ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q
(Quarterly Report)

Filed 8/7/1998 For Period Ending 6/30/1998

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Sector	Technology
Fiscal Year	12/31

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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, 1998.

[ ] 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: 0-26966

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, 1998, there were 22,593,014 shares of the Registrant's Common Stock, par value $0.001 per share, outstanding.

[GRAPHIC]

ADVANCED ENERGY INDUSTRIES, INC.
FORM 10-Q

INDEX

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$11,293	$11,470
Marketable securities - trading	19,047	20,174
Accounts receivable, net	21,543	28,386
Inventories	20,556	26,243
Other current assets	1,497	2,472
Deferred income tax assets, net	2,957	2,836
Total current assets	76,893	91,581
PROPERTY AND EQUIPMENT, net	13,223	11,331
OTHER ASSETS:		
Deposits and other	1,264	500
Goodwill, net	6,608	7,112
Demonstration and customer service equipment, net	1,689	1,719
Total assets	$99,677	$112,243
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	$5,362	$12,045
Accrued payroll and employee benefits	3,701	5,243
Other accrued expenses	1,236	1,327
Customer deposits	82	226
Accrued income taxes payable	0	2,734
Current portion of long-term debt	2,262	3,298
Total current liabilities	12,643	24,873
LONG-TERM LIABILITIES:		
Long-term debt	0	22
Total liabilities	0	24,895
STOCKHOLDERS' EQUITY	87,034	87,348
Total liabilities and stockholders' equity	$99,677	$112,243

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED JUNE 30,	
	1998 (UNAUDITED)	1997 (UNAUDITED)
SALES	$26,158	$32,690
COST OF SALES	19,115	20,139
Gross profit	7,043	12,551
OPERATING EXPENSES:		
Research and development	4,774	3,513
Sales and marketing	2,915	2,336
General and administrative	1,914	1,702
Total operating expenses	9,603	7,551
(LOSS) INCOME FROM OPERATIONS	(2,560)	5,000
OTHER INCOME	198	286
Net (loss) income before income taxes	(2,362)	5,286
PROVISION FOR INCOME TAXES	(897)	1,996
NET (LOSS) INCOME	$(1,465)	$3,290
BASIC (LOSS) EARNINGS PER SHARE	$(0.06)	$0.15
DILUTED (LOSS) EARNINGS PER SHARE	$(0.06)	$0.15
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	22,539	21,283
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,137	21,877

	SIX MONTHS ENDED JUNE 30,	
	1998 (UNAUDITED)	1997 (UNAUDITED)
SALES	$62,828	$53,358
COST OF SALES	44,658	33,298
Gross profit	18,170	20,060
OPERATING EXPENSES:		
Research and development	9,416	6,334
Sales and marketing	5,911	4,135
General and administrative	4,067	2,950
Total operating expenses	19,394	13,419
(LOSS) INCOME FROM OPERATIONS	(1,224)	6,641
OTHER INCOME (EXPENSE)	347	(101)
Net (loss) income before income taxes	(877)	6,540
PROVISION FOR INCOME TAXES	(333)	2,485
NET (LOSS) INCOME	$(544)	$4,055
BASIC (LOSS) EARNINGS PER SHARE	$(0.02)	$0.19

DILUTED (LOSS) EARNINGS PER SHARE.	$(0.02)	$0.19
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	22,520	21,277
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,130	21,806

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	1998 (UNAUDITED)	1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income.	$(544)	$4,055
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	2,652	1,673
Provision for deferred income taxes	(121)	--
Amortization of deferred compensation	24	24
Loss on disposal of property and equipment.	12	--
Earnings from marketable securities, net.	(373)	--
Changes in operating assets and liabilities --		
Accounts receivable-trade, net.	5,594	(8,854)
Related parties and other receivables	1,249	(1,184)
Inventories	5,687	(2,193)
Other current assets.	975	376
Deposits and other.	(14)	634
Demonstration and customer service equipment. . . .	(476)	250
Accounts payable, trade	(6,683)	4,043
Accrued payroll and employee benefits	(1,542)	1,291
Customer deposits and other accrued expenses. . . .	(235)	513
Income taxes payable.	(2,734)	561
Net cash provided by operating activities. . . .	3,471	1,189
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease of marketable securities.	1,500	--
Purchase of property and equipment, net.	(3,546)	(770)
Purchase of preferred stock of Litmas.	(750)	--
Net cash used in investing activities.	(2,796)	(770)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change from notes payable and capital lease obligations	(1,058)	(517)
Proceeds from sale of common stock	282	27
Net cash used in financing activities.	(776)	(490)
EFFECT OF CURRENCY TRANSLATION ON CASH FLOW.	(76)	23
DECREASE IN CASH AND CASH EQUIVALENTS.	(177)	(48)
CASH AND CASH EQUIVALENTS, beginning of period	11,470	11,231
CASH AND CASH EQUIVALENTS, end of period	$11,293	$11,183
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$9	$76
Cash paid for income taxes	$2,255	$905

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, 1998, and the results of their operations and cash flows for the three- and six-month periods ended June 30, 1998 and June 30, 1997.

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 latest Annual Report on Form 10-K for the year ended December 31, 1997.

(2) ACQUISITION

Effective August 15, 1997, the Company acquired all of the outstanding stock of Tower Electronics, Inc., a Minnesota-based designer and manufacturer of custom, high-performance switchmode power supplies used principally in the telecommunications, medical and non-impact printing industries. The purchase price consisted of $14.5 million in cash and a $1.5 million non-interest-bearing promissory note to the seller (the "Note"), payable in August 1998. Total consideration, including the effect of imputing interest on the Note, equaled $15,889,000. The acquisition was accounted for using the purchase method of accounting and resulted in a one-time charge of $3,080,000 for in-process research and development acquired as a result of the transaction. Acquisition costs totaled approximately $209,000.

The results of operations of Tower are included within the accompanying consolidated financial statements for the three- and six-month periods ended June 30, 1998.

(3) UNDERWRITTEN PUBLIC OFFERING

In October 1997, the Company closed on an underwritten offering of its common stock. In connection with this offering, 1,000,000 shares of common stock were sold at a price of $31 per share, providing gross proceeds of $31,000,000. Offering costs and underwriters' commissions totaled $2,276,000.

(4) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
	(IN THOUSANDS)	
Domestic	$10,467	$16,724
Foreign	10,513	9,854
Allowance for doubtful accounts	(424)	(428)
Trade accounts receivable	$20,556	$26,150
Related parties	318	893
Other	669	1,343
Total accounts receivable	$21,543	$28,386

(5) INVENTORIES

Inventories consisted of the following:

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
	(IN THOUSANDS)	
Parts and raw materials	$13,830	$18,549
Work in process	2,484	2,542
Finished goods	4,242	5,152
Total inventories	$20,556	$26,243

(6) EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share," which requires companies to present basic earnings per share ("EPS") and diluted EPS, instead of the primary and fully-diluted EPS that were previously required. The new standard is effective for the Company in fiscal 1997 and all prior periods have been retroactively adjusted. Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

(7) STOCKHOLDERS' EQUITY

Stockholders' equity consisted of the following:

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
	(IN THOUSANDS)	
Common stock, $0.001 par value, 30,000 shares authorized; 22,576 and 22,493 shares issued and outstanding at June 30, 1998 and December 31, 1997, respectively	$23	$22
Additional paid-in capital	52,906	52,625
Retained earnings	34,883	35,427
Deferred compensation	(10)	(34)
Cumulative translation adjustment	(768)	(692)
Total stockholders' equity	$87,034	$87,348

(8) ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," which is required to be adopted by the Company in fiscal 1998. Reclassification of financial statements for earlier periods provided for comparative purposes is required. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company adopted SFAS 130 in the first quarter of fiscal 1998.

	SIX MONTHS ENDED JUNE 30, 1998 (UNAUDITED)	SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)
	(IN THOUSANDS)	
Net (loss) income, as reported	$(544)	$4,055
Adjustment to arrive at comprehensive net (loss) income:		
Cumulative translation adjustment.	(76)	23
Comprehensive net (loss) income.	$(620)	$4,078

In June 1998, the FASB issued SFAS No. 133, ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments and for hedging activity. SFAS 133 is effective for all periods in fiscal years beginning after June 15, 1999. SFAS 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 133 also establishes uniform hedge accounting criteria for all derivatives. The Company has not yet evaluated the impact that the adoption of SFAS 133 will have on the financial statements.

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

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. Such forward-looking statements involve risks and uncertainties. As a result, the Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in the Company's 1997 Annual Report on Form 10-K.

In particular, the Company believes that the factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 Part I "CAUTIONARY STATEMENTS - RISK FACTORS" could impact forward-looking statements made herein or in future written or oral releases and by hindsight, prove such statements to be overly optimistic and unachievable.

YEAR 2000 PROGRAM

The Year 2000 problem is the result of computer programs that rely on two-digit date codes, instead of four-digit date codes, to indicate the year. Such computer programs, which are unable to interpret the date code "00" as the year 2000, may not be able to perform computations and decision-making functions and could cause computer systems to malfunction. The Company has developed a multi-phase program for Year 2000 information systems compliance that consists of (i)assessment of the corporate systems and operations of the Company that could be affected by the Year 2000 problem, (ii) remediation of non-compliant systems and components, and (iii) testing of systems and components following remediation. The Company has focused its Year 2000 review on three areas: (A) information technology (IT) system applications, (B) non-IT systems, including engineering and manufacturing applications, and (C) relationships with third parties.

The Company has conducted an initial assessment of the Year 2000 problem on its IT systems. The Company believes that its enterprise-wide software system is Year 2000 compliant. Such belief is based significantly on discussions with and representations by the vendor of such software. The Company has been, and will continue to be, in contact with such vendor in order to obtain any additional revisions or upgrades issued by the vendor to ensure that such enterprise-wide software remains Year 2000 compliant. The Company also is taking an independent inventory of and assessing all informational systems that could be affected by the Year 2000 problem. Remediation of non-compliant

systems is being conducted as the assessment phase nears completion. The Company expects to complete these phases during the third quarter of 1998.

The Company also is in the process of conducting an initial assessment of the Year 2000 problem on its non-IT systems, including engineering and manufacturing applications. The Company expects to complete its initial assessment of such areas during the third quarter of 1998. Following such initial assessment, the Company will undertake Year 2000 remediation and testing of these applications. The Company cannot determine, at this time, the number or type of non-IT systems that will require remediation; however, the Company does not expect this area to pose substantial Year 2000 problems.

Finally, the Company is examining its relationship with third parties whose Year 2000 compliance could have material effect on the Company. The Company considers third party suppliers and customers to pose the greatest Year 2000 risk to the Company, because the failure of such persons to become Year 2000 compliant in a timely manner, if at all, could result in the Company's inability to obtain components in a timely manner, reductions in the quality of components obtained, reductions, delays or cancellations of customer orders or delay in payments by customers for products shipped. In addition, conversions by third parties to become Year 2000 compliant might not be compatible with the Company's systems. Any or all of these events could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has circulated questionnaires to all of its significant vendors and customers with respect to such persons' Year 2000 compliance programs and status. The Company currently is in the process of analyzing the responses to such questionnaires and expects to solicit more detailed and updated information from its principal suppliers and customers over the next several months.

The Company has not yet developed a contingency plan to address the effects of the failure of the Company or any of its principal suppliers or customers or other third parties to become Year 2000 compliant in a timely manner, nor does the Company have a timetable for preparing such a plan. In what the Company believes to be the most likely worst case scenario, the Company would be unable to obtain electronic components from its suppliers, because of such third parties' failure to become Year 2000 compliant, and would be unable to manufacture such components internally or to redesign its systems to accommodate different components, because of the failure of the Company's engineering and manufacturing systems to be Year 2000 compliant. See "Cautionary Statements-Risk Factors--Supply Constraints and Dependence on Sole and Limited Source Suppliers," and "--Significant Sales Are Concentrated Among a Few Customers" discussed in the Company's 1997 Annual Report on Form 10-K.

Although the Company is continuing to assess Year 2000 costs, it does not expect the costs associated with such projects to have a material effect on the Company's financial results. The Company expects to spend less than five percent of its total IT budget on Year 2000 costs. The Company has not identified any IT projects that have been deferred

due to its Year 2000 efforts. The Company's current estimates of the impact of the Year 2000 problem on its operations and financial results do not include costs and time that may be incurred as a result of any vendors' or customers' failures to become Year 2000 compliant on a timely basis.

The foregoing beliefs and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, and are based in large part on certain statements and representations made by persons outside the Company, any of which statements or representations ultimately could prove to be inaccurate.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1998 AND 1997

SALES

Sales for the second quarter of 1998 were $26.2 million, a decrease of 20% from second quarter of 1997 sales of $32.7 million. The decrease in sales between such periods has resulted from decreased unit sales of the Company's systems. Sales for the second quarter of 1998 also included sales by the Company's wholly owned subsidiary Tower Electronics, Inc. ("Tower"), which was acquired as of August 15, 1997. The decrease in sales was attributable mostly to semiconductor capital equipment customers in the United States, particularly to the Company's largest customer. The second quarter of 1998 reflected the impact of the current downturn in the semiconductor capital equipment market and continuation of the Asian financial crisis. Many of the customers to whom the Company's OEM customers sell are located in Asia and Japan. In contrast, the second quarter of 1997 was the first quarter of recovery from a previous downturn in the semiconductor capital equipment industry that had begun during the third quarter of 1996.

Sales by the Company to markets other than the semiconductor capital equipment market remained relatively unchanged in total when the two periods are compared, but changed significantly in mix. Sales to the data storage equipment market decreased on a worldwide basis, though the decreases in sales to that industry in the United States and Japan were partially offset by an increase in sales to data storage equipment customers in Europe, particularly to the Company's largest customer in that industry. Sales to the flat panel display industry in Japan were one-third of the level of the comparable period last year. Sales to industrial markets remained level not including Tower's sales. The Company sells primarily to the semiconductor capital equipment, data storage and industrial markets in the United States, to the flat panel display and data storage markets in Japan, and to the data storage and industrial markets in Europe. Changes in the economies of the countries in which the Company does business can impact the geographic and industrial mixes of the sales by the Company.

Sales by industry segment for the three months ended June 30, 1998 were as follows: semiconductor capital equipment, $13.9 million; data storage, $4.5 million; flat panel display, $1.0 million; industrial, $6.8 million. For the comparable period in 1997, sales by industry were: semiconductor capital equipment, $21.1 million; data storage, $5.9 million; flat panel display, $1.8 million; industrial, $3.9 million.

Sales by geographic region for the three months ended June 30, 1998 were:
United States, $18.6 million; Europe, $6.1 million; Japan, $1.0 million; Pacific Rim and other, $0.5 million. For the comparable period in 1997, sales by geographic region were: United States, $23.8 million; Europe, $5.0 million; Japan, $3.1 million; Pacific Rim and other, $0.8 million.

Sales for the second quarter of 1998 were down 29% from first quarter 1998 sales of $36.7 million. This decrease was due to decreased demand from most markets the Company serves. The downturn in the semiconductor capital equipment market accounted for the greatest decrease while the data storage capital equipment market experienced the smallest decrease.

GROSS MARGIN

The Company's gross margin for the second quarter of 1998 was 26.9%, down from 38.4% in the second quarter 1997 and down from 30.3% in the first quarter of 1998. The decrease in gross margin from the second quarter of 1997 to the second quarter of 1998 was due primarily to unfavorable absorption of manufacturing overhead and higher material costs attributable to the product mix.

During the fourth quarter of 1997,the Company expanded into a new manufacturing facility in Fort Collins, Colorado. In the second quarter of 1998, the Company relocated part of its previously existing Fort Collins manufacturing operations to a new facility in Austin, Texas. The expansion to new locations was to provide service to one of the Company's largest customers whose primary manufacturing facilities are in Austin, and accommodate the anticipated growth of the semiconductor industry. Starting late in the fourth quarter of 1997, the semiconductor industry started a downturn, which has continued through the second quarter of 1998 and appears to be getting worse. The downturn in this industry has significantly impacted the Company's financial results. The combination of the expansion and lower sales has resulted in an over-capacity situation for the Company, leading to unfavorable absorption. In addition, the decline in sales to the semiconductor industry has resulted in a change in product mix of sales to that industry, with an increase in sales of products with lower gross margins, and a decrease in sales of products with higher gross margins.

The Company initiated cost reduction measures during the first quarter of 1998, including a 10% reduction in executive salaries and certain scheduled mandatory time off for all personnel, except those in critical functions. These cost reduction measures were continued into the second quarter of 1998 and will be continued through at least the

fourth quarter of 1998. Other cost-reducing initiatives are being considered. The Company expects that underutilization of manufacturing capacity will continue to negatively impact gross margins until sales to the semiconductor capital equipment market recover or until other markets the Company serves experience significant growth.

The decrease in gross margin from the first quarter of 1998 to the second quarter of 1998 was due primarily to unfavorable absorption of manufacturing overhead resulting from the reduced sales volume and the change in product mix that resulted in higher material costs.

RESEARCH AND DEVELOPMENT

The Company's research and development expenses are incurred researching new technologies, developing new products and improving existing product designs. Research and development expenses for the second quarter of 1998 were $4.8 million, an increase of 36% from $3.5 million in the comparable period in 1997. The increase in expenses was attributable to increased spending for payroll and materials and supplies for new product development, and to higher infrastructure costs. As a percentage of sales, research and development expenses increased to 18.3% in the second quarter of 1998 from 10.8% in the second quarter of 1997, reflecting the lower sales base in 1998.

Research and development expenses in the second quarter of 1998 were slightly higher than first quarter of 1998 expenses of $4.6 million. The Company believes continued research and development investment for development of new products is critical to the Company's ability to serve new and existing markets. Since inception, all research and development costs have been internally funded and expensed.

SALES AND MARKETING

Sales and marketing expenses support domestic and international sales and marketing activities that include personnel, trade shows, advertising, and other marketing activities. Sales and marketing expenses for the second quarter of 1998 were $2.9 million, compared to $2.3 million in the second quarter of 1997, representing an increase of 25%. The increase was attributable to higher payroll costs incurred as the Company continues to strengthen its sales management and product management teams. Additionally, the Company increased spending in 1998 to develop worldwide applications engineering capabilities, though sales and marketing expenses for the second quarter of 1998 were slightly lower than first quarter of 1998 expenses of $3.0 million. As a percentage of sales, sales and marketing expenses increased to 11.1% in the second quarter of 1998 from 7.1% in the second quarter of 1997, reflecting the lower sales base.

GENERAL AND ADMINISTRATIVE

General and administrative expenses support the worldwide financial, administrative, information systems and human resources functions of the Company. General and

administrative expenses for the second quarter of 1998 were $1.9 million, compared to $1.7 million in the second quarter of 1997, and would have remained at the same level except for $0.25 million in 1998 of amortization of goodwill. General and administrative expenses for the second quarter of 1998 were 11% lower than in the first quarter of 1998. As a percentage of sales, general and administrative expenses increased to 7.3% in the second quarter of 1998 from 5.2% in the second quarter of 1997, reflecting the lower sales base.

The Company continues to implement its management system software, including the replacement of existing systems in its domestic and foreign locations. The Company expects that charges related to training and implementation of the software will continue through 1998.

OTHER INCOME (EXPENSE)

Other income (expense) consists primarily of foreign exchange gains and losses and interest income and expense. Other income for the second quarter of 1998 was $0.2 million, attributable to $0.3 million of interest income from marketable securities. In the comparable period in 1997, other income was $0.3 million, attributable to a foreign currency exchange gain.

The Company experienced fluctuations in foreign currency exchange rates during 1997 and the first six months of 1998, particularly against the Japanese yen. As a hedge against currency fluctuations in the yen, the Company entered into various forward foreign exchange contracts during 1997 to mitigate the effect of potential depreciation in that currency. The Company continues to evaluate various policies to minimize the effects of currency fluctuations.

PROVISION FOR INCOME TAXES

The income tax benefit of $0.9 million for the second quarter of 1998 represented an estimated effective rate of 38.0%, compared to an effective income tax rate for the year 1997 of 39.2%. The higher effective tax rate for 1997 was attributed to nondeductible charges resulting from the acquisition of Tower. The Company adjusts its provision for income taxes periodically, based upon the anticipated tax status of all of its foreign and domestic entities.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997

SALES

Sales for the first six months of 1998 were $62.8 million, an increase of 18% from sales of $53.4 million in the comparable period in 1997. Sales to the semiconductor capital equipment market, including the Company's largest customer, remained at

essentially the same level. Sales to the data storage equipment market were essentially unchanged as well, while sales to the flat panel display market decreased moderately. Sales to industrial markets increased significantly, due primarily to the inclusion of Tower in 1998. Sales to customers in the United States and Europe were higher while sales to Japan and other geographic regions were lower.

Sales by industry segment for the six months ended June 30, 1998 were as follows: semiconductor capital equipment, $33.9 million; data storage, $9.5 million; flat panel display, $3.1 million; industrial, $16.3 million. For the comparable period in 1997, sales by industry were: semiconductor capital equipment, $34.2 million; data storage, $9.0 million; flat panel display, $3.6 million; industrial, $6.6 million.

Sales by geographic region for the six months ended June 30, 1998 were: United States, $46.2 million; Europe, $11.8 million; Japan, $3.6 million; Pacific Rim and other, $1.2 million. For the comparable period in 1997, sales by geographic region were: United States, $38.9 million; Europe, $7.9 million; Japan, $5.2 million; Pacific Rim and other, $1.4 million.

GROSS MARGIN

The Company's gross margin for the first six months of 1998 was 28.9%, down from 37.6% in the comparable period in 1997. The decrease in gross margin between the periods presented was due primarily to unfavorable absorption of manufacturing overhead and higher material costs. The unfavorable absorption resulted from underutilized capacity resulting from two additional manufacturing facilities the Company opened between the periods presented, including one in Fort Collins, Colorado during the fourth quarter of 1997 and one in Austin, Texas, during the second quarter of 1998. The higher material costs are a result of a shift in the mix of the products the Company sells.

RESEARCH AND DEVELOPMENT

Research and development expenses for the first six months of 1998 were $9.4 million, up from $6.3 million in the comparable period in 1997. The increase was attributable to higher spending for payroll and materials and supplies for new product development. As a percentage of sales, research and development expenses increased to 15.0% in the first six months of 1998 from 11.9% in the comparable period in 1997.

SALES AND MARKETING

Sales and marketing expenses for the first six months of 1998 were $5.9 million, up from $4.1 million in the comparable period in 1997. The increase was attributable to higher spending for payroll to strengthen the Company's sales management and product management teams. As a percentage of sales, sales and marketing expenses increased to 9.4% in the first six months of 1998 from 7.7% in the comparable period in 1997.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for the first six months of 1998 were $4.1 million, up from $3.0 million in the comparable period in 1997. The increase was attributable to higher spending for payroll, purchased services and amortization of goodwill. As a percentage of sales, general and administrative expenses increased to 6.5% in the first six months of 1998 from 5.5% in the comparable period in 1997. The percentage for the first six months of 1998 would have been 5.7% without the amortization.

OTHER INCOME (EXPENSE)

Other income for the first six months of 1998 was $0.3 million, attributable to $0.5 million of interest income from marketable securities. In the comparable period in 1997, other expense was $0.1 million.

PROVISION FOR INCOME TAXES

The income tax benefit of $0.3 million for the first six months of 1998 represented an estimated effective rate of 38.0% compared to an effective income tax rate for the year 1997 of 39.2%.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations, acquired equipment and met its working capital requirements through cash flow from operations, borrowings under its revolving line of credit, long-term loans secured by property and equipment, and, since November 1995, proceeds from underwritten public offerings.

Operations provided cash of $3.5 million in the first six months of 1998, primarily as a result of depreciation, amortization, and decreases in accounts receivable and inventories, partially offset by decreases in accounts payable and accruals for payroll, employee benefits and income taxes. In the comparable period in 1997, operations provided cash of $1.2 million, primarily as a result of net income, depreciation and amortization and increases in accounts payable and other accrued expenses, partially offset by increases in accounts receivable and inventories.

Investing activities used cash of $2.8 million in the first six months of 1998, as a result of the purchase of property and equipment for $3.5 million and investment in preferred stock of Litmas, Inc. ("Litmas") for $0.75 million, partially offset by a decrease of marketable securities of $1.5 million. During the second quarter of 1998, the Company opened a new manufacturing facility in Austin, Texas, to accommodate the Company's largest customer in the semiconductor capital equipment industry. In the comparable period in 1997, investing activities used cash of $0.8 million due to the purchase of property and equipment.

Financing activities used cash of $0.8 million in the first six months of 1998 and $0.5 million in the comparable period of 1997. In both periods presented the cash used was due primarily to net changes of notes payable and repayment of capital lease obligations.

The Company plans to spend approximately $1.0 million through the remainder of 1998 for the acquisition of manufacturing and test equipment and furnishings. The Company also plans to invest an additional $0.25 million in preferred stock of Litmas in the third quarter of 1998.

As of June 30, 1998, the Company had working capital of $64.3 million. The Company's principal sources of liquidity consisted of $11.3 million of cash and cash equivalents, $19.0 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 (8.5% at July 31, 1998) minus 1.25% or the LIBOR 360-day rate (5.82813% at July 31, 1998) plus 150 basis points, at the Company's option. All advances under the revolving line of credit will be due and payable in December 2000; however, there were no advances outstanding as of June 30, 1998.

The Company believes that its cash and cash equivalents, marketable securities, cash flow from operations and available borrowings, will be sufficient to meet the Company's working capital needs through the end of 1998. After that time, the Company may require additional equity or debt financing to address its working capital, capital equipment, or expansion needs. In addition, any significant acquisitions by the Company may require additional equity or debt financings 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 the Company.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not aware of any material legal proceedings to which it or any of its subsidiaries is a party.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Company held its 1998 Annual Meeting of Stockholders on Wednesday, May 6, 1998, to vote on three proposals. Proxy statements were sent to all shareholders. The first proposal was for the election of directors, including Douglas S. Schatz, G. Brent Backman, Richard P. Beck, Elwood Spedden, Hollis L. Caswell, Ph.D. and Arthur A. Noeth. All six directors were elected with the following votes tabulated:

NAME OF DIRECTOR	TOTAL VOTE FOR EACH DIRECTOR	TOTAL VOTE WITHHELD FROM EACH DIRECTOR
Mr. Schatz	20,257,399	122,267
Mr. Backman	20,257,399	122,267
Mr. Beck	20,257,399	122,267
Mr. Spedden	20,257,099	122,567
Dr. Caswell	20,253,157	126,509
Mr. Noeth	20,257,099	122,567

The second proposal was for an amendment of the 1995 stock option plan to increase the number of shares of common stock issuable thereunder from 3,500,000 to 4,625,000. The amendment was approved with the following votes tabulated:

FOR	AGAINST	ABSTAIN
19,068,928	1,281,895	28,843

The third proposal was for the ratification of appointment of independent auditors. The current auditors, Arthur Anderson, LLP, were retained, with the following votes tabulated:

FOR	AGAINST	ABSTAIN
20,340,802	2,412	36,452

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

2.1	Agreement and Plan of Reorganization, dated as of June 1, 1998, by and among the Company, Warpspeed, Inc., a wholly owned subsidiary of the Company, and RF Power Products, Inc.
3.1	The Company's Restated Certificate of Incorporation(1)
3.2	The Company's Bylaws(1)
4.1	Form of Specimen Certificate for the Company's Common Stock(1)
4.2	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+
10.2	Purchase Order and Sales Agreement, dated July 1, 1993, amended September 16, 1995 between Lam Research Corporation and the Company(1)+

10.3 Purchase Agreement, dated November 1, 1995, between Eaton Corporation and the Company(2)+

10.4 Amended and Restated Loan and Security Agreement, dated as of November 17, 1995, between Silicon Valley Bank and the Company(1)

10.5 Loan and Security Agreement, dated August 15, 1997, among Silicon Valley Bank, Bank of Hawaii and the Company(3)

10.6 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(4)

10.7 Equipment Line of Credit, dated July 11, 1994, between Silicon Valley Bank and the Company(1)

10.8 Master Lease Purchase Agreement, dated January 20, 1989, as amended, between MetLife Capital Corporation and the Company(1)

10.9 Lease Purchase Agreement, dated June 11, 1992, between MetLife Capital Corporation and the Company(1)

10.10 Master Equipment Lease, dated July 15, 1993, as amended, between KeyCorp Leasing Ltd. and the Company(1)

10.11 Lease, dated June 12, 1984, amended June 11, 1992, between Prospect Park East Partnership and the Company for property in Fort Collins, Colorado(1)

10.12 Lease, dated March 14, 1994, as amended, between Sharp Point Properties, L.L.C., and the Company for property in Fort Collins, Colorado(1)

10.13 Lease, dated May 19, 1995, between Sharp Point Properties, L.L.C. and the Company for a building in Fort Collins, Colorado(1)

10.14 Form of Indemnification Agreement(1)

10.15 1995 Stock Option Plan, as amended and restated(4)*

10.16 Employee Stock Purchase Plan(1)*

10.17 1995 Non-Employee Directors' Stock Option Plan(1)*

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

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

21.1 Subsidiaries of the Company

27.1 Financial Data Schedule for the six-month period ended June 30, 1998.

27.2 Financial Data Schedule as restated for the year ended December 31, 1996; the three-month period ended March 31, 1997; the six-month period ended June 30, 1997; and the nine-month period ended September 30, 1997, respectively.

27.3	Financial Data Schedule as restated for the year ended December 31, 1995; the three-month period ended March 31, 1996; the six-month period ended June 30, 1996; and the nine-month period ended September 30, 1996, respectively.

(b) No reports on Form 8-K were filed or required to be filed by the Company during the three-month period ended June 30, 1998.

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

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-26966), filed March 21, 1997, as amended.

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

(4) 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.

* Compensation Plan

+ Confidential treatment has been requested for portions of this agreement. Such portions have been omitted and filed separately with the SEC.

++ Portions of these documents have been omitted in accordance with an order by the SEC granting confidential treatment. Such omitted material has been filed separately with the SEC.

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	
Senior Vice President, Chief Financial Officer, Assistant Secretary and Director (Principal Financial Officer and Principal Accounting Officer)	*August 7, 1998*

EXHIBIT INDEX

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* Compensation Plan

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++ Portions of these documents have been omitted in accordance with an order by the SEC granting confidential treatment. Such omitted material has been filed separately with the SEC.

EXHIBIT 2.1

AGREEMENT AND PLAN OF REORGANIZATION

BY AND AMONG

ADVANCED ENERGY INDUSTRIES, INC.,

WARPSPEED, INC.

AND

RF POWER PRODUCTS, INC.,

DATED AS OF JUNE 1, 1998

AGREEMENT AND PLAN OF REORGANIZATION

AGREEMENT AND PLAN OF REORGANIZATION (this "AGREEMENT"), dated as of June 1, 1998, is made by and among Advanced Energy Industries, Inc., a Delaware corporation ("PARENT"), Warpspeed, Inc., a New Jersey corporation and a wholly owned subsidiary of Parent ("MERGER SUB"), and RF Power Products, Inc., a New Jersey corporation (the "COMPANY").

R E C I T A L S

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 long-term strategic and financial benefits and, accordingly, 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
THE MERGER

1.1. THE BASIC TRANSACTION. On the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.3), 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 New Jersey Business Corporation Act (the "NJBCA").

1.2. 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 Thelen, Reid & Priest LLP, New York, New York 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 6 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."

1.3. EFFECTIVE TIME. On the Closing Date, a Certificate of Merger meeting the requirements of Section 14A:10-4.1 of the NJBCA shall be executed and filed in the office of the New Jersey Secretary of State, in accordance with the NJBCA. The Merger shall become effective at (a) the time of filing of the Certificate of Merger with the New Jersey Secretary of State or (b) such later time as agreed by the parties hereto and designated in the Certificate of Merger as the effective time of the Merger (the "EFFECTIVE TIME").

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

1.5. 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; and Joseph Stach, president and chief executive officer of the Company, also shall become an officer of the Surviving Corporation.

ARTICLE 2
CONVERSION AND EXCHANGE OF SECURITIES

2.1. MERGER SUB STOCK. At the Effective Time, each share of common stock, par value $0.01 per share, 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, par value $0.01 per share, of the Surviving Corporation.

2.2. COMPANY STOCK; OPTIONS.

(a) EXCHANGE RATIO. At the Effective Time, each share of common stock, par value $0.01 per share, of the Company ("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 the number of shares of common stock, par value $0.001 per share, of Parent (the "PARENT COMMON STOCK") that is equal to 3,750,000 divided by the number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time (the "EXCHANGE RATIO"); provided, however, that (A) if the Closing Price (as defined in this Section 2.2) is less than or equal to $12.11, then the Exchange Ratio shall be the result obtained by dividing $3.74 by the Closing Price, but in no event shall the Exchange Ratio computed pursuant to this clause (A) be greater than 4,000,000 divided by the number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time (the "EFFECTIVE TIME SHARE NUMBER") and (B) if the Closing Price is greater than or equal to $16.39, the Exchange Ratio shall be the result obtained by dividing, $5.06 by the Closing Price, but in no event shall the Exchange Ratio computed pursuant to this clause (B) be less than 3,500,000 divided by the Effective Time Share Number. "CLOSING PRICE" means the average closing price of the Parent Common Stock, as reported in The Wall Street Journal, Eastern Edition, for each of the 10 consecutive Trading Days immediately preceding the third Trading Day prior to the Stockholders Meeting (as defined in Section 5.4). "TRADING DAY" means a day on which trading is conducted on the Nasdaq National Market.

(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 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 (a "CERTIFICATE") representing such shares of Company Common Stock (i) the number of shares of Parent Common Stock determined in accordance with this Section 2.2, and (ii) cash, without interest, payable (A) in lieu of any fractional shares of Parent Common Stock, in accordance with Section 2.3(b), and (B) as Specified Post-Closing Dividends (as defined in Section 2.3), in accordance with
Section 2.3(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 or held by a Subsidiary of the Company 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 2.2(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 equal to the exercise price of the subject Company Option divided by the Exchange Ratio and rounded to the nearest cent, 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 2.2(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 2.2(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 reduce the benefit of the Substituted Option to the holder thereof.

(iv) On or prior to the Effective Time, Parent shall file with the Securities and Exchange Commission (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 best efforts to maintain the effectiveness of any Registration Statement or Statements relating 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.

2.3. 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 2, (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. 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 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 and title 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 2.3, 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 person that is an "affiliate" of the Company for purposes of Rule 145(c) under the Securities Act of 1933, as amended (the "SECURITIES ACT"), shall not be exchanged until Parent has received a written agreement from such person as provided in
Section 5.11.

(h) One year after the Effective Time, the Exchange Agent shall deliver to the Surviving Corporation any portion of the Exchange Fund (including the proceeds of any investments thereof and any shares of Parent Common Stock) that remains unclaimed by the former stockholders of the Company. Thereafter, former stockholders of the Company that have not surrendered their Certificates for exchange shall look to the Surviving Corporation for delivery of Merger Certificates, cash in lieu of fractional shares and unpaid Post-Closing Dividends which such former stockholder is entitled

to receive in respect of the Company Common Stock represented by the theretofore unsurrendered Certificates, in each case, without any interest thereon.

(i) 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.

2.4. LOST CERTIFICATES. In the event any Certificate shall have been lost, stolen or destroyed, upon the making and delivery of an affidavit 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.

2.5. 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 3
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure schedule delivered at or prior to the execution hereof to Parent (the "COMPANY DISCLOSURE SCHEDULE") or the Company Reports (as defined in Section 3.6) filed by the Company prior to the date of this Agreement, the Company makes the following representations and warranties to Parent and Merger Sub, as of the date of this Agreement. The term "COMPANY MATERIAL ADVERSE EFFECT" has the meaning given to it in Section 8.14.

3.1. 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 (as defined in Section 8.14) other than RFPP Foreign Sales Corporation, a corporation organized under the United States Virgin Islands ("COMPANY SUBSIDIARY"). Company Subsidiary (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 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. Company Subsidiary does not (x) own, operate or lease any real or personal property, or (y) have any operations or engage in any activities other than those related to coordination of export sales by the Company.

(c) Neither the Company nor Company Subsidiary 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.

3.2. CAPITALIZATION.

(a) The authorized capital stock of the Company consists of 19,000,000 shares of Company Common Stock. As of May 27, 1998, there were 12,149,220 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 May 27, 1998, Company Options to acquire 712,123 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, nonassessable 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 or of the Company Subsidiary.

(c) Neither the Company nor Company Subsidiary has 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.

3.3. 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 NJBCA, 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") and compliance with the Industrial Site Recovery Act, N.J.S.A. Section 13:1K-6 ET SEQ. and its implementing regulations ("ISRA").

(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 Bylaws of the Company, (ii) any statute, rule, regulation, judicial, governmental, regulatory or administrative decree, order or judgment applicable to the Company or Company Subsidiary, 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.

3.4. 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 Company's part for the consummation by it of the transactions contemplated by this Agreement, except (i) filings required in order to comply with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR ACT"), (ii) notices and filings required in order to comply with the Securities

Act, the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), and state securities or "blue sky" laws, (iii) the filing of the Certificate of Merger with the New Jersey Secretary of State, and (iv) as may be required by ISRA.

3.5. COMPLIANCE WITH LAWS. Except where the failure to so comply would not have a Company Material Adverse Effect, the Company and Company Subsidiary (i) have all valid and current permits, licenses, orders, authorizations, registrations, approvals and other analogous instruments (collectively, "PERMITS"), and each Permit is in full force and effect, and (ii) have made all filings and registrations and the like, necessary or required by law to conduct their respective businesses as currently conducted. Neither the Company nor Company Subsidiary has received any governmental notice of any violation by such company of any laws, rules, regulation or orders applicable to their respective businesses. Except where the failure to comply would not have a Company Material Adverse Effect, (a) neither the Company nor Company Subsidiary is in default or is not in compliance under any Permits, and (b) the business and operations of each of the Company and Company Subsidiary 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.

3.6. 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 January 1, 1995 (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 consolidated 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 consolidated financial position of the Company and Company Subsidiary as of its date, and each of the consolidated 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 and Company Subsidiary 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 U.S. generally accepted accounting principles consistently applied during the periods involved ("GAAP"), except as may be noted therein and subject to the fact that unaudited financial statements do not contain full notes thereto. Neither the Company nor Company Subsidiary has 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 the Company or in the notes thereto, and included in the Company Reports, (ii) liabilities or obligations incurred since February 28, 1998, in the ordinary course of business, consistent with past practices, or (iii) liabilities disclosed in a Company Report.

3.7. 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, Company Subsidiary or either of their 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, Company Subsidiary or either of their 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.

3.8. ABSENCE OF CERTAIN CHANGES. Since February 28, 1998, 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.

3.9. 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.

3.10. 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 date of the Quarterly Report on Form 10-Q most recently filed by the Company (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.

3.11 INTELLECTUAL PROPERTY.

(a) "INTELLECTUAL PROPERTY" means:

(i) 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 (collectively, "ISSUED PATENTS");

(ii) 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 abandoned patent applications (collectively "PATENT APPLICATIONS" and with the Issued Patents, the "PATENTS");

(iii) all 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 (collectively, "COPYRIGHTS");

(iv) 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 (collectively, "TRADEMARKS");

(v) 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; and

(vi) all other intangible assets, properties and rights (whether or not appropriate steps have been taken to protect, under applicable law, such other intangible assets, properties or rights).

(b) 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 reasonably necessary 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.

(c) Section 3.11 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 that require a consent or waiver to consummate the transactions contemplated by this Agreement.

(d) 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.

(e) 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 of the Intellectual Property of the Company.

3.12. EMPLOYEE BENEFIT PLANS.

(a) For purpose of this Agreement, (i) "COMPANY BENEFIT PLANS" means all employee benefit plans and other 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; and (ii) "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 the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any regulations promulgated or proposed under any of the foregoing Sections.

(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 Internal Revenue Service (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) Except as would not have a Company Material Adverse Effect, 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) Except as would not have a Company Material Adverse Effect, 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) Except as would not have a Company Material Adverse Effect, to the knowledge of the Company, there are no pending or anticipated claims against or otherwise involving any of the Company Benefit Plans and no suit, action or other litigation (excluding claims for benefits incurred in the ordinary course of the Company Benefit Plan activities) has been brought against or with respect to any such Company Benefit Plan, except for any of the foregoing which would not have a Company Material Adverse Effect.

(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) 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.

3.13. 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 NationsBanc Montgomery Securities LLC as its financial advisor, 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.

3.14. OPINION OF FINANCIAL ADVISOR. The Company has received the opinion of NationsBanc Montgomery Securities LLC 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.

3.15. PARENT STOCK OWNERSHIP. Neither the Company nor any of its Subsidiaries owns any shares of Parent Common Stock or other securities convertible into Parent Common Stock.

3.16. 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 Accounting Principles Board Opinion No. 16 ("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.

3.17. ENVIRONMENTAL MATTERS.

(a) For purposes of this Agreement, (i) "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 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) (collectively, "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; and (ii) "COMPANY REAL PROPERTIES" means all real property ever owned, leased or occupied by the Company or any Company Predecessor. For purposes of this Section 3.17, "COMPANY PREDECESSOR" shall include the former operating entities of RF Power Products, RF Plasma Products and any division or subsidiary of Plasmatherm which operated a business at the current Company location, or at either of the two previously disclosed locations: 701 Cooper Road, Voorhees, New Jersey or 502 Gibbsboro Road, Voorhees, New Jersey.

(b) 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.

(c) 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 owned, leased or occupied by the Company, 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 owned, leased or occupied by such Company Predecessor, in violation of applicable Environmental Requirements.

(d) 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.

(e) 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 the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or the Solid Waste Disposal Act, as amended ("SWDA"), or any other Environmental Requirements, whether federal, state or locally imposed.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Except as set forth in the disclosure schedule delivered at or prior to the execution hereof to the Company (the "PARENT DISCLOSURE SCHEDULE") or in the Parent Reports (as defined in Section 4.6) filed with the Commission prior to the date hereof, Parent and Merger Sub make the following representations and warranties to the Company as of the date of this Agreement. The term "PARENT MATERIAL ADVERSE EFFECT" has the meaning given to it in Section 8.14.

4.1. 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.

4.2 CAPITALIZATION.

(a) The authorized capital stock of Parent consists of 30,000,000 shares of Parent Common Stock and 1,000,000 shares of preferred stock, par value $0.001 per share ("PARENT PREFERRED STOCK"). As of May 31, 1998, there were 22,542,346 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 options to

acquire Parent Common Stock granted by Parent ("PARENT OPTIONS"). As of May 31, 1998, Parent Options to acquire 1,550,683 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, nonassessable 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 nonassessable and free of preemptive rights.

(d) Neither Parent nor any of its Subsidiaries (including without limitation Merger Sub) has 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 Parent on any matter.

4.3. 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 and compliance with ISRA.

(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.

4.4. 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) filings required in order to comply with the HSR Act, (ii) notices and filings required in order to comply with the Securities Act, the Exchange Act and state securities or "blue sky" laws, (iii) the filing of the Certificate of Merger with the New Jersey Secretary of State, and (iv) as may be required by ISRA.

4.5. COMPLIANCE WITH LAWS. Except where the failure to so comply would not have a Parent Material Adverse Effect, Parent and each of its Subsidiaries (i) have all valid and current Permits, and each Permit is in full force and effect, and (ii) have made all filings and registrations and the like, necessary or required by law to conduct their respective businesses as currently conducted. Neither Parent nor any of its Subsidiaries has received any governmental notice of any violation by such company of any laws, rules, regulation or orders applicable to their respective businesses, which violation in the case of any Subsidiary is reasonably likely to have a Parent Material Adverse Effect. Except where the failure to comply would not have a Parent Material Adverse Effect, (a) neither Parent nor any of its Subsidiaries is in default or is not in compliance under any Permits, and (b) the business and operations of each of Parent and its Subsidiaries 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. 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, 1998 in the ordinary course of business, consistent with past practices, or (iii) liabilities disclosed in a Parent Report.

4.7. ABSENCE OF LITIGATION, ORDERS, JUDGMENTS.

(a) There are no actions, suits or proceedings pending or, to the knowledge of Parent, threatened which involve transactions of or otherwise relate to Parent or any of its Subsidiaries or any of such companies' 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 Parent 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 Parent or any of its Subsidiaries or any of such companies' 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 Parent Material Adverse Effect.

4.8. ABSENCE OF CERTAIN CHANGES. Since March 31, 1998, Parent and its Subsidiaries have conducted their businesses only in the ordinary course of such businesses, except for any action conducted outside the ordinary course of business which is not reasonably likely to result in a Parent Material Adverse Effect, and there has not been (i) any Parent Material Adverse Effect or any event which is reasonably likely to result in a Parent 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. Parent (a) 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, (b) has paid or accrued all taxes shown to be due and payable on such returns and (c) 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 Parent or any of its Subsidiaries is a party or by which any of such companies is bound and which is filed as an exhibit to or described in a Parent Report, and (b) agreement, contract and commitment that is material to Parent and its Subsidiaries taken as a whole and that was entered into by Parent or any of its Subsidiaries, or by which such company became bound, after the date of the Quarterly Report on Form 10-Q most recently filed by Parent (collectively, "PARENT CONTRACTS"), is a valid and legally binding obligation of Parent or the Subsidiary party thereto and, to the knowledge of Parent, the other parties thereto, enforceable against Parent or the Subsidiary party thereto and, to the knowledge of Parent, the other parties thereto, in accordance with its terms, subject to the Enforceability Exceptions. Neither Parent nor any Subsidiary party to a Parent Contract is in material default of such Parent Contract, and, to the knowledge of Parent, no other party to a Parent Contract is in material default of such Parent Contract. Neither Parent nor any Subsidiary party to a Parent 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. To the knowledge of Parent, no other party to a Parent 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) Parent and its Subsidiaries own or have the right to use all Intellectual Property used by them in the operation of their respective businesses, except to the extent that the failure to have such rights has not and is not reasonably likely to result in (i) a material adverse effect on Parent's or its Subsidiaries' ability to manufacture or sell any product or line of products that is material to Parent and its Subsidiaries, taken as a whole, (ii) a material adverse effect on Parent's or any of its Subsidiaries' ability to operate its businesses, which inability to so operate would have a Parent Material Adverse Effect, (iii) a liability of Parent or any of its Subsidiaries, which liability would have a Parent Material Adverse Effect, or (iv) material redesign or other corrective costs to Parent or any of its Subsidiaries, which costs would be material to Parent and its Subsidiaries, taken as a whole. Parent and its Subsidiaries have taken reasonably necessary action to maintain and protect their rights in the material Intellectual Property that they own or use.

(b) Parent 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 with did not and is not reasonably likely to result in (i) a material adverse effect on Parent's or its Subsidiaries' ability to manufacture or sell any product or line of products that is material to Parent and its Subsidiaries, taken as a whole,
(ii) a material adverse effect on Parent's or any of its Subsidiaries' ability to operate its businesses, which inability to so operate would have a Parent Material Adverse Effect, (iii) a liability of Parent or any of its Subsidiaries, which liability would have a Parent Material Adverse Effect, or (iv) material redesign

or other corrective costs to Parent or any of its Subsidiaries, which costs would be material to Parent and its Subsidiaries, taken as a whole. Parent has not received, and has no knowledge of, any charge, complaint, claim, demand or notice alleging any such interference, infringement, misappropriation or conflict by Parent or any of its Subsidiaries.

(c) To the knowledge of Parent, no fraud or misrepresentation has been made by (i) Parent or any of its Subsidiaries, (ii) any of their respective officers, directors or employees or (iii) the relevant inventors during the prosecution of any of the Patents of Parent or any of its Subsidiaries, nor has any fraud or misrepresentation been included in any documentation for or other disclosure of the Intellectual Property of Parent or any of its Subsidiaries.

4.12 EMPLOYEE BENEFIT PLANS.

(a) For purpose of this Agreement, (i) "PARENT BENEFIT PLANS" means all employee benefit plans and other benefit arrangements covering employees or former employees of Parent and its Subsidiaries and all employee agreements providing compensation, severance or other benefits to any employee or former employee of Parent or one of its Subsidiaries.

(b) With respect to each Parent 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 Parent, there is no reason that is not susceptible to cure why the qualified status under Section 401(a) of the Code of any Parent Benefit Plan would be denied or revoked, whether retroactively or prospectively.

(c) Except as would not have a Parent Material Adverse Effect, no Parent Benefit Plan, any fiduciary thereof, nor Parent has incurred any liability or penalty under Section 4975 of the Code or Section 502(i) of ERISA. Except as would not have a Parent Material Adverse Effect, each Parent 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) Except as would not have a Parent Material Adverse Effect, neither Parent 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 Parent, there are no current plans to terminate, whether voluntarily or involuntarily any materially underfunded pension plans of Parent or any ERISA Affiliate that are subject to Title IV of ERISA.

(e) Except as would not have a Parent Material Adverse Effect, to the knowledge of Parent, there are no pending or anticipated claims against or otherwise involving any of the Parent Benefit Plans and no suit, action or other litigation (excluding claims for benefits incurred in the ordinary course of the Parent Benefit Plan activities) has been brought against or with respect to any such Parent Benefit Plan, except for any of the foregoing which would not have a Parent Material Adverse Effect.

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

(g) 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 may 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 Parent or any of its Subsidiaries.

4.13. NO BROKERS. Neither Parent nor any of its Subsidiaries has 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 Parent has retained PaineWebber Incorporated as its financial advisor, the arrangements with which have been disclosed in writing to the Company prior to the date hereof. Other than the foregoing arrangements, Parent 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. COMPANY STOCK OWNERSHIP. Neither Parent nor any of its Subsidiaries owns any shares of Company Common Stock or other securities convertible into Company Common Stock.

4.15. 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.

4.16. ENVIRONMENTAL MATTERS.

(a) For purposes of this Agreement, "PARENT REAL PROPERTIES" means all real property ever owned, leased or occupied by Parent or any of its Subsidiaries or any predecessor to their businesses (each, a "PREDECESSOR").

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

(c) Neither Parent nor any of its Subsidiaries has disposed of, stored or used any Hazardous Materials on, nor has any of such companies transported any Hazardous Materials from, any of the Parent Real Properties owned, leased or occupied by Parent or any of its Subsidiaries, 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 Parent Material Adverse Effect. To the knowledge of Parent, no Predecessor has disposed of, stored or used any Hazardous Materials on, nor has any Predecessor transported any Hazardous Materials from, any of the Parent Real Properties owned, leased or occupied by such Predecessor, in violation of applicable Environmental Requirements.

(d) To the knowledge of Parent, none of the following exists at any of the Parent Real Properties: (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.

(e) To the knowledge of Parent, none of the Parent 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 Parent or any of its Subsidiaries 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.

ARTICLE 5
COVENANTS

5.1. 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.

(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 Board of Directors of the Company ("COMPANY BOARD"), by a majority vote, determines in its good faith judgment, based as to legal matters on the 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 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 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 5.1 shall (i) permit the Company to terminate this Agreement (except as specifically provided in Article 7 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) affect any other obligation of the Company under this Agreement.

5.2. INTERIM OPERATIONS OF THE COMPANY.

(a) Prior to the Effective Time, except as set forth in Section 5.2 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, and shall cause Company Subsidiary to, 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 Certificate of Incorporation or Bylaws or the charter documents of Company Subsidiary;

(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 Company Subsidiary (or communications indicating that the same may be contemplated), or (C) the breach of any Company representation or warranty 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 or Company Subsidiary's 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, and shall not permit Company Subsidiary to, 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 $500,000;

(viii) shall not issue any shares of capital stock or securities, except upon exercise of Company Options outstanding as of the date hereof, 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; 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 3 hereof untrue or incorrect in any material respect as of the Closing Date.

5.3. INTERIM OPERATIONS OF PARENT.

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

(i) shall, and shall cause its Subsidiaries to, conduct their operations according to their usual, regular and ordinary course in substantially the same manner as heretofore conducted; PROVIDED, HOWEVER, that any Subsidiary of Parent shall be permitted, and Parent shall be permitted to cause such Subsidiary, without the written consent of the Company, to take actions outside the usual, regular and ordinary course of such Subsidiary's business if such actions do not have a material effect on the operations of Parent and its Subsidiaries, taken as a whole;

(ii) shall use its reasonable efforts (A) to preserve intact the business organizations and goodwill of Parent and its Subsidiaries, (B) to keep available the services of Parent's officers and employees and each of its Subsidiaries' officers and key employees and (C) to maintain satisfactory relationships with those persons having business relationships with them;

(iii) shall not, and shall not permit any of its Subsidiaries to, amend their respective Certificates of Incorporation or Bylaws or comparable charter documents (other than amendments to the charter documents of any Subsidiary, which amendments are not material to Parent or to the consummation of the transactions contemplated by this Agreement);

(iv) shall promptly notify the Company of (A) any material 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, material governmental complaints, investigations or hearings against or otherwise involving Parent or any of its Subsidiaries (or communications indicating that the same may be contemplated), or (C) the breach by Parent or Merger Sub of any of its representations or warranties contained herein;

(v) 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;

(vi) shall not, and shall not permit any of its Subsidiaries to, 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 $2,500,000;

(vii) shall not issue any shares of capital stock or securities, except upon exercise of Parent Options outstanding as of the date hereof;

(viii) except in the ordinary course or business, 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 Parent;

(ix) shall not, and shall not permit any of its Subsidiaries (including without limitation Merger Sub) to, 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;

(x) shall not, and shall not permit any of its Subsidiaries (including without limitation Merger Sub) to, 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;

(xi) 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;

(xii) 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;

(xiii) shall not directly or indirectly redeem, purchase or otherwise acquire any shares of its capital stock or make any commitment for any such action; and

(xiv) shall not, and shall not permit any of its Subsidiaries to, 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.

5.4. MEETING OF STOCKHOLDERS. The Company will take all action necessary in accordance with applicable law and its Certificate of Incorporation and Bylaws to convene a meeting of its stockholders (the "STOCKHOLDERS' MEETING") as promptly as practicable to consider and vote upon the approval of this Agreement and the transactions contemplated hereby. The Board of Directors of the Company 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 (as defined in Section 5.9); PROVIDED, HOWEVER, that such recommendation or solicitation shall not be required if and to the extent that the Company Board determines, after the date hereof, and upon the advice of outside counsel, that the making of such recommendation or solicitation would involve a breach of its fiduciary duties to its stockholders imposed by law.

5.5. FILINGS; OTHER ACTIONS. Subject to the terms and conditions herein provided, the Company and Parent shall: (a) promptly make their respective filings and thereafter make any other required submissions under the HSR Act with respect to the Merger; (b) use all reasonable efforts to cooperate with one another in (i) determining which other 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 (c) 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.

5.6. HSR ACT.

(a) The parties shall take all actions reasonably necessary or appropriate to cause the prompt expiration or termination of any applicable waiting period under the HSR Act in respect of the Merger, including without limitation complying as promptly as practicable with any requests by the Federal Trade Commission or Department of Justice for additional information.

(b) In furtherance and not in limitation of the covenants in Sections 5.5 and 5.6(a), the parties shall use their reasonable best efforts to resolve any objections that may be asserted under any Antitrust Law (as defined in paragraph (d) of this Section 5.6) with respect to the Merger or any other transactions contemplated by this Agreement, except that neither Parent nor the Company nor any of its respective Subsidiaries shall be required, by this paragraph (b) or otherwise, to sell, hold separate or divest any of its (or any its Subsidiaries' or affiliates) businesses, product lines, assets or properties (or to agree or commit to take any such action) in order to resolve any such objections. If any administrative, judicial or legislative action or proceeding is instituted (or threatened to be instituted) challenging the Merger or any other transactions contemplated hereby as violative of any Antitrust Law, the parties shall cooperate and use their best efforts vigorously to contest and resist any such action or proceeding, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) that is in effect and that restricts, prevents or prohibits consummation of the Merger or any other transaction contemplated by this Agreement, including without limitation by vigorously pursuing all available avenues of administrative and judicial appeal and legislative action.

(c) Each of the Company, Parent and Merger Sub shall promptly inform the other parties of 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 any of the transactions contemplated hereby. Parent and Merger Sub will advise the Company promptly in respect of any understandings, undertakings or agreements which Parent or Merger Sub propose to make or enter into with the Federal Trade Commission, the Antitrust Division of the Department of Justice or any other governmental or regulatory authority regarding any of the transactions contemplated hereby.

(d) "ANTITRUST LAW" means the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other federal, state and foreign statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

5.7. 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.

5.8. PUBLICITY. The initial press release relating to this Agreement shall be a joint press release and thereafter 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.

5.9. 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"). Notwithstanding the foregoing, the Company and Parent may elect to file the Proxy Statement/ Prospectus pursuant to Section 14 of the Exchange Act on a confidential basis and to receive, respond to and clear all Commission comments thereon, prior to filing the Registration Statement.

(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, (i) to have the Registration Statement declared effective by the Commission as promptly as practicable, and (ii) to obtain timely any and all necessary state securities or "blue sky" permits or approvals required to carry out the transactions contemplated by this Agreement.

(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, and
(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.

(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, and (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.

(e) No amendment or supplement to the Proxy Statement/Prospectus will be made by the Company or Parent without the approval of the other. 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.

5.10. LISTING APPLICATION. Parent shall promptly prepare and submit to the Nasdaq National Market a listing application covering the shares of Parent Common Stock issuable in the Merger, and shall use its best efforts to obtain, prior to the Effective Time, approval for the listing of such Parent Common Stock, subject to official notice of issuance.

5.11. AFFILIATE LETTERS. At least 30 days prior to the Closing Date, 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 within the meaning of Rule 145 of the rules and regulations promulgated under the Securities Act (each such person, an "AFFILIATE"). The Company shall provide Parent such information and documents as Parent shall reasonably request for purposes of reviewing such list. 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 the Company and Parent (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.

5.12. 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.

5.13. EMPLOYEE BENEFITS.

(a) For a period of two years following the Effective Time, Parent shall provide to persons who are employees of the Company at the Effective Time (the "COMPANY PERSONNEL") employee compensation and benefit plans, programs and arrangements which collectively for the Company Personnel, as a whole, are in the aggregate substantially comparable to the employee compensation and benefit plans, programs and arrangements generally provided to the employees of the Company immediately prior to the Effective Time; 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 "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 Benefit Plans.

(c) In the event of any change in coverage that applies generally to the Company Personnel during the two-year period following the Effective Time under any Benefit Plan that provides medical or health benefits, Parent shall (i) cause such Benefit Plan to recognize credit toward satisfying deductible expense requirements, out-of-pocket expense limits and maximum lifetime benefit limits of such Company Personnel or their eligible dependents, (ii) waive any pre-existing condition, exclusion or limitation, as and to the extent any such matter would previously have been recognized or waived (as the case may be) under the applicable Company Benefit Plan, and (iii) waive any waiting period or minimum service requirements.

5.14. AGREEMENTS. Between the date hereof and the Closing Date, neither Parent nor the Company shall enter into any agreement which Parent or the Company, as the case may be, knows or has reason to know is reasonably likely to cause any major customer of Parent or the Company (or their respective subsidiaries) to terminate any material contracts, agreements or other obligations that exist between that customer on the one hand, and Parent, the Company (or Parent and the Company following the Merger) or any subsidiary of either, on the other hand and Parent and the Company shall take all reasonable action appropriate to an effort to avoid such termination.

5.15. 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 advice of legal counsel, that granting such approvals or taking such actions would constitute a breach of the Company's Board's fiduciary duties.

5.16. DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE.

(a) The Certificate 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 Certificate of Incorporation and the By-laws of the Company dealing with indemnification of officers and directors of the Company, Company Personnel and other persons specified therein, including without limitation Article VII of the Bylaws of the Company (collectively, the "INDEMNIFICATION PROVISIONS"), 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 5.16.

(d) This Section 5.16 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.

5.17 BOARD OF DIRECTORS OF PARENT. Parent shall cause each of Gerald M. Starek and Arthur Zafiropoulo to be appointed to the Board of Directors of Parent as of the Effective Time, provided such person agrees to so serve, until the next meeting of the stockholders of Parent at which directors are to be elected, and until such person's successor has been elected and qualified.

ARTICLE 6
CONDITIONS TO CLOSING

6.1. 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) The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

(c) Neither 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.

(d) 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.

(e) The Parent Common Stock to be issued to the Company stockholders in connection with the Merger shall have been approved for listing on the Nasdaq National Market, subject only to official notice of issuance.

(f) 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 (including without limitation ISRA) shall have been obtained or made, except for filings in connection with the 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.

6.2. 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 the President or a Senior Vice President 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 Dewey Ballantine LLP, 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, Dewey Ballantine 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.

(c) The Company shall have received a letter of KPMG Peat Marwick LLP, its independent public accountants, dated as of the Closing Date, in form and substance reasonably satisfactory to the Company, 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.

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

6.3 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 the President or a Senior Vice President of the Company, dated the Closing Date, certifying to such effect.

(b) Parent shall have received, prior to the effective date of the Registration Statement, the opinion of Thelen, Marrin, Johnson & Bridges LLP (or its successor), counsel to Parent, 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, Marrin, Johnson & Bridges LLP (or its successor) may require and rely upon such certificates of the Company, Parent and Merger Sub and/or their officers or principal stockholders as are customary for such opinions.

(c) 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.

(d) The employment agreement, dated as of even date herewith, between the Surviving Corporation and Joseph Stach, shall not have been terminated prior to the Effective Time.

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

ARTICLE 7
TERMINATION

7.1. 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.

7.2. 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, 1998, or (b) the approval of the Company's stockholders required by Section 6.1(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 nonappealable; 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 7.3, 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, 1998.

7.3. 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 6.1, 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 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. Notwithstanding the foregoing, the Company's ability to terminate this Agreement pursuant to Section 7.2 or this Section 7.3 is conditioned upon the prior payment by the Company of the Termination Fee (defined in Section 7.5), if Section 7.5 so requires.

7.4. 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.

7.5. EFFECT OF TERMINATION AND ABANDONMENT.

(a) If this Agreement is terminated by the Company or Parent pursuant to
Section 7.2(b), 7.3(a) or 7.4(a), and (x) prior to such termination, a proposal with respect to a Transaction shall have been made, and (y) within six (6) months after such termination, either the Company enters into any agreement with respect to a Transaction, or any third party shall acquire beneficial ownership of 50.1% or more of the Company's outstanding shares of voting stock, then the Company shall pay Parent, by wire transfer of immediately available funds, a fee (the "TERMINATION FEE") of Two Million Dollars ($2,000,000) within two (2) 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 7.5 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 reasonable 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 7, all obligations of the parties hereto shall terminate, except (i) the obligations of the parties set forth in this
Section 7.5 and Section 5.12, (ii) the provisions of Sections 8.3, 8.6, 8.9 and 8.13, 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 7.3 or 7.4, 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.

7.6. 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 8
GENERAL PROVISIONS

8.1. 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 2, the last sentence of Section 5.11, Section 5.12, Section 5.13, Section 5.16 and Section 5.17, and this Article 8 shall survive the Merger, but not beyond the extent, if any, specified therein.

8.2. 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, CO 80525

Attn.: Chief Executive Officer Facsimile: 970-407-5300

with copies to:

Thelen, Marrin, Johnson & Bridges 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:

RF Power Products, Inc.
1007 Laurel Oak Road
Voorhees, NJ 08043
Attn.: Chief Executive Officer Facsimile:

with copies to:

Dewey Ballantine LLP
1301 Avenue of the Americas
New York, NY 10019-6092
Attn.: Jonathan L. Freedman, Esq. Facsimile:

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.

8.3. 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 for the provisions of Section 5.13, 5.16 and 5.17, 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.

8.4. ENTIRE AGREEMENT. This Agreement, the Exhibits, the Company Disclosure Schedule, the Parent 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.

8.5. 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.

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

8.7. 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.

8.8. 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.

8.9. 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.

8.10. 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.

8.11. INCORPORATION OF EXHIBITS. The Company Disclosure Schedule, the Parent 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.

8.12. 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.

8.13. 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 Delaware Court, this being in addition to any other remedy to which they are entitled at law or in equity.

8.14. CERTAIN DEFINITIONS. As used in this Agreement, the following capitalized words shall have the meanings given to them in this Section 8.14, except where the context otherwise requires:

(a) "COMPANY MATERIAL ADVERSE EFFECT" means a material adverse effect on or change in the business, results of operations or financial condition of the Company and Company Subsidiary, taken as a whole, other than any effects or changes arising out of, resulting from or relating to (i) general economic, financial or industry conditions, or (ii) a reduction in or cancellation of customer orders or contracts other than a Material Cancellation (as defined in paragraph (c) of this Section 8.14).

(b) "PARENT MATERIAL ADVERSE EFFECT" means a material adverse effect on or change in the business, results of operations or financial condition of Parent and its Subsidiaries, taken as a whole, other than any effects or changes arising out of, resulting from or relating to (i) general economic, financial or industry conditions, or (ii) a reduction in or cancellation of customer orders or contracts other than a Material Cancellation.

(c) "MATERIAL CANCELLATION" means a reduction in or cancellation of orders or contracts by a customer of the Company or Parent, as the case may be, that results from: (i) the relevant company's products being designed out of one or more of such customer's products, systems or platforms; (ii) a dispute between the relevant company and such customer; (iii) discovery of a defect in the relevant company's products that were being supplied to or ordered by such customer; (iv) determination by a customer that the relevant company's products are not of a quality adequate for use in such customer's products, systems or platforms; (v) the relevant company's failure otherwise to perform to the satisfaction of such customer and/or (v) any substantially similar event or circumstance.

(d) "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.

(e) "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.

8.15 KNOWLEDGE. For purposes of this Agreement, (a) "to the knowledge of the Company" or words of like import shall mean to the knowledge of Joseph Stach, Paul Zaun or Kevin Wilson, and (b) "to the knowledge of Parent" or words of like import shall mean to the knowledge of Douglas Schatz, Hollis Caswell or Richard Beck.

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: RF Power Products, Inc.

By: /s/ Joseph Stach

Name: Joseph Stach

Title: President, CEO & Chairman of the Board

MERGER SUB: Warpspeed, Inc.

By: /s/ Douglas S. Schatz

Name: Douglas S. Schatz

Title: President

PARENT: Advanced Energy Industries, Inc.

By: /s/ Douglas S. Schatz

Name: Douglas S. Schatz

Title: President, CEO & Chairman of the Board

THE MARK "[* * *]" IN THIS EXHIBIT 10.1 IS USED WHERE CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Advanced Energy Comprehensive Supplier Agreement (CSA) # 965100

This Agreement dated MAY 18TH, 1998 is by and between Applied Materials, Inc., ("Applied"), a Delaware corporation, having its place of business in Santa Clara, California and Austin, Texas and ADVANCED ENERGY INDUSTRIES, INC., having its place of business in FT. COLLINS, COLORADO.

The parties agree as follows:

1. SCOPE

1.2 INTENTION / DESCRIPTION OF COMPREHENSIVE SUPPLIER AGREEMENT PRINCIPLES

This Comprehensive Supplier Agreement ("CSA") serves as a tool to manage the parts Applied purchases from Advanced Energy as well as sub-assemblies Advanced Energy processes for Applied. Attachment 1 lists the part numbers covered by this agreement. Any updates to this document will INCLUDE a current list of the part numbers covered by this CSA.

The intention of this document is to guide the relationship between Applied and Advanced Energy to ensure a consistent supply of material that meets Applied's specifications and support Applied's Business Objectives (e.g. HOSHINs). Decisions regarding future purchases from Advanced Energy will be guided by their performance in this CSA, and their achievement toward Applied's HOSHIN goals.

1.2 SUPPLIER DETAILS

Advanced Energy	
1625 SHARP POINT DRIVE	CHRIS FERGEN, BUSINESS UNIT DIRECTOR
FORT COLLINS, COLORADO, 80525	BRIAN CROWELL, AUSTIN SITE MANAGER
970-221-4670 MAIN LINE	JIM GENTILCORE, VP SALES AND MARKETING
970-407-6655 MAIN FAX	JIM PARKER, QUALITY ENGINEERING MANAGER
www.advanced-energy.com.	FRED WEAVER, VP OF CUSTOMER SATISFACTION

1.3 ENTIRE AGREEMENT

This CSA, including the Standard Terms and Conditions (Exhibit 1), Hoshin Plan (Exhibit 2) and any other Exhibits or Attachments which are incorporated by reference into this CSA, together with any non-disclosure agreement sets forth the entire understanding and agreement of the parties as to the subject matter of this CSA and supersedes all prior agreements, understandings, negotiations and discussions between the parties. No amendment to or modification of this CSA will be binding unless in writing and signed by a duly authorized representative of both parties. In the event of any conflict between the terms of the CSA and the terms of the Exhibits and Attachments, the terms of the CSA shall control.

1.3.1 Attachments and Exhibits

Attachments:	Attachments cont.
1. Part Number Listing	10. Corrective Action Form
2. Applied Fiscal Year Calendar	11. Quality Data Form
3. Delivery Mechanics	12. Engineering Change Order (ECO) Form
4. Rolling Forecast	13. Supplier Problem Sheet
5. Bar Code Specifications	14. Approved List of Secondary Sup-pliers
6. Packaging Specifications	15. Supplier Performance Plan
7. Corporate Transportation Routing Guide	16. Supplier World Wide Support Cen-ter Listings
8. Electronic Funds Transfer Process (in process)	17. Cycle Time sheets per part
9. Non disclosure Agreement	

Exhibits:
1. Standard Terms and Conditions

2. Hoshin Plan

1.4 PART NUMBERS COVERED

In general, all part numbers supplied to Applied by Advanced Energy will be covered by this agreement. The list of part numbers covered by this CSA is shown in Attachment 1. New part numbers may be added to Attachment 1 upon mutual agreement between Applied and Advanced Energy. Part numbers may be removed from Attachment 1 by Applied from time to time for legitimate reasons, including, but not limited to:

a. Specification changes the supplier is unable to comply with
b. Quality or delivery default
c. Obsolete parts due to replacement of the part (as opposed to declining demand)
d. Outsourcing of the parent assembly

1.5 DURATION OF AGREEMENT

The effectivity date of this Service Agreement will be the later of two signatures dated in Section 9 and will remain in effect through MAY 18TH, 2001 (the "Initial Term"). Upon conclusion or termination of the Initial Term, Applied, at Applied's option, may extend this Agreement for at least an additional 6 months subject to all terms and conditions of this Agreement.

1.6 RESPONSIBILITIES

1.6.1 Applied Responsibilities

Applied responsibilities for supporting this agreement include but are not limited to:

- Providing demand signals to the supplier as defined in section 2.5.1
- Providing updated twenty-six week rolling forecasts to the supplier
- Measuring inventory levels and scoring compliance to days-of-supply metric
- Receiving and inspecting parts from the supplier and measuring quality for quality metric
- Notifying the supplier in timely manner of any discrepancies
- Working with the supplier to improve operation of this agreement
- Working with the supplier to reduce costs and improve quality of parts purchased from the supplier
- Responding in a timely manner to any of the supplier's inquiries
- Working with the supplier to resolve any exceptions that may arise
- Working with the supplier in writing and recording action plans to resolve exceptions
- Providing the supplier with supplier performance reports

1.6.2 Advanced Energy Responsibilities

Advanced Energy responsibilities for supporting this agreement include but are not limited to:

- Producing high quality and highly reliable parts
- Delivering parts on time to Applied
- Responding in a timely manner to any of Applied's inquiries and requests
- Continuously improving the supplier's operations to better serve Applied's needs and support the Applied's HOSHIN goals
- Working with Applied to improve operation of this agreement
- Working with Applied to reduce costs and improve the quality for all parts the supplier produces for the Applied
- Routinely reviewing the updated twelve month forecasts to adjust the supplier's operation for changes in Applied's plans
- Working with Applied to resolve any exceptions that may arise
- Completing any tasks assigned to resolve exceptions on time
- Meeting with Applied at a minimum of every six (6) months to review performance
- Tracking and reporting Quality (Internal and External), Reliability and Delivery Performance

- Monitor and report to Applied, inventory levels of those finished good parts that Applied might have liability under section 2.2.1.

2. LOGISTICS FRAMEWORK

2.1 OPERATION OF CSA

2.1.1 Operating calendar & holidays

This CSA operates by the Applied fiscal year calendar, shown in Attachment 2. Recognized holidays are those holidays shown on the Applied fiscal year calendar. Should any discrepancies between the operating calendars of Applied and Advanced Energy arise, Advanced Energy must make provisions so that Applied's operations are unaffected.

2.1.2 Flowchart of day to day operations
(Reserved)

2.1.3 Forecasts

Advanced Energy's production of parts will be GUIDED by Applied's most recent 12 WEEK rolling forecast, as provided by Applied to Advanced Energy on a weekly basis ("Applied's Forecast") via EDI transaction ID. Advanced Energy will plan, manufacture, and stock inventory to meet Applied's forecast. Advanced Energy will keep each of Applied's forecasts for audit purposes for a minimum of six (6) months and may be asked to present this document for verification of authorized inventory levels. Applied's forecast is Proprietary Information to be used only by Advanced Energy to meet its obligations to Applied under this Agreement.

2.1.4 Releases

Applied may require a part or parts on an accelerated basis, either in addition to or in place of parts forecast for release or scheduled for delivery at a later date. If feasible, as determined by Applied and Advanced Energy, such parts will be provided by Advanced Energy to meet Applied's requirements. Unless otherwise agreed to by Applied, such accelerated deliveries will not affect the delivery schedule of any parts currently allocated for forecast requirements. Lead times for each accelerated release will be agreed upon by both parties.

2.1.5 Delivery Guidelines

2.1.5.1 General Delivery

Advanced Energy will exercise all efforts to meet Applied's material requirements on time. Shipments to Applied by Advanced Energy will be also in the right quantities ordered by Applied.

For Spot Buy purchases for production, deliveries will be accepted on the requested date or up to 3 days before the requested date. For Spot Buy purchases for spares, deliveries will be accepted on the requested date or up to 2 days before the requested date.

2.1.6 Replenishment Approach

Advanced Energy will be expected to supply parts using one or more of the following replenishment approaches:
- Bus Route: Point of use delivery where specified.
- Kanban Replenishment Bins/Line Side Stocking
- Spot Buy

The replenishment methodology to be used for a particular parts are defined on Attachment 1. Specific delivery mechanics are outlined on Attachment 3.

2.1.7 Electronic Commerce

Advanced Energy is required to communicate with Applied using EDI ANSI X.12 standards and encouraged to use either GEIS or EDICT software.

2.1.8 Changes to Logistics

Applied may on occasion change any aspect of any logistics requirement. Applied will expect Advanced Energy to accommodate these changes to the best of its ability. Advanced Energy will be given at least three weeks notification prior to the change being implemented. Applied will then consider all claims for adjustment in the logistics framework if made within the three week notification period in accordance with the AMAT standard terms and conditions. Logistics refers to delivery, transportation and EDI requirements.

2.2 SERVICE LEVELS

2.2.1 Inventory Levels

Advanced Energy, if involved in supporting lean manufacturing, is expected to hold inventory of the parts on Attachment 1 in order to manage demand fluctuations. Advanced Energy will maintain a minimum of [* * *] weeks and a maximum of [* * *] weeks of each part for Applied's needs based on the most recent rolling forecast (see Attachment 4). Advanced Energy may present a claim for adjustment for payment of inventory manufactured in response to a valid Applied purchase order, or an authorized demand signal, as explained in Section 2.5.1. if Applied has not taken delivery of the inventory within [* * *] from date of manufacture. This claim must be made within thirty (30) days from the end of the
[* * *] time-frame. Applied is not responsible for payment to Advanced Energy for inventory built without a valid Applied purchase order or an authorized demand signal, as explained in
Section 2.5.1. An inventory goal of 2 weeks is targeted for 1998 and 1 week for 1999, per the HOSHIN plan. The contract will be officially amended following the procedure set forth in Section 7, "Amendments and Modifications" of this CSA.

Applied will not hold any financial responsibility for "off-the-shelf" parts.

2.2.1.1 WIP Tracking

Suppliers are expected to monitor, track, and report their WIP inventory. In the future, Applied will implement regular reporting mechanisms which Advanced Energy will be expected to participate.

2.2.1.2 Excess and Obsolete (E&O) Parts

Applied will not be responsible for excess and obsolete parts other than the amounts specified in section 2.2.1 above. Applied encourages Advanced Energy to make it's best effort to take back excess and obsolete inventory regardless of the reason for its not being required by Applied.

2.2.2 Response Requirements

Responses to the following types of inquiries are expected within the time periods in the tables below.

2.2.2.1 Advanced Energy Response Time

Inquiry Type	Advanced Energy Response Time	Advanced Energy Contact
LEAD-TIME	[* * *]	MASTER PLANNER
TECHNICAL	[* * *]	MANUFACTURING ENGINEER
QUOTATIONS: NPI	[* * *]	CUSTOMER SERVICE REPRESENTATIVE
REPEAT ORDER	[* * *]	
QUALITY	[* * *]	QUALITY ENGINEER
PRICE/INVOICE	[* * *]	CUSTOMER SERVICE REPRESENTATIVE
COMPONENT FAILURE & FIELD SAFETY	[* * *]	QUALITY ENGINEER
PRODUCT PROBLEMS	[* * *]	ACCOUNT MANAGER

2.2.2.2 Applied Response Time

Inquiry Type	Applied Response Time	Applied Contact
LEAD-TIME	[* * *]	SUPPLIER ACCOUNT TEAM LEAD/MEMBER
TECHNICAL	[* * *]	SUPPLIER ACCOUNT TEAM LEAD/MEMBER
QUALITY	[* * *]	SUPPLIER ACCOUNT TEAM LEAD/MEMBER
PRICE/INVOICE	[* * *]	SUPPLIER ACCOUNT TEAM LEAD/MEMBER

2.2.3 Flexibility Requirements

Advanced Energy is expected to perform regular capacity planning and to demonstrate upside/downside flexibility in case of volume changes at Applied. For Bus Route parts, Advanced Energy will support unplanned sustained increases/decreases in demand above/below the forecast as defined below. For Spot Buy parts, Advanced Energy allows the following increases/decreases to Purchase Order quantities above/below the quantities originally requested:

WEEKS UNTIL DELIVERY DATE	< 1 WEEK	< 4 WEEKS	< 8 WEEKS	< 12 WEEKS	12+ WEEKS
FLEXIBILITY (BUSROUTE) +/-	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
FLEXIBILITY (SPOT BUY) +/-	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

2.2.4 On-site support requirements

As determined by Applied, Advanced Energy may be asked to provide logistics, quality engineering, and new product development support on-site at Applied's facilities. At the appropriate juncture, Applied will require Advanced Energy to complete the On-site Representative Agreement and processing PRIOR to issuing a building badge to Advanced Energy's representatives.

2.2.5 Global Support

For the parts listed in Attachment 1, and all other parts that Advanced Energy provides to Applied, Advanced Energy will provide support globally for Applied and Applied's customers. Advanced Energy support centers contact names and phone numbers are listed in Attachment 16. Repair rates will be outlined in Attachment 1.

Technical assistance and product support services shall be provided at no additional charge during normal business hours. Advanced Energy must have an established and deployed global service capability. The required support services must be available globally, however, the Supplier may utilize a Supplier distributor, or other qualified entity designated by Supplier to meet this requirement. Advanced Energy is expected to use best efforts to provide a resolution to requests for assistance within the elapsed time objectives described in 2.2.2.

2.2.6 Turn-around time for Repairs

Advanced Energy will supply Applied with repair parts within,
[* * *] days for parts in warranty and [* * *] days for parts out warranty, of Applied's request. [* * *] will have a [* * *] day repair part turn around time for parts in and out of warranty.

2.3 INFORMATION

2.3.1 Applied Planning Systems

Advanced Energy may be given electronic access to Applied's planning data. This access can be used to facilitate production and delivery of parts to support Applied's requirements.

2.3.3 Applied New Product Plans

Advanced Energy will, on occasion and at Applied's discretion, be invited to forums in which Applied's new product plans are shared.

2.4 PACKAGING AND TRANSPORTATION

2.4.1 Packaging and Shipment

Advanced Energy will have all parts packaged "fit for use" in accordance with Applied's packaging specification (Attachment 6). Advanced Energy will mark and identify every item in compliance with Applied's part identification specifications and requirements (reference Attachment 6).
THE WORD "FIT" WAS USED TO REPLACE THE WORK "READY", SINCE "READY" WAS NOT REFERENCED IN ATTACHMENT 6; REFERENCE PAGE 3-4 OF 0250-00098, REV. K, PACKAGING SPECIFICATION.

2.4.2 Bar Coding

All shipments should be bar coded to Applied's specifications (Attachment 5).

2.4.3 Transportation Mode

Parts will be transported, FOB Destination, Freight Collect in accordance with Attachment A of Applied's Corporate Transportation Routing Guide which is provided in Attachment 7.

2.5 PAYMENT

2.5.1 Demand Signal

BUS ROUTE

Applied sends via EDI transmission an order sheet to Advanced Energy containing Applied's material requirements information. This information is organized at the part-number level and represents Applied's daily purchase from Advanced Energy. This EDI transmission constitutes an authorized demand signal.

SPOT BUY

As needed, Applied sends via fax an order sheet to Advanced Energy containing Applied's material requirements information. This information is organized at the part-number level and represents an Applied purchase from Advanced Energy. This fax constitutes an authorized demand signal.

2.5.2 Invoices

Invoices shall contain the following information: purchase order number, line item number, Applied part number, description of goods, sizes, quantities, unit prices, and extended totals in addition to any other information requested. Applied's payment of invoice does not represent unconditional acceptance of items and will be subject to adjustment for errors, shortages, or defects. Applied may at any time set off any amount owed by Applied to Advanced Energy against any amount owed by Advanced Energy or any of its affiliated companies to Applied.

All invoices must be sent directly to Accounts Payable in Austin:

Accounts Payable
Applied Materials
9700 US Highway 290 East M/S 4200 Austin, TX 78724-1199

2.5.3 Cash Discounts

Payment will be made [* * *] days from receipt of:
a. invoice, in form and substance acceptable to Applied, or
b. delivery and acceptance of the invoiced Item(s), whichever is later.

2.6 DISASTER RECOVERY PLAN

Advanced Energy is expected to provide evidence of a disaster recovery plan that includes emergency back up capacity and appropriate record protection and recovery. Furthermore, Advanced Energy represents that its information systems are year 2000 compatible and hereby grants Applied the right to verify Advanced Energy's internal processes for ensuring compliance with this provision.

Applied believes it is critical for suppliers to be prepared and protected in case of disasters or interruptions to normal business operations.

2.7 MANAGING EXCEPTIONS TO COMPREHENSIVE SUPPLIER AGREEMENT (CSA)

2.7.1 Identifying constraints

Suppliers are responsible for identifying constraints to meeting CSA objectives, informing Applied when those constraints occur, and initiating action plans to resolve them. Constraints might typically include:

a. Consumption over forecast
b. Consumption under forecast
c. Quality problems
d. Capacity/production problems
e. Supply Chain Management problems
f. Other business issues

2.7.2 Process for Exceptions

Applied will work with suppliers to determine the impact of an exception and approve and execute the action plans. Advanced Energy will notify the Supplier Account Team Lead as soon as exceptions are identified.

3. QUALITY FRAMEWORK

3.1 SUPPLIER NON-CONFORMANCES AND CORRECTIVE ACTION

Advanced Energy's quality must meet all applicable Applied specifications. Advanced Energy is required to replace or repair defective parts at supplier's expense in a timely manner. Suppliers are required to use the most expeditious manner possible to affect the corrections including the use of overnight delivery services for shipment of parts; at Applied's request, in certain circumstances, suppliers may be asked to provide new parts in lieu of repairing a part to ensure immediate corrective action.

Advanced Energy will be notified of defects with a corrective action form, Attachment 10, to which they are expected to respond appropriately. A corrective action process to resolve non-conformances will be documented and used. In addition, Advanced Energy will participate in continuous improvement plans and programs as defined by Applied and Advanced Energy.

[* * *]

3.2 APPLIED NON-CONFORMANCES AND CORRECTIVE ACTION

Applied will return parts at Applied's expense that do not conform to Applied's requirements due to Applied errors. These parts will be returned for potential rework. Applied and Advanced Energy will agree in advance on "standard" repair costs (labor, parts and freight) on items not covered under warranty (Attachment 1).

To the extent that a "standard" repair cost has not been established, Advanced Energy will assess rework costs and timing and inform Applied before work is performed. The parties agree that under no circumstances will the total price charged for repairing a part exceed 50% of the current purchase price stated in Attachment 1.

Advanced Energy agrees to repair and return all parts within five (5) business days from receipt of damaged part. Applied shall have the right to designate certain parts for "Same Day" or "24 Hour" repair turnaround. Any premium charges for "Same Day" or "24 Hour" repair turnaround will not exceed [* * *] per part.

Prior to return of repaired parts to Applied, Advanced Energy will mark parts with Applied's part number, serial number, gas and range the part has been exposed to if applicable. Applied shall bear the risk of loss or damage during transit of Products whether or not the Product meets warranty requirements.

In addition, a corrective action process to resolve non-conformances will be documented and used.

3.3 QUALITY ASSURANCE

All goods purchased under this CSA will be subject to inspection and test by Applied at the appropriate time and place, including the period of manufacture and anytime prior to final acceptance. If inspection or test is made by Applied on Advanced Energy's premises, Advanced Energy will provide all reasonable facilities and assistance for the safety and convenience of Applied's inspectors at no charge to Applied. No preliminary inspection or test shall constitute acceptance. Records of all inspection work shall be kept complete and available to Applied during the performance of this order and for such further period as Applied may determine.

Certificate of Conformance (COC): Seller agrees to certify that Items have passed all production acceptance tests and configuration requirements and provide a "Certificate of Conformance" and a Calibration Data Report that will be included with each product during shipment.

With regard to repair services, Advanced Energy shall maintain documentation evidencing that all test inspections have been performed. The documentation shall indicate the nature and number of observations made, the quantities approved and rejected as well as the nature of the corrective action taken. Advanced Energy's service centers shall be responsible for submitting this data for Applied's review of the delivery summaries. The data shall be submitted monthly not later than five days after the close of each of Applied's fiscal months to Applied's Contract Specialist and Applied's IBSS Repairs Purchasing Group.

At Applied's request, Advanced Energy will provide a certificate and/or a copy of the final inspection records showing compliance to applicable specifications, contract requirements and any other required documents stipulated in Applied's repair authorization. Advanced Energy also agrees to provide Applied with copies of its current procedures relative to repairs, range change and warranty repairs.

Advanced Energy will track and maintain reject rate by percentage of assemblies, and/or part per million reject internally (through Advanced Energy Quality Service Organization). Trend reporting and corrective actions shall be furnished to Applied as requested by the Applied Purchasing or Quality representatives. Advanced Energy will provide quality data in the format, as shown in Attachment 11, and at the timing required by Applied. Suppliers may also be required to provide reasonable additional data to support qualification and certification programs.

3.4 WARRANTY

Advanced Energy warrants that all goods and services delivered to Applied will be free from defects in workmanship, material, and manufacture; will comply with the requirements of this agreement, and, where design is Advanced Energy's responsibility, will be free from defects in design. ADVANCED ENERGY FURTHER WARRANTS ALL GOODS PURCHASED OR REPAIRED WILL BE OF MERCHANTABLE QUALITY AND WILL BE FIT AND SUITABLE FOR THE PURPOSE INTENDED BY APPLIED. These warranties are in addition to all other warranties, whether expressed or implied, and will survive any delivery, inspection, acceptance, or payment by Applied. If any goods or services delivered by Advanced Energy do not meet the warranties specified herein or otherwise applicable, Applied may, at its option :

(i) require Advanced Energy to correct at no cost to Applied any defective or nonconforming goods or services by repair or replacement, or

(ii) return such defective or nonconforming goods at Advanced Energy's expense to Advanced Energy and recover from Advanced Energy the order price thereof, or
(iii) correct the defective or nonconformant goods or services itself and charge Advanced Energy with the cost of such correction. Maximum cost will not exceed [* * *] of current purchase price in Attachment 1. Such units will subsequently be maintained by Applied Materials.
(iv) There will be a [* * *] Re-test and Evaluate fee for IBSS ONLY upon request.
(v) Advanced Energy will comply with IBSS tie wrap requirements while maintaining Applied Materials logo on the tie wrap.

All warranties will run to Applied and to its customers. Applied's approval of Advanced Energy's material or design will not relieve Advanced Energy of the warranties established in this agreement. In addition, if Applied waives any drawing or specification requirement for one or more of the goods, it will not constitute a waiver of all requirements for the remaining goods to be delivered unless stated by Applied in writing. Warranty length for all parts is listed in Attachment 1. The warranty on repaired Items will be [* * *] from customer receipt of repaired Item or remainder of initial warranty period, which ever is longer. For non-warranty repaired Items, the repaired Item will be warranted from the date of customer receipt of the repaired Item, for [* * *] for parts and labor or [* * *] for parts only.

3.5 OTHER QUALITY PROGRAMS

(Reserved)

3.6 SAFETY

(Reserved)

4. PRICING FRAMEWORK

4.1 PRICING BY PART NUMBER COVERED IN THIS AGREEMENT

The pricing for the parts are shown in Attachment 1. Any modifications to these must be made in accordance with Section 7. The total cost of parts supplied by Advanced Energy should be reduced regularly, not just the unit price. Advanced Energy commits to on-going cost improvement during the period of this agreement.

At the time of the contract acceptance in Section 9, all open PO's are to be revised to the contract price.

Specific circumstances may result in re-negotiation of contract terms, including prices. These include, but are not limited to:

a. Volume increases resulting in an increase in contract value of over
[* * *]
b. Addition of part numbers to the contract increasing it in value over [* * *]
c. Cost savings over and above those committed in the performance plan

4.2 COOPERATIVE PRICING MODELS/FORMULAS

(Reserved)

4.3 VOLUME Advanced Energy will be provided a range of potential volumes that may be purchased. Applied does not commit to buy a specific volume of a part number from a supplier. Applied does not limit its ability to buy the same part number from multiple sources.

4.4 EXPORT PRICING

Advanced Energy should quote Applied in unit prices based upon delivery FCA Free carrier. Advanced Energy is expected to prepare the export paperwork and be the exporter of record. Advanced Energy must utilize Applied's preferred carriers to arrange the export of the goods. Applied will pay the freight charges based on Applied's rates with its preferred carriers. Applied will be responsible for importing the goods into the destination country.

4.5 CURRENCY

All prices are quoted in US dollars; prices for foreign manufactured parts will not be adjusted to reflect changes in the exchange rate. Advanced Energy is encouraged to obtain any necessary currency exchange protection it deems appropriate.

4.6 PROTOTYPES

Advanced Energy is committed to price all parts consistent with contract prices.

Advanced Energy agrees to provide prototype parts priced considering the total value of Applied's business with the supplier. This may be accomplished in several ways, including:

a. a specific number of prototype parts may be provided free of charge
b. parts may be priced at production levels

4.7 ADVANCES FOR RAW MATERIAL

Applied does not provide advance payment for the purchase of raw material.

4.8 COST REDUCTION / VALUE ANALYSIS

Buyer and Seller will initiate and continue for the term of this Agreement, value analysis, value engineering, and cost reduction efforts for all Item(s) in accordance with the Supplier Performance Plan (Attachment 15 and Section 6). Upon agreement on the incorporation of changes resulting from these activities, Buyer will amend Attachment 1. Seller will provide a 3 year plan indicating alignment with HOSHIN cost reduction goals.

5. TECHNICAL FRAMEWORK

5.1 ENGINEERING CHANGE ORDERS

Applied may change its drawings, design, and specifications at any time. The Applied Supplier Engineer will review with Advanced Energy all proposed Engineering Change Orders (ECO's) that impact the form, fit, or function of supplied material. Applied will, in writing, provide approved ECO's (refer to Attachment 12) and state the effectivity dates of all changes. Unless otherwise notified, Applied Receiving Inspection will inspect to the latest revision in effect at the time of receipt.

Advanced Energy may request engineering changes via a Supplier Problem Sheet (refer to Attachment 13). This form should be submitted to the Applied Supplier Engineer. Changes will not be implemented by Advanced Energy until written permission to proceed is given by Applied. Applied will consider claims for adjustment in the terms of this Agreement if made before the implementation of the changes.

5.2 TOOLING

Unless otherwise agreed to in writing, special dies, tools, patterns and drawings used in the manufacture of parts shall be furnished by and at the expense of, Advanced Energy.

5.3 DESIGN CHANGES AND RESOLUTION

For the term of this Agreement, Advanced Energy will not make changes to the design of any critical part that may alter form, fit, function or manufacturing process without a documented engineering change request and prior written approval from Applied.

If Applied's design changes impact the pricing, delivery, lead-time, or other terms and conditions of this Agreement, and agreement upon alternate terms cannot be reached, then Applied may remove the subject part(s) from this Agreement without affecting the remaining part(s).

5.4 PROCESS CHANGES AND RESOLUTION

Advanced Energy is expected to inform Applied of process and supplier changes to any critical parts even when specifications are met. Advanced Energy must receive approval in writing from Applied before implementing changes. If no approval is forthcoming from Applied within 5 working days of notification, approval is granted. Suppliers must use the "approved" list of secondary process suppliers (Attachment 14).

5.5 SUBCONTRACTING

Advanced Energy shall not subcontract for completed or substantially completed parts supplied to Applied without prior written approval of Applied. If no approval is forthcoming from Applied within 5 working days of notification, approval is granted. All subcontractors to Advanced Energy that have access (directly or indirectly) to Applied specifications must be covered by an Applied Non-Disclosure agreement.

5.6 FIRST ARTICLES

A new part, part with revised drawings, or other changes as delineated above, must have a first article evaluated and accepted by Applied (a "First Article"). A part will not be authorized for deliveries until acceptance of the First Article by Applied. Advanced Energy will maintain First Article qualifications/evidence data file with content as defined by Applied for the specific part. First Article data is to be made available to Applied upon request and shall be retained by Advanced Energy during the performance of this Agreement or subsequent agreements.

5.7 OUTSOURCING

Applied may at its discretion elect to outsource an assembly or module to a third party ("Subassembler") and if the selected assembly or module includes any part under this CSA (an "affected part"), Applied will use reasonable efforts to provide Advanced Energy with the opportunity to bid on the affected part as a supplier to the Subassembler. Although Applied may, at its discretion and under no obligation to Advanced Energy, direct a Subassembler to purchase any affected parts from Advanced Energy, Advanced Energy understands that the selection and responsibility for sourcing any affected parts will generally be the responsibility of the Subassembler. If Advanced Energy is not selected as the source for an affected part, any affected parts or applicable quantities of affected parts may, at Applied's discretion, be removed from this Agreement.

5.8 PRODUCT SUPPORT

Advanced Energy agrees to provide parts, and technical and service support to Applied for all of the parts for a minimum of TEN years from the date of final shipment of a part to Applied. Alternatively, the parties may agree to establish a product support period less than ten years provided that Advanced Energy agrees to grant to Applied a non-exclusive license to make, have made, use, sell, and support the parts.

5.9 COMMODITY SPECIFIC ISSUES

(Reserved)

5.10 TECHNOLOGY ROADMAP

(Reserved)

6. PERFORMANCE MANAGEMENT

6.1 SUPPLIER PERFORMANCE PLAN

As part of this Comprehensive Supplier Agreement, Applied and Advanced Energy agree to jointly develop a supplier performance plan. Attachment 15 outlines the performance plan.

6.2 SUPPLIER PERFORMANCE MANAGEMENT

6.2.1 Metrics and Targets

Advanced Energy agrees to perform to the following operational performance measures: quality, delivery, cost, manufacturing disruption occurrences, cycle time, and flexibility. Performance targets for FY2000 are listed. Intermediate performance targets are established in the Supplier Performance Management Plan. The following defines how Applied and Advanced Energy will measure performance metrics:

MEASURE	DEFINITION	CALCULATION	1998 TARGET	1999 TARGET	2000 TARGET
Quality ppm*	Number of quality discrepancies detected prior to shipping a completed system to an end customer, expressed as parts per million	Number of DMR occurrences recorded for all parts provided by the supplier accumulated over the prior 13-week period, divided by the total receipts for that part over the same period and multiplied by 1 million	1750 ppm	750 ppm	400 ppm
Field Failures	Number of part quality discrepancies detected in the field during installation or routine repair	Number of RMA occurrences recorded for each part accumulated over the prior 13-week period	0 occurrences	0 occurrences	0 occurrences
Late Delivery ppm*	Number of parts delivered later than the agreed upon	Number of parts received one day or more after the	20,000 ppm with 0 ppm LESS THAN OR EQUAL TO 4 days late	10,000 ppm with 0 ppm LESS THAN OR EQUAL TO 4 days late	5000 ppm with 0 ppm LESS THAN OR EQUAL TO 4 days late

	commit date	commit date, accumulated for each part over a rolling 13-week period, divided by the total number of parts received over the same period and multiplied by 1 million			
Early Delivery ppm*	Number of parts received three or more days before the commit date	Total number of parts received three or more days before the commit date, accumulated over a rolling 13-week period, divided by the total number of parts received over the same 13-week period, multiplied by 1 million	0 ppm	0 ppm	0 ppm
Percentage Cost Reduction	Percentage difference between the average unit price paid for materials in the prior year and the price paid in the current year	Difference between the total average unit cost of all parts purchased from the supplier in the current year and the total average unit cost of all parts purchased from the supplier in the prior year (for parts common to both periods)	10% reduction	10% reduction	10% reduction
Should-Cost Deviation	Total variance between the should- cost established by Applied Materials and the average unit price paid by Applied	Difference between the average unit price for the part and the Applied Materials should-cost target (for critical parts and parts introduced through NPI activities within the past 12 months)	Develop & Execute Model +/- 5% of should-cost	+/- 5% of should-cost	+/- 5% of should-cost
Order Fulfillment Cycle Time Ref. 2.2.3		Consistent performance to the delivery metrics identified above	2 weeks	LESS THAN OR EQUAL TO 2 weeks	LESS THAN OR EQUAL TO 2 weeks
Source Cycle Time	Total cycle time to source all materials required to produce an order	Elapsed time, as determined through process audits and supplier self-assessments	60% parts w/4wk LT 20% parts w/6-8wk LT 20% parts	80% parts w/4wk LT 20% parts w/4-8wk LT	80% parts w/2wk LT 20% parts w/2-4wk LT

			w/8-12wk LT		
Make Cycle Time Attachment 17	Total production time required to fulfill an order, including manufacturing order release and build time	Elapsed time, as determined through process audits and supplier self-assessments	See Attach 17	See Attach 17	See Attach 17
Manufacturing Disruption Occurrence (MDO) TBD	Number of times a quality defect or late delivery results in a disruption to the normal flow of Applied Materials manufacturing operations	Number of instances of part unavailability at line side due to quality defects or late shipments over the prior 13 week period			0 occurrences
Supplier Upside Flexibility See Sect. 2.2.3	Number of weeks required to consistently meet delivery requirements (including full order delivery) under sustained, unanticipated demand increases of 10%, 20%, and 50% of the thirteen-week rolling forecast	Number of weeks from the occurrence of Applied orders that exceed forecast volume to the return of quality and delivery performance to the levels achieved prior to the increase			2 weeks (25% volume increase) 4 weeks (50% volume increase) 9 weeks (75% volume increase) 13 weeks (100% volume increase)

7. AMENDMENTS AND MODIFICATIONS

This CSA may be revised by the mutual consent of Applied Materials and Advanced Energy. Revisions to this CSA must be in writing, signed by both Applied and Advanced Energy, traced by revision numbers and attached to this original agreement. A change to one attachment of this agreement will constitute a revision level change. The master copy of this CSA and any revisions are to be maintained by Applied.

Updates to Section 2.2, Service levels, and changes may be communicated via memos sent by mail or e-mail.

8. GLOSSARY (TBD)

9. ACCEPTANCE

Accepted:

Date: 5-18-98

/s/ Annette M. Palacios	/s/ Chris Fergen
Annette M. Palacios , Supplier Engineer	Chris Fergen, ABU Director
Applied Materials, Inc.	Advanced Energy Industries, Inc.
Applied Materials OEM-Electrical SMO	Applied Materials Business Unit

EXHIBIT 1
APPLIED MATERIALS TERMS AND CONDITIONS OF PURCHASE

TABLE OF CONTENTS

1. Acceptance

The terms and conditions stated in these Applied Materials Standard Terms and Conditions of Purchase become the agreement between the parties covering the purchase of the goods or services (collectively referred to as "Items") ordered in the Purchase Agreement/Comprehensive Supplier Agreement/Basic Supplier Agreement of which these Terms and Conditions are a part when this Agreement is accepted by acknowledgment or commencement of performance. This Agreement can be accepted only on these terms and conditions. Additional or different terms proposed by Supplier will not be applicable unless accepted in writing by the Buyer. No change, modification, or revision of this Agreement will be effective unless in writing and signed by duly authorized representative of Buyer.

2. Confidential and Proprietary Information

Supplier will observe and is bound by the terms and conditions of any and all Non-Disclosure Agreements (NDAs. Ref. Attachment 9) executed by Supplier with or for the benefit of Buyer, whether now or hereafter in effect. In addition, all schematics, drawings, specifications and manuals, and all other technical and business information provided to Supplier by Buyer during the term of, or in connection with the negotiation, performance or enforcement of this Agreement shall be deemed included in the definition (subject to any applicable exclusions therefrom) of "Proprietary Information" for purposes of this Agreement.

Supplier may use Buyer's Proprietary Information only for the purpose of providing Items, parts or components of Items or services to Buyer. Supplier will not discuss and further will not use any of Buyer's Proprietary Information, directly or indirectly, for any other purpose including, without limitation, (a) developing, designing, manufacturing, refurbishing, selling or offering for sale parts or components of Items or parts, or providing services, for or to any party other than Buyer, and (b) assisting any third party, in any manner, to perform any of the activities described herein. All Proprietary Information shall (a) be clearly marked by Supplier as Buyer's property and segregated when not in use, and (b) be returned to Buyer promptly upon request.

Supplier acknowledges and agrees that Buyer would suffer irreparable harm for which monetary damages would be an inadequate remedy if Supplier were to breach its obligations under this provision. Supplier further acknowledges and agrees that equitable relief, including injunctive relief, would be appropriate to protect Buyer's rights and interests if such a breach were to arise, or threatened, or were asserted.

Supplier will use reasonable efforts to notify Buyer of any third party requests to engage in any of the activities prohibited by this Article.

3. Intellectual Property

Nothing in this Agreement shall be deemed to grant to Supplier any license or other right under any of Buyer's intellectual property (including, without limitation, Buyer's patents, copyrights, trade and service marks, trade secrets, and Proprietary Information) for Supplier's own benefit or to provide or offer Items to any party other than Buyer.

All Items supplied by Supplier and the sale of Items by Supplier and, as applicable, use thereof by Buyer or its subsequent purchasers or transferees will be free from liability for or claim by any persons of royalties, patent rights, copyright, trademark, mechanics' liens or other encumbrances, and trade secrets or confidential or proprietary intellectual property rights (collectively "rights" and "encumbrances"), and Supplier shall defend, indemnify and hold harmless Buyer against all claims, demands, costs and actions for actual or alleged infringements of patent, copyright, trademark or trade secret rights or other rights and encumbrances in the use, sale or re-sale of any Item which are valid at the time of or after the effective date of this Agreement; except to the extent that the infringement was unavoidably caused by Supplier's compliance with

a detailed design furnished and required by Buyer or by Buyer's non-compliance with Supplier's prior written advice or warning of a possible and likely infringement.

At the request of Buyer, Supplier will provide to Buyer the most current and complete specifications and drawings (the "Drawings") for each Item manufactured or produced for Buyer that is based on Buyer's design or Drawings showing the complete specifications and design for the Item as manufactured or produced by Supplier. All Drawings are the sole property of Buyer.

Upon termination of this Agreement, Supplier will return all Applied Proprietary Information and documentation to Buyer. Notwithstanding this requirement, Supplier may request Buyer approval to destroy any Proprietary Information of Buyer that has become obsolete or outdated (e.g., financial projections, forecasts, et cetera); provided that Supplier certifies to Buyer the destruction of such Proprietary Information.

4. Patent LICENSE (PENDING MODIFICATION, 5/18/98, APPLIED _____, ADVANCED ENERGY _____)

Supplier, as part consideration for this Agreement and without further cost to Buyer, hereby grants to Buyer an irrevocable, non-exclusive, paid-up world-wide right and license to make, have made, use, and sell any inventions derivative works, improvements, enhancements, or intellectual property (the "Inventions") made by or for Supplier in the performance of this Agreement. Supplier shall cause any employee, consultant, contractor or other persons who provides work for hire to Supplier to assign to Supplier for licensing as above of any such inventions. In addition, Buyer shall be entitled to license Buyer's customers to use such inventions during the operation of Buyer's products.

5. Press Releases/Public Disclosure Not Authorized

Supplier will not, without the prior written approval of Buyer, issue any press releases, advertising, publicity, public statements or in any way engage in any other form of public disclosure that indicates the terms of this Agreement, Buyer's relationship with Supplier or implies any endorsement by Buyer of Supplier or Supplier's products or services.
Supplier further agrees not to use, without the prior written consent of Buyer, the name or trademarks (including, but not limited to Buyer's corporate symbol). Any requests under this Section must be made in writing and submitted to the parties designated by Buyer for the review and authorization of such matters.

6. Favored Customer

Supplier does not presently sell or offer any Item that is similar in form, fit or function to any Item to any third party for prices and terms and conditions of sale (including, without limitation, warranties, services or other benefits) (collectively, "Benefits") that are more favorable than the equivalent prices and Benefits granted by Supplier to Buyer in this Agreement If during the term of this Agreement, Supplier enters into any arrangement with any third party providing more favorable prices or Benefits for any Item than those available to Buyer under this Agreement (a "Third Party Arrangement"), Supplier will notify Buyer immediately of that price or Benefits for any Item than those available to Buyer under this Agreement (a "Third Party Arrangement"), Supplier will notify Buyer immediately of that price or Benefit and this Agreement will be deemed amended to provide the same price or Benefit to Buyer without any further action. However, Buyer, at its option, may formally amend this Agreement to reflect such changes. If any deemed amendment results in lowering the price to be paid by Buyer for any Item, Supplier will refund or credit to Buyer the aggregate amount of the price difference (including any taxes, fees and similar charges) that Buyer has paid or been charged from the effective date of the Third Party Arrangement. Such refund or credit shall be made within thirty (30) days of the effective date of the Third Party Arrangement. In no event shall Supplier quote prices to Buyer that would be unlawfully discriminatory under any applicable law.

7. Duty Drawback

Supplier will provide Buyer with U.S. Customs entry data, including information and receipts for duties paid directly or indirectly on all Items that are either imported or contain imported parts or components, that Buyer determines is necessary for Buyer to qualify for duty drawback ("Duty Drawback Information"). This data will be provided to Buyer within fifteen (15) days after each calendar quarter [or fiscal year quarter of Buyer] and be accompanied by a completed Certificate of Delivery of Imported Merchandise or Certificate of Manufacture and Delivery of Imported Merchandise (Customs Form 331) as promulgated pursuant to 19 CFR 191.

8. ODC Elimination

In the event Supplier's goods are manufactured with or contain Class I ODCs as defined under Section 602 of the Federal Clean Air Act (42 USC
Section 7671a) and implementing regulations, or if Supplier suspects that such a condition exists, Supplier shall notify Buyer prior to performing any work against this Agreement. Buyer reserves the right to: (a) terminate all Agreements for such goods without penalties, (b) to return any and all goods delivered which are found to contain or have been manufactured with Class I ODCs, or (c) to terminate any outstanding Agreements for such goods without penalties. Supplier shall reimburse Buyer all monies paid to Supplier and all additional costs incurred by Buyer in purchasing and returning such goods.

9. Compliance With Laws

Supplier warrants that no law, rule, or ordinance of the United States, a state, any other governmental agency, or that of any country has been violated in supplying the goods or services ordered herein.

10. Equal Employment Opportunity

Supplier represents and warrants that it is in compliance with Executive Agreement 11246, any amending or supplementing Executive Agreements, and implementing regulations unless exempted.

11. Applicable Law, Consent to Jurisdiction, Venue

This Agreement shall be governed by, be subject to, and be construed in accordance with the internal laws of the State of California, excluding conflicts of law rules. The parties agree that any suit arising out of this Agreement, for any claim or cause of action, whether in contract, in tort, statutory, at law or in equity, shall exclusively be brought in the United States District Court for the Northern District of California or in the Superior or Municipal Courts of Santa Clara County, California, or in the United States District Court for the Western District of Texas, Austin Division, or the Texas State District Courts of Travis County, Texas, provided that such court has jurisdiction over the subject matter of the action. Each party agrees that each of the named courts shall have personal jurisdiction over it and consents to such jurisdiction. Supplier further agrees that venue of any suit arising out of this Agreement is proper and appropriate in any of the courts identified above; Supplier consents to such venue therein as Buyer selects and to any transfer of venue that Buyer may seek to any of such courts, without respect to the initial forum.

With respect to transactions to which the1980 United Nations Convention of Contracts for the International Sale of Goods would otherwise apply, the rights and obligations of the parties under the Agreement, including these terms and conditions, shall not be governed by the provisions of the 1980 United Nations Convention of Contracts for the International Sale of Goods; instead, applicable laws of the State of California, including the Uniform Commercial Code as adopted therein (but exclusive of such 1980 United Nations Convention) shall govern.

12. Notice of Labor Disputes

Whenever an actual or potential labor dispute, or any government embargoes, regulatory or tribunal proceedings relating thereto is delaying or threatens to delay the timely performance of this Agreement, Supplier will immediately notify Buyer of such dispute and furnish all relevant details regardless of whether

said dispute arose directly, or indirectly, as a result of an actual or potential dispute within the Supplier's subtier supply base or its own operations.

13. Taxes

Unless otherwise specified, the agreed prices include all applicable federal, state, and local taxes. All such taxes shall be stated separately on Supplier's invoice.

14. Responsibility for Goods; Risk of Loss

Notwithstanding any prior inspections, Supplier shall bear all risks of loss, damage, or destruction to the Items called for hereunder until final acceptance by Buyer at Buyer's facility(s) delivery destination specified in the Agreement, which risk of loss shall not be altered by statement of any at F.O.B. point herein. These Supplier responsibilities remain with respect to any Items rejected by Buyer provided, however, that in either case, Buyer shall be responsible for any loss occasioned by the gross negligence of its employees acting within the scope of their employment. Items are not accepted by reason of any preliminary inspection or test, at any location.

15. Insurance

A. Supplier shall maintain (i) comprehensive general liability insurance covering bodily injury, property damage, contractual liability, products liability and completed operations, (ii) Worker's Compensation and employer's liability insurance, and (iii) auto insurance, in such amounts as are necessary to insure against the risks to Supplier's operations.

B. Minimally, Supplier will obtain and keep in force, insurance of the types and in the amounts set forth below:

Insurance	Minimum Limits of Liability
Worker's Compensation	Statutory
Employer's Liability	$1,000,000
Automobile Liability	$1,000,000 per occurrence
Comprehensive General Liability (including Products Liability)	$1,000,000 per occurrence
Umbrella/Excess Liability	$1,000,000 per occurrence

All policies must be primary and non-contributing, and shall include Buyer as an additional insured. Supplier also waives all rights of subrogation. Supplier will also require and verify that each of its subcontractors carry at least the same insurance coverage and minimum limits or insurance as Supplier carries under this Agreement. Supplier shall notify Buyer at least thirty (30) days prior to the cancellation of or implementation of any material change in the foregoing policy coverage that would affect the Buyer's interests. Upon request, Supplier shall furnish to Buyer as evidence of insurance a certificate of insurance stating that the coverage would not be canceled or materially altered without thirty (30) days prior notice to the Buyer.

16. Change of Control

Supplier will notify Buyer immediately of any change of control or change (including any change in person or persons with power to direct or cause the direction of management or policies of Seller) or any change (10% or more) in the ownership of Supplier, or of any materially adverse change in Supplier's financial condition or in the operation of Supplier's business, including, but not limited to, Supplier's net worth, assets, production capacity, properties, obligations or liabilities (fixed or contingent) (collectively, a "change of control"). Notwithstanding any other rights Buyer may have under this Agreement, upon a change of control, Buyer may, in its discretion, renegotiate or terminate for convenience this Agreement.

17. Assignments

A. No right or obligation under this Agreement shall be assigned by Supplier without the prior written consent of Buyer, and any purported assignment without such consent shall be void.

B. Buyer may assign this Agreement in whole or part at any time if such assignment is considered necessary by Buyer in connection with a sale of Buyer's assets, or a transfer of any of its contracts or obligations under such contracts, or a transfer to a third party of manufacturing activities previously conducted by Buyer.

18. Gratuities

Supplier warrants that it has not offered or given and will not offer or give any gratuity to induce this or any other agreement. Upon Buyer's written request, an officer of Supplier shall certify in writing that Supplier has complied with and continues to comply with this Section. Any breach of this warranty shall be a material breach of each and every agreement and contract between Buyer and Supplier.

19. Insolvency

The insolvency of Supplier, the filing of a voluntary or involuntary petition for relief by or against Supplier under any bankruptcy, insolvency or like law, or the making of an assignment for the benefit of creditors, by Supplier, shall be a material breach hereof and default.

20. Waiver

In the event Buyer fails to insist on performance of any of the terms and conditions, or fails to exercise any of its rights or privileges hereunder, such failure shall not constitute a waiver of such terms, conditions, rights or privileges.

21. Disclaimer and Limitation of Liability

In no event shall Buyer be liable for any special, indirect, incidental, consequential, or contingent damages (the foregoing being collectively called "Damages"), whether or not Buyer has been advised of the possibility of such damages, for any reason. Buyer excludes and Supplier waives any liability of Buyer for any "Damages", as so defined.

22. Indemnity by Supplier

Supplier shall defend, indemnify and hold harmless Buyer from and against, and shall solely and exclusively bear and pay, any and all claims, suits, losses, penalties, damages (whether actual, punitive, consequential or otherwise) and all liabilities and the associated costs and expenses (including attorney's feesexpert's fees, and costs of investigation (all of the foregoing being collectively called "Indemnified Liabilities"), caused in whole or in part by Supplier's breach of any term or provision of this Agreement, or in whole or in any part by any negligent, grossly negligent or intentional acts, errors or omissions by Supplier, its employees, officers, agents or representatives in the performance of this Agreement or that are for, that are in the nature of, or that arise under, strict liability or products liability with respect to or in connection with the Items. The indemnity by Supplier in favor of Buyer shall extend to Buyer, its officers, directors, agents, and representatives and shall include and is intended to include Indemnified Liabilities which arise from or are caused by, in whole or in part, the concurrent negligence, including negligence or gross negligence of Buyer or any person entitled to the benefit of this indemnity or any other person. The indemnity of Supplier shall not extend to liabilities and damages that are caused by the sole negligence of Buyer.

23. Force Majeure

Advanced Energy ____; Applied _____
Date:_____

A failure by either party to perform due to causes beyond the control and without the fault or negligence of the party is deemed excusable during the period in which the cause of the failure persists. Such causes may include, but not be limited to, acts of God or the public enemy, acts of the Government in either sovereign or contractual capacity, fires, floods, epidemics, strikes, freight embargoes and unusually severe weather. If the failure to perform is caused by the default of a subcontractor, and such default arises out of causes beyond the control of both the Supplier and subcontractor, and without the fault or negligence of either of them, the Supplier will not be liable for any excess cost for failure to perform, unless the supplies or services to be furnished by the subcontractor were obtainable from other sources in sufficient time to permit the Supplier to meet the required delivery releases. When Supplier becomes aware of any potential force majeure condition as described in this Agreement, Supplier shall immediately notify Buyer of the condition and provide relevant details.

24. Changes

Buyer may at anytime, by a written order and without notice to sureties or assignees, suspend performance hereunder, increase or decrease the Agreement quantities, or make changes within the general scope of this Agreement in any one or more of the following:

(a) applicable drawings, designs, or specification;
(b) method of shipment or packing, and/or;
(c) place and date of delivery;
(d) place and date of inspection or acceptance.

If any such change causes an increase or decrease in the cost of or time required for performance of the Agreement, an equitable adjustment shall be made in the Agreement price or delivery schedule, or both, and the Agreement shall be modified in writing accordingly. No claim by Supplier for adjustment hereunder shall be valid unless asserted within thirty (30) days from the date of receipt by Supplier of the notification of change, provided, however, that such period may be extended upon the written approval of Buyer. However, nothing in this clause shall excuse Supplier from proceeding with the Agreement as changed or amended.

25. Termination for Default

(a) Buyer may, by notice, terminate this Agreement in whole or in part
(i) if Supplier fails to deliver goods or services on agreed delivery schedules or any installments thereof strictly within the time specified; (ii) if Supplier fails to replace or correct defective goods or services; (iii) if Supplier fails to comply strictly with any provision of, or repudiates this agreement, or
(iv) Supplier defaults under, or any event or condition stated to be a default occurs under, any provision of the Agreement, including these Applied Materials Standard Terms and Conditions of Purchase.

(b) In the event of termination pursuant to this Section:

(i) Supplier shall continue to supply any portion of the Items contracted for under this Agreement that are not terminated;

(ii) Supplier shall be liable for additional costs, if any, for the purchase of such similar goods and services to cover such default;

(iii) At Buyer's request Supplier will transfer title and deliver to Buyer (1) any completed goods, (2) any partially completed goods and (3) all unique materials. Prices for partially completed goods and unique materials so accepted shall be negotiated. However, such prices shall not exceed the Agreement price per item.

(c) Buyer's rights and remedies herein or otherwise stated in this Agreement, any Purchase Order, Comprehensive Supplier Agreement or Basic Supplier Agreement are in addition to and shall not limit or preclude resort to any other rights and remedies provided by law or in equity. Termination under this Agreement shall constitute "cancellation" under the Uniform Commercial Code.

26. Termination for convenience

(a) Buyer may terminate, for convenience, work under this Agreement in whole or in part, at any time by written or electronic notice. Upon any such termination Supplier shall, to the extent and at the time specified by Buyer, stop all work on this Agreement, place no further orders hereunder, terminate work outstanding hereunder, assign to Buyer all Supplier's interests under terminated sub-contracts and Agreements, settle all claims thereunder after obtaining Buyer's approval, protect all property in which Buyer has or may acquire an interest, and transfer title and make delivery to Buyer of all Items, materials, work in process, or other things held or acquired by Supplier in connection with the terminated portion of this Agreement. Supplier shall proceed promptly to comply with Buyer's directions respecting each of the foregoing without awaiting settlement or payment of its termination claim.

(b) Within six (6) months from such termination, Supplier may submit to Buyer its written claim for termination charges, in the form and with supporting data and detail prescribed by Buyer. Failure to submit such claim within the prescribed time frame and with such items shall constitute a waiver of all claims and a release of all Buyer's liability arising out of such termination.

(c) The parties may agree upon the amount to be paid Supplier for such termination. If they fail to agree, Buyer shall pay Supplier the amount due for Items delivered prior to termination and in addition thereto but without duplication, shall pay the following amounts:

(i) The contract price for all Items completed in accordance with this Agreement and not previously paid for;

(ii) The actual costs for work in process incurred by Supplier which are properly allocable or apportionable under Generally Accepted Accounting Principles (GAAP) to the terminated portion of this Agreement and a sum constituting a fair and reasonable profit on such costs. The Supplier agrees to keep true, complete, and accurate records in compliance with GAAP for the purpose of determining allocability of Suppliers costs under this agreement. Such records shall contain sufficient detail to permit a determination of the accuracy of the costs; Independent nationally recognized accountants (the "Auditor") designated by Buyer and reasonably acceptable to Supplier shall have the right, at Buyer's expense and upon reasonable notice, to conduct audits of all of the relevant books and records of Supplier in order to determine the accuracy and allocability of costs submitted by Supplier to Buyer under this provision.

(iii) The reasonable costs of Supplier in making settlement hereunder and in protecting Items to which Buyer has or may acquire an interest.

(d) Payments made under subparagraphs (c)(i) and (c)(ii) shall not exceed the aggregate price specified in this Agreement, less payment otherwise made or to be made. Buyer shall have no obligation to pay for Items lost, damaged, stolen or destroyed prior to delivery to Buyer.

(e) The foregoing paragraphs (a) to (d) inclusive, shall be applicable only to a termination for Buyer's convenience and shall not affect or impair any right of Buyer to terminate this Agreement for Supplier's default in the performance hereof.

EXHIBIT 2: HOSHIN PRICING 1998

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	CURRENT STD PRICE	NEG. 2% TOTALS >>	ADDITIONAL NEGOTIATED	VAE 98	TOTAL HOSHIN PRICE 1998	EST. % SVGS [* * *]
1	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EAU '98	CURRENT EXT. STD. 1998 [* * *]	EXT. STD 1998 CONTRACT [* * *]	$$ SAVINGS [* * *]
1	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	CURRENT STD PRICE	NEG. 2% TOTALS >>	ADDITIONAL NEGOTIATED	VAE 98	TOTAL HOSHIN PRICE 1998	EST. % SVGS [* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
27	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
33	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
34	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
35	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EAU '98	CURRENT EXT. STD. 1998 [* * *]	EXT. STD 1998 CONTRACT [* * *]	$$ SAVINGS [* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]
27	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]	[* * *]
33	[* * *]	[* * *]	[* * *]	[* * *]
34	[* * *]	[* * *]	[* * *]	[* * *]
35	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]

NOTES:

1. 1998 EAUs are from Applied Internal Website dated 4/28/98
2. [* * *] are expected to transition to P/N [* * *]

EXHIBIT 2: HOSHIN PRICING 1999

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	1998 STD PRICE	NEG. % TOTALS >>	VAE 99	TOTAL HOSHIN PRICE 1999
1	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EST. % SVGS [* * *]	EAU '99	EXT. STD. 1999 [* * *]	EXT. 1999 CONTRACT PRICE [* * *]	$$ SAVINGS [* * *]
1	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	1998 STD PRICE	NEG. % TOTALS >>	VAE 99	TOTAL HOSHIN PRICE 1999
26	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
27	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]				
33	[* * *]	[* * *]	[* * *]				
34	[* * *]	[* * *]	[* * *]				
35	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EST. % SVGS [* * *]	EAU '99	EXT. STD. 1999 [* * *]	EXT. 1999 CONTRACT PRICE [* * *]	$$ SAVINGS [* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
27	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
32					
33					
34					
35	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

NOTES:

1. 1999 EAUs are from original estimates 11/25/97
2. [* * *] are expected to become obsolete
3. The [* * *] PROJECT will combine P/Ns [* * *], into ONE part. The combined price of [* * *] will drop to [* * *]
4. EAUs for P/Ns [* * *] have been adjusted down by [* * *] with the anticipation of the transition to [* * *].
5. EAUs for [* * *] P/N is calculated off of [* * *] Usage and represent [* * *] of [* * *] demand
6. EAUs for PVD are best estimates

EXHIBIT 2: HOSHIN PRICING 2000

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	1999 STD PRICE	NEG. % TOTALS >>	VAE 99	TOTAL HOSHIN PRICE 1999	EST. % SVGS [* * *]
1	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EAU '00	EXT. STD. 2000 [* * *]	EXT. 2000 CONTRACT PRICE [* * *]	$$ SAVINGS [* * *]
1	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	AMAT PART NUMBER	DESCRIPTION	MODEL	1999 STD PRICE	NEG. % TOTALS >>	VAE 99	TOTAL HOSHIN PRICE 1999	EST. % SVGS [* * *]
27	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]					
33	[* * *]	[* * *]	[* * *]					
34	[* * *]	[* * *]	[* * *]					
35	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]		[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	EAU '00	EXT. STD. 2000 [* * *]	EXT. 2000 CONTRACT PRICE [* * *]	$$ SAVINGS [* * *]
27	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]
32				
33				
34		[* * *]	[* * *]	[* * *]
35	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]

NOTES:

1. 2000 EAUs are based on an expected [* * *] increase on top of 1999 usage
2. [* * *] will remain obsolete
3. The [* * *] PROJECT will combine P/Ns [* * *] into ONE part. The combined price of [* * *] will drop to [* * *]
4. EAUs for P/Ns [* * *] have been adjusted down by [* * *] with the anticipation of the transition to [* * *]
5. EAUs for [* * *] P/N is calculated off of [* * *] Usage and represent [* * *] of [* * *] demand.
6. EAUs for PVD are best estimates

Attachment 1:
ITEMS/WARRANTY

ITEM	AMAT PART NUMBER	DESCRIPTION	UNIT PRICE 1998	UNIT PRICE 1999	UNIT PRICE 2000	UNIT	LEAD TIME	WARRANTY MONTHS
1	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	MAX LIABILITY [* * *]	EAU '98	EAU '99	EAU '00
1	[* * *]	[* * *]	[* * *]	[* * *]
2	[* * *]	[* * *]	[* * *]	[* * *]
3	[* * *]	[* * *]	[* * *]	[* * *]
4	[* * *]	[* * *]	[* * *]	[* * *]
5	[* * *]	[* * *]	[* * *]	[* * *]
6	[* * *]	[* * *]	[* * *]	[* * *]
7	[* * *]	[* * *]	[* * *]	[* * *]
8	[* * *]	[* * *]	[* * *]	[* * *]
9	[* * *]	[* * *]	[* * *]	[* * *]
10	[* * *]	[* * *]	[* * *]	[* * *]
11	[* * *]	[* * *]	[* * *]	[* * *]
12	[* * *]	[* * *]	[* * *]	[* * *]
13	[* * *]	[* * *]	[* * *]	[* * *]
14	[* * *]	[* * *]	[* * *]	[* * *]
15	[* * *]	[* * *]	[* * *]	[* * *]
16	[* * *]	[* * *]	[* * *]	[* * *]
17	[* * *]	[* * *]	[* * *]	[* * *]
18	[* * *]	[* * *]	[* * *]	[* * *]
19	[* * *]	[* * *]	[* * *]	[* * *]
20	[* * *]	[* * *]	[* * *]	[* * *]
21	[* * *]	[* * *]	[* * *]	[* * *]
22	[* * *]	[* * *]	[* * *]	[* * *]
23	[* * *]	[* * *]	[* * *]	[* * *]
24	[* * *]	[* * *]	[* * *]	[* * *]
25	[* * *]	[* * *]	[* * *]	[* * *]
26	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	AMAT PART NUMBER	DESCRIPTION	UNIT PRICE 1998	UNIT PRICE 1999	UNIT PRICE 2000	UNIT	LEAD TIME	WARRANTY MONTHS
27	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
33	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
34	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
35	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]	[* * *]

ITEM	MAX LIABILITY [* * *]	EAU '98	EAU '99	EAU '00
27	[* * *]	[* * *]	[* * *]	[* * *]
28	[* * *]	[* * *]	[* * *]	[* * *]
29	[* * *]	[* * *]	[* * *]	[* * *]
30	[* * *]	[* * *]	[* * *]	[* * *]
31	[* * *]	[* * *]	[* * *]	[* * *]
32	[* * *]	[* * *]	[* * *]	[* * *]
33	[* * *]	[* * *]	[* * *]	[* * *]
34	[* * *]	[* * *]	[* * *]	[* * *]
35	[* * *]	[* * *]	[* * *]	[* * *]
36	[* * *]	[* * *]	[* * *]	[* * *]
37	[* * *]	[* * *]	[* * *]	[* * *]
38	[* * *]	[* * *]	[* * *]	[* * *]
39	[* * *]	[* * *]	[* * *]	[* * *]

NOTES:

1. EAUs (Estimated Annual Usages) are ESTIMATES ONLY, based on Applied's Forecast
2. 1998 EAUs are from Applied Internal Website dated 4/28/98
3. 1999 EAUs are from original estimates 11/25/97
4. 2000 EAUs are based on an expected [* * *] increase
5. Exhibit 2: HOSHIN PLAN, itemizes reduced pricing by part for VAE Projects
6. 1999 Pricing is effective 1/1/99

LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into by and between CROSS PARK INVESTORS, LTD., hereinafter referred to as "Landlord", and ADVANCED ENERGY INDUSTRIES, INC., hereinafter referred to as "Tenant".

1. PREMISES AND TERM. In consideration of the mutual obligations of Landlord and Tenant set forth herein, Landlord leases to Tenant and Tenant hereby takes from Landlord, certain leased premises situated within the County of Travis, State of Texas, and known locally as SUITE 400, CROSS CREEK BUSINESS CENTER, LOCATED AT 8601 CROSS PARK DRIVE AND CONSISTING OF APPROXIMATELY 6,812 SQUARE FEET OF RENTABLE AREA AS MEASURED TO THE BUILDING'S DRIP LINE and as more particularly described on EXHIBIT "A" attached hereto and incorporated herein by reference (THE "PREMISES"), to have and to hold, subject to the term, covenants and conditions in this Lease. The term of this Lease shall commence on the COMMENCEMENT DATE as hereinafter set forth and shall end on the last day of the month that is TWELVE (12) months after the Commencement Date.

A. EXISTING BUILDING AND IMPROVEMENTS. The "Commencement Date" shall be JUNE 1, 1998 or the date Fisher-Rosemount Systems, Inc. has vacated the Premises and Tenant has begun to occupy the Premises, whichever should occur earliest. Tenant acknowledges that (i) it has inspected and accepts the Premises in its "as is" condition, (ii) the buildings and improvements comprising the same are suitable for the purpose for which the Premises are leased, (iii) the Premises are in good and satisfactory condition and (iv) no representations as to the repair of the Premises, nor promises to alter, remodel or improve the Premises have been made by Landlord (unless otherwise expressly set forth in this Lease).

2. BASE RENT, SECURITY DEPOSIT AND ESCROW DEPOSITS.

A. BASE RENT. Tenant agrees to pay to Landlord rent for the Premises in advance, without demand, deduction or set off, at the rate of:

MONTHS 1 THROUGH 12: FOUR THOUSAND FOUR HUNDRED TWENTY-SEVEN DOLLARS

AND 80/XX ($4,427.80) PER MONTH,

during the term hereof. One monthly installment of Base Rentt and other monthly charges set forth in Paragraph 2C below, shall be due and payable on the date hereof, and a like monthly installment shall be due and payable on or before the first day of each calendar month succeeding the Commencement Date, except that all payments due thereunder for any fractional calendar month shall be prorated.

B. SECURITY DEPOSIT. In addition, Tenant agrees to deposit with Landlord on the date hereof the sum of FIVE THOUSAND SEVEN HUNDRED AND NINETY DOLLARS AND 20/XX ($5,790.20) which shall be held by Landlord, without obligation for interest, as security for the performance of Tenant's obligations under this Lease (the "Security Deposit"), it being expressly understood and agreed that the Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon occurrence of an Event of Default, Landlord may use all or part of the Security Deposit to pay past due rent or other payments due Landlord under this Lease, or the cost of any other damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. On demand, Tenant shall pay Landlord the amount that will restore the Security Deposit to its original amount. The Security Deposit shall be deemed the property of Tenant and any remaining balance of the Security Deposit shall be returned by Landlord to Tenant when all of Tenant's present and future obligations under this Lease have been fulfilled.

C. ESCROW DEPOSITS. Without limiting in any way Tenant's other obligations under this Lease, Tenant agrees to pay to Landlord its Proportionate Share (as defined in this Paragraph 2C below) of (i) Taxes * payable by Landlord pursuant to Paragraph 3A below, (ii) the cost of utilities payable by Landlord pursuant to Paragraph 8 below, (iii) Landlord's cost of maintaining insurance pursuant to Paragraph 9A below and (iv) Landlord's cost of maintaining any common area charges payable by Tenant in accordance with Paragraph 4B below (collectively, the "Tenant Costs"). During each month of the term of this Lease, on the same day that rent is due hereunder, Tenant shall deposit in escrow with Landlord an amount equal to 1/12 of the estimated annual amount of Tenant's Proportionate Share of the Tenant Costs. Tenant authorizes Landlord to use the funds deposited with Landlord under this Paragraph 2C to pay such Tenant Costs. The initial monthly escrow payments are based upon the estimated amounts for the year in which the Commencement Date occurs, and shall be increased or decreased annually to reflect the projected actual amount of all Tenant Costs. If the Tenant's total escrow deposits for any calendar year are less than Tenant's actual Proportionate Share of the Tenant Costs for such calendar year, Tenant shall pay the difference to Landlord within thirty (30) days after demand. If the total escrow deposits of Tenant for any calendar year are more than Tenant's actual Proportionate Share of the Tenant Costs for such calendar year, Landlord shall retain such excess and credit it against Tenant's escrow deposits next maturing after such determination. In the event the Premises constitute a portion of a multiple occupancy building (the "Building"), Tenant's "Proportionate Share" with respect to the Building, as used in this Lease, shall mean a fraction, the numerator of which is the net rentable area contained in the Premises and the denominator of which is the net rentable area contained in the entire Building. In the event the Premises or the Building is part of a project or business park owned, managed or leased by Landlord, or an affiliate of Landlord (the "Project"), Tenant's "Proportionate Share" of the Project, as used in this Lease shall mean a fraction, the numerator of which is the net rentable area contained in the Premises and the denominator of which is the net rentable area contained in all of the buildings (including the Building) within the Project. For the purposes of this Lease, Tenant's proportionate share shall be defined as ELEVEN AND TWO TENTHS PERCENT (11.2%).

3. TAXES.

A. REAL PROPERTY TAXES. Subject to reimbursement under Paragraph 2C herein, Landlord agrees to pay all Taxes* that accrue against the Premises, the Building and /or the land of which the Premises or the Building are a part. If at any time during the term of this Lease, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the rents received therefrom and /or the land and improvements of which the Premises are a part, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Taxes" for the purpose hereof. The Landlord shall have the right to employ a tax consulting firm to attempt to assure a fair tax burden on the real property within the applicable taxing jurisdiction. Tenant agrees to pay its Proportionate Share of the cost of such consultant.

B. PERSONAL PROPERTY TAXES. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in or on the Premises. If any such taxes are levied or assessed against Landlord or Landlord's property (i) Landlord pays the same or (ii) the assessed value of Landlord's property is increased by inclusion of such personal property and fixtures and Landlord pays the increased taxes, then Tenant shall pay to Landlord, upon demand, the amount of such taxes.

4. LANDLORD'S REPAIRS AND MAINTENANCE.

A. STRUCTURAL REPAIRS. Landlord, at its own cost and expense, shall maintain the roof, foundation and the structural soundness of the exterior walls of the Building in good repair, reasonable wear and tear excluded. The term "walls" as used herein shall not include windows, glass, or plate glass, any doors, special store fronts or office entries, and the term "foundation" as used herein shall not include loading docks. Tenant shall immediately give Landlord written notice of defect or need for repairs, after which Landlord shall have thirty (30) days to commence to effect such repairs or cure such defect. In the event a defect occurs that seriously jeopardizes the safety of persons occupying the Premises or threatens equipment or machinery owned by Tenant within the Premises, and Landlord has failed to commence the repairs for such defect within the thirty (30) day period outlined above, Tenant shall be permitted to initiate the repair and Landlord will be obligated to reimburse Tenant for the actual cost of the repair.

B. TENANT'S SHARE OF COMMON AREA CHARGES. Tenant agrees to pay its Proportionate Share of the cost of (i) maintenance and/or landscaping (including both maintenance and replacement of landscaping) of any property that is a part of the Building and/or the Project; and (ii) operating, maintaining and repairing any property, facilities or services (including without limitation utilities and insurance therefor) provided for the

*For purposes of this Lease, "Taxes" means all taxes, assessments and governmental charges (excluding any federal and state income taxes, franchise taxes, profit taxes and lease taxes, so long as such federal and state income taxes, franchise taxes, profit taxes or lease taxes are not assessed in lieu of some or all of the customary ad valorem taxes being assessed against the Project as of the date of this Lease).

C. REASSESSMENTS. At the reasonable request of Tenant, Landlord shall vigorously challenge any increases in Taxes, arising from a reassessment of Landlord's property or otherwise.

Landlord's Initials _____

Tenant's Initials _____

use or benefit of Tenant or the common use or benefit of Tenant and other lessees of the Project or the Building; and (iii) the reasonable cost of property management and supervision which shall be at rates customary of the property type and market conditions.

Landlord reserves the right to perform, in whole or in part and without notice to Tenant, maintenance, repairs and replacements to the paving, common area landscape replacement and maintenance, exterior painting, common sewage line plumbing and any other items that are provided for the use or benefit of Tenant or the common use or benefit of Tenant and other lessees of the Project or the Building; in which event, Tenant shall be liable for its Proportionate Share of the cost and expense of such repair, replacement, maintenance and other such items.

5. TENANT'S REPAIRS.

A. MAINTENANCE OF PREMISES AND APPURTENANCES. Tenant at its own cost and expense, shall (i) maintain all parts of the Premises and promptly make all necessary repairs and replacements to the Premises (except those for which Landlord is expressly responsible hereunder), and (ii) keep the parking areas, driveways and alleys surrounding the Premises in a clean and sanitary condition. Tenant's obligation to maintain, repair and make replacements to the Premises shall cover, but not be limited to, pest control (including termites), trash removal and the maintenance repair and replacement of all HVAC, electrical, plumbing, sprinkler and other mechanical systems. For the purposes of this Lease, Landlord shall assign all warranties received from the general contractor who constructs the Tenant Improvements within the Premises and Tenant shall look to the general contractor for warranty on all repairs and replacements required within the Premises.

B. PARKING. Tenant and its employees, customers and licensees shall have the right to use only its Proportionate share of any parking areas that have been designated for such use by Landlord in writing, subject to (i) all rules and regulations promulgated by Landlord; and (ii) rights of ingress and egress of other lessees. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties, and Tenant expressly does not have the right to tow or obstruct improperly parked vehicles. Tenant agrees not to park on any public streets or private roadways adjacent to or in the vicinity of the Premises. For the purposes of this Lease, Tenant shall be allotted twenty-five (25) parking spaces.

C. SYSTEM MAINTENANCE. Tenant at its own cost and expense, shall enter into a regularly scheduled preventative maintenance/service contract with a maintenance contractor approved by Landlord for servicing all hot water, heating and air conditioning systems and equipment within the Premises. The service contract must include all services suggested by the equipment manufacturer in its operations/maintenance manual and must become effective within thirty (30) days of the date Tenant takes possession of the Premises. In the event of a failure to the heating and air conditioning system, Tenant shall be obligated to pay the first two thousand dollars ($2,000.00) towards any repair or replacement (per occurrence) of the heating and air conditioning system. In the event the repair or replacement cost (per occurrence) exceeds two thousand dollars ($2,000.00), Landlord and Tenant shall share the cost equally for the repair or replacement.

6. ALTERATIONS. Tenant shall not make any alterations, additions or improvements to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Tenant, at its own cost and expense, may erect such shelves, bins, machinery and trade fixtures as it desires, provided that (a) such items do not alter the basic character of the Premises or the Building; (b) such items do not overload or damage same; (c) such items may be removed without injury to the Premises; and (d) the construction, erection or installation thereof complies with all applicable governmental laws ordinances, regulations and with Landlord's specifications and requirements. Tenant shall be responsible for compliance with The American With Disabilities Act of 1990. Without implying any consent of Landlord thereto, all alterations, additions, improvements and partitions erected by Tenant shall be remain the property of Tenant during the term of this Lease. All shelves, bins machinery and trade fixtures installed by Tenant shall be removed on or before the earlier to occur of the day of termination or expiration of this Lease or vacating the Premises, at which time Tenant shall restore the Premises to their original condition, normal wear and tear excepted. Alterations, installations, removals and restorations shall be performed in a good and workmanlike manner so as not to damage or alter the primary structure or structural qualities of the Building or other improvements situated on the Premises or of which the Premises are a part.

7. SIGNS. Any signage Tenant desires for the Premises shall be subject to Landlord's written approval, which shall not be unreasonably withheld or delayed and shall be submitted to Landlord prior to the Commencement Date of this Lease. Tenant shall repair and/or replace the Building facia surface to which its signs are attached upon Tenant's vacation of the Premises or the removal or alteration of its signage. Tenant shall not, without Landlord' prior written consent, (i) make any changes to the exterior of the Premises,
(ii) install any exterior lights, decorations, balloons, flags, pennants, banners or painting, or (iii) erect or install any signs, windows or door lettering, placards, decorations or advertising media of any type which can be viewed from the exterior of the Premises. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall conform in all respects to the criteria established by Landlord or shall be otherwise subject to Landlord's prior written consent. For the purposes of this Lease, Tenant shall be permitted to use its company logo and colors so long as the design, installation and location of the sign is consistent with the requirements outlined in Exhibit "E", Sign Criteria.

8. UTILITIES. Landlord agrees to provide normal water and electricity service to the Premises. Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler charges and other utilities and services used on or at the Premises, together with any taxes, penalties, surcharges or the like pertaining to the Tenant's use of the Premises, and any maintenance charges for utilities. Landlord shall have the right to cause any of said services to be separately metered to Tenant, at Tenant's expense. Tenant shall pay its pro rata share, as reasonably determined by Landlord, of all charges for jointly metered utilities. Unless resulting from Landlord's negligence or willful misconduct, Landlord shall not be liable for any interruption or failure of utility service on the Premises and Tenant shall have no rights or claims as a result of any such failure. In the event water is not separately metered to Tenant, Tenant agrees that it will not use water and sewer capacity for uses other than normal domestic restroom and kitchen usage and Tenant further agrees to reimburse Landlord for the entire amount of common water and

sewer costs as additional rental if, in fact, Tenant uses water or sewer capacity for uses other than normal domestic restroom and kitchen uses without first obtaining Landlord's written permission, including, but not limited to, the cost for acquiring additional sewer capacity to service Tenant's excess sewer use. Furthermore, Tenant agrees in such event to install at its own expense a submeter to determine Tenant's usage.

9. INSURANCE.

A. LANDLORD'S INSURANCE. Subject to reimbursement under Paragraph 2C herein, Landlord shall maintain insurance covering the Building in an amount not less than eighty percent (80%) of the "replacement cost" thereof, insuring against the perils of fire, lightning, flood, tornado, hail, extended coverage, vandalism and malicious mischief.

B. TENANT'S INSURANCE. Tenant, at its own expense, shall maintain during the term of this Lease a policy or policies of worker's compensation and comprehensive general liability insurance, including personal injury and property damage, with contractual liability endorsement, in the amount of Five Hundred Thousand Dollars ($500,000.00) for property damage and One Million dollars ($1,000,000.00) per occurrence and Two Million Dollars ($2,000,000.00) in the aggregate for personal injuries or deaths of persons occurring in or about the Premises. Tenant, at its own expense, also shall maintain during the term of this Lease, fire and extended coverage insurance covering the replacement cost of (i) all alterations, additions, partitions and improvements installed or placed on the Premises by Tenant or by Landlord on behalf of Tenant and (ii) all of Tenant's personal property contained within the Premises. Said policies shall (i) name Landlord as an additional insured and insure Landlord's contingent liability under or in connection with this Lease (except for the worker's compensation policy, which instead shall include waiver of subrogation endorsement in favor of Landlord) (ii) be insured by an insurance company which is acceptable to Landlord, and (iii) provide that said insurance shall not be canceled unless thirty (30) days prior written notice has been given to Landlord. Said policy or policies or certificates thereof shall be delivered to Landlord by Tenant on or before the Commencement Date and upon each renewal of said insurance.

C. PROHIBITED USES. Tenant will not permit the Premises to be used for any purpose or in any manner that would (i) void the insurance thereon, (ii) increase the insurance risk or cost thereof, or (iii) cause the disallowance of any sprinkler credits; including without limitation, use of the Premises for the receipt, storage or handling of any product, material or merchandise that is explosive or highly inflammable. If any increase in the cost of any insurance on the Premises or the Building is caused by Tenant's use of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord within thirty (30) days of written demand therefor.

10. FIRE AND CASUALTY DAMAGE.

A. TOTAL OR SUBSTANTIAL DAMAGE AND DESTRUCTION. If the Premises or the Building should be damaged or destroyed by fire or other peril, Tenant shall immediately give written notice to Landlord of such damage or destruction. If the Premises or the Building should be totally destroyed by any peril covered by the insurance to be provided by Landlord under Paragraph 9A above, or if they should be so damaged thereby that, in Landlord's estimation, rebuilding or repairs cannot be completed within one hundred and fifty (150) days after the date of such damage or after such completion there is not enough time remaining under the terms of this Lease to fully amortize such rebuilding or repairs, then Landlord shall so notify Tenant in writing and this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease, effective upon the date of the occurrence of such damage.

B. PARTIAL DAMAGE OR DESTRUCTION. If the Premises or the Building should be damaged by any perils covered by the insurance to be provided by Landlord under Paragraph 9A above and, in Landlord's estimation, rebuilding or repairs can be substantially completed within one hundred fifty (150) days after the date of such damage, then this Lease shall not terminate and Landlord shall restore the Premises to its previous condition, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements that may have been constructed, erected or installed in or about the Premises for the benefit of or by or for Tenant. In the event of partial damage to the Premises, rent shall abate for the period of reconstruction for the portion of the Premises that cannot be occupied due to the casualty.

C. LIENHOLDERS RIGHTS IN PROCEEDS. Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgagee or deed of trust covering the Premises requires that the insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made known to Landlord by any such holder, whereupon all rights and obligations hereunder shall cease and terminate.

D. WAIVER OF SUBROGATION. Notwithstanding anything in this Lease to the contrary, Landlord and Tenant hereby waive and release each other of and from any and all rights of recovery, claims, actions or causes of action against each other, or their respective agents, officers and employees, for any loss or damage that may occur to the Premises, improvements to the Building or personal property (Building contents) within the Building and/or Premises, for any reason regardless of cause or origin. Each party to this Lease agrees immediately after execution of this Lease to give written notice of the terms of the mutual waivers contained in this subparagraph to each insurance company that has issued to such party policies of fire and extended coverage insurance and, if necessary, to have the insurance policies properly endorsed to provide that the carriers of such policies waive all rights of recovery under subrogation or otherwise against the other party.

11. LIABILITY AND INDEMNIFICATION. Except for any claims, rights of recovery and causes of action that Landlord has released, Tenant shall hold Landlord harmless from and defend Landlord against any and all claims or liability for any injury or damage (i) to any person or property whatsoever occurring in, on or about the Premises or any part thereof, the Building and/or about the Premises or any part thereof, the Building and/or common areas, the use of which Tenant may have in accordance with this Lease, if (and only if) such injury or damage shall be caused in whole or in part by the act, gross neglect, fault or willful omission of any duty by Tenant, its agents, servant, employees or invitees, (ii) arising from the conduct or management of any work done by the Tenant in or about the Premises, (iii) arising from transactions of the Tenant, and (iv) all costs, counsel fees, expenses and liabilities incurred in connection with any such claim or action or proceeding brought thereon. The provisions of this Paragraph 11 shall survive the expiration or termination of this Lease. Landlord shall not be liable in any event for personal injury or loss of Tenant's property caused by fire, flood, water leaks, rain, hail, ice, snow, smoke, lightning, wind, explosion, interruption of utilities, or other occurrences unless resulting from Landlord's acts. Landlord strongly recommends that Tenant secure Tenant's own insurance, in excess of the amounts required elsewhere in this Lease, to protect against the above occurrences if Tenant desires additional coverage for such risks. Tenant shall give prompt notice to Landlord of any significant accidents involving injury to persons or property. Furthermore, Landlord shall not be responsible for lost or stolen personal property, equipment, money or jewelry from the Premises or from the public areas of the Building or the Project, or for any damages or losses caused by theft, burglary, assault, vandalism, or other crimes. Landlord strongly recommends that Tenant provide its own security systems and services and secure Tenant's own insurance in excess of the amounts required elsewhere in this Lease, to protect against the above occurrences if Tenant desires additional protection or coverage for such risks. Tenant shall give Landlord prompt notice of any criminal or suspicious conduct within or about the Premises, the Building or the Project, and/or any personal injury or property damage caused thereby. Landlord may, but is not obligated to, enter into agreements with third parties for the provision of any courtesy patrols or similar services or fire protective systems and equipment and, to the extent same is provided in Landlord's sole discretion, Landlord shall not be liable to Tenant for any damages, costs or expenses which occur for any reason in the event any such system or equipment is not properly installed, monitored or maintained or any such services are not properly provided, unless resulting from Landlord's acts. Landlord shall use reasonable diligence in the maintenance of existing lighting, if any, in the parking areas servicing the Premises, and Landlord shall not be responsible for additional lighting or any security measures in the Project, the Premises or other parking areas.

12. USE. The Premises shall be used only for the purpose of manufacturing, sales, research and development, telephone support, design, receiving, storing, shipping and selling (other than retail) products, materials and merchandise made and/or distributed by Tenant and for such other lawful purposes as may be directly incidental thereto. Outside storage, including without limitation storage of trucks and other vehicles, is prohibited without Landlord's prior written consent. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises, and shall promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisances in or upon or connected with the Premises, all at Tenant's sole expense. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise or vibrations to emanate from the Premises, nor take any other action that would constitute a nuisance or would disturb, unreasonably interfere with or endanger Landlord or any other lessees of the Building or the Project.

13. HAZARDOUS WASTE. The term "Hazardous Substances," as used in this Lease, shall mean pollutants, contaminants, toxic or hazardous wastes, radioactive materials or any other substances, the use and/or the removal of which is required or the use of which is restricted, prohibited or penalized by any "Environmental Law," which term shall mean any federal, state or local statute, ordinance, regulation or other

law of a governmental or quasi-governmental authority relating to pollution or protection of the environment or the regulation of the storage or handling of Hazardous Substances. Limited to its actions only, Tenant hereby agrees that: (i) no activity will be conducted on the Premises that will produce any Hazardous Substance, except for such activities that are part of the ordinary course of Tenant's business activities (the "Permitted Activities"), provided said Permitted Activities are conducted in accordance with all Environmental Laws and have been approved in advance in writing by Landlord, which approval shall not be unreasonably withheld or delayed and, in connection therewith, Tenant shall be responsible for obtaining any required permits or authorizations and paying any fees and providing any testing required by any governmental agency; (ii) the Premises will not be used in any manner for the storage of any Hazardous Substances, except for the temporary storage of such materials that are used in the ordinary course of Tenant's business (the "Permitted Materials"), provided such Permitted Materials are properly stored in a manner and location meeting all Environmental Laws and have been approved in advance in writing by Landlord, which such approval shall not be unreasonably withheld or delayed, and, in connection therewith, Tenant shall be responsible for obtaining any required permits or authorizations and paying any fees and providing any testing required by any governmental agency; (iii) no portion of the Premises will be used as a landfill or a dump; (iv) Tenant will not install any underground tanks of any type; (v) Tenant will not allow any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute, a public or private nuisance; (vi) Tenant will not permit any Hazardous Substances to be brought onto the Premises, except for the Permitted Materials, and if so brought or found located thereon, the same shall be immediately removed, with proper disposal, and all required clean-up procedures shall be diligently undertaken by Tenant at its sole cost pursuant to all Environmental Laws. Upon prior notice during normal business hours, Landlord and Landlord's representatives shall have the right but not the obligation to enter the Premises for the purpose of inspecting the storage, use and disposal of any Permitted Materials to ensure compliance with all Environmental Laws. Should it be determined, in Landlord's sole opinion, that any Permitted Materials are being improperly stored, used or disposed of, then Tenant shall immediately take such corrective action as requested by Landlord. Should Tenant fail to take such corrective action within twenty-four (24) hours, Landlord shall have the right to perform such work and Tenant shall reimburse Landlord, on demand, for any and all costs associated with said work. If at any time during or after the term of this Lease, the Premises is found to be contaminated with Hazardous Materials, Tenant shall diligently institute proper and thorough clean-up procedures, at Tenant's sole cost. TENANT AGREES TO INDEMNIFY AND HOLD LANDLORD HARMLESS FROM ALL CLAIMS, DEMANDS, ACTIONS, LIABILITIES, COSTS, EXPENSES, DAMAGES, PENALTIES AND OBLIGATIONS OF ANY NATURE ARISING FROM OR AS A RESULT OF ANY CONTAMINATION OF THE PREMISES WITH HAZARDOUS SUBSTANCES BY TENANT, OR OTHERWISE ARISING FROM THE USE OF THE PREMISES BY TENANT. THE FOREGOING INDEMNIFICATION AND THE RESPONSIBILITIES OF TENANT SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS LEASE.

3 Landlord's Initials _____

Tenant's Initials _____

14. INSPECTION. Landlord's agents and representatives, upon notice to Tenant, shall have the right to enter the Premises at any reasonable time during business hours (or at any time in case of emergency) (i) to inspect the Premises; (ii) to make such repairs as may be required or permitted pursuant to this Lease; and/or (iii) during the last six (6) months of the Lease term, for the purpose of showing the Premises. In addition, Landlord shall have the right to erect a suitable sign on the Premises stating the Premises are available for Lease. Tenant shall notify Landlord in writing at least thirty (30) days prior to vacating the Premises and shall arrange to meet with Landlord for a joint inspection of the Premises prior to vacating. If Tenant fails to give such notice or to arrange for such inspection, then Landlord's inspection of the Premises shall be deemed correct for the purpose of determining Tenant's responsibility for repairs and restoration of the Premises.

15. ASSIGNMENT AND SUBLETTING. Tenant shall not have the right to sublet, assign or otherwise transfer or encumber this Lease, or any interest therein, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Any attempted assignment, subletting, transfer of encumbrance by Tenant in violation of the terms and covenants of this paragraph shall be void. Any assignee, sublessee or transferee of Tenant's interest in this Lease (all such assignees, sublessees and transferees being hereinafter referred to as "Transferees"), by assuming Tenant's obligations hereunder, shall assume liability to Landlord for all amounts paid to persons other than Landlord by such Transferees to which Landlord is entitled or otherwise in contravention of this Paragraph 15. No assignment, subletting or other transfer, whether or not consented to by Landlord or permitted hereunder, shall relieve Tenant of its liability under this Lease. If an Event of Default occurs while the Premises or any part thereof are assigned or sublet, then Landlord, in addition to any other remedies herein provided or provided by law, may collect directly from such Transferee all rents payable to the Tenant and apply such rent against any sums due Landlord hereunder. No such collection shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. If Landlord consents to any subletting or assignment by Tenant as hereinabove provided and any category of rent subsequently received by Tenant under any such sublease is in excess of the same category of rent payable under this Lease, or any additional consideration is paid to Tenant by the assignee under any such assignment, then Landlord may, at its option, declare such excess rents under any sublease or such additional consideration for any assignment to be due and payable by Tenant to Landlord as additional rent hereunder. The following shall additionally constitute an assignment of this Lease by Tenant for the purposes of this Paragraph 15.: (i) if Tenant is a corporation, any merger, consolidation, dissolution or liquidation, or any change in ownership or power to vote of thirty percent (30%) or more of Tenant's outstanding voting stock; (ii) if Tenant is a partnership, joint venture or other entity, any liquidation, dissolution or transfer of ownership of any interests totaling thirty percent (30%) or more of the total interests in such entity; (iii) the sale, transfer, exchange, liquidation or other distribution of more than thirty percent (30%) of Tenant's assets, other than this Lease; or (iv) the mortgage, pledge, hypothecation or other encumbrance of or grant of a security interest by Tenant in this Lease, or of any of Tenant's rights hereunder. For the purposes of this Lease, the merger or sale of a division owned by Tenant shall not constitute an assignment under this Lease.

16. CONDEMNATION. If more than eighty percent (80%) of the Premises or the required parking and access related thereto, are taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain or private purchase in lieu thereof, and the taking prevents or materially interferes with the use of the remainder of the Premises for the purpose for which they were leased to Tenant, then this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease, effective on the date of such taking. If less than eighty percent (80%) of the Premises are taken for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain or private purchase in lieu thereof, or if the taking does not prevent or materially interfere with the use of the remainder of the Premises, parking, access and loading for the purpose for which they were leased to Tenant, then this Lease shall not terminate, but the rent payable hereunder during the unexpired portion of this Lease shall be reduced to such extent as may be fair and reasonable under all of the circumstances. All compensation awarded in connection with or as a result of any of the foregoing proceedings shall be the property of Landlord, and Tenant hereby assigns any interest in any such award to Landlord: provided, however, Landlord shall have no interest in any award made to Tenant for loss of business or goodwill or for the taking of Tenant's trade fixtures and personal property, if a separate award for such items is made to Tenant.

17. HOLDING OVER. At the termination of this Lease by its expiration or otherwise, Tenant shall immediately deliver possession of the Premises to Landlord with all repairs and maintenance required herein to be performed by Tenant completed. If, for any reason, Tenant retains possession of the Premises after the expiration or termination of this Lease, unless the parties hereto otherwise agree in writing, such possession shall be deemed to be a tenancy at will only, and all other terms and provisions of this Lease shall be applicable during such period, except that Tenant shall pay Landlord from time to time, upon demand, as rental for the period of such possession, an amount equal to one and one-half times the rent in effect on the date of such termination of this Lease, computed on a daily basis for each day of such period. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided. The preceding provisions of this Paragraph 17 shall not be construed as consent for Tenant to retain possession of the Premises in the absence of written consent thereto by Landlord.

18. QUIET ENJOYMENT. Landlord represents that it has the authority to enter into this Lease and that, so long as Tenant pays all amounts due hereunder and performs all other covenants and agreements herein set forth, Tenant shall peaceably and quietly have, hold and enjoy the Premises for the term hereof without hindrance or molestation from Landlord, subject to the terms and provisions of this Lease.

19. EVENTS OF DEFAULT. The following events (herein individually referred to as an "Event of Default") each shall be deemed to be default in or breach of Tenant's obligations under this Lease:

A. Tenant shall fail to pay any installment of the rent herein reserved when due, or any other payment or reimbursement to Landlord required herein when due, and such failure shall continue for a period of ten (10) days from the date Landlord provided written notice that such payment was due.

C. Tenant shall fail to discharge any lien placed upon the Premises in violation of paragraph 22 hereof within twenty (20) days after any such lien or encumbrance is filed against the Premises.

D. Tenant shall default in the performance of any of its obligations under any other lease to Tenant from Landlord, or from any person or entity affiliated with or related to Landlord, and same shall remain uncured after the lapsing of any applicable cure period provide for under such other lease.

E. Tenant shall fail to comply with any term, provision or covenant of this Lease (other than those listed above in this paragraph), and shall not cure such failure within thirty (30) days after written notice thereof from Landlord.

20. REMEDIES. Upon each occurrence an Event of Default, Landlord shall have the option to pursue anyone or more of the following remedies without any notice or demand:

(a) Terminate this Lease;

(b) Enter upon and take possession of the Premises without terminating this Lease;

(c) Make such payments and/or take such action and pay and/or perform whatever Tenant is obligated to pay or perform under the terms of this Lease, and Tenant agrees that Landlord shall not be liable for any damages resulting to Tenant from such action; and/or

(d) Alter all locks and other security devices at the Premises, with or without terminating this Lease, and pursue, at Landlord's option, one or more remedies pursuant to this Lease, and Tenant hereby expressly agrees that Landlord shall not be required to provide to Tenant the new key to the Premises, regardless of hour, including Tenant's regular business hours;

Tenant's Initials _____

and in any such event Tenant shall immediately vacate the Premises, and if Tenant fails so to do, Landlord, without waiving any other remedy it may have, may enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying such Premises or any part thereof, without being liable for prosecution or any claim of damages therefor. In the event of any violation of Section 93.008 of the Texas Property Code by Landlord or by any agent or employee of Landlord, Tenant hereby expressly waives any and all rights Tenant may have under Paragraph
(g) of such Section 93.008.

A. DAMAGES UPON TERMINATION. If Landlord terminates this Lease, at Landlord's option, Tenant shall be liable for and shall pay to Landlord the sum of all rental and other payments owed to Landlord hereunder accrued to the date of such termination, plus, as liquidated damages, an amount equal to
(1) the present value of the total rental and other payments owed hereunder for the remaining portion of the Lease term, calculated as if such term expired on the date set forth in Paragraph 1, less, (2) the present value of the then fair market rental for the Premises for such period, provided that, because of the difficulty of ascertaining such value and in order to achieve a reasonable estimate of liquidated damages hereunder, Landlord and Tenant stipulate and agree, for the purposes hereof, that such fair market rental shall in no event exceed seventy-five percent (75%) of the rental amount for such period set forth in Paragraph 2 above.

B. DAMAGES UPON REPOSSESSION. If Landlord repossesses the Premises without terminating this Lease, Tenant, at Landlord's option, shall be liable for and shall pay Landlord on demand all rental and other payments owed to Landlord hereunder, accrued to the date of such repossession, plus all amounts required to be paid by Tenant to Landlord until the date of expiration of the term as stated in Paragraph 1, diminished by all amounts actually received by Landlord through reletting the Premises during such remaining term (but only to the extent of the rent herein reserved). Actions to collect amounts due by Tenant to Landlord under this paragraph may be brought from time to time, on one or more occasions, without the necessity of Landlord's waiting until expiration of the Lease term.

C. COSTS OF RELETTING, REMOVING, REPAIRS AND ENFORCEMENT. Upon an Event of Default, in addition to any sum provided to be paid under this Paragraph 20, Tenant also shall be liable for and shall pay to Landlord (i) brokers' fees and all other costs and expenses incurred by Landlord in connection with reletting the whole or any part of the Premises; (ii) the costs of removing, storing or disposing Tenant's or any other occupant's property; (iii) the costs of repairing, altering, remodeling or otherwise putting the Premises into condition acceptable to a new Tenant or Tenants:
(iv) any and all actual costs and expenses incurred by Landlord in effecting compliance with Tenant's obligations under this Lease; and (v) all reasonable expenses incurred by Landlord in enforcing or defending Landlord's rights and/or remedies hereunder, including without limitation, all reasonable attorneys' fees and all court costs incurred in connection with such enforcement or defense.

D. LATE CHARGE. In the event Tenant fails to make any payment due hereunder within five (5) days after such payment is due, including without limitation any rental or escrow payment, in order to help defray the additional cost to Landlord for processing such late payments and not as interest, Tenant shall pay to Landlord on demand a late charge in an amount equal to five percent (5%) of such payment. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law, and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner.

E. INTEREST ON PAST DUE AMOUNTS. If Tenant fails to pay any sum which at any time becomes due to Landlord under any provision of this Lease as and when the same becomes due hereunder, and such failure continues for ten (10) days after the due date for such payment, then Tenant shall pay to Landlord interest on such overdue amounts from the date due until paid at an annual rate which equals the lesser of (i) eighteen percent (18%) or (ii) the highest rate then permitted by law.

F. NO IMPLIED ACCEPTANCES OR WAIVERS. Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance by Landlord of Tenant's surrender of the Premises, it being understood that such surrender can be effected only by the written agreement of Landlord. Tenant and Landlord further agree that forbearance by Landlord to enforce any of its rights under this Lease or at law or in equity shall not be a waiver of Landlord's right to enforce any one or more of its rights, including any right previously forborne, in connection with any existing or subsequent default. No re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Lease, unless a written notice of such intention is given to Tenant, and, notwithstanding any such reletting or re-entry or taking possession of the Premises, Landlord may at any time thereafter elect to terminate this Lease for a previous default. Pursuit of any remedies hereunder shall not preclude the pursuit of any other remedy herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages occurring to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of any rent following either an Event of Default hereunder shall not be construed as Landlord's waiver of such Event of Default. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants of this Lease shall be deemed or construed to constitute a waiver of any other violation or default.

G. RELETTING OF PREMISES. In the event of any termination of this Lease and/or repossession of the Premises for an Event of Default, Landlord shall use reasonable efforts to relet the Premises and to collect rental after reletting, with no obligation to accept any lessee that Landlord deems undesirable or to expend any funds in connection with such reletting or collection of rents therefrom. Tenant shall not be entitled to credit for or reimbursement of any proceeds of such reletting in excess of the rental owed hereunder for the period of such reletting. Landlord may relet the whole or any portion of the Premises for any period, to any Tenant and for any use or purpose.

H. LANDLORD'S DEFAULT. If Landlord fails to commence to perform any of its obligations hereunder within thirty (30) days after written notice from Tenant specifying such failure, and such failure results in a defect that seriously jeopardizes the safety of persons occupying the

Premises or threatens equipment or machinery owned by Tenant within the Premises, or such defect impairs Tenant's ability to conduct its business within the Premises, and Landlord has failed to commence to cure the default or obligation within the thirty (30) day period outlined above, Tenant shall be permitted to cure Landlord's default or obligation and Landlord will be obligated to reimburse Tenant for the actual cost incurred to cure Landlord's default or obligation.

All obligations of Landlord hereunder will be construed as covenants, not conditions; and all such obligations will be binding upon Landlord only during the period of its possession of the Premises and not thereafter. The term "Landlord" shall mean only the owner, for the time being of the Premises and, in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all covenants and obligations of the Landlord thereafter accruing, provided that such covenants and obligations shall be binding during the Lease term upon each new owner for the duration of such owner's ownership. Notwithstanding any other provision of this Lease, Landlord shall not have any personal liability hereunder. In the event of any breach or default by Landlord in any term or provision of this Lease, Tenant agrees to look solely to the equity or interest then owned by Landlord in the Premises or the Building; however, in no event, shall any deficiency judgment or any money judgment of any kind by sought or obtained against any Landlord.

I. TENANT'S PERSONAL PROPERTY. If Landlord repossesses the Premises pursuant to the authority herein granted, or if Tenant vacates or abandons all or any part of the Premises, then, in addition to Landlord's rights under Paragraph 29 hereof, Landlord shall have the right to (i) keep in place and use or (ii) remove and store, all of the furniture, fixtures, and equipment at the Premises, including that which is owned by Tenant, at all times prior to any foreclosure thereon by Landlord or repossession thereof by any lessor thereof or third party having a lien thereon. In addition to the Landlord's other rights hereunder, Landlord may dispose of the stored property if Tenant does not claim the property within twenty (20) days after the date the property is stored. Landlord shall give Tenant at least ten (10) ten days prior written notice of such intended disposition. Landlord shall also have the right to relinquish possession of all or any portion of such furniture, fixtures, equipment and other property to any person ("Claimant") who presents to Landlord a copy of any instrument represented by Claimant to have been executed by Tenant (or any predecessor of Tenant) granting Claimant the right under various circumstances to take possession of such furniture, fixtures, equipment or other property, without the necessity on the part of Landlord to inquire into the authenticity or legality of said instrument. The rights of Landlord herein stated shall be in addition to any and all other rights that Landlord has or may hereafter have at law or in equity; and Tenant stipulates and agrees that the rights granted Landlord under this paragraph are commercially reasonable.

21. MORTGAGES. Tenant accepts this Lease subject and subordinate to any mortgages and/or deeds of trust now or at any time hereafter constituting a lien or charge upon the Premises or the improvements situated thereon or the Building, provided, however, that

Tenant's Initials _____

if the mortgagee, trustee or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease superior to any such instrument, then by notice to Tenant from such mortgagee, trustee or holder, this Lease shall be deemed superior to such lien, whether this Lease was executed before or after said mortgage or deed of trust. Tenant, at any time hereafter on demand, shall execute any instruments, releases or other documents that may be required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, provided the subordination does not change any of the Lease terms contained within this Lease and the subordination agreement contains an attornment and non-disturbance agreement. Tenant shall not terminate this Lease or pursue any other remedy available to Tenant hereunder for any default on the part of Landlord without first giving written notice by certified or registered mail, return receipt requested, to any mortgagee, trustee or holder of any such mortgage or deed of trust, the name and post office address of which Tenant has received written notice, specifying the default in reasonable detail and affording such mortgagee, trustee or holder a reasonable opportunity (but in no event less than thirty days) to make performance, at its election, for and on behalf of Landlord.

22. MECHANIC'S LIENS. Tenant has no authority, express or implied, to create or place any lien or encumbrance of any kind or nature whatsoever upon, or in any manner to bind the interest of Landlord or Tenant in the Premises. TENANT WILL SAVE AND HOLD LANDLORD HARMLESS FROM ANY AND ALL LOSS, COST OR EXPENSE, INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES, BASED ON OR ARISING OUT OF ASSERTED CLAIMS OR LIENS AGAINST THE LEASEHOLD ESTATE OR AGAINST THE RIGHT, TITLE AND INTEREST OF THE LANDLORD IN THE PREMISES OR UNDER THE TERMS OF THIS LEASE.

23. MISCELLANEOUS.

A. INTERPRETATION. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

B. BINDING EFFECT. Except as otherwise herein expressly provided, the terms, provisions and covenants and conditions in this Lease shall apply to, inure to the benefit of and be binding upon the parties hereto and upon their respective heirs, executors, personal representatives, legal representatives, successors and assigns. Landlord shall have the right to transfer and assign, in whole or in part, its rights and obligations in the Premises and in the Building and other property that are the subject of this Lease.

C. EVIDENCE OF AUTHORITY. Tenant agrees to furnish to Landlord, promptly upon demand, a corporate resolution, proof of due authorization by partners or other appropriate documentation evidencing the due authorization of such party to enter into this Lease.

D. FORCE MAJEURE. Landlord shall not be held responsible for delays in the performance of its oblations hereunder when caused by material shortages, acts of God, labor disputes or other events beyond the control of Landlord.

E. PAYMENTS CONSTITUTE RENT. Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not expressly denominated as rent, shall constitute rent.

F. ESTOPPEL CERTIFICATES. Tenant agrees, from time to time, within ten (10) days after request of Landlord, to deliver to Landlord, or Landlord's designee, an estoppel certificate stating that this Lease is in full force and effect, the date to which rent has been paid, the unexpired term of this Lease, any defaults existing under this Lease (or the absence thereof) and such other factual or legal matters pertaining to this Lease as may be requested by Landlord. It is understood and agreed that Tenant's obligation to furnish such estoppel certificates in a timely fashion is a material inducement for Landlord's execution of this Lease, provided it does not alter the terms of this Lease.

G. ENTIRE AGREEMENT. This Lease constitutes obligations which have the entire understanding and agreement of Landlord and Tenant with respect to the subject matter of this Lease, and contains all of the covenants and agreements of Landlord and Tenant with respect thereto. Landlord and Tenant each acknowledge that no representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations or representations not expressly set forth in this Lease are of no force or effect. EXCEPT AS SPECIFICALLY PROVIDED IN THIS LEASE, TENANT HEREBY WAIVES THE BENEFIT OF ALL IMPLIED WARRANTIES, IT BEING UNDERSTOOD THAT LANDLORD WILL CONSTRUCT THE PREMISES SPECIFICALLY FOR TENANT'S INTENDED USE AND IN ACCORDANCE WITH PLANS AND SPECIFICATIONS, AND WITH RESPECT TO THE PREMISES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR ANY PARTICULAR PURPOSE. Landlord's agents and employees do not and will not have authority to make exceptions, changes or amendments to this Lease, or factual representations not expressly contained in this Lease. Under no circumstances shall Landlord or Tenant be considered an agent of the other. This Lease may not be altered, changed or amended except by an instrument in writing signed by both parties hereto.

H. SURVIVAL OF OBLIGATIONS. All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of the term of this Lease shall survive the expiration or earlier termination of the term hereof, including without limitation all payment obligations with respect to taxes and insurance and all obligations concerning the condition and repair of the Premises. Upon the expiration or earlier termination of the term hereof, and prior to Tenant vacating the Premises, Tenant shall pay to Landlord any amount reasonably estimated by Landlord as necessary to put the Premises in good condition and repair, reasonable wear and tear excluded, including without limitation the cost of repairs to and replacements of all heating and air conditioning systems and equipment therein. Tenant shall also, prior to vacating the Premises, pay to Landlord the amount, as estimated by Landlord, of Tenant's obligation hereunder for real estate taxes and insurance premiums for the year in which the Lease expires or terminates. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant hereunder, with Tenant being liable for any additional costs therefore upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied, as the case may be. Any Security Deposit held by Landlord may, at

Landlord's option, be credited against any amounts due from Tenant under this Paragraph 23H.

I. SEVERABILITY OF TERMS. If any clause or provision of this Lease is illegal, invalid or unenforceable under present of future laws effective during the term of this Lease, then, in such event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable clause or provision as may be legal, valid and enforceable.

J. EFFECTIVE DATE. All references in this Lease to "the date hereof" or similar references shall be deemed to refer to the last date in point in time on which all parties hereto have executed this Lease.

K. BROKER'S COMMISSION. Tenant represents and warrants that it has dealt with and will deal with no broker, agent or other persons other than CHRIS WHITWORTH OF HILL PARTNERS AND SCOTT YOUNG AND CHAD MUELLER OF SCOTT YOUNG PROPERTIES in connection with this transaction or future related transactions and that no broker, agent or other person brought about this transaction, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with them with regard to this leasing transaction.

L. AMBIGUITY. Landlord and Tenant hereby agree and acknowledge that this Lease has been fully reviewed and negotiated by both Landlord and Tenant, and that Landlord and Tenant have each had the opportunity to have this Lease reviewed by their respective legal counsel, and, accordingly, in the event of any ambiguity herein, Tenant does hereby waive the rule of construction that such ambiguity shall be resolved against the party who prepared this Lease.

M. JOINT AND SEVERAL LIABILITY. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. If there be a guarantor of Tenant's obligations hereunder, the obligations hereunder imposed upon Tenant shall be joint and several obligations of Tenant and such guarantor, and Landlord need not first proceed against Tenant before proceeding against such guarantor, nor shall any such guarantor be released from its guaranty for any reason whatsoever, including, without limitation, in case of any amendments hereto, waivers hereof or failure to give such guarantor any notices hereunder

N. THIRD PARTY RIGHTS. Nothing herein expressed or implied is intended, or shall be construed, to confer upon or give to any person or entity, other than the parties hereto, any right or remedy under or by reason of this Lease.

0. EXHIBITS AND ATTACHMENTS. All exhibits, attachments, riders and addenda referred to in this Lease, and the exhibits listed herein below and attached hereto, are incorporated into this Lease and made a part hereof for all intents and purposes as if fully set out herein. All capitalized terms used in such documents shall, unless otherwise defined therein, have the same meanings as are set forth herein.

P. APPLICABLE LAW. This Lease has been executed in the State of Texas and shall be governed in all respects by the laws of the State of Texas. It is the intent of Landlord and Tenant to conform strictly to all applicable state and federal usury laws. All agreements between Landlord and Tenant, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever shall the amount contracted for, charged or received by Landlord for the use, forbearance or retention of money hereunder or otherwise exceed the maximum amount which Landlord is legally entitled to contract for, charge or collect under the applicable state or federal law. If, from any circumstance whatsoever, fulfillment of any provision hereof at the time performance of such provision shall be due shall involve transcending the limit of validity prescribed by law, then the obligation to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance Landlord shall ever receive as interest or otherwise an amount in excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of rent hereunder, and if such amount which would be excessive interest exceeds such rent, then such additional amount shall be refunded to Tenant.

24. NOTICES. Each provision of this instrument or of any applicable governmental laws, ordinances, regulations and other requirements with reference to the sending, mailing or delivering of notice or the making of any payment by Landlord to Tenant or with reference to the sending, mailing or delivering of any notice or the making of any payment by Tenant to Landlord shall be deemed to be complied with when and if the following steps are taken:

(i) All rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord at the address for Landlord set forth below or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith. Tenant's obligation to pay rent and any other amounts to Landlord under the terms of this Lease shall not be deemed satisfied until such rent and other amounts have been actually received by Landlord.

(ii) All payments required to be made by Landlord to Tenant hereunder shall be payable to Tenant at the address set forth below, or at such other address within the continental United States as Tenant may specify from time to time by written notice delivered in accordance herewith.

(iii) Except as expressly provided herein, any written notice, document or payment required or permitted to be delivered hereunder shall be deemed to be delivered when received or, whether actually received or not, when deposited in the United States Mail, postage prepaid, Certified or Registered Mail, addressed to the parties hereto at the respective addresses set out below, or at such other address as they have theretofore specified by written notice delivered in accordance herewith.

26. ADDITIONAL PROVISIONS. See EXHIBIT "B" attached hereto and incorporated by reference herein.

EXECUTED BY LANDLORD, this 15th day of April, 1998.

CROSS PARK INVESTORS, LTD.

BY: CAMERON ROAD INVESTORS, LTD. A TEXAS LIMITED LIABILITY CO.

ITS: GENERAL PARTNER

BY:

ITS: MANAGING DIRECTOR

Address: C/O Scott Young Properties P.O. Box 1525, Austin, Texas 78767

EXECUTED BY TENANT, this 8th day of April, 1998.

ADVANCED ENERGY INDUSTRIES, INC.

By:

Its: VP & CFO

Address: 1625 Sharp Point Drive Fort Collins, CO 80525 Phone: 970-221-4670

EXHIBIT "A" Description of Premises
EXHIBIT "B" Additional Provisions
EXHIBIT "C" Rules and Regulations
EXHIBIT "D" Tenant Construction Standards
EXHIBIT "E" Sign Criteria

Landlord's Initials _____

Tenant's Initials _____

EXHBIT "F" Construction Plans

 Landlord's Initials _____

Tenant's Initials _____

EXHIBIT "A"

Lots 5 and 6 of Block I, Walnut Creek Business Park, Phase A,
Section 1, Travis County, Texas, and locally known as 8601 Cross Park Drive, Austin, Texas.

[MAP]

EXHIBIT "B"

ADDITIONAL PROVISIONS

1. N-N-N CHARGES. In addition to the Base Rent as specified in paragraph
2. A and B of the Lease, Tenant shall escrow with Landlord on a monthly basis along with the Base Rent payment, Tenant's pro rata share of the cost of Real Property Taxes, Insurance and Common Area Maintenance. The initial estimated monthly costs for these items based on preliminary estimates of cost for the full year (and subject to increase or decrease) are as follows:

EXPENSE	PER SQUARE FOOT	AMOUNT PER MONTH
Property Taxes	$.10	$ 681.20
Insurance	$.01	$ 68.12
CAM	$.09	$ 613.08
TOTAL	$.20	$1,362.40

2. CONDITION OF THE PREMISES. Landlord shall deliver the Premises in an "as-is" condition except that Landlord shall agree to clean the floors and walls prior to occupancy by Tenant.

3. TENANT IMPROVEMENTS. At its' sole cost and expense and with Landlord's prior consent as to the location and the installation technique, Tenant shall be allowed to:

A) Install an approximately 12' x 12' fenced concrete pad at the rear of the Premises. Landlord and Tenant shall agree on a mutually acceptable location for the enclosure.

B) Install an air compressor and chilled water tower within the fenced area behind the Premises.

C) Upgrade the existing electrical service, if necessary.

If required by Landlord, Tenant shall agree to restore the Premises to its original condition, reasonable wear and tear excepted upon the expiration of this Lease.

4. SHARED LOADING DOCK. Landlord will use good faith to obtain a written agreement with Aera Corporation for the sharing of the dock-high loading dock at the rear of the Aera Corporation lease space.

5. LEASE EXPIRATION. This Lease shall expire upon the earlier of the following events occurring:

A) One (1) year from the Commencement Date of the Lease as specified in the Lease.

B) The commencement of the lease term and the payment of rent by Advanced Energy Industries, Inc. for a lease space within the Cameron Technology Center.

6. LEASE EXTENSION. In the event the building shell to be constructed by Cameron Technology Investors, Ltd. for Advanced Energy Industries, Inc. within the Cameron Technology Center is not substantially complete by February 15, 1999, Landlord shall agree to automatically extend this Lease for a period of six (6) additional months from the date the Lease would have otherwise expired as specified in this Lease. All other terms and conditions within the Lease will remain the same during the Lease Extension period.

Landlord's Initials _____

Tenant's Initials _____

EXHIBIT "C"

BUSINESS PARK RULES AND REGULATIONS

The following rules and regulations shall apply where applicable, to the Premises, the Building, the Project, the driveways and parking areas, the land situated beneath the Premises, Building, and Project and the appurtenances thereto:

1. Sidewalks, doorways, halls stairways and other similar areas shall not be obstructed by Tenant or used by any Tenant for any purpose other than ingress and egress to and from the Premises and for going from one to another part of the Building.

2. Plumbing fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or placed therein. Damage resulting to any such fixtures or appliances from misuse by a Tenant or such Tenant's agents, employees or invitees, shall be paid by such Tenant, and Landlord shall not in any case be responsible therefor.

3. No signs, advertisements or notices shall be painted or affixed on or to any windows or doors or other exterior part of the Building or the Premises except of such color, size and style and in such places as shall be first approved by, Landlord. Landlord, at Tenant's sole cost and expense, shall install all letters or numerals by or on doors in such Tenants Premises, which letters or numerals shall be in building standard graphics. No nails, hooks or screws shall be driven or inserted in any part of the Building outside the Premises except by the Building maintenance personnel nor shall any part of the Building be defaced by Tenant. No curtains or other window treatments shall be placed between the glass and the Building standard window treatments.

4. Landlord will provide and maintain a directory for all Tenants at the end of each building and no other directory shall be permitted unless previously consented to by Landlord in writing.

5. Two (2) keys to the locks on the exterior doors entering each Tenant's Premises shall be furnished by Landlord free of charge, with any additional keys to be furnished by Landlord to each Tenant, at Tenant's cost. Tenant shall not place any additional lock or locks on any door in or to its Premises without Landlord's prior written consent. All such keys shall remain the property of Landlord. Landlord will reduce $20.00 per key from Tenant's Security Deposit account for each key issued and not returned by Tenant at time of move out.

6. Landlord will provide within the Business Park a postal box for Tenants receipt of letter mail only. Landlord will issue to the tenant two keys to the postal box. The box keys are not to be duplicated by the Tenant. Tenant is held accountable for the keys and will bear the cost or re-keying the locks should the Tenant fail to return all keys at the end of the Lease.

7. With respect to work being performed by Tenants in its Premises with the approval of Landlord, all tenants will refer all contractors, contractors' representatives and installation technicians rendering any service to them to Landlord for Landlord's supervision, approval and control before the performance of any contractual services. This provision shall apply to all work performed in the Building including, but not limited to, installations of telephones, telegraph equipment, electrical devises and attachments, doors, entrance ways, and any and all installations of every nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment and any other physical portion of the Premises and Building.

8. Each tenant shall cooperate with Landlord's employees in keeping its Premises neat and clean.

9. Tenant is responsible for janitorial service within its Premises.

10. Designated areas for trash containers are assigned to each tenant. Tenants will be billed direct by a trash removal service approved by the Landlord. Drums, pallets, equipment, vehicles, etc. are not allowed to be stored outside of building. Trash in the common area will be removed by the Landlord and the cost of removal prorated to the Tenants sharing the common area.

11. Landlord shall not be responsible to the tenants, their agents, employees, or invitees for any loss of property from the Premises or public areas or for any damages to any property thereon from any cause whatsoever.

12. Should a tenant require telegraphic, telephonic, annunicator or other communication service, Landlord will direct the electrician where and how wires are to be introduced and placed and none shall be introduced or placed except as Landlord shall direct.

13. Tenant shall not make or permit any improper, objectionable or unpleasant noises or odors in the Premises or Building or otherwise interfere in any way with other tenants or persons having business with them.

14. No machinery of any kind shall be operated by Tenant in its Premises without the prior written consent of Landlord, nor shall any tenant use or keep in the Premises or Building any flammable or explosive fluid or substance.

15. Nothing shall be swept or thrown into parking areas or driveways. No birds or animals shall be brought into or kept in, or about any tenant's leased premises.

16. Tenant, its agents, employees and invitees shall park only in those areas designated by Landlord for parking by Tenant and shall not park on any public or private streets contiguous to, surrounding or in the vicinity of the Building without Landlord's prior written consent.

17. No portion of any tenant's Premises shall at any time be used or occupied as sleeping or lodging quarters.

18. Landlord reserves the right to rescind any of these rules and regulations and to make such other and further reasonable rules and regulations as in its judgment shall from time to time be needful for the safety, protection, care and cleanliness of the Building and Project, the operation hereof, the preservation of good order therein and the protection and comfort of the Tenants and their agents, employees and invitees, which rules and regulations, when made and written notice thereof is given to a Tenant, shall be binding upon it in like manner as if originally herein prescribed.

1 Landlord's Initials _____

Tenant's Initials _____

EXHIBIT "D"
TENANT CONSTRUCTION STANDARDS

TENANT SPACE DRAWINGS AND SPECIFICATION REQUIREMENTS
If Landlord's Architect does not prepare the drawings and specifications, then Tenant agrees that they shall be prepared by a licensed Architect and shall bear his registration seal, number, and signature. All documents must be reviewed and approved by Landlord and his Architect prior to the start of construction. The Tenant is required, upon completion of the construction, to provide the Landlord with a marked up blue line complete set of prints showing the conditions as built and a reproducible mylar complete set of drawings with changes in ink and a copy of the building permit and Certificate of Occupancy.

BUILDING CODES AND STANDARDS
All plans, specifications and construction for the Tenant's space must conform to the following codes and standards and any other applicable codes, standards, ordinances, and regulations.

1. Current Uniform Building Codes accepted by the City of Austin.
2. National Electrical Code.
3. City of Austin, Electrical Utility Department Code.
4. Uniform Mechanical Code.
5. City of Austin Health Department Code.
6. Department of Labor - Occupational Safety and Health Standards.
7. Consumer Product Safety Commission.
8. State of Texas Architectural Barriers Requirements.
9. Fire Marshall Requirements.

CONSTRUCTION ACCESS
Tenant shall use only the area immediately to the rear of its lease space for construction access. Adjoining spaces shall not be used for any purpose. Tenant shall be responsible for the repair of any damage done to the Project or Building by Tenant's construction of its own lease space.

TEMPORARY UTILITIES
Tenant and/or his contractors and/or subcontractors are responsible for temporary toilets and temporary utilities for their work, including payment of all utility charges. All arrangements shall be made with City of Austin, Southern Union Gas, and Southwestern Bell as applicable.

CONSTRUCTION TRASH
Trash, surplus construction materials, boxes, crates, debris, etc., from the Tenant's construction shall be removed daily from the Premises and hauled off the project site. Trash left on the project will be hauled off at the Tenant's expense.

TENANT SEPARATION
Walls which abut another Tenant's space must be a minimum two (2) Hour rated extending from floor to the roof deck with insulation. In the case where the space is vacant adjacent to Tenant's demising wall(s), such a wall shall be constructed of 3 1/2" metal studs spaced at 16" o.c. with minimum two (2) layers of 5/8" thick type X gypsum wallboard on the Tenant's side with staggered 2' joints. All penetrations to the demising wall(s) shall be treated to maintain the minimum two (2) Hour rating.

TELEPHONE
It is each Tenant's responsibility to procure the telephone service to its Premises. If any telephone equipment room is required by the Tenant, it must be located within its Premises. Tenants shall be responsible for routing its telephone service through the raceway system provided by Landlord in the shell building.

HVAC
Space above ceilings may not be used as a return air plenum. All return air shall be ducted from the conditioned space. The Landlord has the right to approve or disapprove the HVAC design and Tenant shall select the HVAC equipment from Landlord's standards. Location of roof top units shall be on pads as provided in the shell building with the location approved by the Landlord. Tenant shall indicate the actual weights and dimensions on their working drawings for review and approval by the Landlord of roof mounted equipment. Condensation lines shall drain into each Tenant's sewer

ROOF PENETRATIONS
All roof penetrations, equipment supports, pitch pans, flashing curbing, and roofing repairs shall be as approved by Landlord and performed by a roofer approved by Landlord at Tenant's expense. All roof penetrations shall occur within the boundaries of the Premises.

WATER
A common water line and valve will be provided for each lease space. Tenant water piping shall start at the point of the valve. All tenants requiring more plumbing than the required toilet room facilities, drinking fountain
(1), service sink (1), employee bar type sink (1) shall be required to furnish their own piping, meter, and installation. Should Tenant's water consumption levels exceed typical levels, Landlord and Tenant agree that Tenant shall supply a water flow meter of which Landlord shall read monthly and bill back Tenant for Tenant's actual consumption.

SANITARY SEWER
A sewer line will be installed under floor accessible to the Premises. Tenant's sewer piping will start at the point of the sewer line tap in Tenant's Premises.

ELECTRICITY
All electric service meter wireways will be installed in an area determined by Landlord. Each Tenant shall furnish and install his meter at the appropriate meter wireway as approved by Landlord. Tenant shall be responsible for obtaining an electric meter at his cost. If the wattage density exceeds that provided in the shell for Tenant's lease space, the Tenant will pay the additional cost for larger service to be installed by Landlord. Total power requirements shall be tabulated on the Tenant's working drawings submitted for approval.

EXHIBIT "E"

SIGN CRITERIA

1. COST OF THE SIGN(S). Identifying Tenant graphics for all leased Premises are the responsibility of Tenant. All expenses for fabrication, installation and sign maintenance shall be borne solely by Tenant.

2. APPROVAL OF SHOP DRAWINGS. Prior to the fabrication of any sign, Tenant shall present to Landlord and to the Walnut Creek Improvement Association for approval, shop drawings prepared by the manufacturer. All shop drawings shall be dimensionally scaled with the proposed sign located on a drawing of the building elevation; the shop drawings shall indicate all dimensions; shall indicate the actual letter style or font; if a logo is to be used, the actual logo shall be illustrated on the building elevation; all actual materials, paint brand and color(s) shall be specified; and the method of the sign attachment to the Building shall be clearly denoted. Landlord does not represent or warrant that these sign criteria contained herein will meet the specific requirements of the Walnut Creek Improvement Association. Landlord shall agree to use good faith to assist Tenant in securing the approval of its sign from the Walnut Creek Improvement Association.

3. MATERIALS. Tenant sign graphics shall consist of individually cut letters. Letters shall be cut from 1/8" Lexan mounted or laminated to a three inch (3") width sign foam board or similar material. Letters shall be primed and painted uniformly on face and sides with Benjamin Moore Industrial grade paint or equivalent.

4. LOGOTYPES. Logotypes shall be cut from the same material as letters. Logotype area shall not exceed eighteen inches (18") in height and the sign or logotype length shall not exceed the lesser of fifty percent (50%) of the width of Tenant's Premises or fifteen feet (15'). All signs or logotypes shall be located above and appurtenant to the store front of the Premises.

5. SIZE. No individual letter shall exceed eighteen inches (18") in height. Letter line length shall not exceed the lesser of fifty percent (50%) of the width of Tenant's Premises or fifteen feet (15'). Should Tenant's sign contain more than one letter line, the total height of all letter lines combined shall not exceed forty inches (40"). All signs or logotypes shall be located above and appurtenant to the store front of the Premises.

6. MOUNTING METHODS. All letters shall be mounted with clear silicone and mounted flush to the exterior wall surface. Upon the expiration of the Lease, Tenant shall remove all exterior signs from the Building and shall restore the exterior of the Building to its original condition. Should Tenant fail to do so, Landlord reserves the right to perform this duty and deduct all costs associated with the removal of the sign and restoration of the Building from the Security Deposit.

7. PROHIBITED MATERIALS. Pan signs, illuminated signs, neon or flashing signs, banners, sandwich boards or any other sign type or material not specifically allowed above.

8. DOORS AND WINDOW GRAPHICS. Vinyl door and window graphics are permitted. Letter size shall not exceed 1-1/2" cap height. Line length shall not exceed 20". All graphics shall be reverse cut from white 3M vinyl, Sparcal vinyl or equivalent vinyl material and shall be mounted to the interior of door glass or sidelight glass. Plaques, neon or paper signs are prohibited at all times.

Landlord's Initials _____

Tenant's Initials _____

Standard Industrial Lease Agreement Tenant: Advanced Energy Industries, Inc. Cameron Technology Center (11/25/97) Square Feet: 19,800 square feet Lease Commences: _____ Lease Expires: _____

LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into by and between CAMERON TECHNOLOGY INVESTORS, LTD., hereinafter referred to as "Landlord", and ADVANCED ENERGY INDUSTRIES, INC., hereinafter referred to as "Tenant".

1. PREMISES AND TERM. In consideration of the mutual obligations of Landlord and Tenant set forth herein, Landlord leases to Tenant and Tenant hereby takes from Landlord, certain leased premises situated within the County of Travis, State of Texas, and known locally as SUITE 100, BUILDING 2, CAMERON TECHNOLOGY CENTER, LOCATED AT 8900 CAMERON ROAD, AUSTIN, TEXAS AND CONSISTING OF APPROXIMATELY 19,800 SQUARE FEET OF RENTABLE AREA as more particularly described on EXHIBIT "A" attached hereto and incorporated herein by reference (THE "PREMISES"), to have and to hold, subject to the term, covenants and conditions in this Lease. The term of this Lease shall commence on the COMMENCEMENT DATE as hereinafter set forth and shall end on the last day of the month that is SIXTY (60) months after the COMMENCEMENT DATE.

A. COMMENCEMENT DATE. The "Commencement Date" shall mean the date on which the earlier of the following occurs: (i) the date Tenant takes possession of the Premises for the operation of its business; or (ii) APRIL 1, 1999. Landlord shall notify Tenant in writing that the Commencement Date has occurred. If for any reason the Building shell is not substantially complete on FEBRUARY 15, 1999 this Lease and the obligations of Tenant shall nonetheless commence and continue in full force and effect and Landlord shall have no liability to Tenant; provided, however, if the Building shell is not substantially complete for any reason other than omission, delay, or default on the part of Tenant or anyone acting under or for Tenant, Tenant may terminate this Lease by providing Landlord written notice not later than MARCH 1, 1999 and the termination of this Lease shall constitute Tenant's sole remedy and shall constitute full settlement of all claims that Tenant might otherwise have against Landlord by reason of the Building shell not being substantially complete by FEBRUARY 15, 1999. Landlord shall not be liable to Tenant or any third party for any damage, claim, expense or loss, actual or consequential, or direct or indirect, resulting from any delay by Landlord to deliver the Building shell, except that Landlord shall refund any rent or Security Deposit that has been pre-paid by Tenant under this Lease.

2. BASE RENT, SECURITY DEPOSIT AND ESCROW DEPOSITS.
A. BASE RENT. Tenant agrees to pay to Landlord rent for the Premises in advance, without demand, deduction or set off, at the rate of:

MONTHS 1-12:	FIFTEEN THOUSAND AND SEVENTY-TWO DOLLARS AND 20/XX ($15,072.20) PER MONTH;
MONTHS 13-24:	FIFTEEN THOUSAND FOUR HUNDRED AND SIXTY-EIGHT DOLLARS AND 20/XX ($15,468.20) PER MONTH;
MONTHS 25-36:	FIFTEEN THOUSAND EIGHT HUNDRED AND SIXTY-FOUR DOLLARS AND 20/XX ($15,864.20) PER MONTH;
MONTHS 37-48:	SIXTEEN THOUSAND TWO HUNDRED AND SIXTY DOLLARS AND 20/XX ($16,260.20) PER MONTH;
MONTHS 49-60:	SIXTEEN THOUSAND SIX HUNDRED AND FIFTY-SIX DOLLARS AND 20/XX ($16,656.20) PER MONTH,

during the term hereof. One monthly installment, plus the other monthly charges set forth in Paragraph 2C below, shall be due and payable on the date hereof, and a like monthly installment shall be due and payable on or before the first day of each calendar month succeeding the Commencement Date, except that all payments due thereunder for any fractional calendar month shall be prorated.

B. SECURITY DEPOSIT. In addition, Tenant agrees to deposit with Landlord on the date hereof the sum of SEVENTEEN THOUSAND SIX HUNDRED AND TWENTY-TWO DOLLARS AND 00/XX ($17,622.00) which shall be held by Landlord, without obligation for interest, as security for the performance of Tenant's obligations under this Lease (the "Security Deposit"), it being expressly understood and agreed that the Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon occurrence of an Event of Default, Landlord may use all or part of the Security Deposit to pay past due rent or other payments due Landlord under this Lease, or the cost of any other damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. On demand, Tenant shall pay Landlord the amount that will restore the Security Deposit to its original amount. The Security Deposit shall be deemed the property of Landlord, but any remaining balance of the Security Deposit shall be returned by Landlord to Tenant when all of Tenant's present and future obligations under this Lease have been fulfilled.

C. ESCROW DEPOSITS. Without limiting in any way Tenant's other obligations under this Lease, Tenant agrees to pay to Landlord its Proportionate Share (as defined in this Paragraph 2C below) of (i) Taxes* payable by Landlord pursuant to Paragraph 3A below, (ii) the cost of utilities payable by Landlord pursuant to Paragraph 8 below, (iii) Landlord's cost of maintaining insurance pursuant to Paragraph 9A below and (iv) Landlord's cost of maintaining the Premises pursuant to paragraph 5D below and any common area charges payable by Tenant in accordance with Paragraph 4 below (collectively, the "Tenant Costs"). During each month of the term of this Lease, on the same day that rent is due hereunder, Tenant shall deposit in escrow with Landlord an amount equal to 1/12 of the estimated annual amount of Tenant's Proportionate Share of the Tenant Costs. Tenant authorizes Landlord to use the funds deposited with Landlord under this Paragraph 2C to pay such Tenant Costs. The initial monthly escrow payments are based upon the estimated amounts for the year in question, and shall be increased or decreased annually to reflect the projected actual amount of all Tenant Costs. If the Tenant's total escrow deposits for any calendar year are less than Tenant's actual Proportionate Share of the Tenant Costs for such calendar year, Tenant shall pay the difference to Landlord within ten (10) days after demand. If the total escrow deposits of Tenant for any calendar year are more than Tenant's actual Proportionate Share of the

Tenant Costs for such calendar year, Landlord shall retain such excess and credit it against Tenant's escrow deposits next maturing after such determination. In the event the Premises constitute a portion of a multiple occupancy building (the "Building"), Tenant's "Proportionate Share" with respect to the Building, as used in this Lease, shall mean a fraction, the numerator of which is the gross rentable area contained in the Premises and the denominator of which is the gross rentable area contained in the entire Building. In the event the Premises or the Building is part of a project or business park owned, managed or leased by Landlord, or an affiliate of Landlord (the "Project"), Tenant's "Proportionate Share" of the Project, as used in this Lease shall mean a fraction, the numerator of which is the gross rentable area contained in the Premises and the denominator of which is the gross rentable area contained in all of the buildings (including the Building) within the Project. For the purposes of this Lease, Tenant's proportionate share shall be defined initially as SIXTEEN AND SIX-TENTHS PERCENT (16.6%).

3. TAXES.

A. REAL PROPERTY TAXES. Subject to reimbursement under Paragraph 2C herein, Landlord agrees to pay all taxes,* that accrue against the Premises, the Building and /or the land of which the Premises or the Building are a part. If at any time during the term of this Lease, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the rents received therefrom and /or the land and improvements of which the Premises are a part, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Taxes" for the purpose hereof. The Landlord shall have the right to employ a tax consulting firm to attempt to assure a fair tax burden on the real property within the applicable taxing jurisdiction. Tenant agrees to pay its Proportionate Share of the cost of such consultant.

B. PERSONAL PROPERTY TAXES. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in or on the Premises. If any such taxes are levied or assessed against Landlord or Landlord's property (i) Landlord pays the same or (ii) the assessed value of Landlord's property is increased by inclusion of such personal property and fixtures and Landlord pays the increased taxes, then Tenant shall pay to Landlord, upon demand, the amount of such taxes.

4. LANDLORD'S REPAIRS AND MAINTENANCE.

A. STRUCTURAL REPAIRS. Landlord, at its own cost and expense, shall maintain the roof, foundation and the structural soundness of the exterior walls of the Building in good repair, reasonable wear and tear excluded. The term "walls" as used herein shall not include windows, glass, or plate glass, any doors, special store fronts or office entries, and the term "foundation" as used herein shall not include loading docks. Tenant shall immediately give Landlord written notice of defect or need for repairs, after which Landlord shall have thirty (30) days to commence to

* For purposes of this Lease, "Taxes" means all taxes, assessments and governmental charges (excluding any federal and state income taxes, franchise taxes, profit taxes and lease taxes, so long as such federal and state income taxes, franchise taxes, profit taxes or lease taxes are not assessed in lieu of some or all of the customary ad valorem taxes being assessed against the Project as of the date of this Lease).

C. REASSESSMENTS. At the reasonable request of Tenant, Landlord shall virgorously challenge any increases in Taxes, arising from a reassessment of landlord's property or otherwise.

Landlord's Initials _____

Tenant's Initials _____

effect such repairs or cure such defect. In the event a defect occurs that seriously jeopardizes the safety of persons occupying the Premises or threatens equipment or machinery owned by Tenant within the Premises, and Landlord has failed to commence the repairs for such defect within the thirty
(30) day period outlined above, Tenant shall be permitted to initiate the repair and Landlord will be obligated to reimburse Tenant for the actual cost of the repair.

B. TENANT'S SHARE OF COMMON AREA CHARGES. Tenant agrees to pay its Proportionate Share of the cost of (i) maintenance and/or landscaping (including both maintenance and replacement of landscaping) of any property that is a part of the Building and/or the Project; and (ii) operating, maintaining and repairing any property, facilities or services (including without limitation utilities and insurance therefor) provided for the use or benefit of Tenant or the common use or benefit of Tenant and other lessees of the Project or the Building; and (iii) the reasonable cost of property management and supervision which shall be at rates customary of the property type and market conditions.

Landlord reserves the right to perform, in whole or in part and without notice to Tenant, maintenance, repairs and replacements to the paving, common area landscape replacement and maintenance, exterior painting, common sewage line plumbing and any other items that are provided for the use or benefit of Tenant or the common use or benefit of Tenant and other lessees of the Project or the Building; in which event, Tenant shall be liable for its Proportionate Share of the cost and expense of such repair, replacement, maintenance and other such items.

5. TENANT'S REPAIRS.

A. MAINTENANCE OF PREMISES AND APPURTENANCES. Tenant at its own cost and expense, shall (i) maintain all parts of the Premises and promptly make all necessary repairs and replacements to the Premises (except those for which Landlord is expressly responsible hereunder), and (ii) keep the parking areas, driveways and alleys surrounding the Premises in a clean and sanitary condition. Tenant's obligation to maintain, repair and make replacements to the Premises shall cover, but not be limited to, pest control (including termites), trash removal and the maintenance repair and replacement of all HVAC, electrical, plumbing, sprinkler and other mechanical systems. For the purposes of this Lease, Landlord shall assign all warranties received from the general contractor who constructs the Tenant Improvements within the Premises and Tenant shall look to the general contractor for warranty on all repairs and replacements required within the Premises.

B. PARKING. Tenant and its employees, customers and licensees shall have the right to use only its Proportionate share of any parking areas that have been designated for such use by Landlord in writing, subject to (i) all rules and regulations promulgated by Landlord; and (ii) rights of ingress and egress of other lessees. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties, and Tenant expressly does not have the right to tow or obstruct improperly parked vehicles. Tenant agrees not to park on any public streets or private roadways adjacent to or in the vicinity of the Premises. For the purposes of this Lease, Tenant shall be allotted a parking ratio of four (4) parking spaces per thousand (1,000) square feet of rentable lease area contained within the Premises, with such parking ratio not including areas within the truck court that may be striped for parking from time to time.

C. SYSTEM MAINTENANCE. Tenant at its own cost and expense, shall enter into a regularly scheduled preventative maintenance/service contract with a maintenance contractor approved by Landlord for servicing all hot water, heating and air conditioning systems and equipment within the Premises. The service contract must include all services suggested by the equipment manufacturer in its operations/maintenance manual and must become effective within thirty (30) days of the date Tenant takes possession of the Premises

6. ALTERATIONS. Tenant shall not make any alterations, additions or improvements to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Tenant, at its own cost and expense, may erect such shelves, bins, machinery and trade fixtures as it desires, provided that (a) such items do not alter the basic character of the Premises or the Building; (b) such items do not overload or damage same; (c) such items may be removed without injury to the Premises; and (d) the construction, erection or installation thereof complies with all applicable governmental laws ordinances, regulations and with Landlord's specifications and requirements. Tenant shall be responsible for compliance with The American With Disabilities Act of 1990. Without implying any consent of Landlord thereto, all alterations, additions, improvements and partitions erected by Tenant shall be remain the property of Tenant during the term of this Lease. All shelves, bins machinery and trade fixtures installed by Tenant shall be removed on or before the earlier to occur of the day of termination or expiration of this Lease or vacating the Premises, at which time Tenant shall restore the Premises to their original condition, normal wear and tear excepted. Alterations, installations, removals and restorations shall be performed in a good and workmanlike manner so as not to damage or alter the primary structure or structural qualities of the Building or other improvements situated on the Premises or of which the Premises are a part.

7. SIGNS. Any signage Tenant desires for the Premises shall be subject to Landlord's written approval, which shall not be unreasonably withheld or delayed and shall be submitted to Landlord prior to the Commencement Date of this Lease. Tenant shall repair and/or replace the Building facia surface to which its signs are attached upon Tenant's vacation of the Premises or the removal or alteration of its signage. Tenant shall not, without Landlord' prior written consent, (i) make any changes to the exterior of the Premises,
(ii) install any exterior lights, decorations, balloons, flags, pennants, banners or painting, or (iii) erect or install any signs, windows or door lettering, placards, decorations or advertising media of any type which can be viewed from the exterior of the Premises. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall conform in all respects to the criteria established by Landlord or shall be otherwise subject to Landlord's prior written consent. For the purposes of this Lease, Tenant shall be permitted to use its company logo and colors so long as the design, installation and location of the sign is consistent with the requirements outlined within Exhibit "E", Sign Criteria.

8. UTILITIES. Landlord agrees to provide normal water and electricity service to the Premises. Tenant shall pay for all water, gas, heat, light,

power, telephone, sewer, sprinkler charges and other utilities and services used on or at the Premises, together with any taxes, penalties, surcharges or the like pertaining to the Tenant's use of the Premises, and any maintenance charges for utilities. Landlord shall have the right to cause any of said services to be separately metered to Tenant, at Tenant's expense. Tenant shall pay its pro rata share, as reasonably determined by Landlord, of all charges for jointly metered utilities. Unless resulting from Landlord's negligence or willful misconduct, Landlord shall not be liable for any interruption or failure of utility service on the Premises and Tenant shall have no rights or claims as a result of any such failure. In the event water is not separately metered to Tenant, Tenant agrees that it will not use water and sewer capacity for uses other than normal domestic restroom and kitchen usage and Tenant further agrees to reimburse Landlord for the entire amount of common water and sewer costs as additional rental if, in fact, Tenant uses water or sewer capacity for uses other than normal domestic restroom and kitchen uses without first obtaining Landlord's written permission, including, but not limited to, the cost for acquiring additional sewer capacity to service Tenant's excess sewer use. Furthermore, Tenant agrees in such event to install at its own expense a submeter to determine Tenant's usage.

9. INSURANCE.

A. LANDLORD'S INSURANCE. Subject to reimbursement under Paragraph 2C herein, Landlord shall maintain insurance covering the Building in an amount not less than eighty percent (80%) of the "replacement cost" thereof, insuring against the perils of fire, lightning, flood, tornado, hail, extended coverage, vandalism and malicious mischief.

B. TENANT'S INSURANCE. Tenant, at its own expense, shall maintain during the term of this Lease a policy or policies of worker's compensation and comprehensive general liability insurance, including personal injury and property damage, with contractual liability endorsement, in the amount of Five Hundred Thousand Dollars ($500,000.00) for property damage and One Million dollars ($1,000,000.00) per occurrence and Two Million Dollars ($2,000,000.00) in the aggregate for personal injuries or deaths of persons occurring in or about the Premises. Tenant, at its own expense, also shall maintain during the term of this Lease, fire and extended coverage insurance covering the replacement cost of (i) all alterations, additions, partitions and improvements installed or placed on the Premises by Tenant or by Landlord on behalf of Tenant and (ii) all of Tenant's personal property contained within the Premises. Said policies shall (i) name Landlord as an additional insured and insure Landlord's contingent liability under or in connection with this Lease (except for the worker's compensation policy, which instead shall include waiver of subrogation endorsement in favor of Landlord) (ii) be insured by an insurance company which is acceptable to Landlord, and (iii) provide that said insurance shall not be canceled unless thirty (30) days prior written notice has been given to Landlord. Said policy or policies or certificates thereof shall be delivered to Landlord by Tenant on or before the Commencement Date and upon each renewal of said insurance.

C. PROHIBITED USES. Tenant will not permit the Premises to be used for any purpose or in any manner that would (i) void the insurance thereon, (ii) increase the insurance risk or cost thereof, or (iii) cause the disallowance of any sprinkler credits; including without limitation, use of the Premises for the receipt, storage or handling of any product, material or merchandise that is explosive or highly inflammable. If any increase in the cost of any insurance on the Premises or the Building is caused by Tenant's use of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord within thirty (30) days of written demand therefor.

10. FIRE AND CASUALTY DAMAGE.

A. TOTAL OR SUBSTANTIAL DAMAGE AND DESTRUCTION. If the Premises or the Building should be damaged or destroyed by fire or other peril, Tenant shall immediately give written notice to Landlord of such damage or destruction. If the Premises or the Building should be totally destroyed by any peril covered by the insurance to be provided by Landlord under Paragraph 9A above, or if they should be so damaged thereby that, in Landlord's estimation, rebuilding or repairs cannot be completed within one hundred and fifty (150) days after the date of such damage or after such completion there is not enough time remaining under the terms of this Lease to fully amortize such rebuilding or repairs, then Landlord shall so notify Tenant in writing and this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease, effective upon the date of the occurrence of such damage.

B. PARTIAL DAMAGE OR DESTRUCTION. If the Premises or the Building should be damaged by any perils covered by the insurance to be provided by Landlord under Paragraph 9A above and, in Landlord's estimation, rebuilding or repairs can be substantially completed within one hundred fifty (150) days after the date of such damage, then this Lease shall not terminate and Landlord shall restore the Premises to its previous condition, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements that may have been constructed, erected or installed in or about the Premises for the benefit of or by or for Tenant. In the event of partial damage to the Premises, rent shall abate for the period of reconstruction for the portion of the Premises that cannot be occupied due to the casualty.

C. LIENHOLDERS RIGHTS IN PROCEEDS. Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgagee or deed of trust covering the Premises requires that the insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made known to Landlord by any such holder, whereupon all rights and obligations hereunder shall cease and terminate.

D. WAIVER OF SUBROGATION. Notwithstanding anything in this Lease to the contrary, Landlord and Tenant hereby waive and release each other of and from any and all rights of recovery, claims, actions or causes of action against each other, or their respective agents, officers and employees, for any loss or damage that may occur to the Premises, improvements to the Building or personal property (Building contents) within the Building and/or Premises, for any reason regardless of cause or origin. Each party to this Lease agrees immediately after execution of this Lease to give written notice of the terms of the mutual waivers contained in this subparagraph to each insurance company that has issued to such party policies of fire and extended coverage insurance and, if necessary, to have the insurance policies properly endorsed to provide that the carriers of such policies waive all rights of recovery under subrogation or otherwise against the other party.

11. LIABILITY AND INDEMNIFICATION. Except for any claims, rights of recovery and causes of action that Landlord has released, Tenant shall hold Landlord harmless from and defend Landlord against any and all claims or liability for any injury or damage (i) to any person or property whatsoever occurring in, on or about the Premises or any part thereof, the Building and/or about the Premises or any part thereof, the Building and/or common areas, the use of which Tenant may have in accordance with this Lease, if (and only if) such injury or damage shall be caused in whole or in part by the act, gross neglect, fault or willful omission of any duty by Tenant, its agents, servant, employees or invitees, (ii) arising from the conduct or management of any work done by the Tenant in or about the Premises, (iii) arising from transactions of the Tenant, and (iv) all costs, counsel fees, expenses and liabilities incurred in connection with any such claim or action or proceeding brought thereon. The provisions of this Paragraph 11 shall survive the expiration or termination of this Lease. Landlord shall not be liable in any event for personal injury or loss of Tenant's property caused by fire, flood, water leaks, rain, hail, ice, snow, smoke, lightning, wind, explosion, interruption of utilities, or other occurrences unless resulting from Landlord's acts. Landlord strongly recommends that Tenant secure Tenant's own insurance, in excess of the amounts required elsewhere in this Lease, to protect against the above occurrences if Tenant desires additional coverage for such risks. Tenant shall give prompt notice to Landlord of any significant accidents involving injury to persons or property. Furthermore, Landlord shall not be responsible for lost or stolen personal property, equipment, money or jewelry from the Premises or from the public areas of the Building or the Project, or for any damages or losses caused by theft, burglary, assault, vandalism, or other crimes. Landlord strongly recommends that Tenant provide its own security systems and services and secure Tenant's own insurance in excess of the amounts required elsewhere in this Lease, to protect against the above occurrences if Tenant desires additional protection or coverage for such risks. Tenant shall give Landlord prompt notice of any criminal or suspicious conduct within or about the Premises, the Building or the Project, and/or any personal injury or property damage caused thereby. Landlord may, but is not obligated to, enter into agreements with third parties for the provision of any courtesy patrols or similar services or fire protective systems and equipment and, to the extent same is provided in Landlord's sole discretion, Landlord shall not be liable to Tenant for any damages, costs or expenses which occur for any reason in the event any such system or equipment is not properly installed, monitored or maintained or any such services are not properly provided, unless resulting from Landlord's acts. Landlord shall use reasonable diligence in the maintenance of existing lighting, if any, in the parking areas servicing the Premises, and Landlord shall not be responsible for additional lighting or any security measures in the Project, the Premises or other parking areas.

12. USE. The Premises shall be used only for the purpose of manufacturing, sales, research and development, telephone support, design, receiving, storing, shipping and selling (other than retail) products, materials and merchandise made and/or distributed by Tenant and for such other lawful purposes as may be directly incidental thereto. Outside storage, including without limitation storage of trucks and other vehicles, is prohibited without Landlord's prior written consent. Tenant shall comply with all governmental laws, ordinances and regulations applicable to

the use of the Premises, and shall promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisances in or upon or connected with the Premises, all at Tenant's sole expense. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise or vibrations to emanate from the Premises, nor take any other action that would constitute a nuisance or would disturb, unreasonably interfere with or endanger Landlord or any other lessees of the Building or the Project.

13. HAZARDOUS WASTE. The term "Hazardous Substances," as used in this Lease, shall mean pollutants, contaminants, toxic or hazardous wastes, radioactive materials or any other substances, the use and/or the removal of which is required or the use of which is restricted, prohibited or penalized by any "Environmental Law," which term shall mean any federal, state or local statute, ordinance, regulation or other law of a governmental or quasi-governmental authority relating to pollution or protection of the environment or the regulation of the storage or handling of Hazardous Substances. Limited to its actions only, Tenant hereby agrees that: (i) no activity will be conducted on the Premises that will produce any Hazardous Substance, except for such activities that are part of the ordinary course of Tenant's business activities (the "Permitted Activities"), provided said Permitted Activities are conducted in accordance with all Environmental Laws and have been approved in advance in writing by Landlord, which approval shall not be unreasonably withheld or delayed and, in connection therewith, Tenant shall be responsible for obtaining any required permits or authorizations and paying any fees and providing any testing required by any governmental agency; (ii) the Premises will not be used in any manner for the storage of any Hazardous Substances, except for the temporary storage of such materials that are used in the ordinary course of Tenant's business (the "Permitted Materials"), provided such Permitted Materials are properly stored in a manner and location meeting all Environmental Laws and have been approved in advance in writing by Landlord, which such approval shall not be unreasonably withheld or delayed, and, in connection therewith, Tenant shall be responsible for obtaining any required permits or authorizations and paying any fees and providing any testing required by any governmental agency; (iii) no portion of the Premises will be used as a landfill or a dump; (iv) Tenant will not install any underground tanks of any type; (v) Tenant will not allow any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute, a public or private nuisance; (vi) Tenant will not permit any Hazardous Substances to be brought onto the Premises, except for the Permitted Materials, and if so brought or found located thereon, the same shall be immediately removed, with proper disposal, and all required clean-up procedures shall be diligently undertaken by Tenant at its sole cost pursuant to all Environmental Laws. Upon prior notice during normal business hours, Landlord and Landlord's representatives shall have the right but not the obligation to enter the Premises for the purpose of inspecting the storage, use and disposal of any Permitted Materials to ensure compliance with all Environmental Laws. Should it be determined, in Landlord's sole opinion, that any Permitted Materials are being improperly stored, used or disposed of, then Tenant shall immediately take such corrective action as requested by Landlord. Should Tenant fail to take such corrective action within twenty-four (24) hours, Landlord shall have the right to perform such work and Tenant shall reimburse Landlord, on demand, for any

Tenant's Initials _____

and all costs associated with said work. If at any time during or after the term of this Lease, the Premises is found to be contaminated with Hazardous Materials, Tenant shall diligently institute proper and thorough clean-up procedures, at Tenant's sole cost. TENANT AGREES TO INDEMNIFY AND HOLD LANDLORD HARMLESS FROM ALL CLAIMS, DEMANDS, ACTIONS, LIABILITIES, COSTS, EXPENSES, DAMAGES, PENALTIES AND OBLIGATIONS OF ANY NATURE ARISING FROM OR AS A RESULT OF ANY CONTAMINATION OF THE PREMISES WITH HAZARDOUS SUBSTANCES BY TENANT, OR OTHERWISE ARISING FROM THE USE OF THE PREMISES BY TENANT. THE FOREGOING INDEMNIFICATION AND THE RESPONSIBILITIES OF TENANT SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS LEASE.

14. INSPECTION. Landlord's agents and representatives, upon notice to Tenant, shall have the right to enter the Premises at any reasonable time during business hours (or at any time in case of emergency) (i) to inspect the Premises; (ii) to make such repairs as may be required or permitted pursuant to this Lease; and/or (iii) during the last six (6) months of the Lease term, for the purpose of showing the Premises. In addition, Landlord shall have the right to erect a suitable sign on the Premises stating the Premises are available for Lease. Tenant shall notify Landlord in writing at least thirty (30) days prior to vacating the Premises and shall arrange to meet with Landlord for a joint inspection of the Premises prior to vacating. If Tenant fails to give such notice or to arrange for such inspection, then Landlord's inspection of the Premises shall be deemed correct for the purpose of determining Tenant's responsibility for repairs and restoration of the Premises.

15. ASSIGNMENT AND SUBLETTING. Tenant shall not have the right to sublet, assign or otherwise transfer or encumber this Lease, or any interest therein, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Any attempted assignment, subletting, transfer of encumbrance by Tenant in violation of the terms and covenants of this paragraph shall be void. Any assignee, sublessee or transferee of Tenant's interest in this Lease (all such assignees, sublessees and transferees being hereinafter referred to as "Transferees"), by assuming Tenant's obligations hereunder, shall assume liability to Landlord for all amounts paid to persons other than Landlord by such Transferees to which Landlord is entitled or otherwise in contravention of this Paragraph 15. No assignment, subletting or other transfer, whether or not consented to by Landlord or permitted hereunder, shall relieve Tenant of its liability under this Lease. If an Event of Default occurs while the Premises or any part thereof are assigned or sublet, then Landlord, in addition to any other remedies herein provided or provided by law, may collect directly from such Transferee all rents payable to the Tenant and apply such rent against any sums due Landlord hereunder. No such collection shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. If Landlord consents to any subletting or assignment by Tenant as hereinabove provided and any category of rent subsequently received by Tenant under any such sublease is in excess of the same category of rent payable under this Lease, or any additional consideration is paid to Tenant by the assignee under any such assignment, then Landlord may, at its option, declare such excess rents under any sublease or such additional consideration for any assignment to be due and payable by Tenant to Landlord as additional rent hereunder. The following shall additionally constitute an assignment of this Lease by Tenant for the purposes of this Paragraph 15.: (i) if Tenant is a corporation, any merger, consolidation, dissolution or liquidation, or any change in ownership or power to vote of thirty percent (30%) or more of Tenant's outstanding voting stock; (ii) if Tenant is a partnership, joint venture or other entity, any liquidation, dissolution or transfer of ownership of any interests totaling thirty percent (30%) or more of the total interests in such entity; (iii) the sale, transfer, exchange, liquidation or other distribution of more than thirty percent (30%) of Tenant's assets, other than this Lease; or (iv) the mortgage, pledge, hypothecation or other encumbrance of or grant of a security interest by Tenant in this Lease, or of any of Tenant's rights hereunder. For the purposes of this Lease, the merger or sale of a division owned by Tenant shall not constitute an assignment under this Lease.

16. CONDEMNATION. If more than eighty percent (80%) of the Premises or the required parking and access related thereto, are taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain or private purchase in lieu thereof, and the taking prevents or materially interferes with the use of the remainder of the Premises for the purpose for which they were leased to Tenant, then this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease, effective on the date of such taking. If less than eighty percent (80%) of the Premises are taken for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain or private purchase in lieu thereof, or if the taking does not prevent or materially interfere with the use of the remainder of the Premises, parking, access and loading for the purpose for which they were leased to Tenant, then this Lease shall not terminate, but the rent payable hereunder during the unexpired portion of this Lease shall be reduced to such extent as may be fair and reasonable under all of the circumstances. All compensation awarded in connection with or as a result of any of the foregoing proceedings shall be the property of Landlord, and Tenant hereby assigns any interest in any such award to Landlord:
provided, however, Landlord shall have no interest in any award made to Tenant for loss of business or goodwill or for the taking of Tenant's trade fixtures and personal property, if a separate award for such items is made to Tenant.

17. HOLDING OVER. At the termination of this Lease by its expiration or otherwise, Tenant shall immediately deliver possession of the Premises to Landlord with all repairs and maintenance required herein to be performed by Tenant completed. If, for any reason, Tenant retains possession of the Premises after the expiration or termination of this Lease, unless the parties hereto otherwise agree in writing, such possession shall be deemed to be a tenancy at will only, and all other terms and provisions of this Lease shall be applicable during such period, except that Tenant shall pay Landlord from time to time, upon demand, as rental for the period of such possession, an amount equal to one and one-half times the rent in effect on the date of such termination of this Lease, computed on a daily basis for each day of such period. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided. The preceding provisions of this Paragraph 17 shall not be construed as consent for Tenant to retain possession of the Premises in the absence of written consent thereto by Landlord.

18. QUIET ENJOYMENT. Landlord represents that it has the authority to enter into this Lease and that, so long as Tenant pays all amounts due hereunder and performs all other covenants and agreements herein set forth, Tenant shall peaceably and quietly have, hold and enjoy the Premises for the term hereof without hindrance or molestation from Landlord, subject to the terms and provisions of this Lease.

19. EVENTS OF DEFAULT. The following events (herein individually referred to as an "Event of Default") each shall be deemed to be

default in or breach of Tenant's obligations under this Lease:

A. Tenant shall fail to pay any installment of the rent herein reserved when due, or any other payment or reimbursement to Landlord required herein when due, and such failure shall continue for a period of ten (10) days from the date Landlord provided written notice that such payment was due.

C. Tenant shall fail to discharge any lien placed upon the Premises in violation of paragraph 22 hereof within twenty (20) days after any such lien or encumbrance is filed against the Premises.

D. Tenant shall default in the performance of any of its obligations under any other lease to Tenant from Landlord, or from any person or entity affiliated with or related to Landlord, and same shall remain uncured after the lapsing of any applicable cure period provide for under such other lease.

E. Tenant shall fail to comply with any term, provision or covenant of this Lease (other than those listed above in this paragraph), and shall not cure such failure within thirty (30) days after written notice thereof from Landlord.

20. REMEDIES. Upon each occurrence an Event of Default, Landlord shall have the option to pursue anyone or more of the following remedies without any notice or demand:

(a) Terminate this Lease;

(b) Enter upon and take possession of the Premises without terminating this Lease;

Tenant's Initials _____

(c) Make such payments and/or take such action and pay and/or perform whatever Tenant is obligated to pay or perform under the terms of this Lease, and Tenant agrees that Landlord shall not be liable for any damages resulting to Tenant from such action; and/or

(d) Alter all locks and other security devices at the Premises, with or without terminating this Lease, and pursue, at Landlord's option, one or more remedies pursuant to this Lease, and Tenant hereby expressly agrees that Landlord shall not be required to provide to Tenant the new key to the Premises, regardless of hour, including Tenant's regular business hours;

and in any such event Tenant shall immediately vacate the Premises, and if Tenant fails so to do, Landlord, without waiving any other remedy it may have, may enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying such Premises or any part thereof, without being liable for prosecution or any claim of damages therefor. In the event of any violation of Section 93.008 of the Texas Property Code by Landlord or by any agent or employee of Landlord, Tenant hereby expressly waives any and all rights Tenant may have under Paragraph
(g) of such Section 93.008.

A. DAMAGES UPON TERMINATION. If Landlord terminates this Lease, at Landlord's option, Tenant shall be liable for and shall pay to Landlord the sum of all rental and other payments owed to Landlord hereunder accrued to the date of such termination, plus, as liquidated damages, an amount equal to
(1) the present value of the total rental and other payments owed hereunder for the remaining portion of the Lease term, calculated as if such term expired on the date set forth in Paragraph 1, less, (2) the present value of the then fair market rental for the Premises for such period, provided that, because of the difficulty of ascertaining such value and in order to achieve a reasonable estimate of liquidated damages hereunder, Landlord and Tenant stipulate and agree, for the purposes hereof, that such fair market rental shall in no event exceed seventy-five percent (75%) of the rental amount for such period set forth in Paragraph 2 above.

B. DAMAGES UPON REPOSSESSION. If Landlord repossesses the Premises without terminating this Lease, Tenant, at Landlord's option, shall be liable for and shall pay Landlord on demand all rental and other payments owed to Landlord hereunder, accrued to the date of such repossession, plus all amounts required to be paid by Tenant to Landlord until the date of expiration of the term as stated in Paragraph 1, diminished by all amounts actually received by Landlord through reletting the Premises during such remaining term (but only to the extent of the rent herein reserved). Actions to collect amounts due by Tenant to Landlord under this paragraph may be brought from time to time, on one or more occasions, without the necessity of Landlord's waiting until expiration of the Lease term.

C. COSTS OF RELETTING, REMOVING, REPAIRS AND ENFORCEMENT. Upon an Event of Default, in addition to any sum provided to be paid under this Paragraph 20, Tenant also shall be liable for and shall pay to Landlord (i) brokers' fees and all other costs and expenses incurred by Landlord in connection with reletting the whole or any part of the Premises; (ii) the costs of removing, storing or disposing Tenant's or any other occupant's property; (iii) the costs of repairing, altering, remodeling or otherwise putting the Premises into condition acceptable to a new Tenant or Tenants:
(iv) any and all actual costs and expenses incurred by Landlord in effecting compliance with Tenant's obligations under this Lease; and (v) all reasonable expenses incurred by Landlord in enforcing or defending Landlord's rights and/or remedies hereunder, including without limitation, all reasonable attorneys' fees and all court costs incurred in connection with such enforcement or defense.

D. LATE CHARGE. In the event Tenant fails to make any payment due hereunder within five (5) days after such payment is due, including without limitation any rental or escrow payment, in order to help defray the additional cost to Landlord for processing such late payments and not as interest, Tenant shall pay to Landlord on demand a late charge in an amount equal to five percent (5%) of such payment. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law, and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner.

E. INTEREST ON PAST DUE AMOUNTS. If Tenant fails to pay any sum which at any time becomes due to Landlord under any provision of this Lease as and when the same becomes due hereunder, and such failure continues for ten (10) days after the due date for such payment, then Tenant shall pay to Landlord interest on such overdue amounts from the date due until paid at an annual rate which equals the lesser of (i) eighteen percent (18%) or (ii) the highest rate then permitted by law.

F. NO IMPLIED ACCEPTANCES OR WAIVERS. Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance by Landlord of Tenant's surrender of the Premises, it being understood that such surrender can be effected only by the written agreement of Landlord. Tenant and Landlord further agree that forbearance by Landlord to enforce any of its rights under this Lease or at law or in equity shall not be a waiver of Landlord's right to enforce any one or more of its rights, including any right previously forborne, in connection with any existing or subsequent default. No re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Lease, unless a written notice of such intention is given to Tenant, and, notwithstanding any such reletting or re-entry or taking possession of the Premises, Landlord may at any time thereafter elect to terminate this Lease for a previous default. Pursuit of any remedies hereunder shall not preclude the pursuit of any other remedy herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages occurring to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of any rent following either an Event of Default hereunder shall not be construed as Landlord's waiver of such Event of Default. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants of this Lease shall be deemed or construed to constitute a waiver of any other violation or default.

G. RELETTING OF PREMISES. In the event of any termination of this Lease and/or repossession of the Premises for an Event of Default,

Landlord shall use reasonable efforts to relet the Premises and to collect rental after reletting, with no obligation to accept any lessee that Landlord deems undesirable or to expend any funds in connection with such reletting or collection of rents therefrom. Tenant shall not be entitled to credit for or reimbursement of any proceeds of such reletting in excess of the rental owed hereunder for the period of such reletting. Landlord may relet the whole or any portion of the Premises for any period, to any Tenant and for any use or purpose.

H. LANDLORD'S DEFAULT. If Landlord fails to commence to perform any of its obligations hereunder within thirty (30) days after written notice from Tenant specifying such failure, and such failure results in a defect that seriously jeopardizes the safety of persons occupying the Premises or threatens equipment or machinery owned by Tenant within the Premises, or such defect impairs Tenant's ability to conduct its business within the Premises, and Landlord has failed to commence to cure the default or obligation within the thirty (30) day period outlined above, Tenant shall be permitted to cure Landlord's default or obligation and Landlord will be obligated to reimburse Tenant for the actual cost incurred to cure Landlord's default or obligation.

All obligations of Landlord hereunder will be construed as covenants, not conditions; and all such obligations will be binding upon Landlord only during the period of its possession of the Premises and not thereafter. The term "Landlord" shall mean only the owner, for the time being of the Premises and, in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all covenants and obligations of the Landlord thereafter accruing, provided that such covenants and obligations shall be binding during the Lease term upon each new owner for the duration of such owner's ownership. Notwithstanding any other provision of this Lease, Landlord shall not have any personal liability hereunder. In the event of any breach or default by Landlord in any term or provision of this Lease, Tenant agrees to look solely to the equity or interest then owned by Landlord in the Premises or the Building; however, in no event, shall any deficiency judgment or any money judgment of any kind by sought or obtained against any Landlord.

I. TENANT'S PERSONAL PROPERTY. If Landlord repossesses the Premises pursuant to the authority herein granted, or if Tenant vacates or abandons all or any part of the Premises, then, in addition to Landlord's rights under Paragraph 29 hereof, Landlord shall have the right to (i) keep in place and use or (ii) remove and store, all of the furniture, fixtures, and equipment at the Premises, including that which is owned by Tenant, at all times prior to any foreclosure thereon by Landlord or repossession thereof by any lessor thereof or third party having a lien thereon. In addition to the Landlord's other rights hereunder, Landlord may dispose of the stored property if Tenant does not claim the property within twenty (20) days after the date the property is stored. Landlord shall give Tenant at least ten (10) ten days prior written notice of such intended disposition. Landlord shall also have the right to relinquish possession of all or any portion of such furniture, fixtures, equipment and other property to any person ("Claimant") who presents to Landlord a copy of any instrument represented by Claimant to have been executed by Tenant (or any predecessor of Tenant) granting Claimant the right under various circumstances to take

possession of such furniture, fixtures, equipment or other property, without the necessity on the part of Landlord to inquire into the authenticity or legality of said instrument. The rights of Landlord herein stated shall be in addition to any and all other rights that Landlord has or may hereafter have at law or in equity; and Tenant stipulates and agrees that the rights granted Landlord under this paragraph are commercially reasonable.

21. MORTGAGES. Tenant accepts this Lease subject and subordinate to any mortgages and/or deeds of trust now or at any time hereafter constituting a lien or charge upon the Premises or the improvements situated thereon or the Building, provided, however, that if the mortgagee, trustee or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease superior to any such instrument, then by notice to Tenant from such mortgagee, trustee or holder, this Lease shall be deemed superior to such lien, whether this Lease was executed before or after said mortgage or deed of trust. Tenant, at any time hereafter on demand, shall execute any instruments, releases or other documents that may be required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, provided the subordination does not change any of the Lease terms contained within this Lease and the subordination agreement contains an attornment and non-disturbance agreement. Tenant shall not terminate this Lease or pursue any other remedy available to Tenant hereunder for any default on the part of Landlord without first giving written notice by certified or registered mail, return receipt requested, to any mortgagee, trustee or holder of any such mortgage or deed of trust, the name and post office address of which Tenant has received written notice, specifying the default in reasonable detail and affording such mortgagee, trustee or holder a reasonable opportunity (but in no event less than thirty days) to make performance, at its election, for and on behalf of Landlord.

22. MECHANIC'S LIENS. Tenant has no authority, express or implied, to create or place any lien or encumbrance of any kind or nature whatsoever upon, or in any manner to bind the interest of Landlord or Tenant in the Premises. TENANT WILL SAVE AND HOLD LANDLORD HARMLESS FROM ANY AND ALL LOSS, COST OR EXPENSE, INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES, BASED ON OR ARISING OUT OF ASSERTED CLAIMS OR LIENS AGAINST THE LEASEHOLD ESTATE OR AGAINST THE RIGHT, TITLE AND INTEREST OF THE LANDLORD IN THE PREMISES OR UNDER THE TERMS OF THIS LEASE.

23. MISCELLANEOUS.

A. INTERPRETATION. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

B. BINDING EFFECT. Except as otherwise herein expressly provided, the terms, provisions and covenants and conditions in this Lease shall apply to, inure to the benefit of and be binding upon the parties hereto and upon their respective heirs, executors, personal representatives, legal representatives, successors and assigns. Landlord shall have the right to transfer and assign, in whole or in part, its rights and obligations in the Premises and in the Building and other property that are the subject of this Lease.

C. EVIDENCE OF AUTHORITY. Tenant agrees to furnish to Landlord, promptly upon demand, a corporate resolution, proof of due authorization by partners or other appropriate documentation evidencing the due authorization of such party to enter into this Lease.

D. FORCE MAJEURE. Landlord shall not be held responsible for delays in the performance of its oblations hereunder when caused by material shortages, acts of God, labor disputes or other events beyond the control of Landlord.

E. PAYMENTS CONSTITUTE RENT. Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not expressly denominated as rent, shall constitute rent.

F. ESTOPPEL CERTIFICATES. Tenant agrees, from time to time, within ten (10) days after request of Landlord, to deliver to Landlord, or Landlord's designee, an estoppel certificate stating that this Lease is in full force and effect, the date to which rent has been paid, the unexpired term of this Lease, any defaults existing under this Lease (or the absence thereof) and such other factual or legal matters pertaining to this Lease as may be requested by Landlord. It is understood and agreed that Tenant's obligation to furnish such estoppel certificates in a timely fashion is a material inducement for Landlord's execution of this Lease, provided it does not alter the terms of this Lease.

G. ENTIRE AGREEMENT. This Lease constitutes obligations which have the entire understanding and agreement of Landlord and Tenant with respect to the subject matter of this Lease, and contains all of the covenants and agreements of Landlord and Tenant with respect thereto. Landlord and Tenant each acknowledge that no representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations or representations not expressly set forth in this Lease are of no force or effect. EXCEPT AS SPECIFICALLY PROVIDED IN THIS LEASE, TENANT HEREBY WAIVES THE BENEFIT OF ALL IMPLIED WARRANTIES, IT BEING UNDERSTOOD THAT LANDLORD WILL CONSTRUCT THE PREMISES SPECIFICALLY FOR TENANT'S INTENDED USE AND IN ACCORDANCE WITH PLANS AND SPECIFICATIONS, AND WITH RESPECT TO THE PREMISES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR ANY PARTICULAR PURPOSE. Landlord's agents and employees do not and will not have authority to make exceptions, changes or amendments to this Lease, or factual representations not expressly contained in this Lease. Under no circumstances shall Landlord or Tenant be considered an agent of the other. This Lease may not be altered, changed or amended except by an instrument in writing signed by both parties hereto.

H. SURVIVAL OF OBLIGATIONS. All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of the term of this Lease shall survive the expiration or earlier termination of the term hereof, including without limitation all payment obligations with respect to taxes and insurance and all obligations concerning the condition and repair of the Premises. Upon the expiration or earlier

termination of the term hereof, and prior to Tenant vacating the Premises, Tenant shall pay to Landlord any amount reasonably estimated by Landlord as necessary to put the Premises in good condition and repair, reasonable wear and tear excluded, including without limitation the cost of repairs to and replacements of all heating and air conditioning systems and equipment therein. Tenant shall also, prior to vacating the Premises, pay to Landlord the amount, as estimated by Landlord, of Tenant's obligation hereunder for real estate taxes and insurance premiums for the year in which the Lease expires or terminates. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant hereunder, with Tenant being liable for any additional costs therefore upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied, as the case may be. Any Security Deposit held by Landlord may, at Landlord's option, be credited against any amounts due from Tenant under this Paragraph 23H.

I. SEVERABILITY OF TERMS. If any clause or provision of this Lease is illegal, invalid or unenforceable under present of future laws effective during the term of this Lease, then, in such event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable clause or provision as may be legal, valid and enforceable.

J. EFFECTIVE DATE. All references in this Lease to "the date hereof" or similar references shall be deemed to refer to the last date in point in time on which all parties hereto have executed this Lease.

K. BROKER'S COMMISSION. Tenant represents and warrants that it has dealt with and will deal with no broker, agent or other persons other than CHRIS WHITWORTH OF HILL PARTNERS AND SCOTT YOUNG AND CHAD MUELLER OF SCOTT YOUNG PROPERTIES in connection with this transaction or future related transactions and that no broker, agent or other person brought about this transaction, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with them with regard to this leasing transaction.

L. AMBIGUITY. Landlord and Tenant hereby agree and acknowledge that this Lease has been fully reviewed and negotiated by both Landlord and Tenant, and that Landlord and Tenant have each had the opportunity to have this Lease reviewed by their respective legal counsel, and, accordingly, in the event of any ambiguity herein, Tenant does hereby waive the rule of construction that such ambiguity shall be resolved against the party who prepared this Lease.

M. JOINT AND SEVERAL LIABILITY. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. If there be a guarantor of Tenant's obligations hereunder, the obligations hereunder imposed upon Tenant shall be joint and several obligations of Tenant and such guarantor, and Landlord need not first proceed against Tenant before proceeding against such guarantor, nor shall any such guarantor be released from its guaranty for any reason whatsoever, including, without limitation, in case of any amendments hereto, waivers hereof or failure to give such guarantor any notices hereunder

N. THIRD PARTY RIGHTS. Nothing herein expressed or implied is intended, or shall be construed, to confer upon or give to any person or entity, other than the parties hereto, any right or remedy under or by reason of this Lease.

0. EXHIBITS AND ATTACHMENTS. All exhibits, attachments, riders and addenda referred to in this Lease, and the exhibits listed herein below and attached hereto, are incorporated into this Lease and made a part hereof for all intents and purposes as if fully set out herein. All capitalized terms used in such documents shall, unless otherwise defined therein, have the same meanings as are set forth herein.

P. APPLICABLE LAW. This Lease has been executed in the State of Texas and shall be governed in all respects by the laws of the State of Texas. It is the intent of Landlord and Tenant to conform strictly to all applicable state and federal usury laws. All agreements between Landlord and Tenant, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever shall the amount contracted for, charged or received by Landlord for the use, forbearance or retention of money hereunder or otherwise exceed the maximum amount which Landlord is legally entitled to contract for, charge or collect under the applicable state or federal law. If, from any circumstance whatsoever, fulfillment of any provision hereof at the time performance of such provision shall be due shall involve transcending the limit of validity prescribed by law, then the obligation to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance Landlord shall ever receive as interest or otherwise an amount in excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of rent hereunder, and if such amount which would be excessive interest exceeds such rent, then such additional amount shall be refunded to Tenant.

24. NOTICES. Each provision of this instrument or of any applicable governmental laws, ordinances, regulations and other requirements with reference to the sending, mailing or delivering of notice or the making of any payment by Landlord to Tenant or with reference to the sending, mailing or delivering of any notice or the making of any payment by Tenant to Landlord shall be deemed to be complied with when and if the following steps are taken:

(i) All rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord at the address for Landlord set forth below or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith. Tenant's obligation to pay rent and any other amounts to Landlord under the terms of this Lease shall not be deemed satisfied until such rent and other amounts have been actually received by Landlord.

(ii) All payments required to be made by Landlord to Tenant hereunder shall be payable to Tenant at the address set forth below, or at such other address within the continental United States as Tenant may specify from time to time by written notice delivered in accordance herewith.

(iii) Except as expressly provided herein, any written notice, document or payment required or permitted to be delivered hereunder shall be deemed to be delivered when received or, whether actually received or not, when deposited in the United States Mail, postage prepaid, Certified or Registered Mail, addressed to the parties hereto at the respective addresses set out below, or at such other address as they have theretofore specified by written notice delivered in accordance herewith.

26. ADDITIONAL PROVISIONS. See EXHIBIT "B" attached hereto and incorporated by reference herein.

EXECUTED BY LANDLORD, this 15th day of April, 1998.

CAMERON TECHNOLOGY INVESTORS, LTD.

BY: CAMERON ROAD INVESTORS, LTD. A TEXAS LIMITED LIABILITY CO.

ITS: GENERAL PARTNER

BY:

ITS: MANAGING DIRECTOR

Address: C/O Scott Young Properties P.O. Box 1525, Austin, Texas 78767

EXECUTED BY TENANT, this 8th day of April, 1998.

ADVANCED ENERGY INDUSTRIES, INC.

By:

Its:

Address: 1625 Sharp Point Drive Fort Collins, CO 80525 Phone: 970-221-4670

Tenant's Initials _____

EXHIBIT "A" Description of Premises
EXHIBIT "B" Additional Provisions
EXHIBIT "C" Rules and Regulations
EXHIBIT "D" Tenant Construction Standards
EXHIBIT "E" Sign Criteria
EXHBIT "F" Construction Plans

Tenant's Initials _____

EXHIBIT "A"

[MAP]

EXHIBIT "A-1"

[MAP]

EXHIBIT "B"

ADDITIONAL PROVISIONS

1. N-N-N CHARGES. The initial estimated monthly costs for Tenant's Proportionate Share of costs based on preliminary estimates of the total operating costs of the Project for the first calendar year of the Lease are as follows:

EXPENSE	PER SQUARE FOOT	AMOUNT PER MONTH
Property Taxes	$.09	$1,782.00
Insurance	$.01	$198.00
CAM	$.06	$1,188.00
TOTAL	$.16	$3,168.00

2. TENANT IMPROVEMENT AGREEMENT. Landlord shall cause to be performed the improvements (the "TENANT IMPROVEMENTS") in the Premises in accordance with plans and specifications approved by Tenant and Landlord (the "Plans"), which approvals shall not be unreasonably withheld. The Tenant Improvements shall be performed at the Tenant's cost, subject to the reimbursement of Landlord's Contribution.

Tenant shall cause the Plans to be prepared, at Tenant's cost, by a registered professional architect, and mechanical and electrical engineer(s) with the design criteria developed in accordance with EXHIBIT "D", TENANTS CONSTRUCTION STANDARDS attached and incorporated herein. Such engineer(s) shall be approved in advance by the Landlord. Prior to close-of-business on December 1, 1998, Tenant shall furnish the initial draft of the Plans to Landlord for Landlord's review and approval. Landlord shall within two (2) weeks after receipt either provide comments to such Plans or approve the same. Landlord shall be deemed to have approved such Plans if it does not timely provide comments on such Plans. If Landlord provides Tenant with comments to the initial draft of the Plans, Tenant shall provide revised Plans to Landlord incorporating Landlord's comments within one week after receipt of Landlord's comments. Landlord shall within one week after receipt then either provide comments to such revised Plans or approve such Plans. Landlord shall be deemed to have approved such revised Plans if Landlord does not timely provide comments on such Plans. The process described above shall be repeated, if necessary, until the Plans have been finally approved by Landlord. Tenant hereby agrees that the Plans for the Tenant Improvements shall comply with all applicable Governmental requirements. Landlord's approval of any of the Plans (or any modifications or changes thereto) shall not impose upon Landlord or its agents or representatives any obligation with respect to the design of the Tenant Improvements or the compliance of such Tenant Improvement or the Plans with applicable Governmental Requirements.

Landlord, with consultation of Tenant, shall mutually select a contractor to perform the construction of the Tenant Improvements. Such contractor shall be selected by a competitive bid process between three contractors selected by Landlord and Tenant. Landlord shall use commercially reasonable efforts to cause the Tenant Improvements to be substantially completed, except for minor "Punch List" items, on or before the Commencement Date specified in the Lease, subject to Tenant Delay and Force Majeure.

Landlord, or an agent of Landlord, shall provide project management services in connection with the construction of the Tenant Improvements and the Change Orders (hereinafter defined). Such project management services shall be performed, at Tenant's cost, for a fee of five percent (5%) of all costs related to the preparation of the Plans and the construction of the Tenant Improvements and the Change Orders.

A. CHANGE ORDERS. If, prior to the Commencement Date, Tenant shall require improvements or changes (individually or collectively, "CHANGE ORDERS") to the Premises in addition to, revision of, substitution for the Tenant Improvements, Tenant shall deliver to Landlord for its approval plans and specifications for such Change Orders. If Landlord does not approve of the plans for Change Orders, Landlord shall advise Tenant of the revisions required. Tenant shall revise and redeliver the plans and specifications to Landlord within five (5) business days of Landlord's advice or Tenant shall be deemed to have abandoned its request for such Change Orders. Tenant shall pay for all preparations and revisions of plans and specifications, and the construction of all Change Orders, subject to Landlord's Contribution.

B. LANDLORD'S CONTRIBUTION. Landlord shall contribute an amount up to FIFTEEN DOLLARS ($15.00) PER SQUARE FOOT ("LANDLORD'S CONTRIBUTION") toward the costs incurred for the Tenant Improvements and Change Orders. Landlord has no obligation to pay for costs of the Tenant

Improvements or Change Orders in excess of Landlord's Contribution; Tenant shall pay such overage to Landlord prior to commencement of construction of the Tenant Improvements and/or Change Orders.

C. COMMENCEMENT DATE DELAY. Commencement Date shall be delayed until the Tenant Improvements have been substantially completed (the "COMPLETION DATE"), except to the extent that the delay shall be caused by any one or more of the following (a "TENANT DELAY"):

(i) Tenant's request for Change Orders whether or not any such Change Orders are actually performed; or

(ii) Contractor's performance of any Change Orders; or

(iii) Tenant's request for materials, finishes or installations requiring unusually long lead times; or

(iv) Tenant's delay in reviewing, revising or approving plans and specifications beyond the periods set forth herein; or

(v) Tenant's delay in providing information critical to the normal progression of the project. Tenant shall provide such information as soon as reasonably possible, but in no event longer than one week after receipt of such request for information from the Landlord; or

(vi) Tenant's delay in making payments to Landlord for costs of the Tenant Improvements and/or Change Orders in excess of the Landlord's Contribution; or

(vii) Any other act or omission by Tenant, its agents, contractors or persons employed by any of such persons.

If the Commencement Date is delayed for any reason, then Landlord shall cause the Architect to certify the date on which the Tenant Improvements would have been completed but for such Tenant Delay, or were in fact completed without any Tenant Delay.

3. RIGHT TO EXPAND AND RELOCATE. During the term of this Lease, should Tenant's lease space requirements increase to the extent that expansion within the Building containing the Premises is impossible, Landlord shall use good faith in an attempt to relocate Tenant into a larger lease space within the Cameron Technology Center or other office/warehouse space owned by Landlord or in a building to be built by Landlord for Tenant on land mutually agreed upon by Landlord and Tenant.

In such event, Landlord shall agree to lease such space to Tenant at a rental rate indicative of the fair market rental rate prevalent at the time for similarly constructed and located office-warehouse lease space in Austin, Texas. Upon Tenant's relocation into the larger lease space owned or developed by Landlord and upon the reletting of the Premises, this Lease shall terminate and the new lease between Landlord and Tenant shall govern.

4. RIGHT OF FIRST REFUSAL. Tenant shall be granted the Right of First Refusal for any contiguous lease space to the Premises that should become available from time to time during the term of this Lease. Upon Landlord's receipt of an acceptable written offer to lease from a bona fide third party which desires to lease space contiguous to the Premises, Landlord shall immediately notify Tenant as to the terms and conditions contained in the offer. Tenant shall have ten (10) days from the date Landlord notifies Tenant of the third party offer in which to accept or decline the same terms contained in the third party offer. Should Tenant decline to match this offer, Landlord shall be free to lease the available lease space to the third party.

5. MISCELLANEOUS. In addition to the provisions contained within this Lease agreement, Landlord and Tenant mutually agree to the following:

A. DOCK DOORS. Landlord shall install an overhead, dock-high door for each bay within the Premises at the rear of the Building unless Tenant stipulates that an overhead door is unnecessary.

B. TENANT EQUIPMENT. Landlord will allow the Tenant to install at Tenant's sole expense, a 12' X 12' concrete pad with a security fence surrounding the pad at the rear of the Premises in a location mutually agreed upon by Landlord and Tenant. This fenced area will store an air compressor and chilled water tower. At the end of the Lease Term, Tenant shall remove all equipment installed in or about the Premises or Building and the Premises and/or Building shall be returned to its original condition, reasonable wear and tear excepted.

EXHIBIT "C"

BUSINESS PARK RULES AND REGULATIONS

The following rules and regulations shall apply where applicable, to the Premises, the Building, the Project, the driveways and parking areas, the land situated beneath the Premises, Building, and Project and the appurtenances thereto:

1. Sidewalks, doorways, halls stairways and other similar areas shall not be obstructed by Tenant or used by any Tenant for any purpose other than ingress and egress to and from the Premises and for going from one to another part of the Building.

2. Plumbing fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or placed therein. Damage resulting to any such fixtures or appliances from misuse by a Tenant or such Tenant's agents, employees or invitees, shall be paid by such Tenant, and Landlord shall not in any case be responsible therefor.

3. No signs, advertisements or notices shall be painted or affixed on or to any windows or doors or other exterior part of the Building or the Premises except of such color, size and style and in such places as shall be first approved by, Landlord. Landlord, at Tenant's sole cost and expense, shall install all letters or numerals by or on doors in such Tenants Premises, which letters or numerals shall be in building standard graphics. No nails, hooks or screws shall be driven or inserted in any part of the Building outside the Premises except by the Building maintenance personnel nor shall any part of the Building be defaced by Tenant. No curtains or other window treatments shall be placed between the glass and the Building standard window treatments.

4. Landlord will provide and maintain a directory for all Tenants at the end of each building and no other directory shall be permitted unless previously consented to by Landlord in writing.

5. Two (2) keys to the locks on the exterior doors entering each Tenant's Premises shall be furnished by Landlord free of charge, with any additional keys to be furnished by Landlord to each Tenant, at Tenant's cost. Tenant shall not place any additional lock or locks on any door in or to its Premises without Landlord's prior written consent. All such keys shall remain the property of Landlord. Landlord will reduce $20.00 per key from Tenant's Security Deposit account for each key issued and not returned by Tenant at time of move out.

6. Landlord will provide within the Business Park a postal box for Tenants receipt of letter mail only. Landlord will issue to the tenant two keys to the postal box. The box keys are not to be duplicated by the Tenant. Tenant is held accountable for the keys and will bear the cost or re-keying the locks should the Tenant fail to return all keys at the end of the Lease.

7. With respect to work being performed by Tenants in its Premises with the approval of Landlord, all tenants will refer all contractors, contractors' representatives and installation technicians rendering any service to them to Landlord for Landlord's supervision, approval and control before the performance of any contractual services. This provision shall apply to all work performed in the Building including, but not limited to, installations of telephones, telegraph equipment, electrical devises and attachments, doors, entrance ways, and any and all installations of every nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment and any other physical portion of the Premises and Building.

8. Each tenant shall cooperate with Landlord's employees in keeping its Premises neat and clean.

9. Tenant is responsible for janitorial service within its Premises.

10. Designated areas for trash containers are assigned to each tenant. Tenants will be billed direct by a trash removal service approved by the Landlord. Drums, pallets, equipment, vehicles, etc. are not allowed to be stored outside of building. Trash in the common area will be removed by the Landlord and the cost of removal prorated to the Tenants sharing the common area.

11. Landlord shall not be responsible to the tenants, their agents, employees, or invitees for any loss of property from the Premises or public areas or for any damages to any property thereon from any cause whatsoever.

12. Should a tenant require telegraphic, telephonic, annunicator or other communication service, Landlord will direct the electrician where and how wires are to be introduced and placed and none shall be introduced or placed except as Landlord shall direct.

13. Tenant shall not make or permit any improper, objectionable or unpleasant noises or odors in the Premises or Building or otherwise interfere in any way with other tenants or persons having business with them.

SANITARY SEWER

A sewer line will be installed under floor accessible to the Premises. Tenant's sewer piping will start at the point of the sewer line tap in Tenant's Premises.

ELECTRICITY

All electric service meter wireways will be installed in an area determined by Landlord. Each Tenant shall furnish and install his meter at the appropriate meter wireway as approved by Landlord. Tenant shall be responsible for obtaining an electric meter at his cost. If the wattage density exceeds that provided in the shell for Tenant's lease space, the Tenant will pay the additional cost for larger service to be installed by Landlord. Total power requirements shall be tabulated on the Tenant's working drawings submitted for approval.

14. No machinery of any kind shall be operated by Tenant in its Premises without the prior written consent of Landlord, nor shall any tenant use or keep in the Premises or Building any flammable or explosive fluid or substance.

15. Nothing shall be swept or thrown into parking areas or driveways. No birds or animals shall be brought into or kept in, or about any tenant's leased premises.

16. Tenant, is agents, employees and invitees shall park only in those areas designated by Landlord for parking by Tenant and shall not park on any public or private streets contiguous to, surrounding or in the vicinity of the Building without Landlord's prior written consent.

17. No portion of any tenant's Premises shall at any time be used or occupied as sleeping or lodging quarters.

18. Landlord reserves the right to rescind any of these rules and regulations and to make such other and further reasonable rules and regulations as in its judgment shall from time to time be needful for the safety, protection, care and cleanliness of the Building and Project, the operation hereof, the preservation of good order therein and the protection and comfort of the Tenants and their agents, employees and invitees, which rules and regulations, when made and written notice thereof is given to a Tenant, shall be binding upon it in like manner as if originally herein prescribed.

1 Landlord's Initials _____

Tenant's Initials _____

EXHIBIT "D"
TENANT CONSTRUCTION STANDARDS

TENANT SPACE DRAWINGS AND SPECIFICATION REQUIREMENTS
If Landlord's Architect does not prepare the drawings and specifications, then Tenant agrees that they shall be prepared by a licensed Architect and shall bear his registration seal, number, and signature. All documents must be reviewed and approved by Landlord and his Architect prior to the start of construction. The Tenant is required, upon completion of the construction, to provide the Landlord with a marked up blue line complete set of prints showing the conditions as built and a reproducible mylar complete set of drawings with changes in ink and a copy of the building permit and Certificate of Occupancy.

BUILDING CODES AND STANDARDS
All plans, specifications and construction for the Tenant's space must conform to the following codes and standards and any other applicable codes, standards, ordinances, and regulations.

1. Current Uniform Building Codes accepted by the City of Austin.
2. National Electrical Code.
3. City of Austin, Electrical Utility Department Code.
4. Uniform Mechanical Code.
5. City of Austin Health Department Code.
6. Department of Labor - Occupational Safety and Health Standards.
7. Consumer Product Safety Commission.
8. State of Texas Architectural Barriers Requirements.
9. Fire Marshall Requirements.

CONSTRUCTION ACCESS
Tenant shall use only the area immediately to the rear of its lease space for construction access. Adjoining spaces shall not be used for any purpose. Tenant shall be responsible for the repair of any damage done to the Project or Building by Tenant's construction of its own lease space.

TEMPORARY UTILITIES
Tenant and/or his contractors and/or subcontractors are responsible for temporary toilets and temporary utilities for their work, including payment of all utility charges. All arrangements shall be made with City of Austin, Southern Union Gas, and Southwestern Bell as applicable.

CONSTRUCTION TRASH
Trash, surplus construction materials, boxes, crates, debris, etc., from the Tenant's construction shall be removed daily from the Premises and hauled off the project site. Trash left on the project will be hauled off at the Tenant's expense.

TENANT SEPARATION
Walls which abut another Tenant's space must be a minimum two (2) Hour rated extending from floor to the roof deck with insulation. In the case where the space is vacant adjacent to Tenant's demising wall(s), such a wall shall be constructed of 3 1/2" metal studs spaced at 16" o.c. with minimum two (2) layers of 5/8" thick type X gypsum wallboard on the Tenant's side with staggered 2' joints. All penetrations to the demising wall(s) shall be treated to maintain the minimum two (2) Hour rating.

TELEPHONE
It is each Tenant's responsibility to procure the telephone service to its Premises. If any telephone equipment room is required by the Tenant, it must be located within its Premises. Tenants shall be responsible for routing its telephone service through the raceway system provided by Landlord in the shell building.

HVAC
Space above ceilings may not be used as a return air plenum. All return air shall be ducted from the conditioned space. The Landlord has the right to approve or disapprove the HVAC design and Tenant shall select the HVAC equipment from Landlord's standards. Location of roof top units shall be on pads as provided in the shell building with the location approved by the Landlord. Tenant shall indicate the actual weights and dimensions on their working drawings for review and approval by the Landlord of roof mounted equipment. Condensation lines shall drain into each Tenant's sewer

ROOF PENETRATIONS
All roof penetrations, equipment supports, pitch pans, flashing curbing, and roofing repairs shall be as approved by Landlord and performed by a roofer approved by Landlord at Tenant's expense. All roof penetrations shall occur within the boundaries of the Premises.

WATER
A common water line and valve will be provided for each lease space. Tenant water piping shall start at the point of the valve. All tenants requiring more plumbing than the required toilet room facilities, drinking fountain
(1), service sink (1), employee bar type sink (1) shall be required to furnish their own piping, meter, and installation. Should Tenant's water consumption levels exceed typical levels, Landlord and Tenant agree that Tenant shall supply a water flow meter of which Landlord shall read monthly and bill back Tenant for Tenant's actual consumption.

EXHIBIT "E"

SIGN CRITERIA

1. COST OF THE SIGN(S). Identifying Tenant graphics for all leased Premises are the responsibility of Tenant. All expenses for fabrication, installation and sign maintenance shall be borne solely by Tenant.

2. APPROVAL OF SHOP DRAWINGS. Prior to the fabrication of any sign, Tenant shall present to Landlord for approval, shop drawings prepared by the manufacturer. All shop drawings shall be dimensionally scaled with the proposed sign located on a drawing of the building elevation; the shop drawings shall indicate all dimensions; shall indicate the actual letter style or font; if a logo is to be used, the actual logo shall be illustrated on the building elevation; all actual materials, paint brand and color(s) shall be specified; and the method of the sign attachment to the Building shall be clearly denoted

3. MATERIALS. Tenant sign graphics shall consist of individually cut letters. Letters shall be cut from 1/8" Lexan mounted or laminated to a three inch (3") width sign foam board or similar material. Letters shall be primed and painted uniformly on face and sides with Benjamin Moore Industrial grade paint or equivalent.

4. LOGOTYPES. Logotypes shall be cut from the same material as letters. Logotype area shall not exceed eighteen inches (18") in height and the sign or logotype length shall not exceed the lesser of fifty percent (50%) of the width of Tenant's Premises or fifteen feet (15'). All signs or logotypes shall be located above and appurtenant to the store front of the Premises.

5. SIZE. No individual letter shall exceed eighteen inches (18") in height. Letter line length shall not exceed the lesser of fifty percent (50%) of the width of Tenant's Premises or fifteen feet (15'). Should Tenant's sign contain more than one letter line, the total height of all letter lines combined shall not exceed forty inches (40"). All signs or logotypes shall be located above and appurtenant to the store front of the Premises.

6. MOUNTING METHODS. All letters shall be mounted with clear silicone and mounted flush to the exterior wall surface. Upon the expiration of the Lease, Tenant shall remove all exterior signs from the Building and shall restore the exterior of the Building to its original condition. Should Tenant fail to do so, Landlord reserves the right to perform this duty and deduct all costs associated with the removal of the sign and restoration of the Building from the Security Deposit.

7. PROHIBITED MATERIALS. Pan signs, illuminated signs, neon or flashing signs, banners, sandwich boards or any other sign type or material not specifically allowed above.

8. DOORS AND WINDOW GRAPHICS. Vinyl door and window graphics are permitted. Letter size shall not exceed 1-1/2" cap height. Line length shall not exceed 20". All graphics shall be reverse cut from white 3M vinyl, Sparcal vinyl or equivalent vinyl material and shall be mounted to the interior of door glass or sidelight glass. Plaques, neon or paper signs are prohibited at all times.

Landlord's Initials _____

Tenant's Initials _____

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of Incorporation or Organization
Advanced Energy Industries, FSC	U.S. Virgin Islands
Advanced Energy Industries Japan KK	Japan
Advanced Energy Industries GmbH	Germany
Advanced Energy Industries U.K. Limited	United Kingdom
Advanced Energy Industries Korea Ltd.	Korea
Tower Electronics, Inc.	Minnesota

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	APR 01 1998
PERIOD END	JUN 30 1998
CASH	11,293
SECURITIES	19,047
RECEIVABLES	21,967
ALLOWANCES	(424)
INVENTORY	20,556
CURRENT ASSETS	76,893
PP&E	21,853
DEPRECIATION	(8,630)
TOTAL ASSETS	99,677
CURRENT LIABILITIES	12,643
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	23
OTHER SE	87,011
TOTAL LIABILITY AND EQUITY	99,677
SALES	62,828
TOTAL REVENUES	62,828
CGS	44,658
TOTAL COSTS	44,658
OTHER EXPENSES	19,394
LOSS PROVISION	0
INTEREST EXPENSE	20
INCOME PRETAX	(877)
INCOME TAX	(333)
INCOME CONTINUING	(544)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(544)
EPS PRIMARY	(0.02)
EPS DILUTED	(0.02)

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