in the Merger equals at least 80 percent of the total of all consideration received by the Sekidenko Shareholders (including cash received for fractional shares).

5.7 Pooling of Interests; Tax Reorganization. To the knowledge of the Parent Corporation, having sought and obtained the advice of its accounting advisors, neither the Parent Corporation nor the Merger Sub has taken (or as of the date hereof failed to take) any action which would prevent the accounting for the Merger as a pooling of interests in accordance with APB No. 16. To the knowledge of the Parent Corporation, neither the Parent Corporation nor the Merger Sub has taken or failed to take any action which would prevent the Merger from constituting a reorganization within the meaning of Section 368 of the Code.

6. COVENANTS.

6.1 Investigation. Sekidenko will give full access to the Parent Corporation and to its counsel, accountants and other representatives at any reasonable time, to such of its properties, personnel, books, tax returns, contracts, commitments and records as relate to the business of Sekidenko, including without limitation any Benefit Plan documents described in Section 4.15, and will furnish to the Parent Corporation

and its representatives all such additional information and documents concerning Sekidenko as the Parent Corporation or its representatives may from time to time request prior to Closing. The Parent Corporation will use its best efforts to conduct its investigation of Sekidenko, pursuant to this Section 6.1, in such a manner as to prevent undue speculation among the employees, customers or suppliers of Sekidenko. Neither the Parent Corporation nor any person acting on its behalf will contact or communicate with any customer, supplier or employee of Sekidenko for the purpose of discussing in any manner the transactions contemplated by this Agreement without an authorized representative of Sekidenko consenting to or participating in such contact or communication.

6.2 Confidentiality. The terms, conditions and covenants set forth in a Confidentiality Agreement by and between Parent Corporation and Sekidenko are hereby acknowledged and affirmed and shall continue in full force and effect until and through Closing or following any termination of this Agreement. The Parent Corporation shall advise its counsel, accountants and other representatives of the existence of such Confidentiality Agreement and shall be responsible for their compliance with its terms, conditions and covenants.

6.3 Announcements. The initial public announcement relating to this Agreement shall occur by means of a joint press release issued at such time as Sekidenko and the Parent Corporation agree to be appropriate. Thereafter, Sekidenko and the Parent Corporation shall consult with each other and use reasonable efforts to agree upon the text of any press release issued by or on behalf of either party or that in any manner refers to the other party or to the transactions contemplated by this Agreement. Notwithstanding the foregoing, nothing in this Section 6.3 shall limit the ability of a party to make any filing which such party is required to make with any federal, state or local regulatory authority or to make any public statement which such party is required to make by applicable law or the listing requirements of the exchange on which its securities are traded or quoted, provided that such party will make every reasonable effort to notify the other party of its need to make such filing or public statement as early as possible and shall limit the information relating to the other party or the transactions contemplated by this Agreement that is contained in such filing or public statement to only that information which is required.

6.4 Conduct of Sekidenko's Business Until Closing. Except as contemplated by this Agreement or as the Parent Corporation may otherwise consent to in writing, between the date hereof and the Closing, Sekidenko will and the Principal Shareholder will cause Sekidenko to operate its business in the usual, regular and ordinary manner; and, to the extent consistent with such operation, use its best efforts to preserve its present business organization intact; keep available the services of its present employees; and preserve its present business relationships with customers, suppliers and others having business dealings with it. Without limiting the generality of the foregoing, Sekidenko shall not (unless it shall have received the prior written consent of the Parent Corporation):

(a) amend its articles of incorporation or bylaws;

(b) enter into or amend any employment, severance or similar agreement or arrangements with any of its directors, executive officers or employees, except in the ordinary course of business consistent with past practice or as otherwise provided in this Agreement;

(c) authorize, propose or announce an intention to authorize or propose, or enter into negotiations or an agreement with respect to any acquisition of assets or securities, any disposition of assets or securities or any release or relinquishment of any contract rights, which acquisitions, dispositions, releases or relinquishments would involve aggregate consideration in excess of $100,000;

(d) issue any shares of capital stock or other securities, declare any dividend or other distribution on its common stock (whether payable in cash, additional shares of Sekidenko common

stock, other securities of Sekidenko or rights to acquire securities of Sekidenko, or other property), or authorize a stock split, recapitalization or similar event or set a record date for any of the foregoing;

(e) grant, confer or award any options, appreciation rights, warrants, conversion rights, restricted stock, stock units, performance shares or similar rights with respect to any shares of its capital stock or other securities;

(f) take any actions which would, or would be reasonably likely to, prevent the merger from qualifying as a transaction to be accounted for as a pooling of interests in accordance with APB No. 16;

(g) take any actions which would, or would be reasonably likely to, prevent the merger from qualifying as a reorganization within the meaning of Section 368 of the Code;

(h) except as required by applicable law (in which case prompt notice shall be given to the Parent Corporation), amend in any material respect the terms of any Benefit Plan, including without limitation any employment, severance or similar agreements or arrangements in existence on the date hereof, or adopt any new employee benefit plans, programs or arrangements or any employment, severance or similar agreements or arrangements;

(i) incur, create, assume or otherwise become liable for borrowed money or assume, guarantee, endorse or otherwise become liable for the obligations of any individual, corporation or other entity, except in the ordinary course of business consistent with past practice;

(j) make any loans or advances to any person, except in the ordinary course of business consistent with past practice;

(k) make any material tax election;

(l) directly or indirectly redeem, purchase or otherwise acquire any shares of its capital stock or make any commitment for any such action; or

(m) agree, in writing or otherwise, to take any of the foregoing actions or take any action which would make any representation or warranty in this Agreement untrue or incorrect as of the Closing Date.

6.5 No Dividends on or Changes in the Parent Corporation's Common Stock. Except as Sekidenko may consent to in writing, between the date hereof and the Effective Time, the Parent Corporation will not declare any dividend or other distribution on its common stock (whether payable in cash, additional shares of the Parent Corporation's common stock, other securities of the Parent Corporation or rights to acquire securities of the Parent Corporation, or other property), or authorize a stock split, recapitalization or similar event or set a record date for any of the foregoing.

6.6 Hart-Scott-Rodino Filing. The Parent Corporation and the Principal Shareholder shall each exercise reasonable efforts to prepare and file as soon as possible all reports or other documents required or requested by the Federal Trade Commission or the Department of Justice under the HSR Act, and all regulations promulgated thereunder, concerning the transactions contemplated by this Agreement, and comply promptly with any request by either of such agencies for additional information concerning the transactions contemplated by this Agreement, so that the waiting period specified in the HSR Act will expire or be terminated as soon as possible after the execution and delivery of this Agreement. The parties shall furnish to one another such information concerning Sekidenko, the Principal Shareholder and

the Parent Corporation as the parties need to perform their obligations hereunder. Each of the parties shall promptly notify the other parties as to any material communication received by such party from the Federal Trade Commission, the Antitrust Division of the Department of Justice or any other governmental or regulatory authority regarding the transactions contemplated hereby.

6.7 Form S-3 Registration Statement. Promptly following the execution of this Agreement, the Parent Corporation will commence to prepare a registration statement on Form S-3 for the resale by the Sekidenko Shareholders of the Merger Shares (the "FORM S-3 REGISTRATION").

6.7.1 The Parent Corporation shall use its best efforts to file the Form S-3 Registration with the Securities and Exchange Commission within 30 days after the Closing Date, to cause the Form S-3 Registration to become effective no later than the date on which the Parent Corporation files its Form 10-Q for the quarter ending September 30, 2000 and to keep the Form S-3 Registration effective and the information contained therein current, complete and accurate for at least one year after the Closing Date and during any period thereafter during which any Sekidenko Shareholder is an affiliate of the Parent Corporation; provided, however, that (a) following the first anniversary date of the Closing Date, the Parent Corporation shall not be required to keep the Form S-3 Registration effective with respect to any Merger Shares that may be sold pursuant to Rule 144 under the Securities Act without any practical limitation on the number of shares to be sold by the Sekidenko Shareholder, (b) the Parent Corporation may from time to time suspend the effectiveness of the Form S-3 Registration, by giving notice to the Sekidenko Shareholders, if the Parent Corporation shall have determined that any offers or sales made in reliance on the Form S-3 Registration would require the Parent Corporation to disclose a material corporate development, which disclosure could be reasonably expected to have a material effect on the Parent Corporation or the market price of its common stock, and (c) the Parent Corporation's obligations under this Section 6.7 are conditioned upon the prompt and timely provision, in writing, by the holders of any Merger Shares covered by the Form S-3 Registration of any information or documents that the Parent Corporation deems necessary or appropriate in connection with the Parent Corporation's preparation of the Form S-3 Registration, the prospectus included therein or any prospectus supplement thereto.

6.7.2 Each Sekidenko Shareholder agrees by acquisition of Merger Shares that, (a) upon receipt of any notice from the Parent Corporation of a suspension of the effectiveness of the Form S-3 Registration, such shareholder shall immediately thereupon discontinue disposition of Merger Shares until such holder (i) is advised in writing by the Parent Corporation that the use of the Form S-3 Registration may be resumed, (ii) has received copies of a supplemental or amended prospectus, if applicable, and (iii) has received copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference in the prospectus included in the Form S-3 Registration; and (b) such shareholder shall indemnify and hold harmless, to the full extent permitted by law, the Parent Corporation, its affiliates, agents and representatives from and against all losses, claims, damages, liabilities, costs (including, without limitation, all reasonable attorneys' fees) and expenses arising out of or based upon any untrue statement of a material fact provided by the shareholder in writing expressly for inclusion in the Form S-3 Registration, the prospectus included therein or any prospectus supplement thereto, or arising out of or based upon any omission of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading based upon information provided by the shareholder in writing expressly in connection with the Form S-3 Registration.

6.7.3 Parent Corporation agrees to (i) exercise commercially reasonable efforts to avoid or to minimize the duration of any period during which the effectiveness of the Form S-3 Registration is suspended or any Sekidenko Shareholder is precluded for any reason within the control of the Parent Corporation from reselling Merger Shares pursuant to such registration,
(ii) promptly provide each Sekidenko Shareholder with copies of prospectuses and supplemental or amended prospectuses, if

applicable, and (iii) indemnify and hold harmless each Sekidenko Shareholder and his or its agents, officers, directors and representatives, to the full extent permitted by law, from and against all losses, claims, damages, liabilities, costs (including, without limitation, all reasonable attorneys' fees) and expenses arising out of or based upon any untrue statement of a material fact contained in the Form S-3 Registration, including any and all materials incorporated therein by reference except to the extent that such statements were provided by the shareholder in writing or were based upon statements provided in writing by the shareholder expressly for inclusion in the Form S-3 Registration, the prospectus included therein or any prospectus supplement thereto, or arising out of or based upon any omission of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading unless based upon information provided by the shareholder in writing expressly in connection with the Form S-3 Registration.

6.8 Listing Application. If required by the Nasdaq National Market, the Parent Corporation shall file or cause to be filed a supplemental listing application with the Nasdaq National Market covering the Merger Shares. Within thirty (30) days following the Closing Date, the Parent Corporation shall have obtained approval of any such listing application, subject to official notice of issuance.

6.9 Advice of Changes. Between the date hereof and the Closing Date, Sekidenko and the Principal Shareholder will advise the Parent Corporation in writing of any fact, which (a) if known at the date hereof, would have been required to be set forth or disclosed in any Schedule to this Agreement, (b) would render any of the representations and warranties contained in Section 4 untrue as of the Closing Date or (c) could reasonably be expected to have a material adverse effect on Sekidenko's business, financial condition or results of operations.

6.10 Expenses Associated with the Merger. Whether or not the Merger is consummated as contemplated by this Agreement, each of the parties shall be responsible for its own costs and expenses incurred in connection with the preparation and negotiation of this Agreement and the transactions contemplated hereby.

6.11 Preparation of Audited Financial Statements of Sekidenko. Immediately upon the execution of this Agreement, the Parent Corporation shall retain Arthur Andersen LLP to conduct an audit of the financial statements of Sekidenko for 1998 and 1999 and as of the end of such years, and as of such other dates and for such other periods as the Parent Corporation may be required to file audited financial statements for Sekidenko with the Securities and Exchange Commission. Sekidenko and the Principal Shareholder shall, and Sekidenko shall cause Moss Adams LLP to, cooperate with Arthur Andersen LLP to promptly and timely provide to Arthur Andersen LLP all such information and access to all such papers, agreements, instruments and other documents as Arthur Andersen LLP shall reasonably request in connection with the conduct of the audit.

6.12 No Acquisition Discussions. None of Sekidenko, the Principal Shareholder nor any of their respective representatives shall encourage, solicit, participate in or initiate discussions or negotiations with, or provide any non-public information to, any person (including a corporation, partnership or other entity or group) in respect of the acquisition by such other person of all or any material portion of Sekidenko's assets or any equity interest in or business combination with Sekidenko. Sekidenko shall not authorize, propose or announce an intention to authorize or propose any such acquisition. The Principal Shareholder shall not sell, transfer or otherwise dispose of any of his shares of Sekidenko common stock, except pursuant to a Stock Option Agreement or with the prior written consent of the Parent Corporation.

6.13 Certificates. Sekidenko, the Sekidenko Shareholders, the Parent Corporation and the Merger Sub each shall provide to the requesting party or such party's legal counsel or accounting advisors

such accurate certificates and other information as the requesting party or such party's legal counsel or accounting advisors may reasonably request in order for the parties to conclude that the Merger will qualify (a) as a transaction to be accounted for as a polling of interests under APB No. 16, and (b) for federal income tax purposes, as a reorganization within the meaning of Section 368 of the Code.

7. CONDITIONS TO THE OBLIGATIONS OF THE PARENT CORPORATION AND THE MERGER SUB.

Except for the performance of the covenants required to be performed by them prior to Closing, the obligations of the Parent Corporation and the Merger Sub under this Agreement are subject to the fulfillment, at or prior to the Closing, of each of the following conditions, any or all of which may be waived in writing by the Parent Corporation, in its sole discretion:

7.1 Accuracy of Representations and Warranties. Each of the representations and warranties of Sekidenko and the Principal Shareholder contained in this Agreement will be true on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date.

7.2 Performance of Covenants. Sekidenko and the Principal Shareholder will have performed and complied with all covenants, obligations and agreements to be performed or complied with by them on or before the Closing Date pursuant to this Agreement.

7.3 Consents. Sekidenko will have delivered to the Parent Corporation all consents and approvals of all persons and entities required to be obtained by Sekidenko in connection with the Merger, including without limitation the consents identified on Schedule 4.2.4.

7.4 No Change in Major Customer Relationship. There will not have been any adverse change in Sekidenko's relationship with Applied Materials, and Applied Materials shall have consented to the consummation by Sekidenko of the Merger and other transactions contemplated by this Agreement.

7.5 Certificate. The Parent Corporation will have received an accurate certificate signed on behalf of Sekidenko by an authorized officer of Sekidenko and by the Principal Shareholder, dated on the Closing Date, satisfactory in form and substance to the Parent Corporation and its counsel, certifying as to the fulfillment of the conditions specified in Sections 7.1 through 7.5.

7.6 Escrow Agreement. The Escrow Agent and each of the Sekidenko Shareholders will have executed the Escrow Agreement in form of Exhibit 2.3.

7.7 HSR Act Waiting Period. The applicable waiting period under the HSR Act, and the regulations promulgated thereunder, shall have expired or been terminated.

7.8 Opinion of Counsel to Sekidenko. The Parent Corporation will have received a favorable opinion of Foster Pepper & Shefelman, LLP, counsel to Sekidenko, dated on the Closing Date, substantially in the form of Exhibit 7.8 hereto.

7.9 Confirmation of Pooling of Interest. The Parent Corporation shall have received a letter of Arthur Andersen LLP, its independent accountants, dated on the Closing Date, in form and substance reasonably satisfactory to the Parent Corporation, stating that such accountants concur with management's conclusion that the Merger will qualify as a transaction to be accounted for as a pooling of interests under APB No. 16.

7.10 Employment Agreement. Sekidenko and the Principal Shareholder will have entered into an Employment Agreement, effective as of the Closing Date, substantially in the form of Exhibit 3.2.3.

7.11 No Dissenters. No Sekidenko Shareholder shall be entitled to claim, as of the Closing Date, any dissenters' or appraisal rights in respect of such shareholder's shares of Sekidenko common stock.

7.12 Audit of Financial Statements. The audit of Sekidenko's financial statements by Arthur Andersen LLP, as described in Section 6.11, will not have raised any issues, other than those disclosed on Schedule 4.7, which could be reasonably expected to result in a material change or adjustment to the financial statements provided to the Parent Corporation by Sekidenko prior to the date of this Agreement.

7.13 Exemption from Registration. The offer and sale of the Merger Shares to the Sekidenko Shareholders pursuant to the Merger shall be exempt from registration under the Securities Act.

7.14 Assignment of Sublicense Royalties. The Principal Shareholder shall have assigned to Sekidenko all rights which he may have, including the right to receive royalties, under the terms of a Technology Sublicense and Distribution Agreement dated as of January 1, 1998 by and between Sekidenko and Y.O. Systems, Inc. and such assignment shall be a in form reasonable acceptable to Parent Corporation.

8. CONDITIONS TO THE OBLIGATIONS OF SEKIDENKO AND THE PRINCIPAL SHAREHOLDER.

Except for the performance of the covenants required to be performed by them prior to Closing, the obligations of Sekidenko and the Principal Shareholder under this Agreement are subject to the fulfillment, at or prior to the Closing, of each of the following conditions, any or all of which may be waived in writing by Sekidenko, in its sole discretion:

8.1 Accuracy of Representations and Warranties. Each of the representations and warranties of the Parent Corporation and the Merger Sub contained in this Agreement will be true on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date.

8.2 Performance of Covenants. The Parent Corporation and the Merger Sub will have performed and complied with all covenants, obligations and agreements to be performed or complied with by it on or before the Closing Date pursuant to this Agreement.

8.3 Certificate. Sekidenko and the Principal Shareholder will have received an accurate certificate signed by the Parent Corporation, dated on the Closing Date, satisfactory in form and substance to Sekidenko and its counsel, certifying as to the fulfillment of the conditions specified in Sections 8.1 and 8.2.

8.4 Escrow Agreement. The Parent Corporation and the Escrow Agent will have executed the Escrow Agreement in the form of Exhibit 2.3.

8.5 HSR Act Waiting Period. The applicable waiting period under the HSR Act, and the regulations promulgated thereunder, shall have expired or been terminated.

8.6 Opinion of Counsel to the Parent Corporation. Sekidenko and the Principal Shareholder will have received a favorable opinion of Thelen Reid & Priest LLP, counsel to the Parent Corporation and the Merger Sub, dated on the Closing Date, substantially in the form of Exhibit 8.6 hereto.

9. TERMINATION.

9.1 By Mutual Agreement. This Agreement may be terminated prior to the Effective Time by the mutual agreement of Sekidenko and the Parent Corporation.

9.2 By the Parent Corporation. This Agreement may be terminated prior to the Closing Date by written notice from the Parent Corporation to Sekidenko, if
(a) the Closing has not taken place on or before August 31, 2000 unless the delay is due to factors within the reasonable control of the Parent Corporation or the Merger Sub; (b) a United States federal or state court of competent jurisdiction or United States federal or state governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable; provided, that the Parent Corporation shall have used all reasonable efforts to remove such injunction, order or decree; (c) Sekidenko or the Principal Shareholder shall have materially breached this Agreement, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by the Parent Corporation or the Merger Sub to the breaching party or (d) within 10 business days of Sekidenko providing to the Parent Corporation all materials requested by the Parent Corporation in its request for due diligence materials delivered to Sekidenko on July 12, 2000, the Parent Corporation, in its sole discretion, is not satisfied with its investigation of Sekidenko or its business, properties or financial condition.

9.3 By Sekidenko. This Agreement may be terminated prior to the Closing Date by written notice from Sekidenko to the Parent Corporation, if (a) the Closing has not taken place on or before August 31, 2000 unless the delay is due to factors within the reasonable control of Sekidenko or the Principal Shareholder; (b) a United States federal or state court of competent jurisdiction or United States federal or state governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable; provided, that Sekidenko and the Principal Shareholder shall have used all reasonable efforts to remove such injunction, order or decree; (c) the Parent Corporation or the Merger Sub shall have materially breached this Agreement, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by the Sekidenko or the Principal Shareholder to the breaching party or (d) if the Exchange Price is less than $45.00.

9.4 Effect of Any Termination. Any termination of this Agreement shall not relieve either the terminating party or any other party of any respective obligations they may have under Sections 6.2 or 6.3 of this Agreement. In addition, if this Agreement is terminated as a result of a breach of a representation or warranty or the breach of a covenant contained in this Agreement, the breaching party shall, notwithstanding such termination, remain liable to the other parties for damages incurred by such other parties as a result of such breach but such damages shall be limited to the out of pocket expenses incurred by such other parties.

10. GENERAL.

10.1 Binding Effect; Benefits. This Agreement will be binding upon and inure to the benefit of the parties hereto and, to the extent permitted under
Section 10.2, their respective heirs, personal representatives, successors and assigns. Nothing in this Agreement, whether expressed or implied, is intended to confer any rights or remedies on any person other than Sekidenko, the Sekidenko Shareholders, the Parent Corporation, the Merger Sub and those other persons who may be entitled to indemnification under the Escrow Agreement. Nothing in this Agreement is intended to relieve or discharge the obligation

or liability owed by any third party to Sekidenko, the Principal Shareholder, the Parent Corporation or the Merger Sub.

10.2 Survival of Representations, Warranties and Covenants. The representations, warranties and covenants in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Merger; provided, however, that the representations and warranties contained in Section 4 and
Section 5 shall survive the Merger for a period of one (1) year from the Effective Time, the covenants contained in Section 6 shall survive the Merger to the extent provided therein and this Section 10 shall survive the Merger. Any claim against any Sekidenko Shareholder for a breach of a representation, warranty or covenant of either Sekidenko or the Principal Shareholder shall be subject to and limited by the terms and conditions of the Escrow Agreement.

10.3 Assignment. Neither this Agreement nor the rights or obligations of any party under this Agreement may be assigned by any party without the prior written consent of the other parties, which consent may be withheld in the sole discretion of such other parties, except that the Merger Sub may assign its rights and obligations under this Agreement to a different wholly-owned subsidiary of the Parent Corporation.

10.4 Notices. Any notice, request, demand or other communication which is required to be given or which is given in connection with this Agreement will be in writing and will be deemed to have been duly given if delivered in person, transmitted by facsimile, sent by first class mail, postage prepaid, return receipt requested or sent by overnight courier, addressed as follows:

If to Sekidenko or to the Principal Shareholder to:

Dr. Ray R. Dils
1416 N.E. 145th Avenue
Vancouver, Washington 98684
Facsimile: 800-600-2213

with a copy to:

Foster Pepper & Shefelman, LLP
101 S.W. Main, 15th Floor
Portland, Oregon 97204
Attention: Curt B. Gleaves
Facsimile: 503-221-1510

If to the Parent Corporation or to the Merger Sub, to:

1625 Sharp Point Drive
Fort Collins, CO 80525
Attention: Douglas Schatz
Facsimile: 970-407-5300

with a copy to:

Thelen Reid & Priest LLP
101 Second Street, 18th Floor
San Francisco, CA 94105
Attention: Carissa C. W. Coze
Facsimile: 415-369-8633

or to such other address as any party may designate by giving notice to the other parties hereto. Notices delivered by hand or by facsimile will be deemed given when actually received. Notices sent by regular

mail will be deemed given three business days after they are sent. Notices sent by overnight courier will be deemed given on the business day following the date on which they are sent.

10.5 Entire Agreement; Amendment. This Agreement (including the Exhibits and Schedules hereto) constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral and written, between any of the parties hereto and may not be amended, modified or terminated except by a written instrument executed by all of the parties.

10.6 Governing Law and Interpretation. This Agreement will be construed as to both validity and performance and enforced in accordance with and governed by the internal laws of the state of Washington without giving effect to the choice of law provisions thereunder. Headings of sections of this Agreement are for the convenience of the parties only and shall not be given any substantive or interpretive effect whatsoever. In this Agreement, unless the context otherwise requires, (a) words denoting the singular will include the plural, (b) words denoting the plural will include the singular, (c) words denoting a gender will include persons of either gender, (d) words denoting a natural person will include corporations, limited liability companies, trusts and other business entities and (e) words denoting an entity will include natural persons.

10.7 Arbitration. With regard to any claim arising out of or relating to this Agreement, if the parties can not resolve such matter after good faith negotiation for at least 15 days, any party may, by written notice to the other, demand arbitration of the claim unless the basis for the claim involves a potential claim which is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or the parties agree to arbitration. Unless the parties otherwise agree, any such dispute shall be settled by arbitration conducted by three arbitrators. Within fifteen (15) days after such written notice is sent, the Parent Corporation and the Principal Shareholder shall each select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The arbitrators shall not have the power or authority to award punitive or exemplary damages. Absent fraud, collusion or willful misconduct by the arbitrators, the decision of the arbitrators shall be final and binding upon the parties, the decision of a majority of the arbitrators shall be binding and conclusive. Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction. Any such arbitration shall be held in San Francisco, California under the commercial rules then in effect of the American Arbitration Association. The non-prevailing party to an arbitration shall pay its own expenses, the fees of each arbitrator, the administrative fee of the American Arbitration Association, and the expenses, including without limitation, attorneys' fees and costs reasonably incurred by the other party to the arbitration.

10.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed, will be deemed to be an original and all of which together will be deemed to be one and the same instrument.

10.9 Waivers. Except as provided in this Agreement, no action taken pursuant to this Agreement, including without limitation any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

10.10 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement

in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the 21st day of July, 2000

SEKIDENKO: SEKIDENKO, INC.

By /s/ RAY R. DILS
Dr. Ray R. Dils, President

THE PRINCIPAL SHAREHOLDER: *DR. RAY R. DILS*

/s/ RAY R. DILS

THE PARENT CORPORATION: *ADVANCED ENERGY INDUSTRIES, INC.*

By /s/ RICHARD P. BECK
Its Chief Financial Officer

THE MERGER SUB: MERCURY MERGER CORPORATION

By /s/ DAVID K. SMITH
Its Chief Financial Officer

EXHIBIT 10.22

AGREEMENT AND PLAN OF REORGANIZATION

AGREEMENT AND PLAN OF REORGANIZATION (this "Agreement"), dated as of July 6, 2000, is made by and among ADVANCED ENERGY INDUSTRIES, INC., a Delaware corporation ("Parent"), FLOW ACQUISITION CORPORATION, a Colorado corporation and a wholly owned subsidiary of Parent ("Merger Sub"), and ENGINEERING MEASUREMENTS COMPANY, a Colorado corporation (the "Company").

RECITALS

A. The Boards of Directors of Parent and the Company each have determined that a business combination between Parent and the Company would enable the companies to achieve short-term and long-term strategic and financial benefits to the benefit of their respective stockholders and, accordingly, for that and other reasons is in the best interests of their respective stockholders. Each of such Boards of Directors desires to effect the Merger (as defined herein), on the terms and subject to the conditions set forth herein.

B. It is intended that the Merger qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes.

C. It is intended that the Merger be accounted for as a pooling of interests for financial accounting purposes.

D. Parent has incorporated and organized Merger Sub solely to facilitate the Merger.

NOW, THEREFORE, in consideration of the mutual covenants and subject to the terms and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

"Affiliate" means each "affiliate" as defined in Rule 145 of the rules and regulations promulgated under the Securities Act.

"Affiliate Letter" has the meaning set forth in Section 6.8.

"Agreement" has the meaning set forth in the preface above.

"Alternative Proposal" has the meaning set forth in Section 6.1(b).

"APB No. 16" means the Accounting Principles Board Opinion Number 16.

"Articles of Merger" has the meaning set forth in Section 2.3.

"CBCA" has the meaning set forth in Section 2.1.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Certificate" has the meaning set forth in Section 3.2(b).

"Closing" has the meaning set forth in Section 2.2.

"Closing Date" has the meaning set forth in Section 2.2.

"Code" has the meaning set forth in the recitals above.

"Commission" means the Securities and Exchange Commission of the United States of America.

"Company" has the meaning set forth in the preface above.

"Company Benefit Plans" means all employee benefit plans as defined in
Section 3.3 of ERISA and any other plan, contract, program, policy or benefit arrangements covering employees or former employees of the Company and all employee agreements providing compensation, severance or other benefits to any employee or former employee of the Company.

"Company Board" means the Board of Directors of the Company.

"Company Common Stock" means the common stock of the Company.

"Company Contract" has the meaning set forth in Section 4.10.

"Company Disclosure Schedule" means the disclosure schedule delivered by the Company at or prior to the execution hereof to Parent.

"Company Material Adverse Effect" means a material adverse effect on or change in the business, prospects, results of operations or financial condition of the Company and its Subsidiaries, taken as a whole.

"Company Option Plans" has the meaning set forth in Section 3.2(d)(i).

"Company Options" has the meaning set forth in Section 3.2(d)(i).

"Company Personnel" has the meaning set forth in Section 6.10(a).

"Company Real Properties" means all real property ever owned, leased or occupied by the Company or any Predecessor.

"Company Reports" has the meaning set forth in Section 4.6(a).

"Confidentiality Agreement" has the meaning set forth in Section 8.5(c).

"Copyrights" means any and all of Company's copyrights, copyrightable works, semiconductor topography and mask work interests, including, without limitation, all rights of

authorship, use, publication, reproduction, distribution, performance, transformation, moral rights and ownership of copyrightable works, semiconductor topography works and mask works, and all rights to register and obtain renewals and extensions of registrations, together with all other interests accruing by reason of international copyright, semiconductor topography and mask work conventions.

"Current Policy" has the meaning provided in Section 6.14(b).

"Effective Date" means the date upon which this Agreement has been executed by each of the parties.

"Effective Time" has the meaning set forth in Section 2.3.

"Enforceability Exceptions" has the meaning set forth in Section 4.3(c).

"Environmental Requirements" means any applicable laws, regulations, ordinances or other provisions having the force or effect of law, or any judicial, governmental, or administrative orders, requests, or determinations, or any common law requirements relating to the protection of human health or the environment (both natural and workplace), including without limitation any Environmental Requirements concerning (A) the use, generation, treatment, storage, transportation, handling or disposal of Hazardous Materials, (B) the control of soil, surface or groundwater pollution products, (C) air quality and emission standards, or (D) health, safety and hazard communication matters. Environmental Requirements include, without limitation, CERCLA, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act, the Clean Water Act, the Toxic Substances Control Act, the Clean Air Act, SWDA, the Atomic Energy Act, the Federal Food Drug and Cosmetic Act, and equivalent state and local ordinances and statutes and ordinances in countries other than the United States of America.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any business or entity which is a member of the same "controlled group of corporations," under "common control" or an "affiliated service group" with an entity within the meanings of Sections
414(b), (c) or (m) of the Code, or required to be aggregated with the entity under Section 414(o) of the Code, or is under "common control" with the entity, within the meaning of Section 4001(a)(14) of ERISA, or any regulations promulgated or proposed under any of the foregoing Sections.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Agent" has the meaning set forth in Section 3.3(a).

"Exchange Fund" has the meaning set forth in Section 3.3(a).

"Exchange Ratio" means the number determined by dividing (i) 900,000 by
(ii) the total number as of the Effective Time of (A) outstanding shares of Company Common Stock plus (B) shares underlying outstanding Company Options.

"Future Benefit Plans" has the meaning set forth in Section 6.10(b).

"GAAP" means United States generally accepted accounting principles, consistently applied.

"Hazardous Materials" means any toxic, injurious or hazardous materials, substances or wastes, toxic pollutants or contaminants, including petroleum products, crude oil or any by-products or derivatives thereof as any of the foregoing terms are defined in federal, state and local laws applicable to the Company or Parent, as the case may be, but does not include commercially available office cleaning or janitorial supplies.

"Intellectual Property" means any and all of the following of the Company and the Company Subsidiaries: (i) Patents; (ii) Trademarks; (iii) Copyrights; and (iv) any and all technology, ideas, inventions, designs, proprietary information, unpublished research and development information, manufacturing and operating information, know-how, formulae, trade secrets and technical data, computer programs, and all hardware, software and processes.

"IRS" means the federal Internal Revenue Service.

"ISOs" has the meaning set forth in Section 3.2(d)(iii).

"Issued Patents" means any and all issued patents, reissue or reexamination patents, revivals of patents, utility models, certificates of invention, registrations of patents, or extensions thereof, regardless of country or formal name.

"Last Report Date" means April 30, 2000.

"Letter of Transmittal" has the meaning set forth in Section 3.3(c).

"Merger" has the meaning set forth in Section 2.1.

"Merger Certificates" has the meaning set forth in Section 3.3(a).

"Merger Sub" has the meaning set forth in the preface above.

"Parent" has the meaning set forth in the preface above.

"Parent Board" means the Board of Directors of Parent.

"Parent Common Stock" means the common stock of the Parent.

"Parent Material Adverse Effect" means a material adverse effect on or change in the business, prospects, results of operations or financial condition of Parent and its Subsidiaries, taken as a whole.

"Parent Option Plans" has the meaning set forth in Section 3.2(d)(iv).

"Parent Options" means all options to acquire Parent Common Stock granted by Parent.

"Parent Preferred Stock" means the 1,000,000 authorized shares of Parent preferred stock.

"Parent Reports" has the meaning set forth in Section 5.5.

"Parent Share" means any share of the voting common stock of Advanced Energy Industries, Inc.

"Patent Applications" means any and all patent rights, including, without limitation, all United States and foreign utility and design patents, and all published or unpublished nonprovisional and provisional patent applications, including, without limitation, any and all applications of additions, divisionals, continuations, continuations-in-part, reexaminations, substitutions, extensions, renewals, utility models, certificates of invention or reissues thereof or therefor, invention disclosures and records of invention for abandoned patent applications

"Patents" means the Patent Applications and the Issued Patents.

"Permits" means all valid and current permits, licenses, orders, authorizations, registrations, approvals and other analogous instruments.

"Person" includes both natural persons and entities.

"Post Closing Dividends" has the meaning set forth in Section 3.3(f).

"Predecessor" means any Person that owns or has ever owned, leased or occupied the Company Real Properties.

"Proxy Statement/Prospectus" has the meaning provided in Section 6.7(a).

"Qualified Plan" means each Company Benefit Plan that is intended to be a "qualified plan" within the meaning of Section 401(a) of the Code, and either
(i) the IRS has issued a favorable determination letter that has not been revoked, or (ii) an application for a favorable determination letter was timely submitted to the IRS for which no final action has been taken by the IRS as of the Closing Date.

"Registration Statement" has the meaning set forth in Section 6.7(a).

"Securities Act" means the Securities Act of 1933, as amended.

"Significant Subsidiaries" of a party means Subsidiaries of such party which constitute "significant subsidiaries" under Rule 405 promulgated by the Commission under the Securities Act.

"Specified Post-Closing Dividends" has the meaning set forth in Section 3.3(f).

"Stock Purchase Plan" has the meaning set forth in Section 3.2(d)(iv).

"Stockholders Meeting" means a meeting of the holders of Company Common Stock.

"Subsidiary" of a party means any corporation or other organization, whether incorporated or unincorporated, of which such party directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization, or any organization of which such party is a general partner.

"Substituted Options" has the meaning set forth in Section 3.2(d)(i).

"Surviving Corporation" has the meaning set forth in Section 2.1.

"SWDA" means the Solid Waste Disposal Act, as amended.

"Termination Fee" has the meaning set forth in Section 8.5(a).

"Trademarks" means any and all of Company's trademarks, registered trademarks, applications for registration of trademark, service marks, registered service marks, applications for registration of service marks, trade names, registered trade names, and applications for registrations of trade names.

"Transaction" has the meaning provided in Section 6.1(b).

ARTICLE 2
THE MERGER

2.1 THE BASIC TRANSACTION. On the terms and subject to the conditions of this Agreement, at the Effective Time, Merger Sub shall be merged with and into the Company in accordance with this Agreement, and the separate corporate existence of Merger Sub shall thereupon cease (the "Merger"). The Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation"), and shall become a wholly owned subsidiary of Parent. The Merger shall have the effects specified in the Colorado Business Corporation Act (the "CBCA").

2.2 THE CLOSING. Subject to the terms and conditions of this Agreement, the closing of the Merger (the "Closing") shall take place (a) at the offices of the Company at 10:00 a.m., local time, on the first business day immediately following the day on which the last to be fulfilled or waived of the conditions set forth in Article 7 shall be completely fulfilled or waived in accordance herewith, or (b) at such other time, date or place as Parent and the Company may agree. The date on which the Closing occurs is hereinafter referred to as the "Closing Date."

2.3 EFFECTIVE TIME. On the Closing Date, Articles of Merger meeting the requirements of Section 7-111-105 of the CBCA in the form of Exhibit 2.3 (the "Articles of Merger") shall be executed and filed in the office of the Colorado Secretary of State, in accordance with the CBCA. The Merger shall become effective at (a) the time of filing of the Articles of Merger with the Colorado Secretary of State or (b) such later time as agreed by the parties hereto and designated in the Articles of Merger as the effective time of the Merger (the "Effective Time").

2.4 ARTICLES OF INCORPORATION AND BY-LAWS. The Articles of Incorporation and By-laws of Merger Sub in effect immediately prior to the Effective Time shall be the Articles of Incorporation and By-laws of the Surviving Corporation, until duly amended in accordance with applicable law.

2.5 DIRECTORS AND OFFICERS OF THE SURVIVING CORPORATION. The directors and officers of Merger Sub immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation until their successors are duly appointed or elected in accordance with applicable law.

ARTICLE 3
CONVERSION AND EXCHANGE OF SECURITIES

3.1 MERGER SUB STOCK. At the Effective Time, each share of common stock of Merger Sub outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and non-assessable share of common stock of the Surviving Corporation.

3.2 COMPANY STOCK; OPTIONS.

(a) EXCHANGE RATIO. At the Effective Time, each share of Company Common Stock that is issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive a number of shares of Parent Common Stock equal to the Exchange Ratio.

(b) CANCELLATION OF COMPANY COMMON STOCK. At the Effective Time, as a result of the Merger and without any action on the part of the holders thereof, all shares of Company Common Stock outstanding at the Effective Time shall cease to be outstanding, shall be canceled and retired and shall cease to exist, and each holder of shares of Company Common Stock shall thereafter cease to have any rights with respect to such shares of Company Common Stock, except the right to receive upon the surrender of a certificate representing such shares of Company Common Stock (a "Certificate") (i) the number of shares of Parent Common Stock determined in accordance with this Section 3.2, and (ii) cash, without interest, payable (A) in lieu of any fractional shares of Parent Common Stock, in accordance with Section 3.3(b), and (B) as Specified Post-Closing Dividends, in accordance with Section 3.3(f).

(c) TREASURY SHARES AND SHARES HELD BY SUBSIDIARIES. At the Effective Time, as a result of the Merger and without any action on the part of Parent, Merger Sub or the Company, any and all shares of Company Common Stock issued and held in the Company's treasury shall cease to be outstanding, shall be canceled and retired without payment of any consideration therefor and shall cease to exist.

(d) OPTIONS.

(i) At the Effective Time, as a result of the Merger and without any action on the part of holder thereof, each option to purchase Company Common Stock granted by the Company (collectively, "Company Options") under one of its stock option plans (collectively, "Company Option Plans") that remains outstanding and unexercised as of the

Effective Time, whether or not vested or exercisable, shall be assumed by Parent and shall be converted into an option to purchase Parent Common Stock (collectively, "Substituted Options").

(ii) Subject to subsection 3.2(d)(iii) below, (A) the number of shares of Parent Common Stock underlying a Substituted Option shall be equal to the number of shares of Company Common Stock underlying the subject Company Option multiplied by the Exchange Ratio and rounded to the nearest whole number, (B) the exercise price per share of a Substituted Option shall be adjusted proportionately such that the aggregate exercise price under the Substituted Options shall remain substantially unchanged, and (C) each Substituted Option shall be exercisable on the same terms and subject to the same conditions as had been applicable to the related Company Option, except to the extent the number of shares and exercise price per share have been adjusted pursuant to (A) and (B), respectively, of this subsection 3.2(d)(ii).

(iii) It is the intention of the parties that Company Options that qualified as incentive stock options, within the meaning of Section 422 of the Code ("ISOs"), immediately prior to the Effective Time, be converted, when assumed by Parent, into Substituted Options that qualify as ISOs immediately following the Effective Time, to the extent permitted by Section 422 of the Code and applicable terms of the Company Option Plans. In furtherance of such intention, the formulae, terms and conditions set forth in subsection 3.2(d)(ii) above may be applied to, or modified for, such Substituted Options as deemed reasonably necessary by Parent, so long as any such application or modification does not materially reduce the benefit of the Substituted Option to the holder thereof.

(iv) The Company's Employee Stock Purchase Plan (the "Stock Purchase Plan") shall be terminated prior to the Closing. All funds invested in the Stock Purchase Plan but not used by employees to purchase stock thereunder prior to the Effective Time shall be transferred or otherwise credited to employees of the Company such that, following the Effective Time, each such employee shall have purchase rights under Parent's stock purchase plans substantially similar to those existing under the Stock Purchase Plan immediately prior to the Effective Time.

(v) On or prior to the Effective Time, Parent shall file with the Commission a Registration Statement on Form S-3 or Form S-8, as determined by Parent in its sole discretion, relating to the issuance of the Parent Common Stock underlying the Substituted Options or shall cause such Parent Common Stock to be included in an effective Registration Statement on Form S-8 relating to one or more of Parent's stock option plans (collectively, "Parent Option Plans"). So long as any Substituted Options remain outstanding, Parent shall use its reasonable best efforts to maintain the effectiveness of any Registration Statement(s) related to the Substituted Options (and to maintain the current status of the prospectus or prospectuses related thereto). At or prior to the Effective Time, Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of the Substituted Options. To the extent required by the relevant market or exchange, Parent shall list or qualify all such shares for trading on the principal market or exchange on which Parent Common Stock is traded from time to time.

3.3 EXCHANGE OF CERTIFICATES REPRESENTING COMPANY COMMON STOCK.

(a) As of the Effective Time, Parent shall deposit, or shall cause to be deposited, with an exchange agent reasonably acceptable to the Company (the "Exchange Agent"), for the benefit of the holders of Company Common Stock, for exchange in accordance with this Article 3, (i) certificates representing the shares of Parent Common Stock to be issued in connection with the Merger ("Merger Certificates"), and (ii) Parent's good faith estimate of the cash in lieu of fractional shares expected to be payable in connection with the Merger. Such cash and Merger Certificates are referred to herein as the "Exchange Fund."

(b) No fractional shares of Parent Common Stock shall be issued pursuant hereto. In lieu of the issuance of any fractional share of Parent Common Stock, cash will be paid in respect of any fractional share of Parent Common Stock that would otherwise be issuable, and the amount of such cash shall be equal to such fractional proportion of the closing price of one share of Parent Common Stock as reported in The Wall Street Journal, Eastern Edition, as of the last day prior to the Effective Time on which trading is conducted on the Nasdaq National Market. No interest will be paid or accrued on the cash payable to holders of shares of Company Common Stock.

(c) Promptly after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record of Company Common Stock (i) a letter of transmittal, in a typical form and having such provisions as Parent may reasonably specify ("Letter of Transmittal"), which shall advise the holder that delivery of Merger Certificates shall be effected, and risk of loss to such holder's shares of Company Common Stock shall pass, only upon delivery of the Certificates representing such shares to the Exchange Agent, and (ii) instructions for use in effecting the surrender of such Certificates in exchange for Merger Certificates and cash in lieu of fractional shares from the Exchange Fund.

(d) Upon surrender of a Certificate to the Exchange Agent for cancellation, together with a duly executed and properly completed Letter of Transmittal, (i) the holder of the shares of Company Common Stock represented by such Certificate shall be entitled to receive in exchange therefor from the Exchange Fund (A) a Merger Certificate representing that number of whole shares of Parent Common Stock determined by multiplying the number of shares of Company Common Stock represented by the Certificate by the Exchange Ratio, and (B) a check representing (1) the amount of cash in lieu of fractional shares of Parent Common Stock, if any, determined pursuant to paragraph (b) of this Section 3.3, and (2) any Specified Post-Closing Dividends, in each case less any applicable tax withholding, and (ii) the Company Common Stock represented by the surrendered Certificate shall thereupon be canceled.

(e) In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, a Merger Certificate representing the proper number of shares of Parent Common Stock, together with a check for the cash to be paid in lieu of fractional shares, if any, may be issued to such transferee of such Company Common Stock, if the Certificate representing such Company Common Stock is presented to the Exchange Agent, accompanied by all documents, in form and substance reasonably satisfactory to Parent and the Exchange Agent, required to evidence and effect such transfer of Company Common Stock and to evidence that any applicable stock transfer taxes have been paid. There shall be no

transfers on the transfer records of the Company, at or after the Effective Time, of shares of Company Common Stock which were outstanding immediately prior to the Effective Time.

(f) Notwithstanding any other provisions of this Agreement, no dividends or other distributions declared after the Effective Time on Parent Common Stock ("Post-Closing Dividends") shall be paid with respect to any shares of Company Common Stock represented by a Certificate until such Certificate is surrendered for exchange as provided herein. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of Post-Closing Dividends with a record date after the Effective Time theretofore payable with respect to such whole shares of Parent Common Stock and not paid, less the amount of any withholding taxes which may be required thereon ("Specified Post-Closing Dividends"), and (ii) at the appropriate payment date, the amount of Post-Closing Dividends with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole shares of Parent Common Stock, less the amount of any withholding taxes which may be required thereon.

(g) Certificates surrendered for exchange by any Affiliate of the Company shall not be exchanged until Parent has received a written agreement from such person as provided in Section 6.8.

(h) None of Parent, the Company, the Surviving Corporation, the Exchange Agent or any other person shall be liable to any former stockholder of the Company for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

3.4 LOST CERTIFICATES. In the event any Certificate shall have been lost, stolen or destroyed, upon the making and delivery of an affidavit (in form and substance satisfactory to the Surviving Corporation) of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the shares of Parent Common Stock and cash deliverable in respect thereof pursuant to this Agreement.

3.5 ADJUSTMENT OF EXCHANGE RATIO. In the event that, subsequent to the date of this Agreement but prior to the Effective Time, the outstanding shares of Parent Common Stock shall have been changed into a different number of shares or a different class as a result of a stock split, reverse stock split, stock dividend, subdivision, reclassification, combination, exchange, recapitalization or other similar transaction, the Exchange Ratio shall be appropriately adjusted.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the Company Disclosure Schedule, the Company makes the following representations and warranties to Parent and Merger Sub, as of the date of this Agreement.

4.1 ORGANIZATION AND STANDING.

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, (ii) has all requisite corporate power and authority to own, operate and lease its properties and carry on its business as now conducted, and (iii) is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the failure to so qualify, or be in good standing, would have a Company Material Adverse Effect.

(b) The Company does not have any Subsidiaries and, except as set forth in the Company Disclosure Schedule, does not own any equity securities or securities convertible into or exchangeable or exercisable for equity securities of any other company.

(c) The Company has not (i) filed or had filed against it a petition in bankruptcy or a petition to take advantage of any other insolvency act, (ii) admitted in writing its inability to pay its debts generally, (iii) made an assignment for the benefit of creditors, (iv) consented to the appointment of a receiver for itself or any substantial part of its property, or (v) generally committed any act of insolvency (including the failure to pay obligations as they become due) or bankruptcy.

4.2 CAPITALIZATION.

(a) The authorized capital stock of the Company consists of 15,000,000 shares of Company Common Stock. As of April 30, 2000, there were 4,125,259 shares of Company Common Stock issued and outstanding. From such date to the date of this Agreement, no additional shares of capital stock of the Company have been issued, except pursuant to the exercise of Company Options. As of April 30, 2000, Company Options to acquire 338,038 shares of Company Common Stock were outstanding. From such date to the date of this Agreement, no additional Company Options have been granted.

(b) All of the issued and outstanding shares of Company Common Stock have been duly authorized and validly issued and are fully paid, non-assessable and free of preemptive or similar rights. Other than Company Options, there are no existing and outstanding warrants, rights, options, subscriptions, convertible securities or other agreements or commitments which obligate the Company to issue, transfer or sell any shares of capital stock of the Company.

(c) The Company does not have any outstanding bonds, debentures, notes or other obligations pursuant to which the holders thereof have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the stockholders of the Company on any matter.

4.3 AUTHORIZATION; ENFORCEABILITY; NO VIOLATION.

(a) The Company has full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(b) Subject only to the approval of this Agreement and the transactions contemplated hereby by the stockholders of the Company in accordance with the CBCA, all corporate action necessary on the part of the Company for the execution, delivery and performance of this Agreement has been duly taken.

(c) This Agreement constitutes (assuming this Agreement is a valid and legally binding obligation of Parent and Merger Sub) a valid and legally binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity and public policy considerations (the "Enforceability Exceptions").

(d) The execution, delivery and performance of this Agreement will not result in any conflict with, breach or violation of or default (or an event which, with notice or lapse of time or both, would constitute a default), termination or forfeiture under (i) any terms or provisions of the Articles of Incorporation or the Bylaws of the Company, (ii) any statute, rule, regulation, judicial, governmental, regulatory or administrative decree, order or judgment applicable to the Company, or (iii) any agreement, lease, license, permit or other instrument to which the Company is a party or to which any of its assets are subject, except where any such breach, violation, default, termination or forfeiture would not have or result in a Company Material Adverse Effect.

(e) There is no action, suit, proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company that questions the validity of this Agreement or the right of the Company to enter into this Agreement or to consummate the transactions contemplated hereby.

4.4 NO CONSENTS. Except as set forth in the Company Disclosure Schedule, no consent, approval, authorization, order, registration, qualification or filing of or with any court or any regulatory authority or any other governmental or administrative body is required on the Company's part for the consummation by it of the transactions contemplated by this Agreement, except (i) notices and filings required in order to comply with the Securities Act, the Exchange Act, and state securities or "blue sky" laws, and (ii) the filing of the Articles of Merger with the Colorado Secretary of State.

4.5 COMPLIANCE WITH LAWS. Except where the failure to so comply would not have a Company Material Adverse Effect, the Company (i) has all valid and current Permits, and each Permit is in full force and effect, and (ii) has made all filings and registrations and the like, necessary or required by law to conduct its business as currently conducted. The Company has not received any governmental notice of any violation by it of any laws, rules, regulation or orders applicable to its business. Except where the failure to comply would not have a Company Material Adverse Effect, (a) the Company is not in default under any Permits and is in compliance with the same, and (b) the business and operations of the Company are in

compliance with all applicable foreign, federal, state, local and county laws, ordinances, regulations, judgments, orders, decrees or rules of any court, arbitrator or governmental, regulatory or administrative agency or entity.

4.6 COMPANY REPORTS.

(a) The Company has filed all reports, forms, registrations, schedules, statements and other documents required to be filed by it with the Commission since April 30, 1996 (the "Company Reports"). As of their respective dates, the Company Reports complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the applicable rules and regulations promulgated thereunder. Except to the extent that information contained in any Company Report has been amended, revised or superseded by a Company Report subsequently filed and publicly available prior to the date of this Agreement, none of the Company Reports, when filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Each of the balance sheets of the Company included in or incorporated by reference into the Company Reports (including the related notes and schedules) fairly presents in all material respects the financial position of the Company as of its date, and each of the statements of income, retained earnings and cash flows of the Company included in or incorporated by reference into the Company Reports (including any related notes and schedules) fairly presents in all material respects the results of operations and cash flows of the Company for the periods set forth therein (subject, in the case of unaudited statements, to normal year-end audit adjustments which would not be material in amount or effect), in each case in accordance with GAAP, except as may be noted therein and subject to the fact that unaudited financial statements do not contain full notes thereto. The Company has no liabilities or obligations required to be disclosed in a balance sheet or the notes thereto prepared in accordance with GAAP, except (i) liabilities or obligations reflected on, or reserved against in, a balance sheet of the Company or in the notes thereto, and included in the Company Reports, (ii) liabilities or obligations incurred since the Last Report Date in the ordinary course of business, consistent with past practices, or (iii) liabilities disclosed in a Company Report.

4.7 ABSENCE OF LITIGATION, ORDERS, JUDGMENTS.

(a) There are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened which involve transactions of or otherwise relate to the Company or any of its businesses or properties, at law or in equity, or before any arbitrator of any kind, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or other instrumentality, domestic or foreign, that are reasonably likely to have a Company Material Adverse Effect.

(b) There are no outstanding orders, writs, injunctions, decrees, judgments, awards, determinations or directions, which involve transactions of or otherwise relate to the Company or any of its businesses or properties, of any court or arbitrator or under any outstanding order, regulation or demand of any federal, state, municipal or other governmental

instrumentality, domestic or foreign, that are reasonably likely to have a Company Material Adverse Effect.

4.8 ABSENCE OF CERTAIN CHANGES. Since the Last Report Date, the Company has conducted its business only in the ordinary course of such business, and there has not been (i) any Company Material Adverse Effect or any event which is reasonably likely to result in a Company Material Adverse Effect; (ii) any declaration, setting aside or payment of any dividend or other distribution with respect to its capital stock; or (iii) any material change in its accounting principles, practices or methods.

4.9 TAXES. The Company (i) has timely filed all material federal, state and foreign tax returns required to be filed by it for tax years ended prior to the date of this Agreement or requests for extensions have been timely filed and any such request shall have been granted and not expired, and all such returns are complete in all material respects, (ii) has paid or accrued all taxes shown to be due and payable on such returns and (iii) has properly accrued all such taxes for such periods subsequent to the periods covered by such returns.

4.10 CONTRACTS. Each (a) agreement, contract and commitment, whether written or oral, to which the Company is a party or by which it is bound and which is filed as an exhibit to or described in a Company Report and (b) material agreement, contract and commitment entered into by the Company, or by which it became bound, after the Last Report Date (collectively, "Company Contracts"), is a valid and legally binding obligation of the Company and, to the knowledge of the Company, the other parties thereto, enforceable against the Company and, to the knowledge of the Company, the other parties thereto, in accordance with its terms, subject to the Enforceability Exceptions. The Company is not, and to the knowledge of the Company no other party to any Company Contract is, in material default thereof. The Company has not, and to the knowledge of the Company no other party to any Company Contract has, performed any act or omitted to perform any act which act or omission, with the giving of notice or passage of time or otherwise, will become a material default thereunder.

4.11 INTELLECTUAL PROPERTY.

(a) The Company owns or has the right to use all Intellectual Property used in the operation of its business as presently conducted, without any interference or conflict with or misappropriation or infringement of the Intellectual Property rights of others, other than any interference, conflict, misappropriation or infringement which is not reasonably likely to result in (i) a material adverse effect on the Company's ability to manufacture or sell any of its material products or any material line of products or otherwise to operate its business, (ii) a material liability of the Company, or (iii) material redesign or other corrective costs to the Company. The Company has taken commercially reasonable action to maintain and protect its rights in the material Intellectual Property that it owns or uses. Each material item of Intellectual Property owned or used by the Company immediately prior to the Effective Time hereunder will be owned or available for use by the Surviving Corporation on substantially identical terms and conditions immediately subsequent to the Effective Time.

(b) Section 4.11 of the Company Disclosure Schedule sets forth all Patents, registered Copyrights, registered Trademarks, joint development agreements, licenses and

agreements relating to Intellectual Property owned or used by the Company (other than agreements or licenses for readily available "off-the-shelf" software) that require a consent or waiver to consummate the transactions contemplated by this Agreement.

(c) To its knowledge, the Company has not, within the past four years, interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of others other than any interference, infringement, misappropriation or conflict which did not and is not reasonably likely to result in (i) a material adverse effect on the Company's ability to manufacture or sell any of its material products or any material line of products or otherwise to operate its business, (ii) a material liability of the Company, or (iii) material redesign or other corrective costs to the Company. The Company has not received, and has no knowledge of, any charge, complaint, claim, demand or notice alleging any such interference, infringement, misappropriation, or conflict (including, without limitation, any claim that the Company must license or refrain from using any Intellectual Property rights of any other person), or that the Company's use of the Intellectual Property constitutes unfair competition.

(d) To the knowledge of the Company, no fraud or misrepresentation has been made by the Company or any of its officers, directors or employees or the relevant inventors during the prosecution of any of the Patents of the Company, nor has any fraud or misrepresentation been included in any documentation for or other disclosure to any governmental agency of the Intellectual Property of the Company.

4.12 EMPLOYEE BENEFIT PLANS.

(a) The Company does not maintain or contribute to or have any actual or, to its knowledge, potential liability with respect to any (i) deferred compensation or bonus or retirement plans or arrangements, (ii) qualified or nonqualified defined contribution or defined benefit plans or arrangements which are employee pension benefit plans (as defined in Section 3(2) of ERISA), or
(iii) employee welfare benefit plans, (as defined in Section 3(1) of ERISA), stock option or stock purchase plans, or material fringe benefit plans or programs whether in writing or oral and whether or not terminated. The Company has never contributed to any multiemployer pension plan (as defined in Section 3(37) of ERISA) or has ever maintained or contributed to any defined benefit plan (as defined in Section 3(35) of ERISA). The Company does not maintain or contribute to any Company Benefit Plan which provides health, accident or life insurance benefits to former employees, their spouses or dependents, other than in accordance with Section 4980B of the Code.

(b) With respect to each Company Benefit Plan that is intended to be a "qualified plan" within the meaning of Section 401(a) of the Code, either (i) the IRS has issued a favorable determination letter that has not been revoked, or (ii) an application for a favorable determination letter was timely submitted to the IRS for which no final action has been taken by the IRS. To the knowledge of the Company, there is no reason that is not susceptible to cure why the qualified status under Section 401(a) of the Code of any Company Benefit Plan would be denied or revoked, whether retroactively or prospectively.

(c) To the knowledge of the Company, no Company Benefit Plan, any fiduciary thereof, nor the Company has incurred any liability or penalty under
Section 4975 of

the Code or Section 502(i) of ERISA. Except as would not have a Company Material Adverse Effect, each Company Benefit Plan has been maintained and administered in all material respects in compliance with its terms and with ERISA and the Code, to the extent applicable thereto.

(d) To the knowledge of the Company, neither the Company nor any ERISA Affiliate (during the period of its affiliated status) has any existing liability currently due and payable that has not been satisfied in full under Title IV of ERISA or Section 412 of the Code. To the knowledge of the Company, there are no current plans to terminate, whether voluntarily or involuntarily, any materially underfunded pension plan of the Company or any ERISA Affiliate that is subject to Title IV of ERISA.

(e) To the knowledge of the Company, there is no pending or anticipated claim, suit, action or other litigation against or otherwise involving any of the Company Benefit Plans (excluding claims for benefits incurred in the ordinary course of the Company Benefit Plan activities) except those which would either have no Company Material Adverse Effect or those which have been released, dismissed, settled or otherwise satisfied, each of which is set forth in Section 4.12(e) of the Company Disclosure Schedule.

(f) All material contributions required to be made as of the date hereof to the Company Benefit Plans have been made or provided for.

(g) Except as set forth in Schedule 4.12 of the Company Disclosure Schedule, the execution of, and performance of the transactions contemplated by, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any benefit plan, policy, arrangement or agreement or any trust or loan that will or is reasonably likely to result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee of the Company.

(h) The Company has not entered into any severance agreements or adopted any severance policies applicable to the Company or its employees which would have a Company Material Adverse Effect or which have not either been satisfied or provided for, and each such severance agreement and policy is set forth on Section 4.12(h) of the Company Disclosure Schedule.

4.13 NO BROKERS. The Company has not entered into any contract, arrangement or understanding with any person or firm which will or is reasonably likely to result in the obligation of the Company, Parent or Merger Sub to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, except that the Company has retained Quist Financial, Inc. to render a fairness opinion, the arrangements with which have been disclosed in writing to Parent prior to the date hereof. Other than the foregoing arrangements, the Company is not aware of any claim for payment of any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

4.14 OPINION OF FINANCIAL ADVISOR. The Company has received the opinion of Quist Financial, Inc. substantially to the effect that, as of the date hereof, the Exchange Ratio is fair to the holders of Company Common Stock from a financial point of view.

4.15 PARENT STOCK OWNERSHIP. The Company does not own any shares of Parent Common Stock or other securities convertible into Parent Common Stock.

4.16 POOLING OF INTERESTS; TAX REORGANIZATION. To the knowledge of the Company, having sought and obtained the advice of its accounting advisors, the Company has not taken (or as of the date hereof failed to take) any action which would prevent the accounting for the Merger as a pooling of interests in accordance with APB No. 16, the interpretative releases issued pursuant thereto, and the pronouncements of the Commission. To the knowledge of the Company, the Company has not taken or failed to take any action which would prevent the Merger from constituting a reorganization within the meaning of Section 368 of the Code.

4.17 ENVIRONMENTAL MATTERS.

(a) There has not been any violation of any Environmental Requirements by the Company or, to the knowledge of the Company, any Company Predecessor, nor to the knowledge of the Company has there been any third party claim or demand based upon any Environmental Requirements against the Company or any Company Predecessor, other than violations, claims or demands that have not resulted, and are not reasonably likely to result, in a Company Material Adverse Effect.

(b) The Company has not disposed of, stored or used any Hazardous Materials on, nor has it transported any Hazardous Materials from, any of the Company Real Properties in violation of applicable Environmental Requirements other than a disposal, storage, use or transport which has not resulted in and is not reasonably likely to result in a Company Material Adverse Effect. To the knowledge of the Company, no Company Predecessor has disposed of, stored or used any Hazardous Materials on, nor has any such Company Predecessor transported any Hazardous Materials from, any of the Company Real Properties in violation of applicable Environmental Requirements.

(c) To the knowledge of the Company, none of the following exists at any of the real property currently owned, leased or occupied by the Company or existed at any of the Company Real Properties at the time the Company or the Company Predecessor operated there: (i) underground storage tanks, (ii) asbestos-containing material in any friable or damaged form or condition, (iii) materials or equipment containing polychlorinated biphenyls (PCBs), or (iv) landfills or surface impoundments.

(d) To the knowledge of the Company, none of the Company Real Properties is or has been contaminated by any Hazardous Materials, in a manner that has given or is reasonably likely to give rise to any material liability on the part of the Company to any person, including without limitation any governmental authority, for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, pursuant to CERCLA, or SWDA, or any other Environmental Requirements, whether federal, state or locally imposed.

4.18 INSURANCE. The Company maintains insurance with financially sound and reputable insurers, in such amounts, and with such deductibles and covering such risks as is customarily carried by companies engaged in similar businesses and owning similar properties in the localities where the Company is located. The Company Disclosure Schedule contains a list of each insurance policy presently maintained by the Company.

4.19 PROPRIETARY INFORMATION AND INVENTIONS AND CONFIDENTIALITY AGREEMENT. Each employee, consultant, service provider, officer and director of the Company has executed a proprietary information and inventions and confidentiality agreement, copies of which have been provided to Parent. The Company is not aware that any of such persons is in violation thereof, and the Company will use its best efforts to prevent any such violation.

4.20 ACCURACY OF DOCUMENTS AND INFORMATION. The copies of all instruments, agreements, other documents and written information delivered by the Company to Parent or its counsel are and will be complete and correct in all material respects as of the date of delivery thereof. No representations or warranties made by the Company in this Agreement, nor any document, written information, statement, financial statement, letter, certificate or exhibit prepared and furnished or to be prepared and furnished by the Company or its representatives to Parent pursuant hereto or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of material fact, or omits or will omit to state a material fact necessary to make the statements or facts contained herein or therein not misleading. There is no presently existing event, fact or condition that would have a Company Material Adverse Effect or that could reasonably be expected to do so, which has not been set forth in this Agreement or the exhibits hereto or otherwise disclosed by the Company to Parent in writing in the Company Disclosure Schedule.

4.21 TITLE TO PROPERTIES; ENCUMBRANCES. The Company Disclosure Schedule contains a complete and accurate list of all real property owned by the Company and all real property leases to which the Company is a party. Except as listed in the Company Disclosure Schedule, the Company has good and marketable title to its properties, interests in properties and assets, real and personal, used in or necessary for the operation of the business of Company, free and clear of all liens and encumbrances. The equipment of Company used in the operation of its business is, taken as a whole, (i) adequate for the business conducted by Company and (ii) in good operating condition and repair, ordinary wear and tear excepted. To the knowledge of the Company, all real or personal property leases to which Company is a party are valid, binding and enforceable against Company and effective in accordance with their respective terms.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub make the following representations and warranties to the Company as of the date of this Agreement.

5.1 ORGANIZATION AND STANDING.

(a) Parent and each of its Significant Subsidiaries (i) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of

incorporation, (ii) has all requisite corporate power and authority to own, operate and lease its properties and carry on its business as now conducted, and
(iii) is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the failure to so qualify, or be in good standing, would have a Parent Material Adverse Effect.

(b) Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Merger Sub was organized for purposes of consummating the transactions contemplated by this Agreement. Merger Sub has not engaged in any activity other than as provided in, or contemplated by, this Agreement and, as of the date hereof, has no liabilities of any nature, contingent or otherwise, other than liabilities or obligations that may arise from this Agreement or the transactions contemplated hereby. The authorized capital stock of Merger Sub consists of 1,000 shares of Merger Sub Common Stock, all of which are validly issued, fully paid and nonassessable and are owned by Parent.

(c) Neither Parent nor any of its Subsidiaries (including without limitation Merger Sub) has (i) filed or had filed against it a petition in bankruptcy or a petition to take advantage of any other insolvency act, (ii) admitted in writing its inability to pay its debts generally, (iii) made an assignment for the benefit of creditors, (iv) consented to the appointment of a receiver for itself or any substantial part of its property or (v) generally committed any act of insolvency (including the failure to pay obligations as they become due) or bankruptcy.

5.2 CAPITALIZATION.

(a) The authorized capital stock of Parent consists of 40,000,000 shares of Parent Common Stock and 1,000,000 shares of Parent Preferred Stock. As of March 31, 2000, there were 28,487,941 shares of Parent Common Stock, and no shares of Parent Preferred Stock, issued and outstanding. From such date to the date of this Agreement, no additional shares of capital stock of Parent have been issued, except pursuant to the exercise of Parent Options. As of March 31, 2000, Parent Options to acquire 1,933,578 shares of Parent Common Stock were outstanding. From such date to the date of this Agreement, no additional Parent Options have been granted.

(b) All of the issued and outstanding shares of Parent Common Stock have been duly authorized and validly issued and are fully paid, non-assessable and free of preemptive rights. Other than Parent Options, there are no existing and outstanding warrants, rights, options, subscriptions, convertible securities or other agreements or commitments which obligate Parent to issue, transfer or sell any shares of capital stock of Parent or Merger Sub.

(c) All of the shares of Parent Common Stock issuable as consideration in the Merger at the Effective Time, when issued in accordance with the terms and conditions of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable and free of preemptive rights.

5.3 AUTHORIZATION; ENFORCEABILITY; NO VIOLATION.

(a) Each of Parent and Merger Sub has full corporate power and authority to execute and deliver this Agreement, and to perform its respective obligations hereunder.

(b) All corporate action necessary on the part of Parent and Merger Sub for the execution, delivery and performance of this Agreement has been duly taken. No approval of the stockholders of Parent is required by applicable law or the rules of the Nasdaq National Market in connection with the consummation by Parent or Merger Sub of the transactions contemplated hereby.

(c) This Agreement constitutes (assuming this Agreement is a valid and binding obligation of the Company), a valid and legally binding obligation of each of Parent and Merger Sub, enforceable against Parent and Merger Sub, as applicable, in accordance with its terms, subject to the Enforceability Exceptions.

(d) The execution, delivery and performance of this Agreement will not result in any conflict with, breach or violation of or default (or an event which, with notice or lapse of time or both, would constitute a default), termination or forfeiture under (i) any terms or provisions of the Certificate of Incorporation or the By-laws of Parent or any of its Subsidiaries (including without limitation Merger Sub), (ii) any statute, rule, regulation, judicial, governmental, regulatory or administrative decree, order or judgment applicable to Parent or any of its Subsidiaries (including without limitation Merger Sub), or (iii) any agreement, lease, license, permit or other instrument to which Parent or any of its Subsidiaries (including without limitation Merger Sub) is a party or to which any of its assets are subject, except where any such breach, violation, default, termination or forfeiture would not have or result in a Parent Material Adverse Effect.

(e) There is no action, suit, proceeding or investigation pending or threatened against Parent or any of its Subsidiaries that questions the validity of this Agreement or the right of Parent or Merger Sub to enter into this Agreement or to consummate the transactions contemplated hereby.

5.4 NO CONSENTS. No consent, approval, authorization, order, registration, qualification or filing of or with any court or any regulatory authority or any other governmental or administrative body is required on the part of Parent or any of its Subsidiaries for the consummation by Parent and Merger Sub of the transactions contemplated by this Agreement, except (i) notices and filings required in order to comply with the Securities Act, the Exchange Act and state securities or "blue sky" laws, (ii) the filing of the Articles of Merger with the Colorado Secretary of State and (iii) any notices and filings necessary to comply with the rules of the Nasdaq National Market System.

5.5 PARENT REPORTS.

(a) Parent has filed all reports, forms, registrations, schedules, statements and other documents required to be filed by it with the Commission since November 17, 1995 (the "Parent Reports"). As of their respective dates, the Parent Reports complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the applicable rules and regulations promulgated thereunder. Except to the extent that information contained in any Parent Report has been amended, revised or superseded by a Parent Report subsequently filed and publicly available prior to the date of this Agreement, none of the Parent Reports, when filed, contained any untrue statement of a material fact or omitted to

state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Each of the consolidated balance sheets of Parent included in or incorporated by reference into the Parent Reports (including the related notes and schedules) fairly presents in all material respects the consolidated financial position of Parent and its Subsidiaries as of its date, and each of the consolidated statements of income, stockholders' equity and cash flows of Parent included in or incorporated by reference into the Parent Reports (including any related notes and schedules) fairly presents in all material respects the income, stockholders' equity and cash flows, as the case may be, of Parent and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to normal year-end audit adjustments which would not be material in amount or effect), in each case in accordance with GAAP, except as may be noted therein and subject to the fact that unaudited financial statements do not contain full notes thereto. Parent and its Subsidiaries do not have any liabilities or obligations required to be disclosed in a consolidated balance sheet or the notes thereto prepared in accordance with GAAP, except (i) liabilities or obligations reflected on, or reserved against in, a consolidated balance sheet of Parent or in the notes thereto, and included in the Parent Reports, (ii) liabilities or obligations incurred since March 31, 2000 in the ordinary course of business, consistent with past practices, or (iii) liabilities disclosed in a Parent Report.

5.6 POOLING OF INTERESTS; TAX REORGANIZATION. To the knowledge of Parent, having sought and obtained the advice of its accounting advisors, neither Parent nor any of its Subsidiaries has taken (or as of the date hereof failed to take) any action which would prevent the accounting for the Merger as a pooling of interests in accordance with APB No. 16, the interpretative releases issued pursuant thereto, and the pronouncements of the Commission. To the knowledge of Parent, neither Parent nor any of its Subsidiaries has taken or failed to take any action which would prevent the Merger from constituting a reorganization within the meaning of section 368 of the Code.

5.7 ACCURACY OF DOCUMENTS AND INFORMATION. The copies of all instruments, agreements, other documents and written information delivered by Parent to the Company or its counsel are and will be complete and correct in all material respects as of the date of delivery thereof. No representations or warranties made by Parent in this Agreement, nor any document, written information, statement, financial statement, letter, certificate or exhibit prepared and furnished or to be prepared and furnished by Parent or its representatives to the Company pursuant hereto or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of material fact, or omits or will omit to state a material fact necessary to make the statements or facts contained herein or therein not misleading. There is no presently existing event, fact or condition that would have a Parent Material Adverse Effect or that could reasonably be expected to do so, which has not been set forth in this Agreement or the exhibits hereto.

5.8 COMPANY OPTIONS. Parent acknowledges that the vesting of all Company Options will accelerate at the Effective Time.

ARTICLE 6
COVENANTS

6.1 ALTERNATIVE PROPOSALS.

(a) Upon execution and delivery of this Agreement, the Company, its affiliates and their respective officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations, if any, conducted with any parties heretofore with respect to any acquisition of all or any material portion of the assets of, or any equity interest in, the Company or any business combination with the Company. Notwithstanding the foregoing, the Company may issue Company Common Stock issuable upon exercise of the Company Options outstanding on the date hereof and pursuant to the Stock Purchase Plan, subject to the limitations set forth in Section 3.2(d)(iv).

(b) Prior to the Closing Date, the Company may, solely in response to unsolicited requests therefor, furnish non-public information regarding itself to any corporation, partnership, person or other entity or group in respect of, and may participate in discussions and negotiate with such entity or group concerning, a business combination, merger, sale of material assets, sale of shares of capital stock or similar transaction involving the Company (a "Transaction"), provided that (i) such entity or group has submitted a written proposal to the Board of Directors of the Company relating to any such Transaction (an "Alternative Proposal"), (ii) the entity or group enters into confidentiality agreements with the Company with respect to such non-public information, and (iii) the Company Board, by a majority vote, determines in its good faith judgment, based as to legal matters on the written advice of legal counsel, that failing to take such action would constitute a breach of the Company Board's fiduciary duty. The Company Board shall provide a copy of any such written proposal to Parent and Merger Sub immediately after receipt thereof, unless prohibited by the terms of such proposal.

(c) Neither the Company nor any of its affiliates, nor any of such Persons' respective officers, directors, employees, representatives or agents, shall, directly or indirectly (i) encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent and Merger Sub, any affiliate or associate of Parent and Merger Sub or any designees of Parent and Merger Sub) concerning any Transaction, or (ii) authorize, propose or announce an intention to authorize or propose any Transaction (other than the Merger), unless and until the Company has received an Alternative Proposal in writing and the Company Board, by majority vote, has determined in its good faith judgment, based as to legal matters on the written advice of legal counsel, that failing to take such action would constitute a breach of the Company Board's fiduciary duty; provided, however, that nothing herein shall prevent the Company Board from taking, and disclosing to the Company's stockholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to any tender offers; provided, further, that the Company Board shall not recommend that the stockholders of the Company tender their shares in connection with any such tender offer unless the Company Board by a majority vote determines in its good faith judgment, based as to legal matters on the written advice of legal counsel, that failing to take such action would constitute a breach of the Company Board's fiduciary duty.

(d) Nothing in this Section 6.1 shall (i) permit the Company to terminate this Agreement (except as specifically provided in Article 8 hereof), (ii) permit the Company to enter into any agreement with respect to a Transaction during the term of this Agreement (it being agreed that during the term of this Agreement, the Company shall not enter into any agreement with any person that provides for, or in any way facilitates, a Transaction, other than a confidentiality agreement in customary form), or (iii) except as specifically provided in Article 8, affect any other obligation of the Company under this Agreement.

6.2 INTERIM OPERATIONS OF THE COMPANY.

(a) Prior to the Effective Time, except as set forth in Section 6.2 of the Company Disclosure Schedule or as contemplated by any other provision of this Agreement, unless Parent has consented in writing thereto, the Company:

(i) shall conduct its operations according to their usual, regular and ordinary course in substantially the same manner as heretofore conducted;

(ii) shall use its reasonable efforts to preserve intact its business organizations and goodwill, keep available the services of its officers and employees and maintain satisfactory relationships with those persons having business relationships with them;

(iii) shall not amend its Articles of Incorporation or Bylaws;

(iv) shall promptly notify Parent of (A) any material adverse change in its condition (financial or otherwise), business, properties, assets, liabilities or the normal course of its business or of its properties, (B) any material litigation or, to the extent known to the Company, any material governmental complaints, investigations or hearings against or otherwise involving the Company (or communications indicating that the same may be contemplated), or (C) the breach of any representation or warranty of the Company contained herein;

(v) shall promptly deliver to Parent true and correct copies of any report, statement or schedule filed by the Company with the Commission subsequent to the date of this Agreement;

(vi) shall not enter into or amend any employment, severance or similar agreements or arrangements with any of its directors or executive officers, except (A) in the ordinary course of business consistent with past practice, or (B) as otherwise provided in this Agreement;

(vii) shall not authorize, propose or announce an intention to authorize or propose, or enter into negotiations or an agreement with respect to any acquisition of assets or securities, any disposition of assets or securities or any release or relinquishment of any contract rights, which acquisitions, dispositions, releases or relinquishments would be outside the ordinary course of business and would involve aggregate consideration in excess of $100,000;

(viii) shall not issue any shares of capital stock or securities, except as permitted by the last sentence of Section 6.1(a), or effect any stock split or otherwise change its capitalization;

(ix) shall not grant, confer or award any options, appreciation rights, warrants, conversion rights, restricted stock, stock units, performance shares or other rights, not existing on the date hereof, with respect to any shares of its capital stock or other securities of the Company;

(x) shall not take any actions which would, or would be reasonably likely to, prevent the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code;

(xi) shall not take any actions which would, or would be reasonably likely to, prevent the Merger from qualifying as a transaction to be accounted for as a pooling of interests in accordance with APB No. 16;

(xii) except as required by applicable law (in which case prompt notice shall be given by the Company to Parent), shall not amend in any material respect the terms of the Company Benefit Plans, including without limitation any employment, severance or similar agreements or arrangements in existence on the date hereof, or adopt any new employee benefit plans, programs or arrangements or any employment, severance or similar agreements or arrangements;

(xiii) shall not incur, create, assume or otherwise become liable for borrowed money or assume, guarantee, endorse or otherwise become responsible or liable for the obligations of any other individual, corporation or other entity, except in the ordinary course of business;

(xiv) shall not make any loans or advances to any other Person, except in the ordinary course of business;

(xv) shall not make any material tax election other than in the ordinary course, or without the consent of Parent, which shall not unreasonably be withheld, settle or compromise any material tax liability;

(xvi) shall not declare, set aside or pay any dividend or make any other distribution or payment with respect to any shares of its capital stock or other ownership interests;

(xvii) shall not directly or indirectly redeem, purchase or otherwise acquire any shares of its capital stock, or make any commitment for any such action; provided that cashless exercises of stock options shall not be in violation of this clause (xvii); and

(xviii) shall not agree, in writing or otherwise, to take any of the foregoing actions or take any action which would make any representation or warranty in Article 4 hereof untrue or incorrect in any material respect as of the Closing Date.

6.3 MEETING OF STOCKHOLDERS. The Company will take all action necessary in accordance with applicable law and its Articles of Incorporation and Bylaws to convene a Stockholders' Meeting as promptly as practicable to consider and vote upon the approval of this Agreement and the transactions contemplated hereby. Unless the Company Board by a majority

vote determines in its good faith judgment, based as to legal matters on the written advice of legal counsel, that taking such action would constitute a breach of the Company Board's fiduciary duty, the Company Board shall recommend such approval, and the Company shall take all lawful action to solicit such approval, including, without limitation, timely mailing the Proxy Statement/Prospectus.

6.4 FILINGS; OTHER ACTIONS. Subject to the terms and conditions herein provided, the Company and Parent shall: (a) use all reasonable efforts to cooperate with one another in (i) determining which filings are required to be made prior to the Effective Time with, and which other consents, approvals, permits or authorizations are required to be obtained prior to the Effective Time from, governmental or regulatory authorities of the United States, the several states and foreign jurisdictions in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and (ii) timely making all such filings and timely seeking all such consents, approvals, permits or authorizations; and (b) use all reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by this Agreement.

6.5 INSPECTION OF RECORDS. From the date hereof to the Effective Time, each of the Company and Parent shall (a) allow all designated officers, attorneys, accountants and other representatives of the other party reasonable access at all reasonable times to its respective offices, records and files, correspondence, audits and properties, as well as to all information relating to its respective commitments, contracts, titles and financial position, or otherwise pertaining to its respective business and affairs, (b) furnish to the other party and the other party's counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such persons may reasonably request and (c) instruct its respective employees, counsel and financial advisors to cooperate with the other party in the other party's investigation of its respective business.

6.6 PUBLICITY. The initial press release relating to this Agreement shall be a joint press release and thereafter, until the Effective Time, the Company and Parent shall, subject to their respective legal obligations (including requirements of stock exchanges and similar self regulatory bodies), consult with each other, and use reasonable efforts to agree upon the text of any press release, before issuing any such press release or otherwise making public statements with respect to the transactions contemplated hereby and in making any filings with any federal or state governmental or regulatory agency or with any national securities exchange with respect thereto.

6.7 PROXY STATEMENT/PROSPECTUS.

(a) Parent and the Company shall cooperate and promptly prepare and Parent shall file with the Commission as soon as practicable a Registration Statement on Form S-4 under the Securities Act (the "Registration Statement"), with respect to the Parent Common Stock issuable in the Merger, which Registration Statement shall contain the proxy statement with respect to the meeting of the stockholders of the Company in connection with the Merger (the "Proxy Statement/Prospectus").

(b) The parties will cause the Proxy Statement/Prospectus, and Parent will cause the Registration Statement, to comply as to form in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the rules and regulations thereunder. Parent shall use all reasonable efforts, and the Company shall cooperate with Parent, to have the Registration Statement declared effective by the Commission as promptly as practicable.

(c) The information supplied by the Company for inclusion or incorporation by reference in the Proxy Statement/Prospectus and the Registration Statement shall not (i) at the time the Registration Statement is declared effective, (ii) at the time the Proxy Statement/Prospectus (or any amendment thereof or supplement thereto) is first mailed to holders of Company Common Stock, (iii) at the time of the Stockholders' Meeting, or (iv) at the Effective Time, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading, and shall comply as to form and substance with the requirements of the Securities Act and the Exchange Act.

(d) The information supplied by Parent for inclusion or incorporation by reference in the Proxy Statement/Prospectus and the Registration Statement shall not (i) at the time the Registration Statement is declared effective, (ii) at the time the Proxy Statement/Prospectus (or any amendment thereof or supplement thereto) is first mailed to holders of Company Common Stock, (iii) at the time of the Stockholders' Meeting, or (iv) at the Effective Time, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading, and shall comply as to form and substance with the requirements of the Securities Act and the Exchange Act.

(e) No amendment or supplement to the Proxy Statement/Prospectus will be made by the Company or Parent without the approval of the other (except to the extent such amendment or supplement incorporates by reference other filings of the Company or Parent). Parent will advise the Company, promptly after it receives notice thereof, of the time when the Registration Statement has become effective or any supplement or amendment has been filed, the issuance of any stop order, the suspension of the qualification of the Parent Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the Commission for amendment of the Proxy Statement/Prospectus or the Registration Statement or comments thereon and responses thereto or requests by the Commission for additional information.

6.8 AFFILIATE LETTERS. Promptly after the date hereof, the Company shall deliver to Parent a list of names and addresses of those persons who were, in the Company's reasonable judgment, as of the record date for the Stockholders' Meeting, Affiliates of the Company. The Company shall provide Parent such information and documents as Parent shall reasonably request with respect to such Affiliates. The Company shall use all reasonable efforts to deliver or cause to be delivered to Parent, prior to the Closing Date, from each of the Affiliates of the Company identified in the foregoing list, an affiliate letter in form and substance reasonably acceptable to Parent in order to satisfy the requirements of Rule 145 of the Securities Act and APB No. 16 (collectively, "Affiliate Letters"). Parent shall be entitled to place legends as

specified in such Affiliate Letters on the certificates evidencing any Parent Common Stock to be received by such Affiliates pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for the Parent Common Stock, consistent with the terms of such Affiliate Letters. Subject to the receipt by Parent of satisfactory representations and warranties from the relevant holders and/or brokers, such legends shall be removed and such transfer instructions terminated at the earliest possible date under all applicable laws and regulations.

6.9 EXPENSES. Whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses except as expressly provided herein and except that the filing fee in connection with the filing of the Registration Statement or Proxy Statement/Prospectus with the Commission and the expenses incurred in connection with printing and mailing the Registration Statement and the Proxy Statement/Prospectus shall be shared equally by the Company and Parent.

6.10 EMPLOYEE BENEFITS.

(a) From and after the Effective Time, Parent shall provide or cause the Surviving Corporation to provide to persons who are employees of the Company at the Effective Time and who will continue as employees of the Surviving Corporation after the Effective Time (the "Company Personnel") the same employee compensation and benefit plans, programs and arrangements as are provided to other employees of Parent employed in similar capacities to such Company Personnel; provided, however, that subject to the foregoing, Parent shall not be precluded from amending or terminating any particular plan, program or arrangement, or from substituting any such plans, programs or arrangements with plans, programs or arrangements applicable and available to other employees of Parent and its Subsidiaries.

(b) Following the Effective Time, Parent shall cause the benefit plans covering the Company Personnel following the Effective Time (the "Future Benefit Plans") to continue to recognize the service credit of the Company Personnel accrued as of the Effective Time under the Company Benefit Plans for purposes of participation, eligibility and vesting of benefits, to the extent permissible by the terms of such Future Benefit Plans.

6.11 AGREEMENTS. Between the date hereof and the Closing Date, the Company shall not enter into any agreement which the Company knows or has reason to know is reasonably likely to cause any major customer of the Company to terminate any material contracts, agreements or other obligations that exist between that customer on the one hand, and the Company (or the Company following the Merger), on the other hand and the Company shall take all reasonable action appropriate to an effort to avoid such termination.

6.12 TAKEOVER STATUTE. If any "fair price," "moratorium," "control share acquisition" or other form of anti-takeover statute or regulation shall become applicable to the transactions contemplated hereby, the Company and the Company Board shall grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated

hereby; provided, however, that the Company and the Company Board shall not be required to grant such approvals or take such actions if the Company Board, by majority vote, determines in its good faith judgment, based as to legal matters on the written advice of legal counsel, that granting such approvals or taking such actions would constitute a breach of the Company's Board's fiduciary duties.

6.13 INTERIM OPERATIONS OF PARENT.

(a) Prior to the Effective Time, except as contemplated by any other provision of this Agreement, unless the Company has consented in writing thereto, Parent:

(i) shall promptly notify the Company of (A) any material adverse change in its condition (financial or otherwise), business, properties, assets, liabilities or the normal course of its business or of its properties, (B) any material litigation or, to the extent known to Parent, any material governmental complaints, investigations or hearings against or otherwise involving Parent (or communications indicating that the same may be contemplated), or (C) the breach of any representation or warranty of Parent contained herein;

(ii) shall promptly deliver to the Company true and correct copies of any report, statement or schedule filed by Parent with the Commission subsequent to the date of this Agreement;

(iii) shall not take any actions which would, or would be reasonably likely to, prevent the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code;

(iv) shall not take any actions which would, or would be reasonably likely to, prevent the Merger from qualifying as a transaction to be accounted for as a pooling of interests in accordance with APB No. 16; and

(b) shall not agree, in writing or otherwise, to take any of the foregoing actions or take any action which would make any representation or warranty in Article 5 hereof untrue or incorrect in any material respect as of the Closing Date.

6.14 DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE.

(a) The Articles of Incorporation and By-laws of the Surviving Corporation shall contain the respective provisions that are set forth, as of the date of this Agreement, in the Articles of Incorporation and the By-laws of the Company dealing with indemnification of officers, directors and employees of the Company and other persons specified therein, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would affect adversely the rights thereunder with respect to actions or events occurring prior to the Effective Time of individuals who were entitled to such indemnification prior to the Effective Time.

(b) The Surviving Corporation shall maintain in effect for at least six years from the Effective Time directors' and officers' liability insurance with an insurance company rated at least "A" by A.M. Best Company, covering the persons who, as of the date of this

Agreement, are covered by the Company's directors' and officers' liability insurance policy (the "Current Policy"). The coverage provided by the directors' and officers' liability insurance maintained by the Surviving Corporation shall be substantially similar to the coverage provided by the Current Policy.

(c) Parent shall guarantee the obligations of the Surviving Corporation provided by this Section 6.14.

(d) This Section 6.14 shall survive the consummation of the Merger, is intended to benefit the Company, the Surviving Corporation and each indemnified party, and shall be enforceable by the indemnified parties.

6.15 RULE 145 COMPLIANCE. For so long as resales of shares of Parent Common Stock issued pursuant to the Merger are subject to the resale restrictions set forth in Rule 145 under the Securities Act, Parent will use reasonable efforts to comply with Rule 144(c)(1) under the Securities Act.

6.16 TAX MATTERS. Each party represents and warrants to the other parties that the statements in the proposed form of certificate of such party (each, a "Party's Certificate" and, together, the "Parties' Certificates") to be delivered by such party in connection with the opinions to be delivered pursuant to Article 7 are true and correct as of the date hereof, assuming for purposes of this sentence that the Merger had been consummated on the date hereof. Each party agrees that, at and prior to the Effective Time, it will not take any action that would cause any of the statements in such party's Party's Certificate to be false as of the Effective Time. Unless (and then only to the extent) otherwise required by a "determination" (as defined in Section 1313(a)(1) of the Code) or by a similar applicable provision of state or local income or franchise tax law, each party agrees (i) to report the Merger on all tax returns and other filings as a tax-free reorganization within the meaning of Section 368(a) of the Code and (ii) not to take any position in any audit, administrative proceeding or litigation that is inconsistent with the characterization of the Merger as such a reorganization.

ARTICLE 7
CONDITIONS TO CLOSING

7.1 CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER. The respective obligation of each party to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) This Agreement and the transactions contemplated hereby shall have been approved by the requisite vote of the holders of the issued and outstanding shares of capital stock of the Company.

(b) None of the parties hereto shall be subject to any order or injunction of a court of competent jurisdiction in the United States which prohibits the consummation of the transactions contemplated by this Agreement. In the event any such order or injunction shall have been issued, each party agrees to use its best efforts to have any such injunction lifted.

(c) The Registration Statement shall have become effective and shall be effective at the Effective Time, and no stop order suspending effectiveness of the Registration Statement shall have been issued, no action, suit, proceeding or investigation by the Commission to suspend the effectiveness thereof shall have been initiated and be continuing, and all material approvals under state securities laws relating to the issuance or trading of the Parent Common Stock to be issued to the Company stockholders in connection with the Merger shall have been received.

(d) All consents, authorizations, orders and approvals of (or filings or registrations with) any governmental commission, board or other regulatory body required in connection with the execution, delivery and performance of this Agreement shall have been obtained or made, except for the filing of the Articles of Merger and any other documents required to be filed after the Effective Time and except where the failure to have obtained or made any such consent, authorization, order, approval, filing or registration would not have a material adverse effect on the business of Parent (and its Subsidiaries) and the Company, taken as a whole, following the Effective Time.

7.2 CONDITIONS TO OBLIGATION OF THE COMPANY TO EFFECT THE MERGER. The obligation of the Company to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Parent shall have performed in all material respects its agreements contained in this Agreement required to be performed on or prior to the Closing Date, the representations and warranties of Parent and Merger Sub contained in this Agreement and in any document delivered in connection herewith shall be true and correct in all material respects as of the Closing Date, except that those representations and warranties which address matters only as of a particular date shall have been true and correct as of such date, and the Company shall have received a certificate of an executive officer of Parent, dated the Closing Date, certifying to such effect.

(b) The Company shall have received, prior to the effective date of the Registration Statement, the opinion of Chrisman, Bynum & Johnson, P.C., counsel to the Company, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code, and that the Company, Parent and Merger Sub each will be a party to that reorganization within the meaning of section 368(b) of the Code, and such firm shall have reconfirmed such opinion as of the Closing Date. In rendering such opinion, Chrisman, Bynum & Johnson, P.C. may require and rely upon such certificates of the Company, Parent and Merger Sub and/or their respective officers or principal stockholders as are customary for such opinions.

(c) From the date of this Agreement through the Effective Time, there shall not have occurred a Parent Material Adverse Effect.

7.3 CONDITIONS TO OBLIGATION OF PARENT AND MERGER SUB TO EFFECT THE MERGER. The obligations of Parent and Merger Sub to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) The Company shall have performed in all material respects its agreements contained in this Agreement required to be performed on or prior to the Closing Date, the representations and warranties of the Company contained in this Agreement and in any document delivered in connection herewith shall be true and correct in all material respects as of the Closing Date, except that those representations and warranties which address matters only as of a particular date shall have been true and correct as of such date, and Parent shall have received a certificate of an executive officer of the Company, dated the Closing Date, certifying to such effect.

(b) Parent shall have received a letter of Arthur Andersen LLC, its independent public accountants, dated as of the Closing Date, in form and substance reasonably satisfactory to Parent, stating that such accountants concur with management's conclusion that the Merger will qualify as a transaction to be accounted for in accordance with the pooling of interests method of accounting under the requirements of APB No. 16.

(c) Parent shall have received, prior to the effective date of the Registration Statement, the opinion of Thelen Reid & Priest LLP, counsel to Parent and Merger Sub, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code, and that the Company, Parent and Merger Sub each will be a party to that reorganization within the meaning of section 368(b) of the Code, and such firm shall have reconfirmed such opinion as of the Closing Date. In rendering such opinion, Thelen Reid & Priest LLP may require and rely upon such certificates of the Company, Parent and Merger Sub and/or their respective officers or principal stockholders as are customary for such opinions.

(d) The Stock Purchase Plan shall have been terminated and any stock and/or cash distributed thereunder as set forth in Section 3.2(d)(iv).

(e) From the date of this Agreement through the Effective Time, there shall not have occurred a Company Material Adverse Effect.

ARTICLE 8
TERMINATION

8.1 TERMINATION BY MUTUAL CONSENT. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, before or after the approval of this Agreement by the stockholders of the Company, by the mutual consent of Parent and the Company.

8.2 TERMINATION BY EITHER PARENT OR THE COMPANY. This Agreement may be terminated and the Merger may be abandoned by action of the Board of Directors of either Parent or the Company if (a) the Merger shall not have been consummated by December 31, 2000, or (b) the approval of the Company's stockholders required by Section 7.1(a) shall not have been obtained at the Stockholders' Meeting or any adjournment thereof, or (c) a United States federal or state court of competent jurisdiction or United States federal or state governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise

prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable; provided, that the party seeking to terminate this Agreement pursuant to this paragraph (c) shall have used all reasonable efforts to remove such injunction, order or decree; and provided, in the case of a termination pursuant to paragraph (a) of this Section 8.2, that the terminating party shall not have breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the failure to consummate the Merger by December 31, 2000.

8.3 TERMINATION BY THE COMPANY. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, before or after the adoption and approval by the stockholders of the Company referred to in paragraph (a) of Section 7.1, by action of the Company Board, if (a) the Company Board, by majority vote, determines in its good faith judgment, based as to legal matters on the written advice of legal counsel, that terminating this Agreement and abandoning the Merger is required by the Company Board's fiduciary duties, or (b) there has been a breach by Parent or Merger Sub of any representation or warranty contained in this Agreement that has had or is reasonably likely to have a Parent Material Adverse Effect, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by the Company to Parent, or (c) there has been a material breach of any of the covenants or agreements set forth in this Agreement on the part of Parent, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by the Company to Parent.

8.4 TERMINATION BY PARENT. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, by action of the Board of Directors of Parent, if (a) the Company Board shall have (i) withdrawn or modified in a manner materially adverse to Parent its approval or recommendation of this Agreement or the Merger or (ii) recommended an Alternative Proposal to the Company stockholders, or (b) there has been a breach by the Company of any representation or warranty contained in this Agreement that has had or is reasonably likely to have a Company Material Adverse Effect, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by Parent to the Company, or (c) there has been a material breach of any of the covenants or agreements set forth in this Agreement on the part of the Company, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by Parent to the Company.

8.5 EFFECT OF TERMINATION AND ABANDONMENT.

(a) If this Agreement is terminated by the Company or Parent pursuant to Section 8.2(b), 8.3(a) or 8.4(a), and (x) prior to such termination, a proposal with respect to a Transaction shall have been made, and (y) within two
(2) years after such termination, either the Company enters into any agreement with respect to a Transaction whereby any third party shall acquire beneficial ownership of more than 50% of the Company's (i) outstanding shares of voting stock or (ii) assets (measured by fair market value), then the Company shall pay Parent, by wire transfer of immediately available funds, a fee (the "Termination Fee") of Five Million Dollars ($5,000,000) within fifteen (15) business days after the execution of such agreement or the consummation of such acquisition (whichever shall first occur).

(b) The Company acknowledges that the agreements contained in this Section 8.5 are an integral part of the transactions contemplated in this Agreement, and that, without these agreements, Parent and Merger Sub would not enter into this Agreement; accordingly, if the Company fails to promptly pay the Termination Fee when due and, in order to obtain such payment, Parent or Merger Sub commences a suit which results in a judgment against the Company, the Company shall reimburse Parent for its costs and expenses (including attorneys' fees) incurred in connection with such suit, together with interest on the amount of the Termination Fee at the prime rate, as then quoted in The Wall Street Journal, from the date the Termination Fee was required to be paid.

(c) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article 8, all obligations of the parties hereto shall terminate, except (i) the obligations of the parties set forth in this Section 8.5 and Section 6.9, (ii) the provisions of Sections 9.3, 9.6, 9.9 and 9.13, and (iii) the Confidentiality Agreement previously executed between the Company and Parent (the "Confidentiality Agreement"). Moreover, in the event of termination of this Agreement pursuant to Section 8.3 or 8.4, nothing herein shall prejudice the ability of the nonbreaching party from seeking damages, after taking into account payment of the Termination Fee, if such fee has been paid, from any other party for any willful breach of this Agreement, including without limitation, attorneys' fees and the right to pursue any remedy at law or in equity.

8.6 EXTENSION; WAIVER. At any time prior to the Effective Time, any party hereto, by action taken by its Board of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE 9
GENERAL PROVISIONS

9.1 NONSURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS. The representations, warranties and covenants in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Merger; provided, however, that the covenants contained in Article 3, Section 6.9, Section 6.14 and this Article 9 shall survive the Merger, but not beyond the extent, if any, specified therein.

9.2 NOTICES. Any notice required to be given hereunder shall be sufficient if in writing, and sent by facsimile transmission and by courier service (with proof of service), hand delivery or certified or registered mail (return receipt requested and first-class postage prepaid), addressed as follows:

If to Parent or Merger Sub:

Advanced Energy Industries, Inc.
1625 Sharp Point Drive
Fort Collins, Colorado 80525

Attn.: Richard P. Beck
Facsimile: (970) 407-5300

with copies to:

Thelen Reid & Priest LLP
333 West San Carlos Street, 17th Floor San Jose, CA 95110-2701
Attn.: Jay L. Margulies, Esq. Facsimile: (408) 287-8040

If to the Company:

Engineering Measurements Company
600 Diagonal Highway
Longmont, Colorado 80501

Attn.: Charles E. Miller
Facsimile: (303) 678-7152

with copies to:

Chrisman, Bynum & Johnson, P.C. 1900 Fifteenth Street
Boulder, CO 80302
Attn: G. James Williams, Jr.
Facsimile: (303) 449-5426

or to such other address as any party shall specify by written notice so given, and such notice shall be deemed to have been delivered as of the date so telecommunicated, personally delivered or mailed.

9.3 ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. Notwithstanding anything contained in this Agreement to the contrary (except as provided in Section 6.14), nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective heirs, successors, executors, administrators and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

9.4 ENTIRE AGREEMENT. This Agreement, the Exhibits, the Company Disclosure Schedule, the Confidentiality Agreement and any documents delivered by the parties in

connection herewith constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings among the parties with respect thereto. No addition to or modification of any provision of this Agreement shall be binding upon any party hereto unless made in writing and signed by all parties hereto.

9.5 AMENDMENT. This Agreement may be amended by the parties hereto, by action taken by their respective Boards of Directors, at any time before or after approval of the Merger by the stockholders of the Company, but after any such stockholder approval, no amendment shall be made which by law requires the further approval of stockholders without obtaining such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

9.6 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado without regard to its rules of conflict of laws.

9.7 COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

9.8 HEADINGS. Headings of the Articles and Sections of this Agreement are for the convenience of the parties only, and shall be given no substantive or interpretive effect whatsoever.

9.9 INTERPRETATION. In this Agreement, unless the context otherwise requires, words describing the singular number shall include the plural and vice versa, and words denoting any gender shall include all genders and words denoting natural persons shall include corporations, partnerships and other business entities and vice versa.

9.10 WAIVERS. Except as provided in this Agreement, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

9.11 INCORPORATION OF EXHIBITS. The Company Disclosure Schedule and all Exhibits attached hereto and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

9.12 SEVERABILITY. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

9.13 ENFORCEMENT OF AGREEMENT. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any Colorado court, this being in addition to any other remedy to which they are entitled at law or in equity.

9.14 KNOWLEDGE. For purposes of this Agreement, (a) "to the knowledge of the Company" or words of like import shall mean to the knowledge of Charles Miller or William Ringer, and (b) "to the knowledge of Parent" or words of like import shall mean to the knowledge of Douglas Schatz, Richard Beck or Joseph Monkowski.

IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and year set forth in the Preamble hereto.

COMPANY: ENGINEERING MEASUREMENTS COMPANY

By: ----------
Name: ----------
Title: ----------

MERGER SUB: FLOW ACQUISITION CORPORATION

By:
Name:
Title:

PARENT: ADVANCED ENERGY INDUSTRIES, INC.

By: ----------
Name: ----------
Title: ----------

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	JUN 30 2000
CASH	17,790
SECURITIES	201,221
RECEIVABLES	54,110
ALLOWANCES	(582)
INVENTORY	33,910
CURRENT ASSETS	311,876
PP&E	40,294
DEPRECIATION	(21,356)
TOTAL ASSETS	347,479
CURRENT LIABILITIES	32,476
BONDS	135,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29
OTHER SE	178,787
TOTAL LIABILITY AND EQUITY	347,479
SALES	150,837
TOTAL REVENUES	150,837
CGS	77,797
TOTAL COSTS	77,797
OTHER EXPENSES	39,465
LOSS PROVISION	0
INTEREST EXPENSE	4,113
INCOME PRETAX	34,500
INCOME TAX	12,515
INCOME CONTINUING	22,069
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	22,069
EPS BASIC	0.76
EPS DILUTED	0.73

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	YEAR [1]	3 MOS [1]	6 MOS [1]	9 MOS [1]	YEAR [1]
FISCAL YEAR END	DEC 31 1998	DEC 31 1999	DEC 31 1999	DEC 31 1999	DEC 31 1999
PERIOD START	JAN 01 1998	JAN 01 1999	JAN 01 1999	JAN 01 1999	JAN 01 1999
PERIOD END	DEC 31 1998	MAR 31 1999	JUN 30 1999	SEP 30 1999	DEC 31 1999
CASH	12,325	11,793	11,398	11,287	20,303
SECURITIES	15,839	15,006	14,209	17,328	186,440
RECEIVABLES	16,623	23,099	31,760	38,735	45,336
ALLOWANCES	(622)	(596)	(599)	(595)	(577)
INVENTORY	22,351	23,253	24,548	24,799	26,456
CURRENT ASSETS	75,547	81,060	88,877	98,558	284,686
PP&E	30,486	31,632	32,056	33,191	35,551
DEPRECIATION	(14,525)	(15,677)	(15,607)	(16,978)	(18,256)
TOTAL ASSETS	103,606	108,270	116,305	127,940	319,061
CURRENT LIABILITIES	13,626	17,005	22,088	23,928	30,718
BONDS	0	0	0	0	135,000
PREFERRED MANDATORY	0	0	0	0	0
PREFERRED	0	0	0	0	0
COMMON	27	27	27	28	29
OTHER SE	89,166	90,550	93,452	102,681	151,923
TOTAL LIABILITY AND EQUITY	103,606	108,270	116,305	127,940	319,061
SALES	130,336	33,933	77,205	130,119	191,575
TOTAL REVENUES	130,336	33,933	77,205	130,119	191,575
CGS	92,333	20,257	44,583	74,173	106,208
TOTAL COSTS	92,333	20,257	44,583	74,173	106,208
OTHER EXPENSES	53,173	12,533	26,974	42,498	59,478
LOSS PROVISION	0	0	0	0	0
INTEREST EXPENSE	431	42	97	154	1,416
INCOME PRETAX	(14,927)	1,070	5,606	14,477	27,444
INCOME TAX	(3,790)	513	2,272	5,588	10,353
INCOME CONTINUING	(11,137)	557	3,334	8,889	17,022
DISCONTINUED	0	0	0	0	0
EXTRAORDINARY	0	0	0	0	0
CHANGES	0	0	0	0	0
NET INCOME	(11,137)	557	3,334	8,889	17,022
EPS BASIC	(0.41)	0.02	0.12	0.33	0.62
EPS DILUTED	(0.40)	0.02	0.12	0.31	0.59

[1] RESTATED PER POOLING MERGER OF ADVANCED ENERGY & NOAH HOLDINGS, INC. IN Q2 2000

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS [1]
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	MAR 31 2000
CASH	17,993
SECURITIES	198,718
RECEIVABLES	51,156
ALLOWANCES	(583)
INVENTORY	29,337
CURRENT ASSETS	302,444
PP&E	37,394
DEPRECIATION	(19,752)
TOTAL ASSETS	336,591
CURRENT LIABILITIES	35,427
BONDS	135,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29
OTHER SE	164,812
TOTAL LIABILITY AND EQUITY	336,591
SALES	70,251
TOTAL REVENUES	70,251
CGS	36,550
TOTAL COSTS	36,550
OTHER EXPENSES	18,660
LOSS PROVISION	0
INTEREST EXPENSE	2,025
INCOME PRETAX	15,232
INCOME TAX	5,210
INCOME CONTINUING	10,039
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	10,039
EPS BASIC	0.35
EPS DILUTED	0.33

[1] RESTATED PER POOLING MERGER OF ADVANCED ENERGY & NOAH HOLDINGS, INC. IN Q2 2000