SECURITIES AND EXCHANGE COMMISSION

FORM SC 14D1

Tender offer statement.

Filing Date: **1997-12-18**
SEC Accession No. 0000891618-97-004979

(HTML Version on secdatabase.com)

SUBJECT COMPANY

IMPACT SYSTEMS INC /CA/

CIK:**813740**| IRS No.: **942672923** | State of Incorp.:**CA** | Fiscal Year End: **0331**
Type: **SC 14D1** | Act: **34** | File No.: **005-39152** | Film No.: **97740675**
SIC: **3823** Industrial instruments for measurement, display, and control

Mailing Address
14600 WINCHESTER BLVD
LOS GATOS CA 95030

Business Address
14600 WINCHESTER BLVD
LOS GATOS CA 95030
408-453-3700

FILED BY

VOITH SULZER ACQUISITION CORP

CIK:**1050888**| State of Incorp.:**WI** | Fiscal Year End: **1231**
Type: **SC 14D1**

Business Address
2620 E GLENDALE AVE
APPLETON WI 54915
9207317724

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-1
TENDER OFFER STATEMENT PURSUANT TO SECTION 14(D)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934
AND

SCHEDULE 13D
UNDER THE SECURITIES EXCHANGE ACT OF 1934

IMPACT SYSTEMS, INC.
(NAME OF SUBJECT COMPANY)

VOITH SULZER ACQUISITION CORP.
VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.
J.M. VOITH AG
(BIDDERS)

COMMON STOCK, WITHOUT PAR VALUE
(TITLE OF CLASS OF SECURITIES)

452913 10 6
(CUSIP NUMBER OF CLASS OF SECURITIES)

PAUL BOUTHILET, VICE PRESIDENT, TREASURER AND SECRETARY
VOITH SULZER ACQUISITION CORP.
C/O VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.
2200 N. ROEMER ROAD
APPLETON, WISCONSIN 54913
TELEPHONE: (920) 731-7724
(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO
RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF BIDDERS)

Copy to:

RALF R. BOER
FOLEY & LARDNER
777 EAST WISCONSIN AVENUE
MILWAUKEE, WISCONSIN 53202
(414) 271-2400

DECEMBER 18, 1997

CALCULATION OF FILING FEE

Transaction Valuation*	Amount Of Filing Fee**
$32,209,865	$6,442

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* The Transaction Valuation is calculated by multiplying $2.75, the per share tender offer price, by 11,712,678, the sum of 10,511,576 shares of Common Stock outstanding and the 1,201,102 shares of Common Stock subject to options outstanding.

** The amount of the filing fee, calculated in accordance with Section 14(g) and Rule 0-11(d) of the Securities Exchange Act of 1934, as amended, equals 1/50th of one percent of the value of the aggregate shares of Common Stock purchased.

[ ] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and date of its filing.

AMOUNT PREVIOUSLY PAID:	NONE
FORM OR REGISTRATION NO.:	NOT APPLICABLE
FILING PARTY:	NOT APPLICABLE
DATE FILED:	NOT APPLICABLE

==

CUSIP NO. 452913 10 6

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS

J.M. Voith AG
I.R.S. No.: Not Applicable

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(See Instructions) (a) [ ]

(b) [X]

3. SEC USE ONLY

4. SOURCES OF FUNDS (SEE INSTRUCTIONS)
WC

5. CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(E) OR 2(F)

[ ]

6. CITIZENSHIP OR PLACE OF ORGANIZATION:

The Federal Republic of Germany

7. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

11,334,706*

8. CHECK IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

[ ]

9. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)

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60.3%*

10. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

CUSIP NO. 452913 10 6

1. NAMES OF REPORTING PERSONS
   I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS

   Voith Sulzer Paper Technology of North America Inc.
   I.R.S. No.: Not Applicable

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
   (See Instructions) (a) [ ]
   (b) [X]

3. SEC USE ONLY

4. SOURCES OF FUNDS (SEE INSTRUCTIONS)

   AF

5. CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(E) OR 2(F)

   [ ]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

   Delaware

7. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

   11,334,706*

8. CHECK IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES
   (See Instructions) [ ]

9. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)

   60.3%*

10. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

   CO

CUSIP NO. 452913 10 6

1. NAMES OF REPORTING PERSONS
   I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS

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Voith Sulzer Acquisition Corp.
I.R.S. No.: Not Applicable

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(See Instructions) (a) [ ]
(b) [X]

3. SEC USE ONLY

4. SOURCES OF FUNDS (SEE INSTRUCTIONS)

AF

5. CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(E) OR 2(F)

[ ]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

California

7. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

11,334,706 *

8. CHECK IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES
(See Instructions) [ ]

9. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)

60.3%*

10. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

----

* On December 11, 1997, Voith Sulzer Acquisition Corp. (the "Purchaser") and Voith Sulzer Paper Technology North America Inc. ("Parent") entered into Stockholder Agreements (the "Stockholder Agreements") with certain shareholders (the "Selling Shareholders") of Impact Systems, Inc. (the "Company") pursuant to which, upon the terms set forth therein, the Selling Shareholders have agreed to validly tender (and not to withdraw), in accordance with the terms of the tender offer described in this statement (the "Offer"), 3,047,384 shares (excluding shares issuable upon the exercise of outstanding options) of common stock, without par value, of the Company (the "Common Stock"), owned (beneficially or of record) by the Selling Shareholders. In addition, the Selling Shareholders have granted the Purchaser an option to purchase all but not less than all such Shares and Parent has an irrevocable proxy to vote such Shares in favor of the Merger and related transactions and against certain other transactions. These Shares are reflected in Rows 7 and 9 in each of the tables above.

On December 11, 1997, the Purchaser, Parent and the Company also entered into a Stock Option Agreement (the "Stock Option Agreement") pursuant to which, upon the terms set forth therein, the Company granted to the Purchaser an irrevocable option (the "Stock Option") to purchase up to the number of shares of Common Stock (the "Option Shares") that, when added to the number of shares of Common Stock owned by the Purchaser and its affiliates immediately following consummation of the Offer, would

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constitute 90% of the shares of Common Stock then outstanding on a fully diluted basis (assuming the issuance of the Option Shares). The maximum number of shares of Common Stock subject to the Stock Option, as reflected in Rows 7 and 9 in each of the tables above, equals 8,287,322 (which is the maximum number of authorized shares available for issuance).

The Stockholder Agreements and the Stock Option Agreement are described in more detail in Section 10 of the Offer to Purchase dated December 18, 1997. The Purchaser, Parent and J.M. Voith AG disclaim beneficial ownership of the shares reflected in Rows 7 and 9 of the tables above.

This joint Schedule 14D-1 Tender Offer Statement and Schedule 13D Statement (this "Statement") relates to the offer by Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation (the "Parent"), to purchase all outstanding shares of common stock, without par value (the "Common Shares" or "Shares"), of Impact Systems, Inc., a California corporation (the "Company"), at a price of $2.75 per Share, net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase") and in the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). Copies of the Offer to Purchase and the Letter of Transmittal are annexed hereto as Exhibits (a)(1) and (a)(2), respectively. Parent is a subsidiary of J.M. Voith AG, a corporation organized under the laws of the Federal Republic of Germany ("Voith").

ITEM 1. SECURITY AND SUBJECT COMPANY.

(a) The name of the subject company is Impact Systems, Inc., a California corporation. The address of the Company's principal executive offices is 14600 Winchester Boulevard, Los Gatos, California 95030.

(b) The class of equity securities being sought is all the outstanding Shares. The information set forth in the Introduction and Section 1 ("Terms of the Offer; Proration in Certain Circumstances; Expiration Date") of the Offer to Purchase is incorporated herein by reference.

(c) The information concerning the principal market in which the Shares are traded and certain high and low sales prices for the Shares in such principal market set forth in Section 6 ("Price Range of Shares; Dividends on Shares") of the Offer to Purchase is incorporated herein by reference.

ITEM 2. IDENTITY AND BACKGROUND.

(a) -- (d) and (g) This Statement is being filed by or on behalf of the Purchaser, Parent and Voith. The information concerning the name, state or other place of organization, principal business and address of the principal office of each of the Purchaser, Parent, Voith and Familiengesellschaft J.M. Voith GbR ("Familiengesellschaft"), and the information concerning the name, business address, present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment or occupation is contracted, material occupations, positions, offices or employments during the last five years and citizenship of each of the executive officers and directors of the Purchaser, Voith and Familiengesellschaft are set forth in the Introduction, Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengesellschaft") and Schedule I ("Directors and Executive Officers of Familiengesellschaft, Voith

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and the Purchaser") of the Offer to Purchase and are incorporated herein by reference.

(e) and (f) During the last five years, none of the Purchaser, Parent, Voith and Familiengesellschaft, nor, to the best knowledge of the Purchaser, Parent, Voith and Familiengesellschaft, the persons listed in Schedule I ("Directors and Executive Officers of Familiengesellschaft, Voith and the Purchaser") of the Offer to Purchase, has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

ITEM 3. PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS WITH THE SUBJECT COMPANY.

(a) and (b) The information set forth in the Introduction, Section 7 ("Certain Information Concerning the Company"), Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengesellschaft"), Section 9 ("Background of the Offer"), Section 10 ("The Merger Agreement and Related Documents") and Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") of the Offer to Purchase is incorporated herein by reference.

ITEM 4. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

(a) and (b) The information set forth in Section 12 ("Source and Amount of Funds") of the Offer to Purchase is incorporated herein by reference.

(c) Not applicable.

ITEM 5. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE BIDDER.

(a) and (b) The information set forth in the Introduction, Section 9 ("Background of the Offer"), Section 10 ("The Merger Agreement and Related Documents") and Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") of the Offer to Purchase is incorporated herein by reference.

(c) The information set forth in Section 10 ("The Merger Agreement and Related Documents") of the Offer to Purchase is incorporated herein by reference.

(d) and (e) The information set forth in Section 9 ("Background of the Offer"), Section 10 ("The Merger Agreement and Related Documents"), Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") and Section 14 ("Dividends and Distributions") of the Offer to Purchase is incorporated herein by reference.

(f) and (g) The information set forth in Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") and Section 13 ("Effect of the Offer on the Market for the Shares; Exchange Act Registration; Margin Regulations") of the Offer to Purchase is incorporated herein by reference.

ITEM 6. INTEREST IN SECURITIES OF THE SUBJECT COMPANY.

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(a) and (b) The information set forth in the Introduction, Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengeschaft") and Section 9 ("Background of the Offer") of the Offer to Purchase and the Stockholder Agreements and the Stock Option Agreement, copies of which are attached hereto as Exhibits (c)(2), (c)(3) and (c)(4), respectively, are incorporated herein by reference.

ITEM 7. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE SUBJECT COMPANY'S SECURITIES.

The information set forth in the Introduction, Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengeschaft"), Section 9 ("Background of the Offer"), Section 10 ("The Merger Agreement and Related Documents") and Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") of the Offer to Purchase and the Stockholder Agreements and the Stock Option Agreement, copies of which the attached hereto as Exhibits (c)(2), (c)(3) and (c)(4), respectively, are incorporated herein by reference.

ITEM 8. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED.

The information set forth in the Introduction, Section 9 ("Background of the Offer") and Section 17 ("Fees and Expenses") of the Offer to Purchase is incorporated herein by reference.

ITEM 9. FINANCIAL STATEMENTS OF CERTAIN BIDDERS.

The information set forth in Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengeschaft") of the Offer to Purchase is incorporated herein by reference.

ITEM 10. ADDITIONAL INFORMATION.

(a) The information set forth in Section 7 ("Certain Information Concerning the Company"), Section 8 ("Certain Information Concerning the Purchaser, Parent, Voith and Familiengeschaft"), Section 10 ("The

Merger Agreement and Related Documents") and Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") of the Offer to Purchase is incorporated herein by reference.

(b), (c) and (e) The information set forth in Section 10 ("The Merger Agreement and Related Documents") and Section 16 ("Certain Legal Matters") of the Offer to Purchase is incorporated herein by reference.

(d) The information set forth in Section 10 ("The Merger Agreement and Related Documents") Section 11 ("Purpose of the Offer; Plans for the Company After the Offer and the Merger") and Section 13 ("Effect of the Offer on the Market for the Shares; Exchange Act Registration; Margin Regulations") of the Offer to Purchase is incorporated herein by reference.

(f) The information set forth in the Offer to Purchase and the Letter of Transmittal, copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, is incorporated herein by reference.

ITEM 11. MATERIAL TO BE FILED AS EXHIBITS.

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<TABLE>

(a)(1)	--	Form of Offer to Purchase dated December 18, 1997.
(a)(2)	--	Form of Letter of Transmittal.
(a)(3)	--	Form of Notice of Guaranteed Delivery.
(a)(4)	--	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(5)	--	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(6)	--	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
(a)(7)	--	Text of Joint Press Release issued by Parent and the Company on December 12, 1997.
(a)(8)	--	Summary Advertisement dated December 18, 1997.
(b)	--	Not applicable.
(c)(1)	--	Agreement and Plan of Merger among Parent, the Purchaser and the Company dated December 11, 1997.
(c)(2)	--	Stockholder Agreement among Parent, the Purchaser and Elsag International N.V. dated December 11, 1997.
(c)(3)	--	Stockholder Agreement among Parent, the Purchaser and Kenneth P. Ostrow dated December 11, 1997.
(c)(4)	--	Stock Option Agreement among Parent, the Purchaser and the Company dated December 11, 1997.
(c)(5)	--	Noncompetition Agreement between Parent and Kenneth P. Ostrow dated December 11, 1997.
(d)	--	Not applicable.
(e)	--	Not applicable.
(f)	--	Not applicable.

</TABLE>

SIGNATURE

After due inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: December 18, 1997

VOITH SULZER ACQUISITION CORP.

By: /s/ PAUL BOUTHILET

Title: Vice President, Treasurer and Secretary

VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.

By: /s/ PAUL BOUTHILET

Title: Chief Financial Officer and Secretary

J.M. VOITH AG

By: /s/ HANS MULLER

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----
Title: Member of Corporate
Management Board

EXHIBIT INDEX

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EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
(a)(1)	Form of Offer to Purchase dated December 18, 1997.
(a)(2)	Form of Letter of Transmittal
(a)(3)	Form of Notice of Guaranteed Delivery
(a)(4)	Form of Letter to Brokers, Commercial Banks, Trust Companies and Other Nominees.
(a)(5)	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(6)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
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(a)(8)	Summary Advertisement dated December 18, 1997.
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(c)(2)	Stockholder Agreement among Parent, the Purchaser and Elsag International N.V. dated December 11, 1997.
(c)(3)	Stockholder Agreement among Parent, the Purchaser and Kenneth P. Ostrow dated December 11, 1997.
(c)(4)	Stock Option Agreement among Parent, Purchaser and the Company dated December 11, 1997.
(c)(5)	Noncompetition Agreement between Parent and Kenneth P. Ostrow dated December 11, 1997.
(d)	Not applicable.
(e)	Not applicable.
(f)	Not applicable.

</TABLE>

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OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK
OF

IMPACT SYSTEMS, INC.
AT

$2.75 NET PER SHARE
BY

VOITH SULZER ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF

VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON TUESDAY, JANUARY 20, 1998,
UNLESS THE OFFER IS EXTENDED

THE OFFER IS BEING MADE PURSUANT TO AN AGREEMENT AND PLAN OF MERGER, DATED AS OF DECEMBER 11, 1997 (THE "MERGER AGREEMENT"), BY AND AMONG VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC. ("PARENT"), VOITH SULZER ACQUISITION CORP. (THE "PURCHASER") AND IMPACT SYSTEMS, INC. (THE "COMPANY"). THE BOARD OF DIRECTORS OF THE COMPANY HAS (A) APPROVED THE MERGER AGREEMENT, THE STOCK OPTION AGREEMENT DESCRIBED BELOW, THE OFFER AND THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED THEREBY, (B) DETERMINED THAT THE OFFER PRICE TO BE RECEIVED BY THE SHAREHOLDERS OF THE COMPANY PURSUANT TO THE OFFER AND THE MERGER IS FAIR TO THE SHAREHOLDERS AND (C) RECOMMENDS THAT SHAREHOLDERS TENDER THEIR SHARES PURSUANT TO THE OFFER.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE OF THE OFFER THAT NUMBER OF SHARES OF COMMON STOCK WHICH WILL REPRESENT AT LEAST 90% OF THE OUTSTANDING SHARES ON A FULLY DILUTED BASIS (AFTER GIVING PRO FORMA EFFECT TO THE POTENTIAL ISSUANCE OF ANY SHARES ISSUABLE UNDER THE STOCK OPTION AGREEMENT) ON THE DATE OF PURCHASE (THE "MINIMUM CONDITION"). THE PURCHASER WILL NOT BE REQUIRED TO ACCEPT FOR PAYMENT OR PAY FOR ANY TENDERED SHARES OF COMMON STOCK UNTIL THE EXPIRATION OF ALL APPLICABLE WAITING PERIODS UNDER THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED, AND THE SATISFACTION OF CONDITIONS UNDER ANY OTHER APPLICABLE ANTITRUST, COMPETITION OR TRADE REGULATORY LAWS, RULES OR REGULATIONS OF ANY DOMESTIC OR FOREIGN GOVERNMENT OR GOVERNMENTAL AUTHORITY OR ANY MULTINATIONAL AUTHORITY. THE OFFER IS ALSO SUBJECT TO OTHER TERMS AND CONDITIONS DESCRIBED IN SECTION 15. THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING.

IN THE EVENT THAT MORE THAN 50% OF THE SHARES OF COMMON STOCK THEN OUTSTANDING ARE TENDERED PURSUANT TO THE OFFER AND NOT WITHDRAWN, BUT LESS THAN 90% OF THE SHARES OF COMMON STOCK THEN OUTSTANDING ON A FULLY DILUTED BASIS ARE SUBJECT TO ACQUISITION BY THE PURCHASER PURSUANT TO THE OFFER AND THE STOCK OPTION DESCRIBED BELOW, THE PURCHASER WILL WAIVE THE MINIMUM CONDITION AND AMEND THE OFFER TO REDUCE THE NUMBER OF SHARES OF COMMON STOCK SUBJECT TO THE OFFER TO SUCH NUMBER OF SHARES AS EQUALS 49.9999% OF THE SHARES OF COMMON STOCK THEN OUTSTANDING (THE "REVISED MINIMUM NUMBER") AND, IF A GREATER NUMBER OF SHARES OF COMMON STOCK ARE TENDERED INTO THE OFFER AND NOT WITHDRAWN, PURCHASE, ON A PRO RATA BASIS, THE REVISED MINIMUM NUMBER OF SHARES (IT BEING UNDERSTOOD THAT THE PURCHASER MAY, BUT SHALL NOT IN ANY EVENT BE REQUIRED TO ACCEPT FOR PAYMENT, OR PAY FOR, ANY SHARES OF COMMON STOCK IF LESS THAN THE REVISED MINIMUM NUMBER OF SHARES ARE TENDERED PURSUANT TO THE OFFER AND NOT WITHDRAWN AT THE APPLICABLE EXPIRATION DATE OF THE OFFER).

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IMPORTANT

Any Shareholder (as defined below) desiring to tender all or any portion of such Shareholder's Shares (as defined below) should either (i) complete and sign the Letter of Transmittal (or a manually signed facsimile thereof) in accordance with the instructions in the Letter of Transmittal, have such Shareholder's signature thereon guaranteed if required by Instruction 1 to the Letter of Transmittal, mail or deliver the Letter of Transmittal (or such manually signed facsimile) and any other required documents to the Depositary (as defined below) and either deliver the certificates for such Shares to the Depositary along with the Letter of Transmittal (or manually signed facsimile) or deliver such Shares pursuant to the procedure for book-entry transfer as set forth in Section 2 hereof or (ii) request such Shareholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such Shareholder. A Shareholder having Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee if such Shareholder desires to tender such Shares. As used herein, "Shares" means shares of Common Stock, without par value, of the Company, and "Shareholders" means holders of Shares, unless the context indicates otherwise.

If a Shareholder desires to tender Shares and such Shareholder's certificates for Shares are not immediately available or the procedure for book-entry transfer cannot be completed on a timely basis, or time will not permit all required documents to reach the Depositary prior to the Expiration Date (as defined below), such Shareholder's tender may be effected by following the procedure for guaranteed delivery set forth in Section 2.

Questions and requests for assistance may be directed to D.F. King & Co., Inc., the Information Agent, or ChaseMellon Shareholder Services, L.L.C., the Depositary, at their respective addresses and telephone numbers set forth on the back cover of this Offer to Purchase. Additional copies of this Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery and other related materials may be obtained from the Information Agent or from brokers, dealers, commercial banks, trust companies and other nominees.

DECEMBER 18, 1997

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To the Holders of Common Stock
of Impact Systems, Inc.:

INTRODUCTION

Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), hereby offers to purchase all outstanding shares of common stock, without par value (the "Common Shares" or "Shares"), of Impact Systems, Inc., a California corporation (the "Company"), at a price of $2.75 per Share (such price or any greater price per Share paid pursuant to the Offer (as defined below), being hereinafter referred to as the "Offer Price"), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). Unless the context indicates otherwise, as used herein the term "Shareholders" shall mean holders of Shares. Parent is an indirect subsidiary of J.M. Voith AG, a corporation organized under the laws of the Federal Republic of Germany ("Voith").

Tendering Shareholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, stock transfer taxes with respect to the purchase of Shares by the Purchaser pursuant to the Offer. However, any tendering Shareholder or other payee who fails to complete and sign the Substitute Form W-9 that is included in the Letter of Transmittal may be subject to a required backup federal income tax withholding of 31% of the gross proceeds payable to such Shareholder or other payee pursuant to the Offer. See Section 2. The Purchaser will pay all charges and expenses of ChaseMellon Shareholder Services, L.L.C., as Depositary (the "Depositary"), and D.F. King & Co., Inc., as Information Agent (the "Information Agent"), incurred in connection with the Offer. See Section 17.

THE BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD") HAS (A) APPROVED THE MERGER AGREEMENT (AS DEFINED BELOW), THE STOCK OPTION AGREEMENT (AS DEFINED BELOW), THE OFFER AND THE MERGER (AS DEFINED BELOW) AND THE OTHER TRANSACTIONS CONTEMPLATED THEREBY, (B) DETERMINED THAT THE OFFER PRICE TO BE RECEIVED BY THE SHAREHOLDERS PURSUANT TO THE OFFER AND THE MERGER IS FAIR TO THE SHAREHOLDERS AND (C) RECOMMENDS THAT SHAREHOLDERS TENDER THEIR SHARES PURSUANT TO THE OFFER.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE OF THE OFFER THAT NUMBER OF SHARES WHICH WILL REPRESENT AT LEAST 90% OF THE OUTSTANDING SHARES ON A FULLY DILUTED BASIS (AFTER GIVING PRO FORMA EFFECT TO THE POTENTIAL ISSUANCE OF ANY SHARES ISSUABLE UNDER THE STOCK OPTION AGREEMENT) ON THE DATE OF PURCHASE (THE "MINIMUM CONDITION"). THE PURCHASER WILL NOT BE REQUIRED TO ACCEPT FOR PAYMENT OR PAY FOR ANY TENDERED SHARES UNTIL THE EXPIRATION OF ALL APPLICABLE WAITING PERIODS UNDER THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED, AND THE REGULATIONS THEREUNDER (THE "HSR ACT"), AND THE SATISFACTION OF CONDITIONS UNDER ANY OTHER APPLICABLE ANTITRUST, COMPETITION OR TRADE REGULATORY LAWS, RULES OR REGULATIONS OF ANY DOMESTIC OR FOREIGN GOVERNMENT OR GOVERNMENTAL AUTHORITY OR ANY MULTINATIONAL AUTHORITY ("ANTITRUST LAWS"). THE OFFER IS ALSO SUBJECT TO OTHER TERMS AND CONDITIONS DESCRIBED IN SECTION 15. THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING.

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IN THE EVENT THAT MORE THAN 50% OF THE SHARES THEN OUTSTANDING ARE TENDERED PURSUANT TO THE OFFER AND NOT WITHDRAWN, BUT LESS THAN 90% OF THE SHARES THEN OUTSTANDING ON A FULLY DILUTED BASIS ARE SUBJECT TO ACQUISITION BY THE PURCHASER PURSUANT TO THE OFFER AND THE STOCK OPTION (AS DEFINED BELOW), THE PURCHASER WILL WAIVE THE MINIMUM CONDITION AND

AMEND THE OFFER TO REDUCE THE NUMBER OF SHARES SUBJECT TO THE OFFER TO SUCH NUMBER OF SHARES AS EQUALS 49.9999% OF THE SHARES THEN OUTSTANDING (THE "REVISED MINIMUM NUMBER") AND, IF A GREATER NUMBER OF SHARES ARE TENDERED INTO THE OFFER AND NOT WITHDRAWN, PURCHASE, ON A PRO RATA BASIS, THE REVISED MINIMUM NUMBER OF SHARES (IT BEING UNDERSTOOD THAT THE PURCHASER MAY, BUT SHALL NOT IN ANY EVENT BE REQUIRED TO ACCEPT FOR PAYMENT, OR PAY FOR, ANY SHARES IF LESS THAN THE REVISED MINIMUM NUMBER OF SHARES ARE TENDERED PURSUANT TO THE OFFER AND NOT WITHDRAWN AT THE APPLICABLE EXPIRATION DATE OF THE OFFER).

The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of December 11, 1997, by and among Parent, the Purchaser and the Company (the "Merger Agreement"), which provides, among other things, for the commencement of the Offer by the Purchaser and further provides that upon the terms and subject to the satisfaction or waiver of the conditions of the Offer (including the Minimum Condition or, if applicable, the Revised Minimum Number of Shares), the Purchaser will purchase all Shares validly tendered pursuant to the Offer. The Merger Agreement also provides that following consummation of the Offer, and in accordance with the General Corporation Law of the State of California ("GCL"), the Purchaser will be merged with and into the Company (the "Merger"). Following consummation of the Merger, the separate corporate existence of the Purchaser will cease and the Company will continue as the surviving corporation (the "Surviving Corporation") and will become a wholly owned subsidiary of Parent. At the effective time of the Merger (the "Effective Time"), each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by Parent, the Purchaser, any wholly owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly owned subsidiary of the Company and other than Shares held by Shareholders who shall have properly exercised their dissenters' rights, if any, under the GCL) will be converted into the right to receive in cash the Offer Price (the "Merger Price"). The Merger Agreement is more fully described in Section 10.

The consummation of the Merger is subject to the satisfaction or waiver of certain conditions, including the approval of the Merger Agreement by the requisite vote, if any, of the Shareholders. See Sections 10 and 11.

Under the GCL, if the Purchaser acquires, pursuant to the Offer, the Stock Option or otherwise, at least 90% of the Shares then outstanding, the Purchaser will be able to approve the Merger Agreement and the transactions contemplated thereby, including the Merger, without a vote of the Shareholders. In such event, Parent, the Purchaser and the Company have agreed in the Merger Agreement to take, subject to the satisfaction of the conditions set forth in the Merger Agreement, all necessary and appropriate action to cause the Merger to become effective as soon as practicable after the acquisition of such 90% without a meeting of the Shareholders, in accordance with Section 1110 of the GCL. If, however, the Purchaser does not acquire at least 90% of the then outstanding Shares on a fully diluted basis pursuant to the Offer, the Stock Option or otherwise and the Purchaser instead waives the Minimum Condition and amends the Offer to reduce the number of Shares subject to the Offer to the Revised Minimum Number of Shares, the Purchaser would own upon consummation of the Offer 49.9999% of the Shares then outstanding and would thereafter solicit the approval of the Merger and the Merger Agreement by a vote of the Shareholders. Under such circumstances, a significantly longer period of time will be required to effect the Merger. See Sections 10 and 11.

Under the GCL, the Merger may not be accomplished for cash paid to the Shareholders if the Purchaser or Parent owns directly or indirectly more than 50% but less than 90% of the then outstanding Shares unless either all the Shareholders consent or the Commissioner of Corporations of the State of

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California approves, after a hearing, the terms and conditions of the Merger and the fairness thereof. Accordingly, concurrently with the execution of the Merger Agreement, and as an inducement to Parent and the Purchaser to enter into the Merger Agreement, the Company entered into a Stock Option Agreement with Parent and the Purchaser, dated as of December 11, 1997 (the "Stock Option Agreement"). Pursuant to the Stock Option Agreement, the Company granted to the Purchaser an irrevocable option (the "Stock Option") to purchase up to the number of Shares (the "Option Shares") that, when added to the number of Shares owned by the Purchaser and its affiliates immediately following consummation of the Offer, would constitute 90% of the Shares then

outstanding on a fully diluted basis (assuming the issuance of the Option Shares) at a cash purchase price per Option Share equal to the Offer Price (the "Option Price"), subject to the terms and conditions set forth in the Stock Option Agreement, including, without limitation, (i) that the Purchaser shall have accepted for payment Shares constituting more than 50% of the Shares then outstanding and (ii) that the number of Shares to be issued under the Stock Option shall not exceed the number of authorized Shares available for issuance.

If the Stock Option is exercised by the Purchaser (resulting in the Purchaser owning 90% or more of the outstanding Shares), the Purchaser will be able to effect a short-form merger under the GCL, subject to the terms and conditions of the Merger Agreement. The Purchaser currently intends to effect a short-form merger if it is able to do so.

Concurrently with the execution of the Merger Agreement, and as an inducement to Parent and the Purchaser to enter into the Merger Agreement, Parent and the Purchaser executed the Stockholder Agreements, dated December 11, 1997 (the "Stockholder Agreements"), with certain Shareholders (the "Selling Shareholders"). Pursuant to the Stockholder Agreements, upon the terms set forth therein, the Selling Shareholders have agreed to validly tender (and not to withdraw), in accordance with the terms of the Offer, 3,047,384 Shares (excluding Shares issuable upon the exercise of outstanding options) owned (beneficially or of record) by the Selling Shareholders. The Shares subject to the Stockholder Agreements represent approximately 29% of the Shares outstanding. See Section 10.

The Merger Agreement provides that, promptly upon payment by the Purchaser for the tendered Shares, subject to certain limitations, the Purchaser shall be entitled to designate such number of directors, rounded up to the next whole number, on the Board as is equal to the product of the total number of directors on the Board (giving effect to any increase in the number of directors pursuant to the Merger Agreement) multiplied by the percentage that the aggregate number of Shares beneficially owned by the Purchaser or its affiliates bears to the total number of Shares then outstanding; provided, however, that the Purchaser will be entitled to designate a number of directors equal to or greater than 50% of the total number of directors only if the Purchaser acquires 90% or more of the outstanding Shares pursuant to the Offer or otherwise. In the Merger Agreement, the Company has agreed, upon the request of the Purchaser, to promptly take all actions necessary to cause the Purchaser's designees to be so elected, including, if necessary, seeking the resignations of one or more existing directors. If the Purchaser's designees are so elected, prior to the Effective Time, the Board shall always have at least two members who are neither officers, directors, stockholders or designees of the Purchaser or any of its affiliates.

The Company has represented and warranted that, as of December 10, 1997, there were (i) 10,511,576 Common Shares issued and outstanding, (ii) no shares of preferred stock, without par value, of the Company outstanding and (iii) 1,201,102 Shares reserved for issuance pursuant to outstanding stock options. The Merger Agreement provides, among other things, that the Company will not, without the prior written consent of Parent, issue any additional Shares (except

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on the exercise of outstanding stock options).

Based on the foregoing and assuming no additional Shares (or options or other rights exercisable for, or securities convertible into, Shares) have been issued (other than Shares issued pursuant to the exercise of outstanding stock options), if the Purchaser were to purchase approximately 10,541,411 Shares (9,460,419 Shares assuming no outstanding stock options are exercised) pursuant to the Offer (including the 3,047,384 Shares held by the Selling Shareholders who have previously agreed to tender such shares), the Minimum Condition would be satisfied. 5,255,788 Shares would constitute 50% of the Shares issued and outstanding (assuming no outstanding stock options are exercised).

THIS OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

SECTION 1. TERMS OF THE OFFER; PRORATION IN CERTAIN CIRCUMSTANCES; EXPIRATION DATE

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), the Purchaser will accept for payment and will pay for all Shares validly tendered prior to the Expiration Date and not withdrawn as permitted by Section 3. The term "Expiration Date" means 12:00 midnight, New York City time, on Tuesday, January 20, 1998, unless and until the Purchaser, in accordance with the terms and conditions of the Merger Agreement, shall have extended the period of time during which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Offer, as so extended by the Purchaser, shall expire.

The Offer is conditioned upon, among other things, the satisfaction of the Minimum Condition and the expiration of all applicable waiting periods under the HSR Act and the satisfaction of conditions under any other applicable Antitrust Laws. See Section 15. If such conditions are not satisfied prior to the Expiration Date, in addition to the Purchaser's right to amend the Offer to purchase the Revised Minimum Number of Shares, the Purchaser also reserves the right (but shall not be obligated) to (i) decline to purchase any of the Shares tendered and terminate the Offer, subject to the terms of the Merger Agreement, (ii) waive any of the conditions to the Offer, to the extent permitted by applicable law and the provisions of the Merger Agreement, and, subject to complying with applicable rules and regulations of the Securities and Exchange Commission (the "Commission"), purchase all Shares validly tendered or (iii) extend the Offer, subject to the terms of the Merger Agreement, and, subject to the right of Shareholders to withdraw Shares until the Expiration Date, retain the Shares which will have been tendered during the period or periods for which the Offer is extended. The Merger Agreement provides that if the conditions to the Offer are not satisfied, or waived by the Purchaser, as of the initial Expiration Date (or any subsequently scheduled expiration date), the Purchaser may extend the Offer at its discretion for up to ten business days after the initial Expiration Date and may extend the Offer thereafter for longer periods not to exceed 90 calendar days from the date of commencement (unless the Company requests a further extension of up to a maximum of 120 calendar days).

In the event the Purchaser amends the Offer as described above such that the Purchaser offers to purchase the Revised Minimum Number of Shares, such decrease in the number of Shares being sought will be applicable to all Shareholders whose Shares are accepted for payment pursuant to the Offer and, if at the time notice of any such decrease in the number of Shares being sought is first published, sent or given to holders of such Shares the Offer is scheduled to expire at any time earlier than the period ending on the tenth business day from and including the date that such notice is first so published, sent or given, the Offer will be extended at least until the expiration of such ten

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business day period. Upon the terms and subject to the conditions of such amended Offer, if more than the Revised Minimum Number of Shares shall be validly tendered and not withdrawn prior to the Expiration Date, the Shares so tendered shall be purchased as provided in Section 2 on a pro rata basis (adjusted to avoid the purchase of fractional shares). Because of the difficulty of determining the precise number of Shares properly tendered, the Purchaser does not expect to be able to announce the final proration factor until approximately five New York Stock Exchange ("NYSE") trading days after the Expiration Date. Preliminary results of proration will be announced by press release as promptly as practicable after the Expiration Date. Shareholders can obtain such information from their brokers. The Purchaser will not pay for any Shares accepted for payment pursuant to the Offer until the final proration factor is known.

Subject to the Merger Agreement and the applicable rules and regulations of the Commission, the Purchaser reserves the right, in its sole discretion, at any time and from time to time, and regardless of whether or not any of the events set forth in Section 15 hereof shall have occurred or shall have been determined by the Purchaser to have occurred, to (i) extend the period of time during which the Offer is open, and thereby delay acceptance for payment of, or payment for, any Shares by giving oral or written notice of such extension and delay to the Depositary or (ii) waive or reduce any condition or amend the Offer in any other respect by giving oral or written notice of such waiver or amendment to the Depositary. During any such extension, all Shares previously tendered and not properly withdrawn will remain subject to the Offer, subject to the right of a tendering Shareholder to withdraw such Shareholder's Shares. See Section 3. Under no circumstances will interest be paid on the purchase price for tendered Shares, whether or not the Purchaser

exercises its right to extend the Offer. Without the prior written consent of the Company, the Purchaser will not (i) decrease the Offer Price or change the form of consideration payable in the Offer, (ii) decrease the number of Shares sought to be purchased in the Offer (except as otherwise contemplated in the Merger Agreement), (iii) change the conditions to the Offer set forth in Section 15 of this Offer to Purchase, (iv) extend the Expiration Date of the Offer, except as required by applicable rules and regulations of the Commission and except that the Purchaser may in its discretion extend the Expiration Date for up to ten business days after the initial Expiration Date and may extend the Offer thereafter for longer periods not to exceed 90 calendar days from the date of commencement (unless the Company requests a further extension of up to a maximum of 120 calendar days) in the event that any condition to the Offer set forth in Section 15 of this Offer to Purchase is not satisfied or waived, (v) impose additional conditions to the Offer or (vi) amend any other term of the Offer in any manner adverse to the Shareholders.

If by the Expiration Date any or all of the conditions to the Offer have not been satisfied or waived, the Purchaser reserves the right (but shall not be obligated), subject to the Merger Agreement and the applicable rules and regulations of the Commission, to (i) terminate the Offer and not accept for payment or pay for any Shares and return all tendered Shares to tendering Shareholders, (ii) waive or reduce all the unsatisfied conditions and accept for payment and pay for all Shares validly tendered prior to the Expiration Date, (iii) extend the Offer and, subject to the right of Shareholders to withdraw Shares until the Expiration Date, retain the Shares that have been tendered during the period or periods for which the Offer is extended or (iv) amend the Offer.

The rights reserved by the Purchaser in the two preceding paragraphs are in addition to the Purchaser's rights pursuant to Section 15. There can be no assurance that the Purchaser will exercise its right to extend the Offer. Any extension, amendment, delay, waiver or termination will be followed as promptly as practicable by public announcement. In the case of an extension, Rule

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14e-l(d) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires that the announcement be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date, or the first opening of the Nasdaq National Market ("NNM") on the next business day after the previously scheduled Expiration Date, in accordance with the public announcement requirements of Rule 14e-1 under the Exchange Act. Subject to applicable law (including Rules 14d-4(c) and 14d-6(d) under the Exchange Act, which require that any material change in the information published, sent or given to Shareholders in connection with the Offer be promptly disseminated to Shareholders in a manner reasonably designed to inform Shareholders of such change), and without limiting the manner in which the Purchaser may choose to make any public announcement, the Purchaser will not have any obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a release to the Dow Jones News Service or as otherwise may be required by law. As used in this Offer to Purchase, "business day" has the meaning set forth in Rule 14d-1 under the Exchange Act.

If the Purchaser makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Purchaser will extend the Offer and disseminate additional tender offer materials to the extent required by Rules 14d-4(c), 14d-6(d) and 14e-1 under the Exchange Act. The minimum period during which the Offer must remain open following material changes in the terms of the Offer or information concerning the Offer, other than a change in price or a change in the percentage of securities sought, will depend upon the facts and circumstances then existing, including the relative materiality of the changed terms. For information with respect to a change in price or a change in the percentage of securities sought, a minimum period of ten business days is generally required to allow for adequate dissemination to Shareholders and investor response. If the Purchaser should decide to change the price offered or the percentage of Shares sought, such change will be applicable to all Shareholders who hold any of such respective class of securities.

The Company has provided the Purchaser with the Company's shareholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. This Offer to Purchase, the related Letter of Transmittal and other relevant materials will be mailed to record holders of Shares whose names appear on the Company's shareholders list and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the shareholder list,

or, if applicable, who are listed as participants in a clearing agency's security position listing, for subsequent transmittal to beneficial owners of Shares.

SECTION 2. PROCEDURES FOR TENDERING SHARES

Valid Tender. For a Shareholder validly to tender Shares pursuant to the Offer, either (i) a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof), together with any required signature guarantees, or in the case of a book-entry transfer, an Agent's Message (as defined below), and any other required documents, must be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date and either (x) certificates for tendered Shares ("Share Certificates") must be received by the Depositary at one of such addresses or (y) such Shares must be delivered pursuant to the procedures for book-entry transfer set forth below (and a Book-Entry Confirmation (as defined below) received by the Depositary), in each case prior to the Expiration Date, or (ii) the tendering Shareholder must comply with the guaranteed delivery procedures set forth below.

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Book-Entry Transfer. The Depositary will establish accounts with respect to the Shares at the Depository Trust Company ("DTC") and the Philadelphia Depository Trust Company (collectively, the "Book-Entry Transfer Facilities") for purposes of the Offer. Any financial institution that is a participant in the system of any of the Book-Entry Transfer Facilities may make book-entry delivery of Shares by causing a Book-Entry Transfer Facility to transfer such Shares into the Depositary's account in accordance with such Book-Entry Transfer Facility's procedures for such transfer. However, although delivery of Shares may be effected through book-entry transfer into the Depositary's account at a Book-Entry Transfer Facility, the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees, or an Agent's Message, and any other required documents, must, in any case, be transmitted to, and received by, the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date, or the tendering Shareholder must comply with the guaranteed delivery procedures described below. The confirmation of a book-entry transfer of Shares into the Depositary's account at a Book-Entry Transfer Facility as described above is referred to herein as a "Book-Entry Confirmation." DELIVERY OF DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY IN ACCORDANCE WITH SUCH BOOK-ENTRY TRANSFER FACILITY'S PROCEDURES DOES NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

The term "Agent's Message" means a message transmitted by electronic means by a Book-Entry Transfer Facility to, and received by, the Depositary and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgment from the participant in such Book-Entry Transfer Facility tendering the Shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that the Purchaser may enforce such agreement against such participant.

Participants in DTC may tender their Shares in accordance with DTC's Automated Tender Offer Program ("ATOP"), to the extent it is available to such participants for the Shares they wish to tender. A Shareholder tendering through ATOP must expressly acknowledge that the Shareholder has received and agreed to be bound by the Letter of Transmittal and that the Letter of Transmittal may be enforced against such Shareholder.

THE METHOD OF DELIVERY OF SHARE CERTIFICATES, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH ANY BOOK-ENTRY TRANSFER FACILITY, IS AT THE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. SHARE CERTIFICATES, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

Signature Guarantees. No signature guarantee is required on the Letter of Transmittal (i) if the Letter of Transmittal is signed by the registered holder (which term, for purposes of this Section, includes any participant in any of the Book-Entry Transfer Facilities systems whose name appears on a security position listing as the owner of the Shares) of Shares tendered therewith and such registered holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal or (ii) if such Shares are tendered for the account of a member firm of a national securities exchange registered with the Commission or of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States (an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instructions 1 and 5 to the Letter of Transmittal. If Share Certificates are registered in the name of a person other than the signer of the Letter of Transmittal, or if

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payment is to be made or Share Certificates for Shares not tendered or not accepted for payment are to be returned to a person other than the registered holder of the Share Certificates surrendered, the tendered Share Certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered holders appear on the Share Certificates, with the signatures on the Share Certificates or stock powers guaranteed as described above. See Instructions 1 and 5 to the Letter of Transmittal.

Guaranteed Delivery. If a Shareholder desires to tender Shares pursuant to the Offer and such Shareholder's Share Certificates are not immediately available or the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Depositary prior to the Expiration Date, such Shareholder's tender may nevertheless be effected provided all the following conditions are met:

(i) the tender is made by or through an Eligible Institution;

(ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form made available by the Purchaser, is received by the Depositary, as provided below, prior to the Expiration Date; and

(iii) the Share Certificates, representing all tendered Shares, in proper form for transfer (or a Book-Entry Confirmation with respect to all such Shares), together with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof), with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents are received by the Depositary within three trading days after the date of execution of such Notice of Guaranteed Delivery. A "trading day" is any day on which the NYSE is open for business.

The Notice of Guaranteed Delivery may be delivered by hand to the Depositary or transmitted by telegram, telex, facsimile transmission or mail to the Depositary and must include a guarantee by an Eligible Institution in the form set forth in such Notice of Guaranteed Delivery made available by the Purchaser.

Notwithstanding any other provision hereof, payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by the Depositary of (i) Share Certificates for (or a timely Book-Entry Confirmation with respect to) such Shares, (ii) a Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and (iii) any other documents required by the Letter of Transmittal. Accordingly, tendering Shareholders may be paid at different times depending upon when Share Certificates or Book-Entry Confirmations with respect to Shares are actually received by the Depositary. Under no circumstances will interest be paid on the purchase price of the Shares to be paid by the Purchaser, regardless of any extension of the Offer or any delay in making such payment.

The Purchaser's acceptance for payment of Shares validly tendered pursuant to the Offer will constitute a binding agreement between the tendering Shareholder and the Purchaser upon the terms and subject to the conditions of the Offer.

Appointment as Proxy. By executing a Letter of Transmittal as set forth above, a tendering Shareholder irrevocably appoints designees of the Purchaser as such Shareholder's attorneys-in-fact and proxies in the manner set forth in the Letter of Transmittal, each with full power of substitution, to the full extent of such

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Shareholder's rights with respect to the Shares tendered by such Shareholder and accepted for payment by the Purchaser. All such proxies will be irrevocable and considered coupled with an interest in the tendered Shares. Such appointment will be effective when, and only to the extent that, the Purchaser accepts such Shares for payment pursuant to the Offer. Upon such acceptance for payment, all prior powers of attorney, proxies and consents given by such Shareholder with respect to such Shares or other securities or rights will, without further action, be revoked and no subsequent powers of attorney, proxies, consents or revocations may be given (and, if given or executed, will not be deemed effective). The designees of the Purchaser will thereby be empowered to exercise all voting and other rights with respect to such Shares and other securities or rights in respect of any annual, special, adjourned or postponed meeting of the Shareholders, actions by written consent in lieu of any such meeting or otherwise, as they in their sole discretion deem proper. The Purchaser reserves the right to require that, in order for Shares to be deemed validly tendered, immediately upon the Purchaser's acceptance for payment of such Shares, the Purchaser must be able to exercise full voting, consent and other rights with respect to such Shares and other securities or rights, including voting at any meeting of Shareholders.

The foregoing proxies are effective only upon acceptance for payment of Shares pursuant to the Offer. The Offer does not constitute a solicitation of proxies, absent a purchase of Shares, for any meeting of the Shareholders, which will be made only pursuant to separate proxy solicitation materials complying with the Exchange Act.

Determination of Validity. All questions as to the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding on all parties. The Purchaser reserves the absolute right to reject any or all tenders determined by it not to be in proper form or the acceptance for payment of or payment for which may, in the opinion of the Purchaser's counsel, be unlawful. The Purchaser also reserves the absolute right to waive any defect or irregularity in the tender of any Shares of any particular Shareholder whether or not similar defects or irregularities are waived in the case of other Shareholders. No tender of Shares will be deemed to have been validly made until all defects or irregularities relating thereto have been cured or waived. None of the Purchaser, Parent, Voith, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification. The Purchaser's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal and the instructions thereto) will be final and binding on all parties.

Backup Withholding. In order to avoid "backup withholding" of federal income tax on payments of cash pursuant to the Offer, a Shareholder surrendering Shares in the Offer must, unless an exemption applies, provide the Depositary with such Shareholder's correct taxpayer identification number ("TIN") on a Substitute Form W-9 and certify under penalties of perjury that such TIN is correct and that such Shareholder is not subject to backup withholding. If a Shareholder does not provide such Shareholder's correct TIN or fails to provide the certifications described above, the Internal Revenue Service may impose a penalty on such Shareholder and the payment of cash to such Shareholder pursuant to the Offer may be subject to backup withholding of 31% of the amount of such payment. All Shareholders surrendering Shares pursuant to the Offer should complete and sign the main signature form and the Substitute Form W-9 included as part of the Letter of Transmittal to provide the information and certification necessary to avoid backup withholding (unless an applicable exemption exists and is proved in a manner satisfactory to the Purchaser and the Depositary).

SECTION 3. WITHDRAWAL RIGHTS

Except as otherwise provided in this Section 3, tenders of Shares pursuant

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to the Offer are irrevocable except that Shares tendered pursuant to the Offer may be withdrawn pursuant to the procedures set forth below at any time prior to the Expiration Date and, unless theretofore accepted for payment by the Purchaser pursuant to the Offer, may also be withdrawn at any time after February 15, 1998.

For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at its address set forth on the back cover of this Offer to Purchase.

Any such notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from the name of the person who tendered the Shares. If Share Certificates evidencing Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the release of such Share Certificates, the tendering shareholders must also submit to the Depository the serial numbers shown on the particular Share Certificates evidencing the Shares to be withdrawn and, unless such Shares have been tendered by an Eligible Institution, the signatures on the notice of withdrawal must be guaranteed by an Eligible Institution. If Shares have been delivered pursuant to the procedure for book-entry transfer as set forth in Section 2, any notice of withdrawal must also specify the name and number of the account at the appropriate Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with such Book-Entry Transfer Facility's procedures.

Withdrawals of tenders of Shares may not be rescinded and any Shares properly withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, withdrawn Shares may be re-tendered by again following one of the procedures described in Section 2 at any time prior to the Expiration Date.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding on all parties. None of the Purchaser, Parent, Voith, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

SECTION 4. ACCEPTANCE FOR PAYMENT AND PAYMENT

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), the Purchaser will accept for payment and will pay for all Shares validly tendered prior to the Expiration Date and not properly withdrawn promptly after the latest to occur of (i) the Expiration Date, (ii) the expiration of all applicable waiting periods under the HSR Act and the satisfaction of conditions under any other applicable Antitrust Laws and (iii) the satisfaction or waiver of the conditions to the Offer set forth in Section 15. All questions as to the satisfaction of such terms and conditions will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding on all parties. See Sections 1, 10 and 15. Notwithstanding the foregoing and subject to applicable rules of the Commission and the terms of the Merger Agreement, the Purchaser expressly reserves the right, in its sole discretion, to delay acceptance for payment of, or payment for, Shares pending receipt of any regulatory approvals specified in Section 16 or in order to comply in whole or in part with any other applicable law. Any such delays will be effected in compliance with Rule 14e-1(c) under the Exchange Act (relating to a bidder's obligation to pay for or return tendered securities promptly after the termination or withdrawal of such bidder's Offer).

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In all cases, payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) Share Certificates for (or a timely Book-Entry Confirmation with respect to) such Shares, (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and (iii) any other documents required by the Letter of Transmittal. The per Share consideration paid to any Shareholder pursuant to the Offer will be the highest per Share consideration paid to any other Shareholder pursuant to the Offer.

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered to the Purchaser as, if and when the Purchaser gives oral or written notice to the Depositary of the Purchaser's acceptance for payment of such Shares. Upon the terms and subject to the conditions of the Offer, payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for validly tendering Shareholders for the purpose of receiving payment from the Purchaser and transmitting payment to tendering Shareholders.

UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE OF THE SHARES TO BE PAID BY THE PURCHASER, REGARDLESS OF ANY EXTENSION OF THE OFFER OR ANY DELAY IN MAKING SUCH PAYMENT.

Upon the deposit of funds with the Depositary for the purpose of making payments to tendering Shareholders, the Purchaser's obligation to make such payments shall be satisfied and tendering Shareholders must thereafter look solely to the Depositary for payment of amounts owed to them by reason of the acceptance for payment of Shares pursuant to the Offer. The Purchaser will pay any stock transfer taxes with respect to the transfer and sale to it or its order pursuant to the Offer, except as otherwise provided in Instruction 6 of the Letter of Transmittal, as well as any charges and expenses of the Depositary and the Information Agent.

If the Purchaser is delayed in its acceptance for payment of or payment for Shares or is unable to accept for payment or pay for Shares pursuant to the Offer for any reason, then, without prejudice to the Purchaser's rights under the Offer (but subject to compliance with Rule 14e-l(c) under the Exchange Act), the Depositary may, nevertheless, on behalf of the Purchaser, retain tendered Shares, and such Shares may not be withdrawn except to the extent tendering Shareholders are entitled to exercise, and duly exercise, withdrawal rights as described in Section 3.

If any tendered Shares are not accepted for payment pursuant to the Offer for any reason, Share Certificates evidencing unpurchased Shares will be returned, without expense to the tendering Shareholder (or, in the case of Shares delivered by book-entry transfer of such Shares into the Depositary's account at a Book-Entry Transfer Facility pursuant to the procedure set forth in Section 2, such Shares will be credited to an account maintained at the appropriate Book-Entry Transfer Facility), as promptly as practicable after the expiration, termination or withdrawal of the Offer.

SECTION 5. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The receipt of cash for Shares pursuant to the Offer or in the Merger will be a taxable transaction for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), and may also be a taxable transaction under applicable state, local or foreign income or other tax laws. Generally, for federal income tax purposes, a tendering Shareholder will recognize gain or loss equal to the difference between the amount of cash received by the Shareholder pursuant to the Offer or the Merger and the aggregate tax basis in the Shares tendered by the Shareholder and purchased

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pursuant to the Offer or converted in the Merger, as the case may be. Gain or loss will be calculated separately for each block of Shares tendered and purchased pursuant to the Offer or converted in the Merger, as the case may be.

If Shares are held by a Shareholder as capital assets, gain or loss recognized by the Shareholder will be capital gain or loss, which will be long-term capital gain or loss subject to a maximum rate of 20% if the Shareholder's holding period for the Shares exceeds 18 months. Under present law, an individual will be taxed on his or her net capital gain at a rate of 28% for property held 18 months or less, but more than one year. Special rules (and generally lower maximum rates) apply for individuals in lower tax brackets. Long-term capital gains recognized by a corporate Shareholder will be taxed at a maximum federal marginal tax rate of 35%.

THE FOREGOING DISCUSSION IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS BASED UPON PRESENT LAW AND MAY NOT BE APPLICABLE WITH RESPECT TO SHARES RECEIVED AS COMPENSATION OR WITH RESPECT TO HOLDERS OF SHARES WHO ARE SUBJECT TO SPECIAL TAX TREATMENT UNDER THE CODE, SUCH AS NON-U.S. PERSONS, LIFE INSURANCE COMPANIES, TAX-EXEMPT ORGANIZATIONS AND FINANCIAL INSTITUTIONS, AND MAY NOT APPLY TO A HOLDER OF SHARES IN LIGHT OF INDIVIDUAL CIRCUMSTANCES. SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF ANY STATE, LOCAL OR FOREIGN INCOME AND OTHER TAX LAWS) OF THE OFFER AND THE MERGER.

SECTION 6. PRICE RANGE OF SHARES; DIVIDENDS ON THE SHARES

The Common Shares are listed on the NNM under the symbol "MPAC." The following table sets forth the high and low closing sales prices per Share, as reported in publicly available sources for the periods indicated. The Company did not pay any cash dividends on the Common Shares during such periods.

<TABLE>
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<S>	HIGH <C>	LOW <C>
FISCAL YEAR ENDED MARCH 31, 1996:		
First quarter	$ 2 3/16	$ 1 15/16
Second quarter	3 1/16	2
Third quarter	2 15/16	2 1/16
Fourth quarter	3 9/16	2 1/2
FISCAL YEAR ENDED MARCH 31, 1997:		
First quarter	3 3/4	2 3/4
Second quarter	3 1/8	1 11/16
Third quarter	2 1/4	1 9/32
Fourth quarter	2 3/8	1 3/8
FISCAL YEAR ENDING MARCH 31, 1998		
First quarter	1 1/2	1 1/8
Second quarter	2 1/32	1 7/32
Third quarter (through December 11, 1997)	2	1 19/32

</TABLE>

On December 11, 1997, the last full trading day prior to the announcement of the execution of the Merger Agreement, the Stockholder Agreements and the Stock Option Agreement and of the Purchaser's intention to commence the Offer, the closing sales price of the Shares as reported on the NNM was $1.75. On December 17, 1997, the last full trading day prior to the commencement of the Offer, the closing sales price of the Shares as reported on the NNM was $2.625.

SHAREHOLDERS ARE URGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR THE COMMON

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STOCK.

SECTION 7. CERTAIN INFORMATION CONCERNING THE COMPANY

Except as otherwise set forth herein, the information concerning the Company contained in this Offer to Purchase, including financial information, has been furnished by the Company or has been taken from or based upon publicly available documents and records on file with the Commission and other public sources. None of the Purchaser, Parent or Voith assumes any responsibility for the accuracy or completeness of the information concerning the Company furnished by the Company or contained in such documents and records or for any failure by the Company to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to the Purchaser, Parent or Voith.

General. The Company is a California corporation with its principal offices at 14600 Winchester Boulevard, Los Gatos, California 95030. According to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the "Company 10-K"), the Company develops, manufactures, sells and services a wide spectrum of computer-based measurement and control systems to the paper industry. The Company's cross-direction ("CD") measurement and control systems reduce CD variations in key variables occurring in the production of virtually all grades of paper. Actuators and sensors primarily improve quality and reduce operating costs which are important in market-limited situations. The Spectrum(TM) drying products are primarily used to improve production. Control of these variables is critical to improving paper quality, increasing production capacity and reducing rejects, energy consumption and raw material costs. The Company's products have been specifically designed for integration with existing paper machine measurement and control systems.

The Company has stated that its paper industry expertise and specialized applications knowledge of CD controls substantially enhance the development and marketing of its products. The Company's principal customers are among the larger worldwide paper companies normally with sales exceeding $1 billion annually. Additionally, the Company sells its products directly to large paper machine and coater manufacturers.

Selected Financial Information. Set forth below is certain selected consolidated financial information relating to the Company and its subsidiaries which has been excerpted or derived from the audited financial statements contained in the Company 10-K and the unaudited financial statements contained in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 (the "Company 10-Q"). More comprehensive financial information is included in the Company 10-K, the Company 10-Q and other documents filed by the Company with the Commission. The financial information that follows is qualified in its entirety by reference to such reports and other documents, including the financial statements and related notes contained therein. Such reports and other documents may be examined and copies may be obtained from the offices of the Commission in the manner set forth below.

IMPACT SYSTEMS, INC.
SELECTED FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED SEPTEMBER 30,		FISCAL YEAR ENDED MARCH 31,		
	1997	1996	1997	1996	1995

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CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net Revenues	$9,113	$9,649	$19,756	$17,765	$15,709
Costs and expenses:					
Cost of goods sold	4,432	5,139	10,691	8,627	7,603
Research and development	1,087	931	1,982	1,752	1,758
Selling, general and administrative	3,302	3,069	6,049	5,908	5,217
Provision for legal expenses	--	--	1,000	--	--
Total costs and expenses	8,821	9,139	19,722	16,287	14,578
Operating income	292	510	34	1,478	1,131
Interest income, net	185	160	346	333	284
Foreign currency gain (loss), net	8	7	70	(19)	(23)
Equity in net income (loss) of investee	7	29	(2)	199	50
Income before income taxes and extraordinary credit	492	706	448	2,029	1,442
Income taxes	--	--	--	--	--
Net income	$ 492	$ 706	$ 448	$ 2,029	$ 1,442
Net income per common share	$ .05	$ .06	$ .04	$ .19	$ .14
Weighted average common and common equivalent shares	10,631	11,025	10,909	10,949	10,677

</TABLE>

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,		AT MARCH 31,		
	1997	1996	1997	1996	1995
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$10,746	$13,053	$11,096	$12,120	$ 9,897
Total assets	$19,665	$18,201	$18,937	$18,120	$15,134
Long-term obligations, less current portion	--	--	--	--	--
Stockholders' equity	$14,816	$14,735	$14,321	$13,975	$11,875

</TABLE>

Projected Financial Information. Prior to entering into the Merger Agreement, Parent and the Purchaser conducted a due diligence review of the Company and in connection with such review received certain non-public business and financial information from the Company. Such non-public information included, among other things, projected income statement data for the fiscal years ending March 31, 1998 to 2000. This projected financial information was prepared by the Company's management based on numerous assumptions, including among others, certain market factors and economic assumptions and assumptions regarding revenue growth and gross margins. Set forth below is a summary of projected income statement items for fiscal years ending March 31, 1998 to 2000.

IMPACT SYSTEMS, INC.
SUMMARY BUSINESS PLAN
1998 TO 2000
(IN THOUSANDS)

<TABLE>
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ACTUAL PLAN

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	1997	1998	1999	2000
<S>	<C>	<C>	<C>	<C>
SCANNER/SENSORS	$ 4,609	$ 5,000	$ 6,500	$10,000
ACTUATORS				
Electric IR	2,708	2,500	2,500	3,000
Caliper	2,117	2,000	2,500	3,000
Basis Weight	599	500	1,000	1,500
Remoisturizer	289	500	1,000	1,000
Addons/Upgrades	1,334	600	500	1,000
GAS SYSTEMS	3,740	3,500	4,000	5,000
Total-Systems	15,396	14,600	18,000	24,500
Spares/Service	4,360	4,500	5,000	5,500
Total Revenue	19,756	19,000	23,000	30,000
GROSS MARGIN				
Systems	6,057	6,200	8,000	11,025
Spares/Service	3,008	3,100	3,400	3,850
Total	9,065	9,300	11,500	14,875
Operating Expenses	8,031	8,500	9,000	9,600
Operating Income	34	800	2,400	5,275
Other Income	414	400	600	800
Pretax Income	448	1,200	3,000	6,075
Taxes	0	0	0	1,375
Net Income	$ 448	$ 1,200	$ 3,000	$ 4,700
Per Share	$ .04	$ .12	$ .27	$ .43

</TABLE>

PROJECTED INFORMATION OF THIS TYPE IS BASED ON ESTIMATES AND ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT AND MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE PROJECTED RESULTS WILL BE REALIZED OR THAT ACTUAL RESULTS WOULD NOT BE SIGNIFICANTLY HIGHER OR LOWER THAN THOSE SET FORTH ABOVE. IN ADDITION, THESE PROJECTIONS DO NOT GIVE EFFECT TO THE OFFER OR THE MERGER, WERE NOT PREPARED WITH A VIEW TO PUBLIC DISCLOSURE OR COMPLIANCE WITH THE PUBLISHED GUIDELINES OF THE

COMMISSION OR THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING PROJECTIONS AND FORECASTS AND ARE INCLUDED IN THIS OFFER TO PURCHASE ONLY BECAUSE SUCH INFORMATION WAS MADE AVAILABLE TO PARENT AND THE PURCHASER BY THE COMPANY. NONE OF PARENT, THE PURCHASER, VOITH, THE COMPANY OR ANY OTHER PARTY ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR VALIDITY OF THE FOREGOING PROJECTIONS.

Available Information. The Company is subject to the informational filing requirements of the Exchange Act and, in accordance therewith, is required to file periodic reports, proxy statements and other information with the Commission relating to its business, financial condition and other matters. Information as of particular dates concerning the Company's directors and officers, their remuneration, stock options granted to them, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company is required to be disclosed in proxy statements

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distributed to the Company's shareholders and filed with the Commission. Such reports, proxy statements and other information should be available for inspection at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and also should be available for inspection at the Commission's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. The Commission also maintains an Internet site at http://www.sec.gov that contains reports, proxy statements and other information. Copies of such materials may also be obtained by mail, upon payment of the Commission's customary fees, by writing to its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. The information may also be available for inspection at the offices of The Nasdaq Stock Market, Reports Section, at 1735 K Street, N.W., Washington, D.C. 20006.

SECTION 8. CERTAIN INFORMATION CONCERNING THE PURCHASER, PARENT, VOITH AND FAMILIENGESELLSCHAFT

The Purchaser is a newly incorporated California corporation and a wholly owned subsidiary of the Parent organized in connection with the Offer and the Merger which to date has not conducted any business other than in connection with the Offer and the Merger. The principal executive offices of the Purchaser are located at c/o Voith Sulzer Paper Technology North America Inc., 2200 N. Roemer Road, Appleton, Wisconsin 54913.

Until immediately prior to the time that the Purchaser will purchase Shares pursuant to the Offer, it is not anticipated that the Purchaser will have any significant assets or liabilities or engage in activities other than those incident to its formation and capitalization and the transactions contemplated by the Offer and the Merger.

Parent is a Delaware corporation with its principal executive offices located at 2200 N. Roemer Road, Appleton, Wisconsin 54913. Parent is a paper technology company specializing in stock preparation, paper machinery and finishing.

Voith is a corporation organized under the laws of the Federal Republic of Germany. Its principal offices are located at Sankt Poltener StraSSe 43, D-89522 Heidenheim, Germany. Voith is a privately held international technology corporation active in the fields of paper technology, power generation equipment and power transmission. Familiengesellschaft J.M. Voith GbR ("Familiengesellschaft") is a family holding company which owns a controlling interest in Voith. Its principal office is located in Mannheim, Germany.

Voith is not subject to the informational reporting requirements of the Exchange Act, and, accordingly, does not file reports or other information with the Commission relating to its business, financial condition and other matters. Set forth below is certain selected consolidated financial information relating to Voith and its subsidiaries for the fiscal years ended September 30, 1996 and 1995. Financial information for the year ended September 30, 1997 is not currently available. The selected consolidated financial information is denominated in Deutsche Marks and prepared in accordance with Sections 290 et. seq. of the German Commercial Code (i.e., generally accepted accounting principles in the Federal Republic of Germany ("German GAAP")). Although German GAAP differs in certain significant respects from generally accepted accounting principles in the United States, Parent believes that the differences are not material to a decision by a holder of Shares whether to sell, tender or hold any Shares because any such differences would not affect the ability of the Purchaser to obtain sufficient funds to pay for the Shares to be acquired pursuant to the Offer.

J.M. VOITH AG

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SELECTED CONSOLIDATED FINANCIAL INFORMATION
(IN DEUTSCHE MARKS ("DM"))

	AT OR FOR THE YEAR ENDED SEPTEMBER 30,	
	1996	1995
	(IN THOUSANDS)	
INCOME STATEMENT DATA:		
Amounts in accordance with German GAAP:		
Sales	DM 3,557,516	DM 2,897,040
Net income(1)	120,108	27,482
BALANCE SHEET DATA:		
Amounts in accordance with German GAAP:		
Current assets	2,275,754	2,118,694
Total assets	3,106,966	2,946,420
Shareholders' equity(1)	786,526	669,459

---

(1) Including minority interests.

The name, citizenship, business address, principal occupation or employment and five-year employment history for each of the directors and executive officers of the Purchaser, Voith and Familiengesellschaft and certain other information are set forth in Schedule I hereto.

Except as described in this Offer to Purchaser, (i) none of Purchaser, Parent, Voith, Familiengesellschaft or, to the knowledge of the Purchaser, Parent, Voith and Familiengesellschaft, any of the persons listed in Schedule I to this Offer to Purchase or any associate or majority-owned subsidiary of such persons (collectively, the "Purchaser Entities"), beneficially owns or has any right to acquire, directly or indirectly, any equity security of the Company and (ii) no Purchaser Entity or, to the knowledge of any Purchaser Entity, any of the persons or entities referred to above nor any director, executive officer or subsidiary of any of the foregoing has effected any transaction in any equity security of the Company during the past 60 days.

Except as provided in the Merger Agreement, the Stock Option Agreement and the Stockholder Agreements and as otherwise described in this Offer to Purchase, no Purchaser Entity or, to the knowledge of any Purchaser Entity, any of the persons listed in Schedule I to this Offer to Purchase, has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or voting of such securities, joint ventures, loan or option arrangements, puts or calls, guaranties of loans, guaranties against loss or the giving or withholding of proxies. Except as set forth in this Offer to Purchase, since April 1, 1994, no Purchaser Entity or, to the best knowledge of any Purchaser Entity, any of the persons listed on Schedule I hereto, has had any business relationship or transaction with the Company or any of its executive officers, directors or affiliates that is required to be reported under the rules and regulations

of the Commission applicable to the Offer. Except as set forth in this Offer to Purchase, since April 1, 1994, there have been no contacts, negotiations or transactions between any Purchaser Entity, or any of their respective subsidiaries or, to the best knowledge of any Purchaser Entity, any of the persons listed in Schedule I to this Offer to Purchase, on the one hand, and the

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Company or its affiliates, on the other hand, concerning a merger, consolidation or acquisition, tender offer or other acquisition of securities, an election of directors or a sale or other transfer of a material amount of assets.

SECTION 9. BACKGROUND OF THE OFFER

In May 1997, Parent and its affiliates completed a strategic review of the opportunities and challenges facing them in the paper industry. As a result of this review, Parent determined that it would be desirable for Parent to gain further competence in the field of paper technology process automation and control. After considering numerous alternatives, Parent concluded that the most efficient way for Parent to further gain such competence was to seek an alliance with an entity that had already developed expertise in the field.

Following the strategic review, Parent began the process to initiate discussions with several potential business partners, including the Company. On June 20, 1997, Parent sent a letter to Mr. Kenneth P. Ostrow, President and Chief Executive Officer of the Company, to request a meeting in order to discuss a potential strategic relationship between the Company and Parent and its affiliates.

In late July 1997, representatives of Parent met for two days with representatives of the Company at the Company's offices in Los Gatos, California. At the end of the two-day session, Parent indicated that it was interested in pursuing an equity investment in the Company.

On August 1, 1997, Parent and the Company entered into a confidentiality agreement. Following execution of the confidentiality agreement, the Company provided Parent with certain information to facilitate Parent's further review and evaluation of the Company.

In mid-September 1997, representatives of Parent met with a representative of the Company in Los Gatos, California, to discuss potential business combination strategies, including a possible acquisition of the Company for $2.20 to $2.25 per Share subject to certain conditions including the retention of key personnel. The Company representative indicated to Parent that he did not believe that the Company would be interested in pursuing any potential transactions at that price level.

Following its initial proposal, Parent continued its review of the Company and thereafter approached a representative of the Company and indicated its willingness to increase the acquisition price subject to additional discussions and further due diligence.

On October 10, 1997, representatives of Parent visited the Company to discuss the terms of a possible business combination. At this meeting, Parent indicated its willingness to pay a purchase price of $2.75 per Share subject to Parent's continuing due diligence review of the Company.

During this time, Parent contacted Elsag Bailey Process Automation N.V. ("Elsag Bailey"), which, through an affiliate, is a 23% shareholder of the Company, to determine whether Elsag Bailey would consider supporting a business combination between Parent and the Company. M.N. Zaharna, an officer of Elsag Bailey, is a director of the Company.

From June to November 1997, representatives of Parent had also participated in two parallel discussions regarding a strategic alliance between affiliates of Parent and several competitors of the Company and Elsag Bailey. In neither case could the parties reach agreement.

During this time, and following the execution of a confidentiality agreement, representatives of Parent and Elsag Bailey, which is a supplier of distributed control systems ("DCS") to various industries, also discussed a possible strategic alliance in the field of machine controls and DCS. On December 3, 1997, Elsag Bailey and an affiliate of Parent entered into a strategic alliance (the "Alliance") which generally provides for a working

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relationship that integrates Elsag Bailey's DCS into the product line offered by affiliates of Parent, and in particular paper machinery, and which is not contingent upon any potential business combination

between Parent and the Company. In addition to other arrangements, under the Alliance, an affiliate of Parent and Elsag Bailey will pursue joint research and development of each parties' respective products and technologies, cross marketing of their respective products and the cross purchase of each other's products where appropriate.

In mid-November 1997, Parent's legal counsel delivered drafts of the Merger Agreement, the Stockholder Agreements and the Stock Option Agreement to the Company and its legal counsel and other representatives. During the next several weeks, representatives of Parent's legal counsel and the Company's legal counsel discussed various issues concerning the drafts of the Merger Agreement, Stock Option Agreement and Stockholder Agreements. Parent also distributed a draft of the Stockholder Agreements to the two largest shareholders of the Company (Mr. Ostrow and Elsag Bailey), and requested that such parties enter into the Stockholder Agreements in connection with the proposed business combination. Over the next several weeks, representatives of the respective parties discussed various terms and conditions of the proposed form of the Stockholder Agreement.

All remaining issues under discussion were resolved by a meeting of Parent, its legal counsel, the Company and its legal counsel during the week of December 8, 1997. In addition, during this time, Parent and the parties to the Stockholder Agreements resolved the remaining issues related thereto. Parent also discussed with the Company various arrangements to facilitate the retention of key employees following consummation of the business combination.

On December 11, 1997, the Company advised Parent that the Board met and approved the Merger Agreement and the Stock Option Agreement. Following approval thereof, the parties executed and delivered the Merger Agreement and the Stock Option Agreement. On December 11, 1997, the Stockholder Agreements were executed by Parent, the Purchaser and other parties thereto.

Following execution of the foregoing documents, a joint press release announcing the execution of the definitive agreements was issued by Parent and the Company.

SECTION 10. THE MERGER AGREEMENT AND RELATED DOCUMENTS

The following is a summary of certain provisions of the Merger Agreement, the Stockholder Agreements, the Stock Option Agreement and the Noncompetition Agreement (as defined below). This summary is qualified in its entirety by reference to the Merger Agreement, the Stockholder Agreements, the Stock Option Agreement and the Noncompetition Agreement which are incorporated by reference in this Offer to Purchase and copies of which have been filed with the Commission as exhibits to the Schedule 14D-1. The Merger Agreement, the Stockholder Agreements, the Stock Option Agreement and the Noncompetition Agreement may be examined and copies may be obtained at the places set forth in Section 7 of the Offer to Purchase.

THE MERGER AGREEMENT

The Offer. The Merger Agreement provides for the commencement of the Offer as promptly as practicable after the date thereof, but in any event not later than December 18, 1997. The obligation of the Purchaser to, and of Parent to cause the Purchaser to, commence the Offer and accept for payment, and pay for, the Shares validly tendered pursuant to the Offer is subject to the satisfaction of the Minimum Condition prior to the expiration of the Offer and certain other conditions described in Section 15. The Purchaser agrees to purchase all such Shares at a price of $2.75 per Share. The Merger Agreement provides that,

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without the prior written consent of the Company, the Purchaser will not (i) decrease the Offer Price or change the form of consideration payable in the Offer, (ii) decrease the number of Shares sought to be purchased in the Offer (except as otherwise contemplated in the Merger Agreement), (iii) change the conditions set forth in the Offer, (iv) extend the Expiration Date of the Offer, except as required by applicable rules and regulations of the Commission and except that the Purchaser may in its discretion extend the Expiration Date for up to ten business days after the initial Expiration Date and may extend the Offer thereafter for longer periods not to exceed 90 calendar days from the date of commencement (unless the Company requests a further extension of up to a maximum of 120 calendar days) in the event that any condition to the Offer set forth in Section 15 of this Offer to Purchase is not satisfied or waived, (v) impose additional conditions to the Offer or (vi) amend any other term of the Offer in any manner adverse to the holders of any Shares.

Subject to the limitations set forth in clause (iv) in the immediately preceding paragraph, in the event the Minimum Condition is not satisfied on any scheduled expiration date of the Offer, the Purchaser may either extend the Offer pursuant to such clause (iv) or amend the Offer to provide that, in the event (i) the Minimum Condition is not satisfied at the next scheduled expiration date of the Offer (after giving pro forma effect to the potential issuance of any Shares under the Stock Option Agreement) and (ii) the number of Shares tendered pursuant to the Offer and not withdrawn as of such next scheduled expiration date is more than 50% of the then outstanding Shares, the Purchaser must waive the Minimum Condition and amend the Offer to reduce the number of Shares subject to the Offer to the Revised Minimum Number of Shares and, if a greater number of Shares is tendered in the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Shares (it being understood that the Purchaser may, but shall not in any event be required to accept for payment, or pay for, any Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date of the Offer).

Recommendation. The Merger Agreement provides that the Board has (i) approved the Merger Agreement, the Stock Option Agreement, the Offer and the Merger and the other transactions contemplated thereby, (ii) determined that the Offer Price to be received by the Shareholders pursuant to the Offer and the Merger is fair to the Shareholders and (iii) recommends that the Shareholders tender their Shares pursuant to the Offer.

The Merger. Following the consummation of the Offer, the Merger Agreement provides that, subject to the terms and conditions thereof, and in accordance with the GCL, at the Effective Time the Purchaser will be merged with and into the Company. As a result of the Merger, the separate corporate existence of the Purchaser will cease and the Company will continue as the Surviving Corporation. The Merger Agreement provides that Parent, the Purchaser and the Company shall use their commercially reasonable best efforts to consummate the Merger as soon as practicable.

Pursuant to the Merger Agreement, the Company will, if required by the Company's Amended and Restated Articles of Incorporation and/or applicable California law in order to consummate the Merger, duly call, give notice of, convene and hold a special meeting of its Shareholders (the "Shareholders' Meeting") as soon as practicable following the acceptance for payment and purchase of the Shares by the Purchaser pursuant to the Offer for the purpose of considering and taking action upon the Merger Agreement. The Merger Agreement provides that the Company will (i) prepare and file with the Commission a preliminary proxy statement relating to the Merger and the Merger Agreement and (ii) use its commercially reasonable best efforts to (x) obtain and furnish the information required to be included by the Commission in the definitive proxy statement and (y) obtain the necessary approvals of the Merger and the Merger Agreement from the Shareholders. The Board, subject to the fiduciary obligations

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of the Board under applicable law, will include in the proxy statement the recommendation of the Board that the Shareholders vote in favor of the approval of the Merger and the adoption of the Merger Agreement. Parent agrees that it will vote, or cause to be voted, all of the Shares then owned by Parent, the Purchaser or any of its other subsidiaries in favor of the Merger and adoption of the Merger Agreement and take, or cause to be taken, all additional corporate actions necessary for the Purchaser to adopt and approve the Merger Agreement and the transactions contemplated thereby.

The Merger Agreement provides that in the event that Parent, the Purchaser or any other subsidiary of Parent acquires at least 90% of the outstanding Shares on a fully diluted basis pursuant to the Offer or otherwise, Parent, the Purchaser and the Company will, at the request of Parent and subject to the terms and conditions of the Merger Agreement, take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after such acquisition, without a meeting of Shareholders of the Company, in accordance with Section 1110 of the GCL.

Conversion of Securities. At the Effective Time, each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by Parent, the Purchaser, any wholly owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly owned subsidiary of the Company, which Shares, by virtue of the Merger and without any action on the part of the holder thereof, shall be canceled and retired and shall cease to exist with no payment being made with respect thereto, and other than

Shares held by Shareholders who perfect any applicable dissenters' rights under the GCL) shall be converted into the right to receive in cash the Merger Price. See Section 11 for information regarding dissenters' rights. At the Effective Time, the issued and outstanding shares of the Purchaser will be converted into and become the number of validly issued, fully paid and nonassessable shares of common stock of the Surviving Corporation equal to the number of Shares outstanding on a fully diluted basis immediately prior to the Effective Time.

Pursuant to the Merger Agreement, immediately prior to the Effective Time, (a) each outstanding option to purchase Common Shares (an "Option") granted under the Company's Discount Stock Option Plan, 1995 Incentive Stock Option Plan, 1985 Incentive Stock Option Plan and 1982 Incentive Stock Option Plan (collectively, the "Option Plans"), whether or not exercisable or vested, will become fully exercisable and vested, (b) each Option which is then outstanding will be canceled and (c) in consideration of such cancellation, and except to the extent that Parent or the Purchaser and the holder of any such Option otherwise agree, immediately following consummation of the Merger, the Company will promptly pay to such holders of Options an amount in respect thereof equal to the product of (x) the excess of the Merger Price over the exercise price thereof and (y) the number of Common Shares subject thereto; provided that the foregoing shall be subject to the obtaining of any necessary consents of the holders of Options, it being agreed that the Company and Parent will use their commercially reasonable best efforts to obtain any such consents.

Board of Directors. The Merger Agreement provides that, promptly upon payment by the Purchaser for the tendered Shares pursuant to the Offer, subject to certain limitations, the Purchaser shall be entitled to designate such number of directors, rounded up to the next whole number, on the Board as is equal to the product of the total number of directors on the Board (giving effect to any increase in the number of directors pursuant to the Merger Agreement) multiplied by the percentage that the aggregate number of Shares beneficially owned by the Purchaser or its affiliates bears to the total number of Shares then outstanding; provided, however, that the Purchaser will be entitled to designate a number of directors equal to or greater than 50% of the total number of directors only if the Purchaser acquires 90% or more of the outstanding Shares pursuant to the Offer or otherwise. In the Merger Agreement, the Company has

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agreed, upon the request of the Purchaser, to promptly take all actions necessary to cause the Purchaser's designees to be so elected, including, if necessary, seeking the resignations of one or more existing directors. If the Purchaser's designees are so elected, prior to the Effective Time, the Board shall always have at least two members who are neither officers, directors, stockholders or designees of the Purchaser or any of its affiliates. The Company's obligation to appoint the Purchaser's designees to the Board is subject to compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder.

Representations and Warranties. Pursuant to the Merger Agreement, the Company has made customary representations and warranties to Parent and the Purchaser with respect to, among other things, its organization and qualifications, capitalization, authority, financial statements, public filings, tax matters, litigation, compliance with laws, employee benefit plans, intellectual property, granting of certain approvals, information in the proxy statement, year 2000 compliance and the absence of any undisclosed material adverse effects on the Company since March 31, 1997. The Parent and the Purchaser have made customary representations and warranties to the Company with respect to, among other things, its organization and qualifications, authority and financing.

Covenants. The Merger Agreement contains certain restrictive covenants as to the conduct of the Company, Parent, the Purchaser and the Surviving Corporation in contemplation of the Merger including, without limitation, access by Parent and the Purchaser to information concerning the Company, use of commercially reasonable best efforts to consummate the Merger, use of commercially reasonable best efforts to obtain all consents necessary for the consummation of the Merger, maintenance by the Surviving Corporation of certain employee benefit arrangements and notification of the other parties of certain matters.

Conduct of Business of the Company. The Company agrees that, except with the prior written consent of the Parent, during the period from execution of the Merger Agreement to the Effective Time, the Company and its subsidiaries will conduct operations only in the ordinary course of business consistent with past practice and will use its best efforts to preserve intact the business organization of the Company and each of its

subsidiaries, to keep available the services of its and their present officers and key employees and to preserve the goodwill of those having business relationships with it.

Solicitation. Pursuant to the Merger Agreement, the Company represents and warrants to, and covenants and agrees with, Parent and the Purchaser that neither the Company nor any of its subsidiaries has any agreement, arrangement or understanding with any potential acquiror that, directly or indirectly, would be violated, or require any payments, by reason of the execution, delivery and/or consummation of the Merger Agreement and the Stock Option Agreement. The Company shall, and shall use its commercially reasonable best efforts to cause its subsidiaries and their officers, directors, employees, investment bankers, attorneys and other agents and representatives to, immediately cease any existing discussions or negotiations with any person (including a "person" as defined in Section 13(d)(3) of the Exchange Act) other than Parent or the Purchaser (a "Third Party") heretofore conducted with respect to any Acquisition Transaction (as hereinafter defined). The Company shall not, and shall use its commercially reasonable best efforts to cause its subsidiaries and their officers, directors, employees, investment bankers, attorneys and other agents and representatives not to, directly or indirectly, (i) solicit, initiate, continue, facilitate or encourage (including by way of furnishing or disclosing non-public information) any inquiries, proposals or offers from any Third Party with respect to, or that could reasonably be expected to lead to, any

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acquisition or purchase of a material portion of the assets or business of, or any significant equity interest in (including by way of a tender offer), or any amalgamation, merger, consolidation or business combination with, or any recapitalization or restructuring, or any similar transaction involving, the Company or any of its subsidiaries (the foregoing being referred to collectively as an "Acquisition Transaction") or (ii) negotiate, explore or otherwise communicate in any way with any Third Party with respect to any Acquisition Transaction or enter into, approve or recommend any agreement, arrangement or understanding requiring the Company to abandon, terminate or fail to consummate the Offer and/or the Merger or any other transaction contemplated thereby or by the Stock Option Agreement. Notwithstanding anything to the contrary in the foregoing, the Company may in response to an unsolicited written proposal with respect to an Acquisition Transaction involving the acquisition of all of the Shares (or all or substantially all of the assets of Company and its subsidiaries) from a Third Party, (which proposal (x) is not subject to a financing condition and is from a person that a nationally recognized investment bank advises in writing is financially capable of consummating such proposal or (y) is subject to financing, but is from a person that a nationally recognized investment bank advises in writing is financially capable of achieving such financing to consummate such proposal), (i) furnish or disclose non-public information to such Third Party and (ii) negotiate, explore or otherwise communicate with such Third Party, in each case only if (a) after being advised in writing by its outside counsel with respect to its fiduciary obligations to the Shareholders under applicable law, the Board determines in good faith that taking such action is necessary in the exercise of its fiduciary obligations under applicable law (the proposal with respect to an Acquisition Transaction meeting such requirements being a "Superior Proposal"), (b) prior to furnishing or disclosing any non-public information to, or entering into discussions or negotiations with, such Third Party, the Company receives from such Third Party an executed confidentiality agreement with terms no less favorable in the aggregate to Company than those contained in the confidentiality agreement between an affiliate of Parent and the Company, but which confidentiality agreement shall not provide for any exclusive right to negotiate with Company or any payments by the Company and (c) the Company advises Parent of all such non-public information delivered to such Third Party concurrently with such delivery; provided, however, that the Company shall not, and shall cause its affiliates not to, enter into a definitive agreement with respect to a Superior Proposal unless (x) the Company concurrently terminates the Merger Agreement in accordance with the terms thereof, pays any amounts required under Article VIII of the Merger Agreement and (y) such agreement permits the Company, subject to the fiduciary duties of the Board, to terminate it if it receives a Superior Proposal, such termination and related provisions to be on terms no less favorable to the Company, including as to fees and reimbursement of expenses, as those contained in the Merger Agreement.

The Merger Agreement provides that the Company shall promptly (but in any event within one business day of the Company becoming aware of same) advise Parent of the receipt by the Company, any of its subsidiaries or any of the Company's bankers, attorneys or other agents or representatives of any inquires or proposals relating to an Acquisition Transaction and any actions taken pursuant to the immediately preceding paragraph. The Company shall promptly (but in any event within three business days of the Company

becoming aware of same) provide Parent with a copy of any such inquiry or proposal in writing and a written statement with respect to any such inquiries or proposals not in writing, which statement shall include the identity of the parties making such inquiries or proposal and the material terms thereof; provided, however, that the Company shall not be obligated to provide a copy of, or a written statement with respect to, any such inquiry if, after being advised in writing by its outside legal counsel with respect to its fiduciary obligations, the Board determines that not providing such copy or written statement is necessary to allow the Board to fulfill its fiduciary duties to the

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Shareholders under applicable law. The Company shall, from time to time, promptly (but in any event within one business day of the Company becoming aware of same) inform Parent of the status and content of and material developments (including calling meetings of the Board to take action with respect to such Acquisition Transaction) with respect to any discussions regarding any Acquisition Transaction with a Third Party; provided, however, that the Company shall not be obligated to make such disclosure if, after being advised in writing by its outside legal counsel with respect to its fiduciary obligations, the Board determines that not providing such disclosure is necessary to allow the Board to fulfill its fiduciary duties to the Shareholders under applicable law. For the avoidance of doubt, the Company agrees that it will not enter into any agreement with respect to a Superior Proposal unless and until Parent has been given the opportunity at least six business days prior to the entering into such agreement to match the terms of such agreement.

Indemnification and Insurance. The Merger Agreement provides as follows:

(a) The Purchaser and Parent agree that until six years from the date the Shares are purchased by Parent or the Purchaser in the Offer (the "Acceptance Date"), the Purchaser will maintain all rights to indemnification now existing in favor of the directors, officers, employees, fiduciaries and agents of the Company as provided in the Company's Amended and Restated Articles of Incorporation and Bylaws or otherwise in effect under any agreement on the date of the Merger Agreement and that the Amended and Restated Articles of Incorporation and Bylaws of the Purchaser shall not be amended to reduce or limit the rights of indemnity afforded to the present and former directors and officers of the Company, or the ability of the Purchaser to indemnify them, nor to hinder, delay or make more difficult the exercise of such rights of indemnity or the ability to indemnify.

(b) The Purchaser will at all times exercise the powers granted to it by its Amended and Restated Articles of Incorporation, its Bylaws, and by applicable law to indemnify and hold harmless to the fullest extent possible present or former directors, officers, employees, fiduciaries and agents of the Company against any threatened or actual claim, action, suit, proceeding or investigation made against them arising from their service in such capacities (or service in such capacities for another enterprise at the request of the Company) prior to, and including the Acceptance Date for at least six years from the Acceptance Date. Parent shall assume and perform the obligations of the Purchaser under this section of the Merger Agreement, provided, that any indemnified party shall make a good faith effort (which shall not include any requirement to bring any suit, claim, action, or other proceeding) to cause the Purchaser to perform its obligations under this section of the Merger Agreement before requesting Parent to assume and perform such obligations.

(c) Should any threatened or actual claim, action, suit, proceeding or investigation be made against any present or former director, officer, employee, fiduciary or agent of the Company, arising from his services as such, within six years from the Effective Time, the indemnification provisions of the Merger Agreement shall continue in effect until the final disposition of all such claims.

(d) Any indemnified party wishing to claim indemnification under the Merger Agreement, upon learning of any such action, suit, claim, proceeding or investigation, shall notify Parent and the Purchaser within 15 days thereof; provided, however, that any failure so to notify Parent and the Purchaser of any obligation to indemnify such indemnified party or of any other obligation imposed by the Merger Agreement shall not affect such obligations except to the extent Parent and/or the Purchaser is actually prejudiced thereby. Parent and the Purchaser shall be entitled to assume the defense of any such action, suit, claim, proceeding or investigation with counsel of its choice, unless there is, under applicable standards of professional conduct, a conflict of any significant issue between the positions of Parent and the Purchaser, on the one hand, and the indemnified

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parties, on the other hand, in which event the

indemnified parties as a group may retain one law firm to represent them with respect to such matter. Neither Parent or the Purchaser, on the one hand, nor the indemnified parties, on the other hand, may settle any such action, suit, claim, proceeding or investigation without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed.

(e) In addition to the foregoing, Parent shall cause the Purchaser to honor in accordance with their terms any indemnification agreements in existence on the date of the Merger Agreement between the Company and any present or former director, officer, employee, fiduciary or agent of the Company.

(f) The parties agree that the indemnification provisions of the Merger Agreement will not require Parent or the Purchaser to maintain directors' and officers' insurance coverage in favor of the Company's present and former directors and officers.

(g) Notwithstanding anything in the Merger Agreement to the contrary, in the event the Merger Agreement is terminated in accordance with its terms before the consummation of the Merger, the Purchaser's and Parent's obligations under the indemnification provisions of the Merger Agreement shall cease upon such termination.

Waiver. Subject to Section 1.03(c) of the Merger Agreement, at any time prior to the Effective Time, the parties may (i) extend the time for performance of any obligations or other acts of any other party, (ii) waive any inaccuracies in the representations and warranties contained in the Merger Agreement by any other party or (iii) waive compliance with any of the agreements of any other party or with any conditions of its own obligations.

Termination. The Merger Agreement provides that the Merger Agreement may be terminated and the Merger contemplated thereby may be abandoned at any time prior to the Effective Time, whether or not approval thereof by the Shareholders has been obtained:

(a) by the mutual written consent of Parent, the Purchaser and the Company prior to the date on which Parent's designees constitute a majority of the Board; or

(b) by the Company if the Company is not in material breach of any of its representations, warranties, covenants or agreements contained in the Merger Agreement and the Stock Option Agreement and if (i) the Purchaser fails to commence the Offer as provided in Section 1.01 of the Merger Agreement, (ii) the Purchaser shall not have accepted for payment and paid for Shares pursuant to the Offer in accordance with the terms thereof on or before April 30, 1998 or (iii) the Purchaser fails to purchase validly tendered Shares in violation of the terms of the Offer or the Merger Agreement; or

(c) by Parent or the Company if the Offer expires or is terminated or withdrawn pursuant to its terms without any Shares being purchased thereunder; provided, however, that Parent may terminate the Merger Agreement pursuant to this clause (c) upon the termination or withdrawal of the Offer only if Parent's or the Purchaser's termination or withdrawal of the Offer is not in violation of the terms of the Merger Agreement or the Offer; or

(d) by Parent or the Company if any court or other governmental entity shall have issued, enacted, entered, promulgated or enforced any order,

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judgment, decree, injunction, or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, judgment, decree, injunction, ruling or other action shall have become final and nonappealable; or

(e) by the Company if, prior to the purchase of Shares pursuant to the Offer in accordance with the terms of the Merger Agreement, (i) there shall have occurred, on the part of Parent or the Purchaser, a material breach of any representation or warranty, covenant or agreement contained in the Merger Agreement which is not curable or, if curable, is not cured within seven business days after written notice of such breach is given by the Company to the party committing the breach or (ii) the Company (A) enters into a definitive agreement with respect to a Superior Proposal after complying with the terms of the Merger Agreement, and (B) pays any termination fee and agrees to pay any other amounts required under Section 8.03(b) of the Merger Agreement; or

(f) by Parent if, prior to the purchase of Shares pursuant to the Offer in accordance with the terms of the Merger Agreement, (i) there shall have occurred, on the part of the Company, a breach of any representation, warranty, covenant or agreement contained in the Merger Agreement which individually, or in the aggregate, if not cured would be reasonably likely to have a material adverse effect on the Company and which is not curable or, if curable, is not cured within the later of (x) seven business days after written notice of such breach is given by Parent to the Company and (y) the satisfaction of all conditions to the Offer not related to such breach or (ii) the Board or committee thereof shall have withdrawn or modified (or shall have resolved to withdraw or modify), in a manner adverse to Parent, its approval or recommendation of the Merger Agreement or any of the transactions contemplated thereby and the Board and such committee shall not have fully reinstated such approval or recommendations within two business days or shall have recommended (or shall have resolved to recommend) an Acquisition Transaction (other than the Offer and Merger) to the Shareholders and at least ten business days shall have passed since such recommendation (or resolution); or

(g) by Parent if it is not in material breach of its obligations hereunder or under the Offer and no Shares shall have been purchased pursuant to the Offer on or before April 30, 1998.

Fees and Expenses. The Merger Agreement provides that whether or not the Merger is consummated, all costs and expenses incurred in connection with the Offer, the Merger Agreement, the Stock Option Agreement and the transactions contemplated thereby shall be paid by the party incurring such expenses.

In the event the Merger Agreement is terminated pursuant to Section 8.01(e)(ii), 8.01(f)(i) (other than for a termination due to an unintentional breach of a representation or warranty by the Company) or 8.01(f)(ii) of the Merger Agreement, then the Company shall promptly reimburse Parent for the documented out-of-pocket fees and expenses (but in no event greater than $500,000) of Parent and the Purchaser related to the Merger Agreement, the Stock Option Agreement, the transactions contemplated thereby and any related financing and in the event the Merger Agreement is terminated pursuant to Section 8.01(e)(ii) of the Merger Agreement, then the Company shall promptly pay Parent a termination fee of $1,200,000 by wire transfer of same day funds to an account designated by Parent as a condition of such termination.

The Merger Agreement provides that in the event that (i) any person shall have publicly disclosed a proposal regarding an Acquisition Transaction and (ii) following such disclosure, either (x) April 30, 1998 occurs without the Revised Minimum Number being satisfied or the requisite Shareholder approval of the Merger being obtained (other than as a result of a material breach thereof by

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Parent or the Purchaser that has not been cured within the time period set forth in Article VIII of the Merger Agreement) or (y) the Company breaches (prior to the time that the designees of the Purchaser constitute a majority of the Board) any of its material obligations thereunder and does not cure such breach within the time period set forth in Article VIII of the Merger Agreement or (z) if the Merger Agreement is terminated pursuant to Section 8.01(f)(ii), and (iii) not later than twelve months after any such termination the Company shall have entered into an agreement for an Acquisition Transaction, or an Acquisition Transaction shall have been consummated, then the Company shall promptly, but in no event later than immediately prior to, and as a condition of, entering into such definitive agreement, or, if there is no such definitive agreement then immediately upon consummation of the Acquisition Transaction, pay Parent a termination fee of $1,200,000 which amount shall be payable by wire transfer of same day funds to an account designated by Parent. Notwithstanding anything to the contrary contained in the Merger Agreement, in no event shall the Company be obligated to pay more than one termination fee in accordance with the Merger Agreement.

THE STOCKHOLDER AGREEMENTS

Concurrently with the execution of the Merger Agreement, Parent and the Purchaser entered into Stockholder Agreements with each of the Selling Shareholders with respect to, in the aggregate, 3,047,384 Common Shares (excluding Shares issuable upon the exercise of stock options) owned by such Selling Shareholders representing approximately 29% of the Common Shares outstanding on December 11, 1997. The Selling Shareholders are Elsag International N.V., which is the beneficial of approximately 23% of the Shares, and Kenneth P. Ostrow, the President and Chief Executive Officer of the Company. Pursuant to the

Stockholder Agreements, each of the Selling Shareholders has agreed to validly tender, in accordance with the terms of the Offer, all Shares subject to the Stockholder Agreements. Each of the Selling Shareholders has agreed not to withdraw its or his shares subject to the Stockholder Agreements unless the Stockholder Agreements are terminated in accordance with the terms of such Stockholder Agreements. Each of the Selling Shareholders has granted the Purchaser an irrevocable option to purchase all but not less than all of the Selling Shareholders' Shares at the Offer Price. The option will become exercisable following termination of the Merger Agreement pursuant to certain provisions thereof. In the event the option becomes exercisable and the Purchaser acquires the Selling Shareholders' Shares thereunder, the Selling Shareholders will be entitled to receive, upon any subsequent disposition, transfer or sale of such Shares by the Purchaser during the term of the Stockholder Agreements, an amount per share in cash equal to 50% of the difference between the net proceeds received per share in such sale and the Offer Price.

Pursuant to the Stockholder Agreements, each of the Selling Shareholders has agreed, at any meeting of the Shareholders, to vote (or cause to be voted) all shares subject to the foregoing options in furtherance of the consummation of all actions contemplated by the Merger Agreement and against any proposal relating to an Acquisition Transaction and against any action or agreement that would, among other things, impede, frustrate, prevent or nullify the Merger Agreement. The Selling Shareholders have granted Parent an irrevocable proxy to vote the Shares subject to the foregoing options in favor of the Merger Agreement and the transactions contemplated thereby and against any proposed Acquisition Transaction. Pursuant to the Stockholder Agreements, each of the Selling Shareholders has agreed, solely in its capacity as a stockholder of the Company, that neither it nor any controlled affiliates, representatives or agents of it would 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, the Purchaser or any of

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their respective affiliates or representatives) concerning any proposal relating to an Acquisition Transaction. Each such Selling Shareholder has also agreed to immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Transaction.

Each of the Selling Shareholders has agreed that, except as contemplated by the Stockholder Agreements, it or he shall not (i) transfer, or consent to the transfer of, any or all of the Shares or any interest therein, (ii) enter into any contract, option, or other agreement or understanding with respect to any transfer of any or all of the Shares or any interest therein, (iii) grant any proxy, power-of-attorney or other authorization in or with respect to the Shares, (iv) deposit the Shares into a voting trust or enter into a voting agreement or arrangement with respect to the Shares or (v) take any other action that would in any way restrict, limit or interfere with the performance of its obligations under the Stockholder Agreements or the Merger Agreement.

The covenants, agreements and proxy contained in the Stockholder Agreements will terminate upon the earlier of (i) the Effective Time, (ii) one year following the execution of the Stockholder Agreements or (iii) the termination of the Merger Agreement in certain circumstances.

THE STOCK OPTION AGREEMENT

Grant of Stock Option. Pursuant to the Stock Option Agreement, the Company granted to the Purchaser the Stock Option to purchase the Option Shares at the Option Price, subject to the terms and conditions set forth in the Stock Option Agreement; provided, however, that the Stock Option will not be exercisable if the number of shares subject thereto exceeds the number of authorized Shares available for issuance.

Exercise of Stock Option. The Stock Option Agreement provides that, subject to the conditions set forth in the Stock Option Agreement and any additional requirements of law, the Stock Option may be exercised by the Purchaser, in whole but not in part, at any one time after the occurrence of an Exercise Event (as defined below) and prior to the Termination Date (as defined below). For the purpose of the Stock Option Agreement, an "Exercise Event" would occur upon the Purchaser's acceptance for payment pursuant to the Offer of Shares constituting more than 50% but less than 90% of the Shares then outstanding on a fully diluted basis, and the "Termination Date" would occur upon the first to occur of any of the following: (i) the

Effective Time; (ii) the date which is ten business days after the occurrence of an Exercise Event; and (iii) the termination of the Merger Agreement.

Conditions to Closing. The Stock Option Agreement provides that the obligation of the Company to deliver Option Shares upon the exercise of the Stock Option is subject to the following conditions: (i) all waiting periods, if any, under the HSR Act applicable to the issuance of the Option Shares shall have expired or have been terminated and the conditions under any other applicable Antitrust Laws shall have been satisfied and (ii) there shall be no preliminary or permanent injunction or other final, non-appealable judgement by a court of competent jurisdiction preventing or prohibiting the exercise of the Stock Option or the delivery of the Option Shares in respect of such exercise.

Representations and Warranties. The Stock Option Agreement contains various representations and warranties of the parties thereto, including representations by the Company as to the Company's corporate organization and authority relative to the Stock Option Agreement, the Company's authority to issue the Option Shares and the absence of any conflicts and the making or obtaining of all applicable filings and consents.

THE NONCOMPETITION AGREEMENT

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Simultaneously with the execution of the Merger Agreement, and in order to preserve and protect the assets of the Company, including the Company's goodwill, customers and trade secrets, and to preserve and protect Parent's goodwill and business interests going forward, Parent entered into a Noncompetition Agreement (the "Noncompetition Agreement") with Kenneth P. Ostrow, the President and Chief Executive Officer of the Company.

In consideration for Mr. Ostrow's performance pursuant to the terms and conditions of the Noncompetition Agreement, Parent will pay Mr. Ostrow $700,000 at the Effective Time, $432,000 on the first anniversary of the Effective Time and $467,000 on the second anniversary of the Effective Time. The Noncompetition Agreement further provides that during the period beginning at the Effective Time and continuing for five years thereafter, Mr. Ostrow will not enter into the employ of, or render services to, any firm, corporation or organization in a capacity that gives him responsibility for that segment of such entity's business which derives more than 10% of its annual revenues from sales of products which directly compete with products which were offered by the Company at the Effective Time. The geographical scope of the foregoing restriction includes all cities, counties and states of the United States of America and all foreign nations in which Parent, the Company or any of their subsidiaries has engaged in sales, or otherwise conducted business or selling efforts, at any time during the two years prior to the Effective Time.

SECTION 11. PURPOSE OF THE OFFER; PLANS FOR THE COMPANY AFTER THE OFFER AND THE MERGER

Purpose of the Offer. The purpose of the Offer and the Merger is to enable Parent to acquire control of, and the entire equity interest in, the Company. The Offer, as the first step in the acquisition of the Company, is intended to facilitate the acquisition of all the Shares. Parent will consummate, as soon as practicable following the consummation of the Offer, the Merger. The purpose of the Merger is to acquire all Shares not purchased pursuant to the Offer or otherwise. Pursuant to the Merger, each then outstanding Share (other than Shares held by Parent or the Purchaser, any wholly owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly owned subsidiary of the Company or held by Shareholders who perfect any applicable dissenters' rights under the GCL) will be converted into the right to receive the amount in cash equal to the Offer Price paid by the Purchaser pursuant to the Offer. Upon consummation of the Merger, the Company will become a wholly owned subsidiary of Parent.

Plans for Merger Consummation. Under the GCL, the approval of the Board and the affirmative vote of the holders of a majority of the outstanding Shares is required to approve the Merger and the Merger Agreement. The Board has approved the Merger Agreement, and, unless the Merger is consummated pursuant to the short-form merger provisions under the GCL described below, the only remaining required corporate action of the Company is the approval of the Merger and the adoption of the Merger Agreement by

the affirmative vote of the holders of a majority of the Shares. Accordingly, if the Minimum Condition is satisfied, the Purchaser will have sufficient voting power to cause the approval of the Merger Agreement and the transactions contemplated thereby without the affirmative vote of any other Shareholder.

In the Merger Agreement, the Company has agreed to take all action necessary to convene the Shareholders' Meeting as soon as practicable after the consummation of the Offer for the purpose of considering and taking action on the Merger Agreement and the transactions contemplated thereby, if such action is required by the GCL. Parent and the Purchaser have agreed that all Shares owned by them and their subsidiaries will be voted in favor of the Merger Agreement and the transactions contemplated thereby.

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If the Purchaser purchases Shares pursuant to the Offer, the Merger Agreement provides that the Purchaser will be entitled to designate representatives to serve on the Board in proportion to the Purchaser's ownership of Shares following such purchase; provided, however, that the Purchaser will be entitled to designate a number of directors equal to or greater than 50% of the total number of directors only if Purchaser purchases 90% or more of the outstanding Shares. See Section 10. The Purchaser expects that such representation would permit the Purchaser to exert substantial influence over the Company's conduct of its business and operations.

Under the GCL, if the Purchaser acquires, pursuant to the Offer, the Stock Option or otherwise, at least 90% of the outstanding Shares, the Purchaser will be able to effect the Merger without a vote of the Shareholders. In such event, Parent, the Purchaser and the Company have agreed in the Merger Agreement to take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after such acquisition, without a meeting of the Shareholders.

In the event that more than 50% of the Shares then outstanding are tendered pursuant to the Offer and not withdrawn, but less than 90% of the Shares then outstanding on a fully diluted basis are subject to acquisition by the Purchaser pursuant to the Offer and the Stock Option, the Purchaser will waive the Minimum Condition and amend the Offer to reduce the number of Shares subject to the Offer to the Revised Minimum Number of Shares and, if a greater number of Shares are tendered into the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Shares (it being understood that the Purchaser may, but shall not in any event be required to accept for payment, or pay for, any Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date of the Offer).

The Company's Amended and Restated Articles of Incorporation provide that the affirmative vote of the holders of not less than 66 2/3% of the total voting power of the Company's outstanding voting securities is required to approve, among other things, any merger or consolidation of the Company or any of its subsidiaries with any Interested Stockholder (defined to mean, among other things, the beneficial owner of more than 10% of the voting power of the then outstanding voting stock) or with any other corporation which is, or after such merger or consolidation would be, an affiliate or associate of an Interested Stockholder; provided, however, that this supermajority voting requirement shall not be applicable to any such merger which is approved by the Board (so long as not all of the members of the Board are Interested Directors), in which event such merger shall then require only the affirmative vote as is required by law. For purposes of the Company's Amended and Restated Articles of Incorporation, the term "Interested Director" means any member of the Board who is an affiliate or nominee of an Interested Stockholder or who is nominated to the Board by directors a majority of whom are Interested Directors; provided, however, that a director who would be an Interested Director shall not be deemed to be an Interested Director with respect to a proposed business combination with a person other than the Interested Stockholder (or any affiliate of such Interested Stockholder) with whom he or she is affiliated, by whom he or she was nominated, or who is an affiliate of or has nominated the Interested Directors nominating him or her. Parent believes that the described supermajority voting requirement is not applicable to the Offer or the Merger and the Company has made a representation and warranty in the Merger Agreement to that effect.

Dissenters' Rights. Holders of Shares do not have dissenters' rights as a result of the Offer. However, in connection with the Merger, holders of Shares, by complying with the provisions of Chapter 13 of the GCL, may have certain rights to dissent and to require the Company to purchase their Shares for cash at "fair

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market value." In general, holders of Shares will be entitled to exercise dissenters' rights under the GCL only if the holders of five percent or more of the outstanding Shares properly file demands for payment or if the Shares held by such holders are subject to any restriction on transfer imposed by the Company or any law or regulation ("Restricted Shares"). Accordingly, any holder of Restricted Shares and, if the holders of five percent or more of the Shares properly file demands for payment, all other such holders who fully comply with all other applicable provisions of Chapter 13 of the GCL will be entitled to require the Company to purchase their Shares for cash at their fair market value if the Merger is consummated. In addition, if immediately prior to the Effective Time, the Shares are not listed on a national securities exchange such as the NNM or on the list of OTC margin stocks issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), holders of Shares may likewise exercise their dissenters' rights as to any or all of their Shares entitled to such rights. If the statutory procedures under the GCL relating to dissenters' rights were complied with, such rights could lead to a judicial determination of the fair market value of the Shares. The "fair market value" would be determined as of the day before the first announcement of the terms of the Merger, excluding any appreciation or depreciation in consequence of the Merger. The value so determined could be more or less than the Merger Price.

Plans for the Company. It is expected that, initially following the Merger, the business and operations of the Company will, except as set forth in this Offer to Purchase, be continued by the Company substantially as they are currently being conducted. Parent will continue to evaluate the business and operations of the Company during the pendency of the Offer and after the consummation of the Offer and the Merger, and will take such actions as it deems appropriate under the circumstances then existing. Parent intends to seek additional information about the Company during this period. Thereafter, Parent intends to review such information as part of a comprehensive review of the Company's business, operations, capitalization and management with a view to optimizing exploitation of the Company's potential in conjunction with Parent's businesses.

Except as indicated in this Offer to Purchase, Parent does not have any present plans or proposals which relate to or would result in an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Company or any of its subsidiaries, a sale or transfer of a material amount of assets of the Company or any of its subsidiaries or any material change in the Company's capitalization or dividend policy or any other material changes in the Company's corporate structure or business, or the composition of the Board or the Company's management.

SECTION 12. SOURCE AND AMOUNT OF FUNDS

The total amount of funds required by the Purchaser to purchase all of the Shares pursuant to the Offer and to pay fees and expenses related to the Offer and the Merger is estimated to be approximately $33.0 million. The Purchaser will obtain all funds needed for the Offer and the Merger through a capital contribution from Parent. Parent will obtain all such funds through a capital contribution from Voith. Voith will supply such funds from working capital and other cash on hand.

The Offer is not conditioned on obtaining financing.

SECTION 13. EFFECT OF THE OFFER ON THE MARKET FOR THE SHARES; EXCHANGE ACT REGISTRATION; MARGIN REGULATIONS

The Purchaser intends to seek to cause the Company to terminate the registration of the Shares under the Exchange Act as soon after the completion of the Offer as the requirements for such termination are met. If registration of the Shares is not terminated prior to the Merger, the registration of the Shares under the Exchange Act will be terminated following the consummation of the Merger.

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Market for the Shares. The purchase of Shares pursuant to the Offer will reduce the number of holders of Shares and the number of Shares that might otherwise trade publicly and could adversely affect the liquidity and market value of the remaining Shares held by the public.

Depending upon the aggregate market value and per share price of any Shares not purchased pursuant to the Offer, the Shares may no longer meet the standards of the National Association of Securities Dealers, Inc. (the "NASD") for continued inclusion in the NNM, which require that an issuer have either (i) at least 750,000 publicly held shares with a market value of $5 million and a minimum bid price of $1.00 per share held by at least 400 stockholders holding round lots and have net tangible assets of at least $4 million or (ii) at least 1.1 million publicly held shares with a market value of $15 million and a minimum bid price of $5.00 per share held by at least 400 stockholders holding round lots and have either a market capitalization of at least $50 million or both total assets and total revenue of at least $50 million. If these standards are not met, the Shares might nevertheless continue to be included in The Nasdaq Stock Market with quotations published in the Nasdaq "additional list," or in one of the "local lists." However, if the number of holders of Common Stock falls below 300, or if the number of publicly held Shares falls below 100,000, or if there are not at least two market makers for such Shares, NASD rules provide that the Shares would no longer be "qualified" for The Nasdaq Stock Market reporting, and The Nasdaq Stock Market would cease to provide any quotations. Shares held directly or indirectly by an officer or director of the Company, or by any beneficial owner of more than 10% of the Shares, ordinarily will not be considered as being publicly held for this purpose. If, as a result of the purchase of Shares pursuant to the Offer or otherwise, the Shares no longer meet the NASD requirements for continued inclusion in the NNM or in any other tier of The Nasdaq Stock Market, and the Shares are no longer included in any tier of The Nasdaq Stock Market, the market for such Shares could be adversely affected.

In the event the Shares no longer meet the requirements of the NASD for inclusion in any tier of The Nasdaq Stock Market, quotations might still be available from other sources. The extent of the public market for Shares and availability of such quotations would, however, depend upon the number of holders of Shares remaining at such time, the interest in maintaining a market in the Shares on the part of securities firms, the possible termination of registration under the Exchange Act, as described below, and other factors.

Exchange Act Registration. The Shares are currently registered under the Exchange Act. Registration of the Shares under the Exchange Act may be terminated upon application of the Company to the Commission if the Shares are neither listed on a national securities exchange nor held by 300 or more holders of record. Termination of registration of the Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to its Shareholders and to the Commission and would make certain provisions of the Exchange Act no longer applicable to the Company, such as the short-swing profit recovery provisions of Section 16(b) of the Exchange Act, the requirement of furnishing a proxy statement pursuant to Section 14(a) of the Exchange Act in connection with Shareholders' meetings and the related requirement of furnishing an annual report to Shareholders and the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions. Furthermore, the ability of "affiliates" of the Company and persons holding "restricted securities" of the Company to dispose of such securities pursuant to Rule 144 or 144A promulgated under the Securities Act of 1933, as amended, may be impaired or eliminated. The Purchaser intends to seek to cause the Company to apply for termination of registration of the Shares under the Exchange Act as soon after the completion of the Merger as possible.

If registration of the Shares is not terminated prior to the Merger, then

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the Shares will be delisted from all stock exchanges and the registration of the Shares under the Exchange Act will be terminated following the consummation of the Merger.

Margin Regulations. The Shares are currently "margin securities" under the regulations of the Federal Reserve Board which has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Depending upon factors similar to those described above regarding listing and market quotations, it is possible that, following the Offer, the Shares would no longer constitute "margin securities" for the purposes of the margin regulations of the Federal Reserve Board and therefore could no longer be used as collateral for loans made by brokers.

SECTION 14. DIVIDENDS AND DISTRIBUTIONS

The Merger Agreement provides that, prior to the Effective Time, without the prior written consent of Parent, the Company will not, and will not permit any of its subsidiaries to, (i) declare, set aside or pay any dividend or other distribution on its capital stock, (ii) except as explicitly permitted by the Merger Agreement, issue, sell or authorize the issuance or sale of any additional shares of its capital stock or securities convertible into shares of its capital stock or (iii) split, combine, redeem, purchase or otherwise acquire, or propose to redeem or purchase or otherwise acquire, any shares of its capital stock.

SECTION 15. CERTAIN CONDITIONS OF THE OFFER

Notwithstanding any other provisions of the Offer, the Purchaser shall not be required to accept for payment or pay for any tendered Shares, unless the Minimum Condition has been satisfied; provided, however, that the Minimum Condition may be waived by the Purchaser and the Revised Minimum Number may be substituted therefor in certain circumstances. Furthermore, notwithstanding any other provisions of the Offer, the Purchaser shall not be required to accept for payment or pay for any tendered Shares until expiration of all applicable waiting periods under the HSR Act and the satisfaction of conditions under any other applicable Antitrust Laws, and may, subject to the terms of the Merger Agreement, amend the Offer or postpone the acceptance for payment of tendered Shares if at any time on or after December 11, 1997, and before the Expiration Date, any of the following occur:

(a) any order, preliminary or permanent injunction, decree, judgment or ruling in any suit, action or proceeding is entered that (i) makes illegal or otherwise directly or indirectly restrains or prohibits the acquisition by Parent or the Purchaser of any Shares under the Offer or the making or consummation of the Offer or the Merger, the performance by the Company of any of its material obligations under the Merger Agreement or the Stock Option Agreement or the consummation of any purchase of Shares contemplated by the Merger Agreement, the Stock Option Agreement or related agreements, (ii) prohibits or limits the ownership or operation by the Company, Parent or any of their respective subsidiaries of a material portion of the business or assets of the Company and its subsidiaries, taken as a whole, or Parent and its subsidiaries, taken as a whole, or compels the Company or Parent to dispose of or hold separate any material portion of the business or assets of the Company and its subsidiaries, taken as a whole, or Parent and its subsidiaries, taken as a whole, as a result of the Offer or the Merger, (iii) imposes material limitations on the ability of Parent or the Purchaser to acquire or hold, or exercise full rights of ownership of, any Shares accepted for payment pursuant to the Offer or acquired pursuant to the Stock Option Agreement, including, without limitation, the right to vote such Shares on all matters properly presented to the Shareholders or (iv) prohibits Parent or any of its subsidiaries from effectively controlling in any material respect the

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business or operation of the Company and its subsidiaries, taken as a whole; or

(b) any law is enacted, entered, enforced, promulgated or deemed applicable to the Offer, the Merger or the transactions contemplated by the Stock Option Agreement, or any other action is taken by any governmental entity, other than the application to the Offer, the Merger or the transactions contemplated by the Stock Option Agreement of all applicable waiting periods under the HSR Act or other applicable conditions under any other foreign or domestic antitrust laws, that results, directly or indirectly, in any of the consequences referred to in clauses (i) through (iv) of paragraph (a) above; or

(c) (i) the Board or any committee thereof withdraws or modifies in a manner adverse to Parent or the Purchaser its approval or recommendation of the Offer, the Merger, the Merger Agreement or the Stock Option Agreement or approves or recommends any Acquisition Transaction or (ii) the Company enters into any agreement to consummate any Acquisition Transaction; or

(d) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified as to materiality are not true and correct, or any such representations and warranties that are not so qualified are not true and correct in any respect (when taken together with all other failures of such representations and warranties to be true and correct) that would have a Material Adverse Effect (as defined in the Merger Agreement) on the Company, in each case at the date of the

Merger Agreement or at the scheduled expiration of the Offer (as though made as of such date, except that those representations and warranties that address matters only as of a particular date shall remain true and correct as of such date); or

(e) the Merger Agreement shall have been terminated in accordance with its terms; or

(f) the Company shall have breached or failed to perform in any material respect any of its obligations, covenants or agreements under the Merger Agreement or the Stock Option Agreement and such breach or failure to perform is not curable or, if curable, is not cured within seven business days after written notice of such breach or failure is given by Parent to the Company; or

(g) there shall have occurred, and continued to exist, (i) any general suspension of, or limitation on prices for, trading in securities on the NYSE or the NNM, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or Germany, (iii) a commencement of a war, armed hostilities or other national or international crisis directly involving the United States or Germany (other than an action involving solely United Nations' personnel), or (iv) in the case of any of the events described in the foregoing clauses (i) through (iii) existing at the time of the commencement of the Offer, a material acceleration or worsening thereof.

The foregoing conditions are for the benefit of Parent and the Purchaser and may be asserted by Parent or the Purchaser regardless of the circumstances giving rise to any such conditions and may be waived by Parent or the Purchaser in whole or in part at any time and from time to time in their sole discretion. The failure by Parent or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

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SECTION 16. CERTAIN LEGAL MATTERS

General. Except as otherwise disclosed herein, based on a review of publicly available information filed by the Company with the Commission, neither the Purchaser nor Parent is aware of (i) any license or regulatory permit that appears to be material to the business of the Company and its subsidiaries, taken as a whole, that might be adversely affected by the acquisition of Shares by the Purchaser pursuant to the Offer or the Merger or (ii) any approval or other action, by any governmental, administrative or regulatory agency or authority, domestic, foreign or supranational, that would be required for the acquisition or ownership of Shares by the Purchaser as contemplated herein. Should any such approval or other action be required, the Purchaser currently contemplates that such approval or action would be sought. While the Purchaser does not currently intend to delay the acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter, there can be no assurance that any such approval or action, if needed, would be obtained or would be obtained without substantial conditions or that adverse consequences might not result to the business of the Company, the Purchaser or Parent or that certain parts of the businesses of the Company, the Purchaser or Parent might not have to be disposed of in the event that such approvals were not obtained or any other actions were not taken. The Purchaser's obligation under the Offer to accept for payment and pay for Shares is subject to certain conditions. See Sections 10 and 15.

State Takeover Laws. The Company's principal executive offices are located in, and the Company is incorporated under the laws of, the State of California, which currently has no takeover statute that would apply to the Offer or to the Merger. However, there can be no assurances that California will not, prior to the completion of the Offer, adopt such a statute. Under the GCL, the Merger may not be accomplished for cash paid to the Shareholders if the Purchaser or Parent owns directly or indirectly more than 50% but less than 90% of the then outstanding Shares unless either all the Shareholders consent or the Commissioner of Corporations of the State of California approves, after a hearing, the terms and conditions of the Merger and the fairness thereof. The purpose of the Offer is to obtain 90% or more of the Shares (on a fully diluted basis) and to enable Parent and the Purchaser to acquire control of the Company.

In the event that more than 50% of the Shares then outstanding are tendered pursuant to the Offer and not withdrawn, but less than 90% of the Shares then outstanding on a fully diluted basis are subject to

acquisition by the Purchaser pursuant to the Offer and the Stock Option, the Purchaser will waive the Minimum Condition and amend the Offer to reduce the number of Shares subject to the Offer to the Revised Minimum Number of Shares and, if a greater number of Shares are tendered into the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Shares (it being understood that the Purchaser may, but shall not in any event be required to accept for payment, or pay for, any Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date of the Offer). In the event that the Purchaser acquires the Revised Minimum Number of Shares, it may have, as a practical matter the ability to ensure approval of the Merger by the Shareholders.

A number of other states have adopted laws and regulations applicable to attempts to acquire securities of corporations which are incorporated, or have substantial assets, shareholders, principal executive offices or principal places of business, or whose business operations otherwise have substantial economic effects, in such states. In Edgar v. MITE Corp., the Supreme Court of the United States invalidated on constitutional grounds the Illinois Business Takeover Statute, which, as a matter of state securities law, made takeovers of corporations meeting certain requirements more difficult. However, in 1987, in CTS Corp. v. Dynamics Corp. of America, the Supreme Court held that the State of

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Indiana may, as a matter of corporate law and, in particular, with respect to those aspects of corporate law concerning corporate governance, constitutionally disqualify a potential acquiror from voting on the affairs of a target corporation without the prior approval of the remaining shareholders. The state law before the Supreme Court was by its terms applicable only to corporations that had a substantial number of shareholders in the state and were incorporated there.

The Company, directly or through subsidiaries, conducts business in a number of states throughout the United States, some of which have enacted takeover laws. The Purchaser does not know whether any of these laws will, by their terms, apply to the Offer or the Merger and has not complied with any such laws. Should any person seek to apply any state takeover law, the Purchaser will take such action as then appears desirable, which may include challenging the validity or applicability of any such statute in appropriate court proceedings. In the event it is asserted that one or more state takeover laws are applicable to the Offer or the Merger, and an appropriate court does not determine that it is inapplicable or invalid as applied to the Offer, the Purchaser might be required to file certain information with, or receive approvals from, the relevant state authorities. In addition, if enjoined, the Purchaser might be unable to accept for payment any Shares tendered pursuant to the Offer, or be delayed in continuing or consummating the Offer and the Merger. In such case, the Purchaser may not be obligated to accept for payment any Shares tendered. See Section 15.

United States Antitrust Approvals. Under the HSR Act, and the rules and regulations that have been promulgated thereunder by the Federal Trade Commission (the "FTC"), certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the Department of Justice (the "Antitrust Division") and the FTC and certain waiting period requirements have been satisfied. The acquisition of Shares by the Purchaser pursuant to the Offer and the Stock Option Agreement are subject to such requirements. A Premerger Notification and Report Form with respect to the Offer, Merger Agreement and the Stock Option Agreement promptly.

Under the provisions of the HSR Act applicable to the Offer, the purchase of Shares under the Offer may not be consummated until the expiration of a 15-calendar day waiting period following the filing. Such filing is expected to be made on or about December 18, 1997. Assuming such filing is made on December 18, 1997, the waiting period with respect to the Offer would expire at 11:59 p.m., New York City time, on January 2, 1998 unless a request for additional information or documentary material is received or the Antitrust Division and the FTC terminates the waiting period prior thereto. If, within such 15-day period, either the Antitrust Division or the FTC requests additional information or material concerning the Offer, the waiting period will be extended and would expire at 11:59 p.m., New York City time, on the tenth calendar day after the date of substantial compliance with such request. Only one extension of the waiting period pursuant to a request for additional information is authorized by the HSR Act. Thereafter, such waiting period may be extended only by court order or with consent. The Purchaser will not accept for payment Shares tendered pursuant to the Offer unless and until the waiting period requirements imposed by the HSR Act with respect to the Offer have been satisfied. See Sections 10 and 15.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions such as the Purchaser's acquisition of Shares pursuant to the Offer and the Merger. At any time before or after the Purchaser's acquisition of Shares, either the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition of Shares pursuant to the Offer or otherwise or seeking divestiture of Shares acquired by the Purchaser or divestiture of substantial assets of Voith, Parent

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or its affiliates. Private parties and state attorneys general may also bring action under the antitrust laws under certain circumstances. Based upon an examination of publicly available information relating to the businesses in which Voith, Parent and the Company are engaged, Voith, Parent and the Purchaser believe that the acquisition of Shares by the Purchaser will not violate the antitrust laws. Nevertheless, there can be no assurance that a challenge to the Offer or other acquisition of Shares by the Purchaser on antitrust grounds will not be made or, if such a challenge is made, of the result.

Foreign Laws. According to publicly available information, the Company also conducts business in a number of other countries and jurisdictions including the United Kingdom and Sweden. In connection with the acquisition of the Shares pursuant to the Offer, the laws of certain foreign countries and jurisdictions may require the filing of information with, or the obtaining of the approval of, governmental authorities in such countries and jurisdictions. In addition, the waiting period prior to consummation of the Offer associated with such filings or approvals may extend beyond the scheduled Expiration Date. The governments in such countries and jurisdictions might attempt to impose additional conditions on the Company's operations conducted in such countries and jurisdictions as a result of the acquisition of the Shares pursuant to the Offer or the Merger. There can be no assurance that the Purchaser will be able to cause the Company or its subsidiaries to satisfy or comply with such laws or that compliance or noncompliance will not have adverse consequences for the Company or any subsidiary after purchase of the Shares pursuant to the Offer or the Merger.

SECTION 17. FEES AND EXPENSES

D.F. King & Co., Inc. has been retained by the Purchaser as Information Agent in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telex, telegraph and personal interview and may request brokers, dealers and other nominee Shareholders to forward material relating to the Offer to beneficial owners of Shares. The Purchaser will pay the Information Agent reasonable and customary compensation for all such services in addition to reimbursing the Information Agent for reasonable out-of pocket expenses in connection therewith. The Purchaser has agreed to indemnify the Information Agent against certain liabilities and expenses in connection with the Offer, including, without limitation, certain liabilities under the federal securities laws.

ChaseMellon Shareholder Services, L.L.C. has been retained as the Depositary. The Purchaser will pay the Depositary reasonable and customary compensation for its services in connection with the Offer, will reimburse the Depositary for its reasonable out-of-pocket expenses in connection therewith and will indemnify the Depositary against certain liabilities and expenses in connection therewith, including, without limitation, certain liabilities under the federal securities laws.

Except as set forth above, neither Parent nor the Purchaser will pay any fees or commissions to any broker, dealer or other person for soliciting tenders of Shares pursuant to the Offer. Brokers, dealers, commercial banks and trust companies and other nominees will, upon request, be reimbursed by the Purchaser for customary clerical and mailing expenses incurred by them in forwarding offering materials to their customers.

SECTION 18. MISCELLANEOUS

The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction. Neither the Purchaser nor Parent is aware of any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the

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laws of such jurisdiction. To the extent the Purchaser or Parent becomes aware of any state law that would limit the class of offerees in the Offer, the Purchaser will amend the Offer and, depending on the timing of such amendment, if any, will extend the Offer to provide adequate dissemination of such information to such holders of Shares prior to the expiration of the Offer. In any jurisdiction the securities, blue sky or other laws of which require the Offer to be made by a licensed broker or dealer, the Offer is being made on behalf of the Purchaser by one or more registered brokers or dealers licensed under the laws of such jurisdiction.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION ON BEHALF OF THE PURCHASER OR PARENT NOT CONTAINED HEREIN OR IN THE LETTER OF TRANSMITTAL AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

The Purchaser, Parent and Voith have filed with the Commission a Tender Offer Statement on Schedule 14D-1 pursuant to Rule 14d-3 under the Exchange Act, together with exhibits, furnishing certain additional information with respect to the Offer, and may file amendments thereto. Such Schedule 14D-1 and any amendments thereto, including exhibits, may be inspected and copies may be obtained in the manner set forth in Section 7 with respect to the Company (except that such material will not be available at the regional offices of the Commission).

VOITH SULZER ACQUISITION CORP.

Dated: December 18, 1997.

SCHEDULE I

DIRECTORS AND EXECUTIVE OFFICERS OF FAMILIENGESELLSCHAFT, VOITH AND THE PURCHASER

FAMILIENGESELLSCHAFT. Set forth below are the name, business address and present principal occupation or employment and material occupations, positions, offices or employment for the past five years of each of the four Managing Directors of Familiengesellschaft as of December 10, 1997. Unless otherwise indicated, each such person is a citizen of the Federal Republic of Germany.

NAME, BUSINESS ADDRESS AND CITIZENSHIP	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Angela Schily........................ Auf dem Schnee 36A 58313 Herdecke-Schnee	Self-employed medical doctor, Herdecke, Germany (since 1992)
Klemens Schweppenhauser.............. 88634 Herdwangen-Schonach Birkenhof, Germany	Farmer, Herdwangen, Germany (since 1987)
Dr. Hans Wolfram Schweppenhauser..... 88634 Herdwangen-Schonach Birkenhof, Germany	Member of Supervisory Board of Voith (since April 1997); Retired (since 1987)
Johannes Christoph Hammacher......... Am Bismarckturm 58 70192 Stuttgart Citizenship: Switzerland	Consultant, Ernst and Young Stuttgart, Germany (since August 1997); Student (prior thereto)

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VOITH. Set forth below are the name, business address and present principal occupation or employment, and material occupations, positions, offices or employment for the past five years of each director and executive officer of Voith as of December 10, 1997. Except as otherwise noted, the business address of each such person is J.M. Voith AG, Sankt Poltener, StraSSe 43 D-89522, Heidenheim, Germany. Unless otherwise indicated, each such person is a citizen of the Federal Republic of Germany and has held his or her present position as set forth below for the past five years. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Voith.

NAME, BUSINESS ADDRESS AND CITIZENSHIP	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Dr. Michael Rogowski.................	President and CEO of the Corporate Management Board (since 1992)
Dr. Hermut Kormann..................	Chief Financial Officer and Member of the Corporate Management Board (since 1991)
Dr. Gunter Armbruster................	Member of the Corporate Management Board (since 1982); President of Voith Turbo GmbH & Co. KG, Heidenheim, Germany (since 1993)
Dr. Hans Peter Schiffer.............	Member of the Corporate Management Board (since 1986); Chairman of the Board of Directors and President of various other Voith related organizations (since 1990)
Hans Muller......................... P.O. Box 1940 D-89509 Heidenheim, Germany Citizenship: United States	Member of the Corporate Management Board (since 1995); President of Voith Sulzer Papiertechnik GmbH & Co. KG, Heidenheim, Germany (since 1994); President Sulzer Escher Wyss GmbH, Ravensburg, Germany (since 1971)

THE PURCHASER. Set forth below are the name, business address and present principal occupation or employment, and material occupations, positions, offices or employment for the past five years of each director and executive officer of the Purchaser as of December 10, 1997.

NAME, BUSINESS ADDRESS AND CITIZENSHIP	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
R. Raymond Hall, Jr................. 990 N. Main St. Monroe, Ohio 45050 Citizenship: United States	Executive Vice President-Service Division of Parent, Appleton, Wisconsin (since 1994); Member of the Board of Management and the Board of Directors of various other Voith related organizations (since 1994); President of Voith Holdings Ltd. and TriStar Industries Ltd., Vancouver, British Columbia (through October 1997)
Paul Bouthilet...................... 2200 Roemer Rd. Appleton, Wisconsin 54913 Citizenship: United States	Chief Financial Officer of Parent, Appleton, Wisconsin (since October 1997); Vice President Finance of Parent, Appleton, Wisconsin (through October 1997)
Mark Zimmermann..................... Sankt Poltner StraSSe 43 D-89522 Heidenheim, Germany Citizenship: Switzerland	Head of Planning and Organization of Voith Sulzer Papiertechnik GmbH & Co. KG, Heidenheim, Germany (since April 1996); Strategic Development Manager of Sulzer AG, Winterthur, Switzerland (through March 1996)

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Manually signed facsimile copies of the Letter of Transmittal will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each Shareholder of the Company or such Shareholder's broker, dealer, commercial bank, trust company or other nominee to the Depositary at one of its addresses set forth below.

THE DEPOSITARY FOR THE OFFER IS:

BY MAIL:	BY HAND:	BY OVERNIGHT COURIER:
ChaseMellon Shareholder Services, L.L.C. Post Office Box 3301 South Hackensack, NJ 07606 Attn: Reorganization Department	ChaseMellon Shareholder Services, L.L.C. 120 Broadway -13th Floor New York, NY 10271 Attn: Reorganization Department	ChaseMellon Shareholder Services, L.L.C. 85 Challenger Road Mail Drop Reorg. Dept. Ridgefield Park, NJ 07660

Facsimile Transmission: (201) 329-8936
Confirmation of Fax: (201) 296-4860

Questions and requests for assistance may be directed to the Information Agent at its address and telephone number set forth below. Additional copies of this Offer to Purchase, the Letter of Transmittal and all other tender offer materials may be obtained from the Information Agent, and will be furnished promptly at the Purchaser's expense. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

D.F. King & Co., Inc.
77 Water Street
New York, New York 10005-4495

Banks and Brokers Call Collect: (212) 269-5550
All Others Call Toll-Free: (800) 714-3310

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LETTER OF TRANSMITTAL
TO TENDER SHARES OF COMMON STOCK
OF
IMPACT SYSTEMS, INC.

PURSUANT TO THE OFFER TO PURCHASE
DATED DECEMBER 18, 1997
BY
VOITH SULZER ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF
VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON TUESDAY, JANUARY 20, 1998, UNLESS THE OFFER IS EXTENDED.

THE DEPOSITARY FOR THE OFFER IS:

<TABLE>
<S> <C> <C>

BY MAIL:	BY HAND:	BY OVERNIGHT COURIER:
ChaseMellon Shareholder Services, L.L.C.	ChaseMellon Shareholder Services, L.L.C.	ChaseMellon Shareholder Services, L.L.C.
Post Office Box 3301	120 Broadway - 13th Floor	85 Challenger Road
South Hackensack, NJ 07606	New York, NY 10271	Mail Drop Reorg. Dept.
Attn: Reorganization Department	Attn: Reorganization Department	Ridgefield Park, NJ 07660

</TABLE>

FACSIMILE TRANSMISSION: (201) 329-8936
CONFIRMATION OF FAX: (201) 296-4860

<TABLE>
<S> <C> <C> <C>

DESCRIPTION OF SHARES TENDERED

NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON SHARE CERTIFICATE(S) TENDERED.)	SHARE CERTIFICATE(S) AND SHARES TENDERED (ATTACH ADDITIONAL LIST, IF NECESSARY)		
	SHARE CERTIFICATE NUMBER(S)*	TOTAL NUMBER OF SHARES REPRESENTED BY SHARE CERTIFICATE(S)*	NUMBER OF SHARES TENDERED**
	TOTAL SHARES:		

* Need not be completed by shareholders delivering Shares by book-entry transfer.
** Unless otherwise indicated, it will be assumed that all Shares evidenced by each Share Certificate delivered to the Depositary are being tendered hereby. See Instruction 4.

</TABLE>

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TRANSMISSION OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY. YOU MUST SIGN THIS LETTER OF TRANSMITTAL WHERE INDICATED BELOW AND COMPLETE THE SUBSTITUTE FORM W-9 PROVIDED BELOW.

THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL SHOULD BE READ CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

This Letter of Transmittal is to be completed by shareholders either if certificates evidencing Shares (as defined below) are to be forwarded herewith

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or if delivery of Shares is to be made by book-entry transfer to the Depositary's account at the Depository Trust Company ("DTC") or the Philadelphia Depository Trust Company (each a "Book-Entry Transfer Facility" and collectively, the "Book-Entry Transfer Facilities") pursuant to the book-entry transfer procedure described in Section 2 of the Offer to Purchase (as defined below). Holders who are participants ("Participants") in the book-entry facility system of DTC may execute their tender through DTC's Automated Tender Offer Program ("ATOP") as set forth in Section 2 of the Offer to Purchase.

Shareholders whose certificates evidencing Shares (the "Share Certificates") are not immediately available or who cannot deliver their Share Certificates and all other documents required hereby to the Depositary prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase) or who cannot complete the procedure for delivery by book-entry transfer on a timely basis and who wish to tender their Shares must do so pursuant to the guaranteed delivery procedure described in Section 2 of the Offer to Purchase. See Instruction 2.

[ ] CHECK HERE IF SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO THE DEPOSITARY'S ACCOUNT AT ONE OF THE BOOK-ENTRY TRANSFER FACILITIES AND COMPLETE THE FOLLOWING:

Name of Tendering Institution:

Check Box of Applicable Book-Entry Transfer Facility:
(CHECK ONE)
[ ] The Depository Trust Company
[ ] Philadelphia Depository Trust Company

Account Number: Transaction Code Number:

[ ] CHECK HERE IF SHARES ARE BEING TENDERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING. PLEASE ENCLOSE A PHOTOCOPY OF SUCH NOTICE OF GUARANTEED DELIVERY.

Name(s) of Registered Holder(s):
Window Ticket Number (if any):
Date of Execution of Notice of Guaranteed Delivery:
Name of Institution which Guaranteed Delivery:

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE INSTRUCTIONS SET FORTH IN THIS
LETTER OF TRANSMITTAL CAREFULLY.

Ladies and Gentlemen:

The undersigned hereby tenders to Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation (the "Parent"), the above-described shares of common stock, without par value (the "Shares"), of Impact Systems, Inc., a California corporation (the "Company"), pursuant to the Purchaser's offer to purchase all outstanding Shares, at $2.75 per Share (the "Offer Price"), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which, as amended from time to time, together constitute the "Offer").

Subject to, and effective upon, acceptance for payment of the Shares tendered herewith, in accordance with the terms of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), the undersigned hereby sells, assigns and transfers to, or upon the order of, the Purchaser all right, title and interest in and to all the Shares that are being tendered hereby and all dividends, distributions (including, without limitation, distributions of additional Shares) and rights declared, paid or distributed in respect of such Shares on or after December 11, 1997 (collectively, "Distributions"), and irrevocably appoints the Depositary the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares and all Distributions, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver Share Certificates evidencing such Shares and all Distributions, or transfer ownership of such Shares and all Distributions on the account books maintained by a Book-Entry Transfer Facility, together, in either case, with all accompanying evidences of transfer and authenticity, to or upon the order of the Purchaser, (ii) present such Shares and all Distributions for transfer on the books of the Company and (iii) receive all benefits and otherwise exercise all

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rights of beneficial ownership of such Shares and all Distributions, all in accordance with the terms of the Offer.

By executing this Letter of Transmittal, the undersigned irrevocably appoints Paul M. Bouthilet and R. Ray Hall, and each of them, as the attorneys and proxies of the undersigned, each with full power of substitution, to the full extent of the undersigned's rights with respect to the Shares tendered by the undersigned and accepted for payment by the Purchaser (and any and all Distributions). All such proxies shall be considered coupled with an interest in the tendered Shares. This appointment will be effective if, when, and only to the extent that, the Purchaser accepts such Shares for payment pursuant to the Offer. Upon such acceptance for payment, all prior proxies given by the undersigned with respect to such Shares (and such other Shares and securities) will, without further action, be revoked, and no subsequent proxies may be given nor any subsequent written consent executed by the undersigned (and, if given or executed, will not be deemed to be effective) with respect thereto. The designees of the Purchaser named above will, with respect to the Shares and other securities for which the appointment is effective, be empowered to exercise all voting and other rights of the undersigned as they in their sole discretion may deem proper at any annual or special meeting of the shareholders of the Company or any adjournment or postponement thereof, by written consent in lieu of any such meeting or otherwise, and the Purchaser reserves the right to require that, in order for Shares or other securities to be deemed validly tendered, immediately upon the Purchaser's acceptance for payment of such Shares, the Purchaser must be able to exercise full voting rights with respect to such Shares.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Shares tendered hereby and all Distributions, and that when such Shares are accepted for payment by the Purchaser, the Purchaser will acquire good, marketable and unencumbered title thereto and to all Distributions, free and clear of all liens, restrictions, charges and encumbrances, and that none of such Shares and Distributions will be subject to any adverse claim. The undersigned, upon request, shall execute and deliver all additional documents deemed by the Depositary or the Purchaser to be

necessary or desirable to complete the sale, assignment and transfer of the Shares tendered hereby and all Distributions. In addition, the undersigned shall remit and transfer promptly to the Depositary for the account of the Purchaser all Distributions in respect of the Shares tendered hereby, accompanied by appropriate documentation of transfer, and, pending such remittance and transfer or appropriate assurance thereof, the Purchaser shall be entitled to all rights and privileges as owner of each such Distribution and may withhold the entire purchase price of the Shares tendered hereby or deduct from such purchase price, the amount or value of such Distribution as determined by the Purchaser in its sole discretion.

No authority herein conferred or agreed to be conferred shall be affected by, and all such authority shall survive, the death or incapacity of the undersigned. All obligations of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as otherwise stated in the Offer to Purchase, this tender is irrevocable.

The undersigned understands that tenders of Shares pursuant to any one of the procedures described in Section 2 of the Offer to Purchase and in the instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the Offer. The Purchaser's acceptance of such Shares for payment will constitute a binding agreement between the undersigned and the Purchaser upon the terms and subject to the conditions of the Offer, including, without limitation, the undersigned's representation and warranty that the undersigned owns the Shares being tendered.

Unless otherwise indicated herein in the box entitled "Special Payment Instructions," please issue the check for the purchase price of all Shares purchased, and return all Share Certificates evidencing Shares not purchased or not tendered, in the name(s) of the registered holder(s) appearing above under "Description of Shares Tendered." Similarly, unless otherwise indicated in the box entitled "Special Delivery Instructions," please mail the check for the purchase price of all Shares purchased and all Share Certificates evidencing Shares not tendered or not purchased (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing above under "Description of Shares Tendered." In the event that the boxes entitled "Special Payment Instructions" and "Special Delivery Instructions" are both completed, please issue the check for the purchase price of all Shares purchased and return all Share Certificates evidencing Shares not purchased or not

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tendered in the name(s) of, and mail such check and Share Certificates to, the person(s) so indicated. The undersigned recognizes that the Purchaser has no obligation, pursuant to the Special Payment Instructions, to transfer any Shares from the name of the registered holder(s) thereof if the Purchaser does not purchase any of the Shares tendered hereby.

SPECIAL PAYMENT INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if the check for the purchase price of Shares purchased or Share Certificates evidencing Shares not tendered or not purchased are to be issued in the name of someone other than the undersigned.

Issue: [ ] Check [ ] Share Certificate(s) to:

Name

(Print)

Address

(ZIP Code)

(Taxpayer Identification or Social Security Number)
(See Substitute Form W-9 on reverse side)

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if the check for the purchase price of Shares purchased or Share Certificates evidencing Shares not tendered or not purchased are to be mailed to someone other than the undersigned, or to the undersigned at an address other than that shown under "Description of Shares Tendered."

Mail: [ ] Check [ ] Share Certificate(s) to:

Name

(Print)

Address

(ZIP Code)

IMPORTANT

SHAREHOLDERS: SIGN HERE
(ALSO PLEASE COMPLETE SUBSTITUTE FORM W-9 INCLUDED HEREIN)

X

Signature(s) of Shareholder(s)

Dated: ____________________________ , 199 ____

(Must be signed by registered holder(s) exactly as name(s) appear(s) on Share Certificates or on a security position listing or by person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, please provide the following information. See Instruction 5 hereof.)

Name(s):

(Please Print)

Capacity (full title):

Address:

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(Zip Code)

Area Code and Telephone No.:

Tax Identification or Social Security No.:
(See substitute Form W-9 included herein)

GUARANTEE OF SIGNATURE(S)
(IF REQUIRED -- SEE INSTRUCTIONS 1 AND 5 HEREOF)

FOR USE BY FINANCIAL INSTITUTIONS ONLY.
PLACE MEDALLION GUARANTEE IN THE SPACE BELOW.

INSTRUCTIONS
FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. GUARANTEE OF SIGNATURES. All signatures on this Letter of Transmittal must be guaranteed by a firm which is a member of a registered national securities exchange or of the National Association of Securities Dealers, Inc., or by a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (an "Eligible Institution"), unless (i) this Letter of Transmittal is signed by the registered holder(s) of the Shares (which term, for purposes of this document, includes any participant in a Book-Entry Transfer Facility system whose name appears on a security position listing as the owner of the Shares) tendered hereby and such registered holder(s) has (have) completed neither the box entitled "Special Payment Instructions" nor the box entitled "Special Delivery Instructions" on the reverse hereof or (ii) such Shares are tendered for the account of an Eligible Institution. See Instruction 5.

2. DELIVERY OF LETTER OF TRANSMITTAL AND SHARE CERTIFICATES. This Letter of Transmittal is to be used if Share Certificates are to be forwarded herewith, if Shares are to be delivered by book-entry transfers pursuant to the procedure set forth in Section 2 of the Offer to Purchase, or if Shares are to be delivered pursuant to ATOP procedures. Share Certificates evidencing all physically tendered Shares, or a confirmation of a book-entry transfer into the Depositary's account at a Book-Entry Transfer Facility of all Shares delivered by book-entry transfer, together in each case with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof), or an Agent's Message in connection with a book-entry transfer or tender pursuant to ATOP procedures, and any other documents required by this Letter of Transmittal, must be received by the Depositary at one of its addresses set forth herein prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase). If Share Certificates are forwarded to the Depositary in multiple deliveries, a properly completed and duly executed Letter of Transmittal must accompany each such delivery. Shareholders whose Share Certificates are not immediately available, who cannot deliver their Share Certificates and all other required documents to the Depositary prior to the Expiration Date or who cannot complete the procedure for delivery by book-entry transfer on a timely basis may tender their Shares pursuant to the guaranteed delivery procedure described in Section 2 of the Offer to Purchase. Pursuant to such procedure: (i) such tender must be made by or through an Eligible Institution; (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form made available by the Purchaser, must be received by the Depositary prior to the Expiration Date; and (iii) the Share Certificates, representing all tendered Shares, in proper form for transfer (or a Book-Entry Confirmation with respect to all such Shares), together with a properly completed and duly executed Letter of Transmittal for (or a manually signed facsimile thereof), with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Manager, and any other required documents must be received by the Depositary within three New York Stock Exchange, Inc. ("NYSE") trading days after the date of execution of such Notice of Guaranteed Delivery, all as described in Section 2 of the Offer to Purchase.

Participants in DTC may tender their Shares pursuant to ATOP procedures, to the extent available to such participants for the Shares they wish to tender. A shareholder tendering through the ATOP must expressly acknowledge that the shareholder has received and agreed to be bound by the Letter of Transmittal and that the Letter of Transmittal may be enforced against such shareholder.

If the tender is not made through ATOP, Share Certificates, as well as this Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees, and any

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other documents required by this Letter of Transmittal, must be received by the Depositary at its address set forth herein on or prior to the Expiration Date to be effective.

THE METHOD OF DELIVERY OF THIS LETTER OF TRANSMITTAL, SHARE CERTIFICATES AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH ANY BOOK-ENTRY TRANSFER FACILITY, IS AT THE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. SHARE CERTIFICATES, THIS LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS WILL BE DEEMED DELIVERED ONLY WHEN

ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted and no fractional Shares will be purchased. By execution of this Letter of Transmittal (or a manually signed facsimile hereof), all tendering shareholders waive any right to receive any notice of the acceptance of their Shares for payment.

3. INADEQUATE SPACE. If the space provided herein under "Description of Shares Tendered" is inadequate, the Share Certificate numbers, the number of Shares evidenced by such Share Certificates and the number of Shares tendered should be listed on a separate schedule and attached hereto.

4. PARTIAL TENDERS (NOT APPLICABLE TO SHAREHOLDERS WHO TENDER BY BOOK-ENTRY TRANSFER). If fewer than all the Shares evidenced by any Share Certificate delivered to the Depositary herewith are to be tendered hereby, fill in the number of Shares which are to be tendered in the box entitled "Number of Shares Tendered." In such cases, new Share Certificate(s) evidencing the remainder of the Shares that were evidenced by the Share Certificates delivered to the Depositary herewith will be sent to the person(s) signing this Letter of Transmittal, unless otherwise provided in the box entitled "Special Delivery Instructions" on the reverse hereof, as soon as practicable after the expiration or termination of the Offer. All Shares evidenced by Share Certificates delivered to the Depositary will be deemed to have been tendered unless otherwise indicated.

5. SIGNATURES ON LETTER OF TRANSMITTAL; STOCK POWERS AND ENDORSEMENTS. If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the Share Certificates evidencing such Shares without alteration, enlargement or any other change whatsoever.

If any Share tendered hereby is owned of record by two or more persons, all such persons must sign this Letter of Transmittal.

If any of the Shares tendered hereby are registered in the names of different holders, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of such Shares.

If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, no endorsements of Share Certificates or separate stock powers are required, unless payment is to be made to, or Share Certificates evidencing the Shares not tendered or not purchased are to be issued in the name of, a person other than the registered holder(s), in which case, the Share Certificate(s) evidencing the Shares tendered hereby must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on such Share Certificate(s). Signatures on such Share Certificate(s) and stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares tendered hereby, Share Certificate(s) evidencing the Shares tendered hereby must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on such Share Certificate(s). Signatures on such Share Certificate(s) and stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal or any Share Certificate or stock power is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity for the registered holder, such person should so indicate when signing, and proper evidence satisfactory to the Purchaser of such person's authority so

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to act must be submitted.

6. STOCK TRANSFER TAXES. Except as otherwise provided in this Instruction 6, the Purchaser will pay all stock transfer taxes with respect to the sale and transfer of any Shares to it or its order pursuant to the Offer. If, however, payment of the purchase price of any Shares purchased is to be made to, or Share Certificate(s) evidencing Shares not tendered or not purchased are to be issued in the name of, a person other than the registered holder(s), the amount of any stock transfer taxes (whether imposed on the registered holder(s),

such other person or otherwise) payable on account of the transfer to such other person will be deducted from the purchase price of such Shares purchased, unless evidence satisfactory to the Purchaser of the payment of such taxes, or exemption therefrom, is submitted. Except as provided in this Instruction 6, it will not be necessary for transfer tax stamps to be affixed to the Share Certificates evidencing the Shares tendered hereby.

7. SPECIAL PAYMENT AND DELIVERY INSTRUCTIONS. If a check for the purchase price of any Shares tendered hereby is to be issued, or Share Certificate(s) evidencing Shares not tendered or not purchased are to be issued, in the name of a person other than the person(s) signing this Letter of Transmittal or if such check or any such Share Certificate is to be sent to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal but at an address other than that shown in the box entitled "Description of Shares Tendered" set forth herein, the appropriate boxes set forth on this Letter of Transmittal must be completed.

8. WAIVER OF CONDITIONS. The conditions to the Offer may be waived by the Purchaser in whole or in part at any time and from time to time in its sole discretion.

9. QUESTIONS AND REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions and requests for assistance may be directed to the Information Agent at the address or telephone numbers set forth herein. Additional copies of the Offer to Purchase, this Letter of Transmittal and the Notice of Guaranteed Delivery may be obtained from the Information Agent or from brokers, dealers, commercial banks or trust companies.

10. SUBSTITUTE FORM W-9. Each tendering shareholder is required to provide the Depositary with a correct Taxpayer Identification Number ("TIN") on the Substitute Form W-9 which is provided under "Important Tax Information" below, and to certify, under penalties of perjury, that such number is correct and that such shareholder is not subject to backup withholding of federal income tax. If a tendering shareholder has been notified by the Internal Revenue Service that such shareholder is subject to back-up withholding, such shareholder must cross out item (2) of the Certification box of the Substitute Form W-9, unless such shareholder has since been notified by the Internal Revenue Service that such shareholder is no longer subject to backup withholding. Failure to provide the information on the Substitute Form W-9 may subject the tendering shareholder to 31% federal income tax withholding on the payment of the purchase price of all Shares purchased from such shareholder. If the tendering shareholder has not been issued a TIN and has applied for one or intends to apply for one in the near future, such shareholder should write "Applied For" in the space provided for the TIN in Part I of the Substitute Form W-9, and sign and date the Substitute Form W-9. If "Applied For" is written in Part I and the Depositary is not provided with a TIN within 60 days, the Depositary will withhold 31% on all payments of the purchase price to such shareholder until a TIN is provided to the Depositary.

IMPORTANT: THIS LETTER OF TRANSMITTAL (OR A MANUALLY SIGNED FACSIMILE HEREOF), PROPERLY COMPLETED AND DULY EXECUTED (TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES AND SHARE CERTIFICATES OR CONFIRMATION OF BOOK-ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR A PROPERLY COMPLETED AND DULY EXECUTED NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE DEPOSITARY ON OR PRIOR TO THE EXPIRATION DATE (AS DEFINED IN THE OFFER TO PURCHASE).

IMPORTANT TAX INFORMATION

Under the federal income tax law, a shareholder whose tendered Shares are accepted for payment is required by law to provide the Depositary (as payor) with such shareholder's correct TIN on Substitute Form W-9 below. If such shareholder is an individual, the TIN is such shareholder's social security number. If the Depositary is not provided with the correct TIN, the shareholder may be subject to a $50 penalty imposed by the Internal Revenue Service. In addition, payments that are made to such shareholder with respect to Shares purchased pursuant to the Offer may be subject to backup withholding of 31%.

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Certain shareholders (including, among others, corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. In order for a foreign individual to qualify as

an exempt recipient, such individual must submit a statement, signed under penalties of perjury, attesting to such individual's exempt status. Forms of such statements can be obtained from the Depositary. See the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions. A shareholder should consult his or her tax advisor as to such shareholder's qualification for exemption from backup withholding and the procedure for obtaining such exemption.

If backup withholding applies, the Depositary is required to withhold 31% of any payments made to the shareholder. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

PURPOSE OF SUBSTITUTE FORM W-9

To prevent backup withholding on payments that are made to a shareholder with respect to Shares purchased pursuant to the Offer, the shareholder is required to notify the Depositary of such shareholder's correct TIN by completing the form below certifying (i) that the TIN provided on Substitute Form W-9 is correct (or that such shareholder is awaiting a TIN), and (ii) that (y) such shareholder has not been notified by the Internal Revenue Service that such shareholder is subject to backup withholding as a result of a failure to report all interest or dividends or (z) the Internal Revenue Service has notified such shareholder that such shareholder is no longer subject to backup withholding.

WHAT NUMBER TO GIVE THE DEPOSITARY

The shareholder is required to give the Depositary the social security number or employer identification number of the record holder of the Shares tendered hereby. If the Shares are in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional guidance on which number to report. If the tendering shareholder has not been issued a TIN and has applied for a number or intends to apply for a number in the near future, the shareholder should write "Applied For" in the space provided for the TIN in Part I, and sign and date the Substitute Form W-9. If "Applied For" is written in Part I and the Depositary is not provided with a TIN within 60 days, the Depositary will withhold 31% of all payments of the purchase price to such shareholder until a TIN is provided to the Depositary.

ALL TENDERING SHAREHOLDERS MUST COMPLETE THE FOLLOWING:
PAYOR'S NAME: CHASEMELLON SHAREHOLDER SERVICES, L.L.C.

SUBSTITUTE FORM W-9
DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
PAYOR'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER ("TIN")

PART I -- Taxpayer Identification Number -- For all accounts, enter your taxpayer identification number in Part III below. (For most individuals, this is your social security number. If you do not have a number, see Obtaining a Number in the enclosed Guidelines and complete as instructed.) Certify by signing and dating below. Note: If the account is in more than one name, see the chart in the enclosed Guidelines to determine which number to give the payor.

PART II -- For Payees exempt from backup withholding, see the enclosed Guidelines and complete as instructed therein.

PART III -- Social Security Number or Employee ID Number:
(If awaiting TIN write "Applied For")

CERTIFICATION -- Under penalties of perjury, I certify that:

(1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me); and

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(2) I am not subject to backup withholding either because I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATE INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of under reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out such item (2). (Also see instructions in the enclosed Guidelines.)

Signature   Date ___________________

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31% OF ANY PAYMENTS MADE TO YOU PURSUANT TO THE OFFER. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL DETAILS.

THE INFORMATION AGENT FOR THE OFFER IS:

D. F. KING & CO., INC.
77 Water Street
New York, NY 10005-4495

or

BANKS AND BROKERS CALL COLLECT: (212)269-5550
ALL OTHERS CALL TOLL-FREE: (800)714-3310

December 18, 1997

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NOTICE OF GUARANTEED DELIVERY
FOR
TENDER OF SHARES OF COMMON STOCK
OF
IMPACT SYSTEMS, INC.
TO
VOITH SULZER ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF
VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.
(NOT TO BE USED FOR SIGNATURE GUARANTEES)

This Notice of Guaranteed Delivery, or one substantially in the form hereof, must be used to accept the Offer (as defined below) if (i) certificates (the "Share Certificates") evidencing shares of common stock, without par value (the "Shares"), of Impact Systems, Inc., a California corporation, are not immediately available, (ii) time will not permit all required documents to reach ChaseMellon Shareholder Services, L.L.C., as Depositary (the "Depositary"), prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase (as defined below)) or (iii) the procedure for book-entry transfer cannot be completed on a timely basis. This Notice of Guaranteed Delivery may be delivered by hand or transmitted by telegram, facsimile transmission or mail to the Depositary. See Section 2 of the Offer to Purchase.

THE DEPOSITARY FOR THE OFFER IS:

<TABLE>

<S>	<C>	<C>
BY MAIL:	BY HAND:	BY OVERNIGHT COURIER:
ChaseMellon Shareholder Services, L.L.C.	ChaseMellon Shareholder Services, L.L.C.	ChaseMellon Shareholder Services, L.L.C.
Post Office Box 3301	120 Broadway - 13th Floor	Mail Drop Reorg. Dept.
South Hackensack, NJ 07606	New York, NY 10271	Ridgefield Park, NJ 07660
Attn: Reorganization Department	Attn: Reorganization Department	

</TABLE>

FACSIMILE TRANSMISSION: (201) 329-8936
CONFIRMATION OF FAX:(201) 296-4860

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TRANSMISSION OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

THIS NOTICE OF GUARANTEED DELIVERY IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER OF TRANSMITTAL IS REQUIRED TO BE GUARANTEED BY AN "ELIGIBLE INSTITUTION" UNDER THE INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEE MUST APPEAR IN THE APPLICABLE SPACE PROVIDED IN THE SIGNATURE BOX ON THE LETTER OF TRANSMITTAL.

Ladies and Gentlemen:

The undersigned hereby tenders to Voith Sulzer Acquisition Corp., a

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California corporation, and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase"), and the related Letter of Transmittal, receipt of each of which is hereby acknowledged, the number of Shares specified below pursuant to the guaranteed delivery procedures described in Section 2 of the Offer to Purchase.

Number of Shares:	Name(s) of Record Holder(s):
---	---

Certificate Nos. (if available):	Please Print
---	Addresses:
Check ONE box if Shares will be tendered by book-entry transfer (including through DTC's ATOP):	---
	---
	Zip Code
[ ] The Depository Trust Company	Area Code and
[ ] Philadelphia Depository Trust Company	Tel. No.:
Account Number:	Signature(s):

	Dated:, 199 ___

GUARANTEE
(NOT TO BE USED FOR SIGNATURE GUARANTEES)

The undersigned, a firm that is a member firm of a national securities exchange registered with the Securities and Exchange Commission or the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States hereby guarantees delivery to the Depositary, at one of its addresses set forth above, of Share Certificates evidencing the Shares tendered hereby in proper form for transfer, or confirmation of book-entry transfer of such Shares into the Depositary's accounts at the Depository Trust Company or the Philadelphia Depository Trust Company (pursuant to the procedures for book-entry transfer, set forth in Section 2 of the Offer to Purchase), in each case with delivery of a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) properly completed and duly executed with any required signature guarantees, or an Agent's Message (as defined in Section 2 of the Offer to Purchase), and any other documents required by the Letter of Transmittal, within three New York Stock Exchange, Inc. trading days after the date of execution of this Notice of Guaranteed Delivery.

The Eligible Institution that completes this form must communicate the guarantee to the Depositary and must deliver the Letter of Transmittal and Share Certificates to the Depositary within the time period shown herein. Failure to do so could result in financial loss to such Eligible Institution.

---	---
Name of Firm	Authorized Signature

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---	---
Address	Title
---	Name:
Zip Code	Please Type or Print
Area Code and Tel. No.:	Date:, 199 __

</TABLE>

DO NOT SEND SHARE CERTIFICATES WITH THIS NOTICE OF GUARANTEED DELIVERY. SHARE CERTIFICATES SHOULD BE SENT WITH YOUR LETTER OF TRANSMITTAL.

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OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK
OF

IMPACT SYSTEMS, INC.
AT

$2.75 NET PER SHARE OF COMMON STOCK
BY

VOITH SULZER ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF

VOITH SULZER PAPER TECHNOLOGY NORTH
AMERICA INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON TUESDAY, JANUARY 20, 1998,
UNLESS THE OFFER IS EXTENDED.

December 18, 1997

To Brokers, Dealers, Commercial Banks,
Trust Companies and Other Nominees:

We have been appointed by Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), to act as Information Agent in connection with the Purchaser's offer to purchase all outstanding shares of common stock, without par value (the "Shares") of Impact Systems, Inc., a California corporation (the "Company"), at a price of $2.75 per Share, net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase"), and in the related Letter of Transmittal (which, as amended from time to time, together with the Offer to Purchase, constitute the "Offer") enclosed herewith. Parent is an indirect subsidiary of J.M. Voith AG, a corporation organized under the laws of the Federal Republic of Germany.

THE OFFER IS BEING MADE PURSUANT TO THE AGREEMENT AND PLAN OF MERGER, DATED AS OF DECEMBER 11, 1997 (THE "MERGER AGREEMENT"), BY AND AMONG PARENT, THE PURCHASER AND THE COMPANY. THE BOARD OF DIRECTORS OF THE COMPANY HAS (A) APPROVED THE MERGER AGREEMENT, THE STOCK OPTION AGREEMENT DESCRIBED IN THE OFFER TO PURCHASE, THE OFFER AND THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED THEREBY, (B) DETERMINED THAT THE OFFER PRICE TO BE RECEIVED BY THE SHAREHOLDERS OF THE COMPANY PURSUANT TO THE OFFER AND THE MERGER IS FAIR TO THE SHAREHOLDERS AND (C) RECOMMENDS THAT SHAREHOLDERS TENDER THEIR SHARES PURSUANT TO THE OFFER.

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Also enclosed is the letter to shareholders of the Company from the President and Chief Executive Officer of the Company accompanied by the Company's Solicitation/Recommendation Statement on Schedule 14D-9.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE OF THE OFFER THAT NUMBER OF SHARES WHICH WILL REPRESENT AT LEAST 90% OF THE OUTSTANDING SHARES ON A FULLY DILUTED BASIS (AFTER GIVING PRO FORMA

EFFECT TO THE POTENTIAL ISSUANCE OF ANY SHARES ISSUABLE UNDER THE STOCK OPTION AGREEMENT) ON THE DATE OF PURCHASE. THE PURCHASER WILL NOT BE REQUIRED TO ACCEPT FOR PAYMENT OR PAY FOR TENDERED SHARES UNTIL THE EXPIRATION OF ALL APPLICABLE WAITING PERIODS UNDER THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED (THE "HSR ACT"), AND THE SATISFACTION OF CONDITIONS UNDER ANY OTHER APPLICABLE ANTITRUST, COMPETITION OR TRADE REGULATORY LAWS, RULES OR REGULATIONS OF ANY DOMESTIC OR FOREIGN GOVERNMENT OR GOVERNMENTAL AUTHORITY OR ANY MULTINATIONAL AUTHORITY ("ANTITRUST LAWS"). THE OFFER IS ALSO SUBJECT TO OTHER TERMS AND CONDITIONS DESCRIBED IN SECTION 15 OF THE OFFER TO PURCHASE. THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING.

Please furnish copies of the enclosed materials to those of your clients for whose accounts you hold Shares registered in your name or in the name of your nominee.

For your information and for forwarding to your clients for whom you hold Shares registered in your name or in the name of your nominee, or who hold Shares registered in their own names, we are enclosing the following documents:

1. The Offer to Purchase dated December 18, 1997;

2. The Company's Solicitation/Recommendation Statement on Schedule 14D-9;

3. The Letter of Transmittal to be used by holders of Shares in accepting the Offer and tendering Shares;

4. The Notice of Guaranteed Delivery to be used to accept the Offer if the certificates evidencing such Shares (the "Share Certificates") are not immediately available or time will not permit all required documents to reach the Depositary (as defined in the Offer to Purchase) prior to the Expiration Date (as defined in the Offer to Purchase) or the procedure for book-entry transfer cannot be completed by the Expiration Date;

5. A letter which may be sent to your clients for whose accounts you hold Shares registered in your name or in the name of your nominees, with space provided for obtaining such clients' instructions with regard to the Offer;

6. Guidelines of the Internal Revenue Service for Certification of

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Taxpayer Identification Number on Substitute Form W-9 providing information relating to backup federal income tax withheld; and

7. A return envelope addressed to the Depositary (as defined in the Offer to Purchase).

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), the Purchaser will accept for payment and will pay for all Shares validly tendered prior to the Expiration Date and not properly withdrawn promptly after the latest to occur of (i) the Expiration Date, (ii) the expiration of all applicable waiting periods under the HSR Act and the satisfaction of conditions under any other applicable Antitrust Laws and (iii) the satisfaction or waiver of the conditions to the Offer set forth in Section 15 of the Offer to Purchase. For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, validly tendered Shares as, if and when the Purchaser gives oral or written notice to the Depositary of its acceptance of such Shares for payment pursuant to the Offer. In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depositary of (i) Share Certificates or a timely confirmation of a book-entry transfer of Shares into the Depositary's account at one of the Book-Entry Transfer Facilities (as defined in Section 2 of the Offer to Purchase) pursuant to the procedures set forth in Section 2 of the Offer to Purchase, (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message (as defined in Section 2 of the Offer to Purchase), and (iii) all other documents required by the Letter of Transmittal. Under no circumstances will interest on the purchase price for Shares be paid by the Purchaser, regardless of any delay in making such payment.

The Purchaser will not pay any fees or commissions to any broker or dealer or any other person (other than the Information Agent and the Depositary as described in Section 17 of the Offer to Purchase) in connection with the solicitation of tenders of Shares pursuant to the Offer. Purchaser will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding the enclosed materials to your clients.

The Purchaser will pay any stock transfer taxes with respect to the transfer and sale to it or its order pursuant to the Offer, except as otherwise provided in Instruction 6 of the Letter of Transmittal, as well as any charges and expenses of the Depositary and the Information Agent.

YOUR PROMPT ACTION IS REQUESTED. WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON TUESDAY, JANUARY 20, 1998 UNLESS THE OFFER IS EXTENDED.

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In order to take advantage of the Offer, a duly executed and properly completed Letter of Transmittal (or a manually signed facsimile thereof), with any required signature guarantees and any other required documents, should be sent to the Depositary, and Share Certificates should be delivered or such Shares should be tendered by book-entry transfer or in accordance with DTC's Automated Tender Offer Program ("ATOP") procedures, all in accordance with the Instructions set forth in the Letter of Transmittal and the Offer to Purchase.

If holders of Shares wish to tender Shares, but it is impracticable for them to forward their Share Certificates or other required documents to the Depositary prior to the Expiration Date or to comply with the procedures for book-entry transfer or ATOP on a timely basis, a tender may be effected by following the guaranteed delivery procedures specified under Section 2 of the Offer to Purchase.

Any inquiries you may have with respect to the Offer should be addressed to, and additional copies of the enclosed materials may be obtained from, the undersigned at the address and telephone number set forth on the back cover of the Offer to Purchase.

Very truly yours,

D.F. KING & CO., INC.

NOTHING HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF PARENT, THE PURCHASER, THE COMPANY, THE DEPOSITARY OR THE INFORMATION AGENT, OR ANY AFFILIATE OF ANY OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED AND THE STATEMENTS CONTAINED THEREIN.

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OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK
OF

IMPACT SYSTEMS, INC.
AT

$2.75 NET PER SHARE
BY

VOITH SULZER ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF

VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.
THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME ON TUESDAY, JANUARY 20, 1998,
UNLESS THE OFFER IS EXTENDED.

December 18, 1997

To Our Clients:

Enclosed for your consideration are the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase"), and the related Letter of Transmittal (which, as amended from time to time, together with the Offer to Purchase, constitute the "Offer") in connection with the Offer by Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), to purchase all outstanding shares of common stock, without par value (the "Shares"), of Impact Systems, Inc., a California corporation (the "Company"), at a price of $2.75 per Share, net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase. Unless the context indicates otherwise, "Shareholders" shall mean holders of Shares. Parent is an indirect subsidiary of J.M. Voith AG, a corporation organized under the laws of the Federal Republic of Germany.

Also enclosed is the letter to shareholders of the Company from the President and Chief Executive Officer of the Company accompanied by the Company's Solicitation/Recommendation Statement on Schedule 14D-9.

Shareholders whose certificates evidencing Shares (the "Share Certificates") are not immediately available or who cannot deliver their Share Certificates and all other documents required by the Letter of Transmittal to the Depositary prior to the Expiration Date (as such terms are defined in the Offer to Purchase) or who cannot complete the procedure for delivery by book-entry transfer to the Depositary's account at a Book-Entry Transfer Facility (as defined in Section 2 of the Offer to Purchase) on a timely basis

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and who wish to tender their Shares must do so pursuant to the guaranteed delivery procedure described in Section 2 of the Offer to Purchase. See Instruction 2 of the Letter of Transmittal. Delivery of documents to a Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's procedures does not constitute delivery to the Depositary.

THIS MATERIAL IS BEING SENT TO YOU AS THE BENEFICIAL OWNER OF SHARES HELD BY US FOR YOUR ACCOUNT BUT NOT REGISTERED IN YOUR NAME. WE ARE THE HOLDER OF RECORD OF SHARES HELD BY US FOR YOUR ACCOUNT. A TENDER OF SUCH SHARES CAN BE MADE ONLY BY US AS THE HOLDER OF RECORD AND PURSUANT TO YOUR INSTRUCTIONS. THE LETTER OF TRANSMITTAL IS BEING FURNISHED TO YOU

FOR YOUR INFORMATION ONLY AND CANNOT BE USED BY YOU TO TENDER SHARES HELD BY US FOR YOUR ACCOUNT.

We request instructions as to whether you wish to have us tender on your behalf any or all of the Shares held by us for your account upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal.

Your attention is invited to the following:

1. The tender price is $2.75 per Share (the "Offer Price"), net to you in cash, without interest thereon.

2. The Offer and withdrawal rights will expire at 12:00 midnight, New York City time, on Tuesday, January 20, 1998, unless the Offer is extended.

3. The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of December 11, 1997 (the "Merger Agreement"), by and among Parent, the Purchaser and the Company, which provides, among other things, for the commencement of the Offer by the Purchaser and further provides that after the purchase of the Shares pursuant to the Offer, subject to the satisfaction or waiver of certain conditions, the Purchaser will be merged with and into the Company (the "Merger"). Following consummation of the Merger, the separate corporate existence of the Purchaser will cease and the Company will continue as the surviving corporation and will become a wholly owned subsidiary of Parent. At the effective time of the Merger (the "Effective Time"), each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by Parent, the Purchaser, any wholly owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly owned subsidiary of the Company and other than Shares held by Shareholders who shall have properly exercised their dissenters' rights, if any, under California law), will be converted into the right to receive $2.75 in cash or any greater amount paid pursuant to the Offer without interest.

4. The Board of Directors of the Company (the "Board") has (a) approved the Merger Agreement, the Stock Option Agreement (as defined in

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the Offer to Purchase), the Offer and the Merger and the other transactions contemplated thereby, (b) determined that the Offer Price to be received by the shareholders of the Company pursuant to the Offer and the Merger is fair to the shareholders and (c) recommends that shareholders tender their Shares pursuant to the Offer.

5. The Offer is being made for all outstanding Shares.

6. The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the expiration date of the Offer that number of Shares which will represent at least 90% of the outstanding Shares on a fully diluted basis after giving pro forma effect to the potential issuance of any Shares issuable under the Stock Option Agreement on the date of purchase (the "Minimum Condition"). The Purchaser will not be required to accept for payment or pay for tendered Shares until the expiration of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the satisfaction of conditions under any other applicable antitrust, competition or trade regulatory laws, rules or regulations of any domestic or foreign government or governmental authority or any multinational authority. The Offer is also subject to other terms and conditions described in Section 15 of the Offer to Purchase. The Offer is not conditioned on the Receipt of Financing.

7. In the event that more than 50% of the Shares then outstanding are tendered pursuant to the Offer and not withdrawn, but less than 90% of the Shares then outstanding on a fully diluted basis are subject to acquisition by the Purchaser pursuant to the Offer and the Stock Option (as defined in the Offer to Purchase), the Purchaser will waive the Minimum Condition and amend the Offer to reduce the number of Shares subject to the Offer to such number of Shares as equals 49.9999% of the Shares then outstanding (the "Revised Minimum Number") and, if a greater number of Shares are tendered into the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Shares (it being understood that the Purchaser may, but shall not in any event be required to accept for payment, or

pay for, any Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date of the Offer).

Tendering Shareholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, transfer taxes on the purchase of Shares pursuant to the Offer. The Offer is made solely by the Offer to Purchase and the related Letter of Transmittal and any amendments or supplements thereto, and is being made to all holders of all Shares. The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which

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the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. Neither the Purchaser nor Parent is aware of any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. To the extent the Purchaser or Parent becomes aware of any state law that would limit the class of offerees in the Offer, the Purchaser will amend the Offer and, depending on the timing of such amendment, if any, will extend the Offer to provide adequate dissemination of such information to such holders of Shares prior to the expiration of the Offer. In any jurisdiction where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of the Purchaser by one or more registered brokers or dealers that are licensed under the laws of such jurisdiction.

If you wish to have us tender any or all of your Shares, please so instruct us by completing, executing and returning to us the instruction form contained in this letter. An envelope in which to return your instructions to us is enclosed. If you authorize the tender of your Shares, all such Shares will be tendered unless otherwise specified on the instruction form contained in this letter. Your instructions should be forwarded to us in ample time to permit us to submit a tender on your behalf prior to the expiration of the Offer. If holders of Shares wish to tender Shares, but it is impracticable for them to forward their Share Certificates or other required documents to the Depositary prior to the Expiration Date or to comply with the procedures for book-entry transfer on a timely basis, a tender may be effected by following the guaranteed delivery procedures specified under Section 2 of the Offer to Purchase.

INSTRUCTIONS WITH RESPECT TO THE OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK
OF
IMPACT SYSTEMS, INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase, dated December 18, 1997, and the related Letter of Transmittal (which, as amended from time to time, together with the Offer to Purchase, constitute the "Offer"), in connection with the Offer by Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation, to purchase all outstanding shares of common stock, without par value (the "Shares"), of Impact Systems, Inc., a California corporation, at a price equal to $2.75 per Share, net to the seller in cash, without interest thereon.

This will instruct you to tender to the Purchaser the number of Shares indicated below (or, if no number is indicated below, all Shares) held by you for the account of the undersigned, upon the terms and subject to the conditions set forth in the Offer.

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NUMBER OF SHARES TO BE TENDERED:

________________________ Shares*

SIGN HERE

Account Number: Signature(s):

Dated:________________________, 199__

Please type or print name(s)

Please type or print address(es) here

Area Code and Telephone Number

Taxpayer Identification or Social Security Number(s)

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* Unless otherwise indicated, it will be assumed that all Shares held by us for your account are to be tendered.

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GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER -- Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000 Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000 The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT:	GIVE THE TAXPAYER IDENTIFICATION NUMBER OF--
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account (1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person (1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor (2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor (1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person (3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee (1)
b. So-called trust account that is not a legal or valid trust under State law	The actual owner (1)
8. Sole proprietorship	The owner (4)

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account

<CAPTION>

FOR THIS TYPE OF ACCOUNT:	GIVE THE TAXPAYER IDENTIFICATION NUMBER OF--
<S>	<C>
9. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.) (5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

</TABLE>

(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name and furnish the minor's social security number.

(3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.

(4) Show your individual name. You may also enter your business name. You may use either your social security number or your employer identification

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number.

(5) List first and circle the name of the legal trust, estate or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

OBTAINING A NUMBER
If you do not have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card (for individuals), or Form SS-4, Application for Employer Identification Number (for businesses and all other entities), at the local office of the Social Security Administration or the Internal Revenue Service (the "IRS") and apply for a number.

PAYEES AND PAYMENTS EXEMPT FROM BACKUP WITHHOLDING
The following is a list of payees exempt from backup withholding and for which no information reporting is required. For interest and dividends, all listed payees are exempt except item (9). For broker transactions, payees listed in items (1) through (13) and a person registered under the Investment Advisers Act of 1940 who regularly acts as a broker are exempt. Payments subject to reporting under sections 6041 and 6041A are generally exempt from backup withholding only if made to payees described in items (1) through (7), except a corporation that provides medical and health care services or bills and collects payments for such services is not exempt from backup withholding or information reporting. Only payees described in items (2) through (6) are exempt from backup withholding for barter exchange transactions, patronage dividends, and payments by certain fishing boat operators.

- A corporation

- An organization exempt from tax under section 501(a), or an IRA, or a custodial account under section 403(b)(7)

- The United States or any of its agencies or instrumentalities

- A state, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities

- A foreign government or any of its political subdivisions, agencies or instrumentalities

- An international organization or any of its agencies or instrumentalities

- A foreign central bank of issue

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- A dealer in securities or commodities required to register in the United States or a possession of the United States

- A futures commission merchant registered with the Commodity Futures Trading Commission

- A real estate investment trust

- An entity registered at all times during the tax year under the Investment Company Act of 1940

- A common trust fund operated by a bank under section 584(a)

- A financial institution

- A middleman known in the investment community as a nominee or listed in the most recent publication of the American Society of Corporate Secretaries, Inc, Nominee List

- A trust exempt from tax under section 664 or described in section 4947

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under Section 1441 of the Code

- Payments to partnerships not engaged in a trade or business in the US and which have at least one nonresident partner

- Payments of patronage dividends where the amount received is not paid in money

- Payments made by certain foreign organizations

- Payments made to a nominee

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. NOTE: You may be subject to backup withholding if this interest is $600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer

- Payments of tax-exempt interest (including exempt-interest dividends under Section 852 of the Code)

- Payments described in Section 6049(b)(5) of the Code to non-resident aliens

- Payments on tax-free covenant bonds under Section 1451 of the Code

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- Payments made by certain foreign organizations

- Payments of mortgage interest to you

- Payments made to an appropriate nominee

Exempt payees described above should file substitute Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYER. IF YOU ARE A NON-RESIDENT ALIEN OR A FOREIGN ENTITY NOT SUBJECT TO BACKUP WITHHOLDING, FILE WITH PAYER A COMPLETED INTERNAL REVENUE FORM W-8 (CERTIFICATE OF FOREIGN STATUS).

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see Sections 6041, 6041A(a), 6045, and 6050A and 6050N of the Code and the regulations promulgated thereunder.

PRIVACY ACT NOTICE -- Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to the IRS.

The IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER -- If you fail to furnish your correct taxpayer identification number to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING -- If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION -- Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

(4) FAILURE TO REPORT CERTAIN DIVIDEND AND INTEREST PAYMENTS -- If you fail to include any portion of an includible payment for interest, dividends or patronage dividends in gross income and such failure is due to negligence, a penalty of 20% is imposed on any portion of any underpayment attributable to the failure.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE.

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Exhibit (a)(7)

FOR IMMEDIATE RELEASE

From: Paul M. Bouthilet
Voith Sulzer Paper Technology
North America Inc.
Chief Financial Officer
2200 N. Roemer Road
Appleton, Wisconsin 54913
(920) 731-7724

Robert M. Gorski
Impact Systems, Inc.
Vice President and Chief
Financial Officer
14600 Winchester Boulevard
Los Gatos, CA 95030
(408) 379-0910

-JOINT PRESS RELEASE-

VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC. SIGNS
DEFINITIVE AGREEMENT TO ACQUIRE IMPACT SYSTEMS, INC.

VOITH SULZER PAPER TECHNOLOGY NORTH AMERICA INC.
TO COMMENCE TENDER OFFER AT $2.75 PER SHARE IN CASH

APPLETON, WISCONSIN AND LOS GATOS, CALIFORNIA, DECEMBER 12, 1997

Voith Sulzer Paper Technology North America Inc. (a paper technology company specializing in stock preparation, paper machinery and finishing) and Impact Systems, Inc. (OTC:MPAC) (a paper technology company specializing in computer based actuator, measurement and control systems) today announced a definitive merger agreement for Voith Sulzer to acquire all of the outstanding common stock of Impact at $2.75 per share or approximately $30 million. The purchase price represents a premium of approximately 57% over the closing price of Impact's shares at the close of business on December 11, 1997.

The combination of Impact's computer based actuator, measurement and control systems with the Voith Group's range of paper production and technology activities will create an integrated global business combined with associated services.

Mr. Hans Muller, CEO of Voith Sulzer stated:

"We are very pleased about the prospect of Impact joining the Voith Sulzer family. The newly acquired technology will significantly enhance Voith Sulzer's capability to offer superior and integrated technology solutions to our customers in the paper industry worldwide."

Mr. Kenneth P. Ostrow, President and CEO of Impact added:

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"We believe combining the capability and technology of Impact with the strength and size of the Voith Sulzer organization will allow both companies the ability to provide superior solutions to the paper making industry on a global basis that Impact could not have done alone."

Under the terms of the merger agreement, Voith Sulzer will promptly commence a cash tender offer, scheduled to begin on December 18, 1997, for all outstanding Impact shares at a price of $2.75 per share, net in cash. Shares not purchased in the tender offer will be acquired in a subsequent merger at the same price as soon as practicable after completion of the tender offer. The tender offer is subject to a number of conditions including customary regulatory approvals. The transaction has been approved by the Boards of Directors of both companies and is not subject to financing.

Voith Sulzer also entered into agreements with the holders of approximately 29% of Impact's stock, who agreed to tender their shares to Voith Sulzer. To the extent not acquired in the tender offer, under certain circumstances such shareholders have granted Voith Sulzer the option to acquire such shares.

# # #

Impact Systems, Inc. is headquartered in Los Gatos, California and develops, manufactures, sells and services computer based actuator, measurement and control systems to reduce variations which occur in the production of all major types of paper. Impact's products enable paper manufacturers to improve paper quality, increase production and reduce waste, energy consumption and raw material costs.

Voith Sulzer Papiertechnik Gmbh & Co KG, a majority owned subsidiary of J.M. Voith AG, is a leading worldwide supplier of technology and equipment to the paper industry, headquartered in Heidenheim, Germany.

J.M. Voith AG is a privately held international technology corporation active in the fields of paper technology, power generation equipment and power transmission with headquarters in Heidenheim, Germany.

# # #

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Exhibit (a)(8)

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase, dated December 18, 1997, and the related Letter of Transmittal and any amendments or supplements thereto, and is being made to holders of all Shares. The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In any jurisdiction where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of Voith Sulzer Acquisition Corp. by one or more registered brokers or dealers that are licensed under the laws of such jurisdiction.

NOTICE OF OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK

OF

IMPACT SYSTEMS, INC.

AT

$2.75 NET PER SHARE

BY

VOITH SULZER ACQUISITION CORP.

A WHOLLY OWNED SUBSIDIARY OF

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

Voith Sulzer Acquisition Corp., a California corporation (the "Purchaser") and a wholly owned subsidiary of Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), is offering to purchase all outstanding shares of common stock, without par value (the "Shares"), of Impact Systems, Inc., a California corporation (the "Company"), at a price of $2.75 per Share (the "Offer Price"), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 18, 1997 (the "Offer to Purchase"), and in the related

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Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). Tendering shareholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, transfer taxes on the purchase of Shares pursuant to the Offer. The purpose of the Offer is to acquire for cash as many outstanding Shares as possible as a first step in acquiring the entire equity interest in the Company. Following the consummation of the Offer, the Purchaser intends to effect the Merger as described below. Parent is a subsidiary of J.M. Voith AG, a corporation organized under the laws of the Federal Republic of Germany.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON TUESDAY, JANUARY 20, 1998, UNLESS THE OFFER IS EXTENDED.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the expiration date of the Offer that number of Shares which will represent at least 90% of the outstanding Shares on a fully diluted basis (after giving pro forma effect to the potential issuance of any Shares issuable under the Stock Option described below) on the date of purchase (the "Minimum Condition"). The Purchaser will not be required to accept for payment or pay for tendered Shares until the expiration of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the satisfaction of conditions under any other applicable antitrust, competition or trade regulatory laws, rules or regulations of any domestic or foreign government or governmental authority or any multinational authority. The Offer is also subject to other terms and conditions described in Section 15 of the Offer to Purchase. The Offer is not conditioned on the receipt of financing.

In the event that more than 50% of the Shares then outstanding are tendered pursuant to the Offer and not withdrawn, but less than 90% of the Shares then outstanding on a fully diluted basis are subject to acquisition by the Purchaser pursuant to the Offer and the Stock Option, the Purchaser will waive the Minimum Condition and amend the Offer to reduce the number of Shares subject to the Offer to such number of Shares as equals 49.9999% of the Shares then outstanding (the "Revised Minimum Number") and, if a greater number of Shares are tendered into the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Shares (it being understood that the Purchaser may, but shall not in any event be required to accept for payment, or pay for, any Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date of the Offer).

The Offer is being made pursuant to the Agreement and Plan of Merger, dated December 11, 1997 (the "Merger Agreement"), by and among Parent, the Purchaser and the Company, which provides, among other things, for the commencement of the Offer by the Purchaser and further provides that after the purchase of the Shares pursuant to the Offer, subject to the satisfaction or waiver of certain conditions, the Purchaser will be merged with and into the Company (the "Merger"). Following consummation of the Merger, the separate corporate existence of the Purchaser will cease and the Company will continue as

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the surviving corporation and will become a wholly owned subsidiary of Parent. At the effective time of the Merger, each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by Parent, the Purchaser, any wholly owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly owned subsidiary of the Company and other than Shares held by shareholders who shall have properly exercised their dissenters' rights, if any, under California law) will be converted into the right to receive $2.75 in cash or any greater amount paid pursuant to the Offer without interest.

Concurrently with the execution and delivery of the Merger Agreement and as an inducement to Parent and the Purchaser to enter into the Merger Agreement, Parent and the Purchaser executed the Stockholder Agreements, dated December 11, 1997 (the "Stockholder Agreements"), with certain shareholders of the Company (the "Selling Shareholders"), pursuant to which such Selling Shareholders have agreed to validly tender (and not to withdraw) approximately 29% of the Shares in the Offer. In addition, the Selling Shareholders have granted the Purchaser an option to purchase all but not less than all of such Shares and Parent has an irrevocable proxy to vote the Shares in favor of the Merger and related transactions and against certain other transactions.

In addition, concurrently with the execution and delivery of the Merger Agreement, the Purchaser, Parent and the Company entered into a Stock Option Agreement (the "Stock Option Agreement") pursuant to which, upon the terms set forth therein, the Company granted to the Purchaser an irrevocable option (the "Stock Option") to purchase up to the number of Shares (the "Option Shares") that, when added to the number of Shares owned by the Purchaser and its affiliates immediately following consummation of the Offer, would constitute 90% of the Shares then outstanding on a fully diluted basis (assuming the issuance

of the Option Shares) at a purchase price per Option Share equal to $2.75 per Share or the highest price paid per Share in the Offer, subject to the terms and conditions set forth in the Stock Option Agreement, including, without limitation, (i) that the Purchaser shall have accepted for payment Shares constituting more than 50% of the Shares then outstanding and (ii) that the number of Shares to be issued under the Stock Option shall not exceed the number of authorized Shares available for issuance.

The Board of Directors of the Company has (a) approved the Merger Agreement, the Stock Option, the Offer and the Merger and the other transactions contemplated thereby, (b) determined that the Offer Price to be received by the shareholders pursuant to the Offer and the Merger is fair to the shareholders and (c) recommends that shareholders tender their Shares pursuant to the Offer.

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, validly tendered Shares as, if and when the

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Purchaser gives oral or written notice to the Depositary (as defined in the Offer to Purchase) of its acceptance of such Shares for payment pursuant to the Offer. Upon the terms and subject to the conditions of the Offer, payment for Shares purchased pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payment from the Purchaser and transmitting payment to tendering shareholders whose Shares have theretofore been accepted for payment. In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates evidencing such Shares (the "Share Certificates") or timely confirmation of a book-entry transfer of Shares into the Depositary's account at one of the Book-Entry Transfer Facilities (as defined in Section 2 of the Offer to Purchase) pursuant to the procedures set forth in Section 2 of the Offer to Purchase, (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message (as defined in Section 2 of the Offer to Purchase), and (iii) all other documents required by the Letter of Transmittal. Under no circumstances will interest on the purchase price for Shares be paid by the Purchaser, regardless of any delay in making such payment.

The term "Expiration Date" shall mean 12:00 midnight, New York City time, on Tuesday, January 20, 1998, unless and until Purchaser, in accordance with the terms of the Offer and Merger Agreement, shall have extended the period during which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Offer, as so extended by Purchaser, shall expire. Subject to the terms of the Merger Agreement and applicable law, the Purchaser expressly reserves the right, at any time or from time to time, to extend the period of time during which the Offer is open, and thereby delay acceptance of payment of, or payment for, any Shares by giving oral or written notice of such extension to the Depositary. During any such extension, all Shares previously tendered and not withdrawn will remain subject to the Offer, subject to the rights of a tendering shareholder to withdraw his Shares. The Purchaser will not have any obligation to pay interest on the purchase price for tendered Shares whether or not the Purchaser exercises its right to extend the period of time during which the Offer is open. Any such extension will be followed as promptly as practicable by public announcement thereof, such announcement to be made no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date of the Offer. Without limiting the manner in which the Purchaser may choose to make any public announcement, the Purchaser will have no obligation to publish, advertise or

otherwise communicate any such announcement other than by issuing a release to the Dow Jones News Service or as otherwise may be required by law.

Tenders of Shares made pursuant to the Offer are irrevocable except that

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such Shares may be withdrawn at any time prior to 12:00 midnight, New York City time, on Tuesday, January 20, 1998 (or, if the Purchaser shall have extended the period of time for which the Offer is open, the latest time and date at which the Offer, as so extended by the Purchaser, shall expire) and, unless theretofore accepted for payment by the Purchaser pursuant to the Offer, may also be withdrawn at any time after February 15, 1998. For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at its address set forth on the back cover of the Offer to Purchase. Any such notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder, if different from that of the person who tendered such Shares. If Share Certificates evidencing Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the release of such Share Certificates, the tendering shareholders must also submit the serial numbers shown on the particular Share Certificates evidencing the Shares to be withdrawn and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution (as defined in Section 2 of the Offer to Purchase), unless such Shares have been tendered for the account of an Eligible Institution. If Shares have been tendered pursuant to the procedure for book-entry transfer as set forth in Section 2 of the Offer to Purchase, any notice of withdrawal must specify the name and number of the account at the applicable Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with such Book-Entry Transfer Facility procedures. All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding on all parties. Any Shares properly withdrawn will be deemed not validly tendered for purposes of the Offer, but may be tendered at any subsequent time prior to the Expiration Date by following any of the procedures described in Section 2 of the Offer to Purchase.

The Company has provided the Purchaser with the Company's shareholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase, the related Letter of Transmittal and, if required, other relevant materials will be mailed to record holders of Shares whose names appear on the Company's shareholder list and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

The information required to be disclosed by paragraph (e)(1)(vii) of Rule 14d-6 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The Offer to Purchase and the related Letter of Transmittal contain important information which should be read carefully before any decision is made with respect to the Offer.

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Questions and requests for assistance may be directed to the Information Agent at the address and telephone numbers as set forth below. The Purchaser will not pay any fees or commissions to any broker or dealer or to any other person (other than the Information Agent) for soliciting tenders of Shares pursuant to the Offer. Additional copies of the Offer to Purchase, the Letter of Transmittal

and all other tender offer materials may be obtained from the Information Agent or from brokers, dealers, commercial banks and trust companies, and will be furnished promptly at the Purchaser's expense. Neither Parent nor Purchaser will pay any fees or commissions to any broker or dealer or other person (other than the Depositary or the Information Agent) in connection with the solicitation of tenders of Shares pursuant to the Offer.

THE INFORMATION AGENT FOR THE OFFER IS:

D.F. KING & CO., INC.

77 WATER STREET
NEW YORK, NEW YORK 10005-4495
BANKS AND BROKERS CALL COLLECT: (212) 269-5550
ALL OTHERS CALL TOLL-FREE (800) 714-3310

December 18, 1997

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EXHIBIT (C)(1)

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated December 11, 1997 (this "Agreement"), by and among Voith Sulzer Paper Technology North America Inc., a Delaware company ("Parent"), Voith Sulzer Acquisition Corp., a California corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), and Impact Systems, Inc., a California corporation (the "Company").

WHEREAS, as a condition and inducement to Parent's willingness to enter into this Agreement, Parent has entered into Stockholder Agreements, dated the date hereof, with certain holders of capital stock of the Company (the "Stockholder Agreements"); and

WHEREAS, the respective Boards of Directors of Parent, the Purchaser and the Company have approved the acquisition of the Company by the Purchaser on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, in furtherance of such acquisition, Parent proposes to cause the Purchaser to make a tender offer (as it may be amended from time to time as permitted under this Agreement, the "Offer") to purchase all of the issued and outstanding shares of common stock, no par value per share, of the Company (the "Common Shares" or "Shares") at a price per Common Share of $2.75 net to the seller in cash (such price, as it may hereafter be increased, the "Offer Price"); and

WHEREAS, the Board of Directors of the Company has approved this Agreement, the Offer and the Merger (as hereinafter defined), has determined that the Offer and the Merger are fair and in the best interests of the Company's shareholders (the "Shareholders"), and is recommending that the Shareholders accept the Offer and tender all their Shares; and

WHEREAS, the respective Boards of Directors of Parent, the Purchaser and the Company have approved the merger of the Purchaser with and into the Company, as set forth below (the "Merger"), in accordance with the General Corporation Law of the State of California (the "GCL") and upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding Share not owned directly or indirectly by Parent, the Purchaser or the Company will be converted into the right to receive the Offer Price in cash; and

WHEREAS, as a further inducement to Parent to enter into this Agreement, Parent, the Purchaser and the Company have entered into a Stock Option Agreement, dated the date hereof (the "Stock Option Agreement"), pursuant to which the Company has granted to the Purchaser an option to purchase newly

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issued Common Shares under certain circumstances; and

WHEREAS, Parent, the Purchaser and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Offer and the Merger and also to prescribe various conditions to the Offer and the Merger.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, Parent, the Purchaser and the Company agree as follows.

ARTICLE I

THE OFFER

SECTION 1.01 The Offer.

(a) So long as none of the events set forth in clauses (a) through (g) of Annex I hereto shall have occurred or exist, the Purchaser shall, and Parent shall cause the Purchaser to, commence (within the meaning of Rule 14d-2(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as

promptly as practicable after the date hereof, but in any event not later than December 18, 1997, the Offer for any and all outstanding Shares not owned by the Purchaser at the Offer Price applicable to such Shares, net to the seller in cash. The initial expiration date for the Offer shall be the twentieth business day from and after the date the Offer is commenced, including the date of commencement as the first business day in accordance with Rule 14d-2 under the Exchange Act (the "Initial Expiration Date"). As promptly as practicable, the Purchaser shall file with the Securities and Exchange Commission (the "SEC") the Purchaser's Tender Offer Statement on Schedule 14D-1 (the "Schedule 14D-1" and together with the documents therein pursuant to which the Offer will be made, and with any supplements or amendments thereto, the "Offer Documents"), which shall contain (as an exhibit thereto) the Purchaser's Offer to Purchase (the "Offer to Purchase") which shall be mailed to the holders of Shares with respect to the Offer. The obligation of Parent and the Purchaser to accept for payment or pay for any Shares tendered pursuant to the Offer will be subject only to the satisfaction or waiver of the conditions set forth in Annex I hereto. Without the prior written consent of the Company, the Purchaser shall not (i) decrease the Offer Price or change the form of consideration payable in the Offer, (ii) decrease the number of Shares sought to be purchased in the Offer (except as otherwise set forth in Section 1.01(b) hereof), (iii) change the conditions set forth in Annex I, (iv) extend the expiration date of the Offer (except as required by applicable rules and regulations of the SEC and except that Purchaser may in its discretion extend the expiration date of the Offer for up to 10 business days after the Initial Expiration Date, and may extend the Offer thereafter for longer periods (not to exceed 90 calendar days from the date of commencement (unless, in the Company's sole discretion, the Company requests that the expiration date of the Offer be further extended, up to a maximum of

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120 calendar days) from the date of commencement in the event that any condition to the Offer is not satisfied or waived) (v) impose additional conditions to the Offer, or (vi) amend any other term of the Offer in any manner adverse to the holders of any Shares.

(b) Subject to the limitations set forth in clause (iv) of Section 1.01(a), in the event the Minimum Condition (as defined in Annex I) is not satisfied on any scheduled expiration date of the Offer, the Purchaser may either (i) extend the Offer pursuant to clause (iv) of the last sentence of Section 1.01(a) or (ii) amend the Offer to provide that, in the event (x) the Minimum Condition is not satisfied at the next scheduled expiration date of the Offer (after giving pro forma effect to the potential issuance of any Common Shares issuable upon exercise of the Stock Option Agreement) and (y) the number of Common Shares tendered pursuant to the Offer and not withdrawn as of such next scheduled expiration date is more than 50% of the then outstanding Common Shares, the Purchaser must waive the Minimum Condition and amend the Offer to reduce the number of Common Shares subject to the Offer to a number of Shares that when added to the Shares then owned by the Purchaser will equal 49.9999% of the Common Shares then outstanding (the "Revised Minimum Number") and, if a greater number of shares is tendered into the Offer and not withdrawn, purchase, on a pro rata basis, the Revised Minimum Number of Common Shares (it being understood that the Purchaser may, but shall not in any event be required to, accept for payment, or pay for, any Common Shares if less than the Revised Minimum Number of Shares are tendered pursuant to the Offer and not withdrawn at the applicable expiration date).

(c) Subject to the terms of the Offer and this Agreement and the satisfaction or waiver of all the conditions of the Offer set forth in Annex I hereto as of any expiration date, the Purchaser will accept for payment and pay for all Shares validly tendered and not withdrawn pursuant to the Offer as soon as practicable after such expiration date of the Offer.

(d) The Offer Documents will comply in all material respects with the provisions of applicable federal securities laws and, on the date filed with the SEC and on the date first published, sent or given to the Shareholders, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, except that no representation is made by Parent or the Purchaser with respect to information supplied by the Company in writing for inclusion in the Offer Documents. No representation, warranty or covenant is made or shall be made herein by the Company with respect to information contained in the Offer Documents other than information supplied by the Company in writing expressly for inclusion in the Offer Documents. Each of Parent and the Purchaser, on the one hand,

and the Company, on the other hand, agrees promptly to correct any information

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provided by it for use in the Offer Documents if and to the extent that it shall have become false or misleading in any material respect and the Purchaser further agrees to take all steps necessary to cause the Offer Documents as so corrected to be filed with the SEC and to be disseminated to the Shareholders, in each case as and to the extent required by applicable federal securities laws. Each of Parent and the Purchaser, on the one hand, and the Company, on the other hand, agrees to give a reasonable opportunity to review and comment upon any Offer Document to be filed with the SEC prior to any such filing and to provide in writing any comments each may receive from the SEC or its staff with respect to the Offer Documents promptly after the receipt of such comments.

SECTION 1.02 Company Actions.

(a) The Company shall file with the SEC, simultaneously with the filing by Parent and Purchaser of the Schedule 14D-1, and mail to the holders of Shares a Solicitation/Recommendation Statement on Schedule 14D-9 with respect to the Offer (together with any amendments or supplements thereto, the "Schedule 14D-9"). The Schedule 14D-9 will set forth, and the Company hereby represents, that the Board of Directors of the Company, at a meeting duly called and held, has (i) determined that the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders, (ii) approved the Offer and the Merger in accordance with Section 1101 of the GCL and approved this Agreement and the Stock Option Agreement, and (iii) resolved to recommend acceptance of the Offer by the Shareholders; provided, however, that such recommendation may be withdrawn, modified or amended to the extent that the Board of Directors of the Company determines in good faith by a majority vote that it is necessary under applicable Law (as hereinafter defined) to do so in the exercise of its fiduciary duties to the Shareholders but only after receipt of written advice of the Company's outside legal counsel with respect to the fiduciary obligations of the Board of Directors.

(b) The Schedule 14D-9 will comply in all material respects with the provisions of applicable federal securities laws and, on the date filed with the SEC and on the date first published, sent or given to the Shareholders, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, except that no representation is made by the Company with respect to information supplied by Parent or the Purchaser in writing for inclusion in the Schedule 14D-9. Each of the Company, on the one hand, and Parent and the Purchaser, on the other hand, agree promptly to correct any information provided by either of them for use in the Schedule 14D-9 if and to the extent that it shall have become false or misleading, and the Company further agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and to be disseminated to the Shareholders, in each case as and to the extent required by applicable federal securities law.

(c) In connection with the Offer, the Company will furnish the Purchaser with such information and assistance as the Purchaser or its agents or representatives may reasonably request in connection with communicating the Offer to the record and beneficial holders of the Shares, including, without

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limitation, its stockholders list, security position listings and non-objecting beneficial owners list, if any. Subject to the requirements of applicable Law, and except for such actions as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer and the Merger, Parent and the Purchaser and each of their affiliates, associates, partners, employees, agents and advisors shall hold in confidence the information contained in such stockholders list, security position listings and non-objecting beneficial owners list, shall use such information only in connection with the Offer and the Merger, and, if this Agreement is terminated in accordance with its terms, shall deliver promptly to the Company all copies of such information (and any copies, compilations or extracts thereof or based thereon) then in their possession or under their control.

SECTION 1.03 Directors.

(a) Subject to compliance with applicable Law, promptly upon the payment by the Purchaser for Shares pursuant to the Offer, and from time to time thereafter, the Purchaser shall be entitled to designate such number of directors, rounded up to the next whole number, on the Board of Directors of the Company as is equal to the product of the total number of directors on the Board of Directors of the Company (determined

after giving effect to the directors elected pursuant to this sentence) multiplied by the percentage that the aggregate number of Shares beneficially owned by the Purchaser or its affiliates bears to the total number of Shares then outstanding, and the Company shall, subject to compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder, upon request of the Purchaser, promptly take all actions necessary to cause the Purchaser's designees to be so elected, including, if necessary, seeking the resignations of one or more existing directors; provided, however, that prior to the Effective Time (as defined in Section 2.02) the Board of Directors of the Company shall always have at least two members who are neither officers, directors, stockholders or designees of the Purchaser or any of its affiliates ("Purchaser Insiders"); and provided further, however, that the Purchaser shall be entitled to designate a number of directors equal to or greater than 50% of the total number of directors only if the Purchaser acquires 90% or more of the outstanding Shares pursuant to the Offer. If the number of directors who are not Purchaser Insiders is reduced below two for any reason prior to the Effective Time, then the remaining directors who are not Purchaser Insiders (or if there is only one director who is not a Purchaser Insider, the remaining director who is not a Purchaser Insider) shall be entitled to designate a person (or persons) to fill such vacancy (or vacancies) who is not an officer, director, stockholder or designee of the Purchaser or any of its affiliates and who shall be a director not deemed to be a Purchaser Insider for all purposes of this Agreement.

(b) The Company's obligation to appoint the Purchaser's designees to the

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Board of Directors of the Company shall be subject to Section 14(f) of the Exchange Act and Rule 14f-1 thereunder. The Company shall promptly take all actions required pursuant to such Section and Rule in order to fulfill its obligations under this Section 1.03 and shall include in the Schedule 14D-9 such information with respect to the Company and its officers and directors as is required under such Section and Rule in order to fulfill its obligations under this Section 1.03. Parent will supply in writing any information with respect to itself and its officers, directors and affiliates required by such Section and Rule to the Company.

(c) From and after the election or appointment of the Purchaser's designees pursuant to this Section 1.03 and prior to the Effective Time, any amendment or termination of this Agreement by the Company, any extension by the Company of the time for the performance of any of the obligations or other acts of Parent or the Purchaser or waiver of any of the Company's rights hereunder, or any other action taken by the Board in connection with this Agreement, will require the concurrence of a majority of the directors of the Company then in office who are not Purchaser Insiders.

ARTICLE II

THE MERGER

SECTION 2.01 The Merger. Upon the terms and subject to the satisfaction or waiver of the conditions hereof, and in accordance with the applicable provisions of this Agreement and the GCL, at the Effective Time (as defined in Section 2.02) the Purchaser shall be merged with and into the Company. Following the Merger, the separate corporate existence of the Purchaser shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation").

SECTION 2.02 Effective Time; Closing. As soon as practicable after the satisfaction or waiver of the Second-Step Conditions set forth in Article VII hereof, the Company shall execute in the manner required by the GCL and file in the office of the Secretary of State of the State of California an agreement of merger together with an officer's certificate of the Company and the Purchaser, and the parties shall take such other and further actions as may be required by Law to make the Merger effective. The time the Merger becomes effective in accordance with applicable Law is referred to as the Effective Time. On the business day immediately preceding such filing, a closing shall be held at the offices of Wilson Sonsini Goodrich & Rosati, 650 Page Mill Road, Palo Alto, California 94304, unless another date or place is agreed to in writing by the parties hereto, for the purpose of confirming the satisfaction or waiver, as the case may be, of the conditions set forth in Article VII.

SECTION 2.03 Effects of the Merger. The Merger shall have the effects set forth in Section 1107 of the GCL.

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SECTION 2.04 Articles of Incorporation and By-Laws of the Surviving Corporation.

(a) The articles of incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the articles of incorporation of the Surviving Corporation until thereafter amended in accordance with the provisions thereof and hereof and applicable Law.

(b) The by-laws of the Company in effect at the Effective Time shall be the by-laws of the Surviving Corporation until thereafter amended in accordance with the provisions thereof and hereof and applicable Law.

SECTION 2.05 Directors. Subject to applicable Law, the directors of the Purchaser immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation and shall hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

SECTION 2.06 Officers. The officers of the Company immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

SECTION 2.07 Conversion of Shares. At the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each Share issued and outstanding immediately prior to the Effective Time (other than any Shares held by Parent, the Purchaser, any wholly-owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly-owned subsidiary of the Company, which Shares, by virtue of the Merger and without any action on the part of the holder thereof, shall be canceled and retired and shall cease to exist with no payment being made with respect thereto, and other than Dissenting Shares (as defined in Section 3.01)) shall be converted into the right to receive in cash the Offer Price (the "Merger Price").

SECTION 2.08 Conversion of Purchaser Common Stock. At the Effective Time, the shares of common stock, no par value, of the Purchaser 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 and become the number of validly issued, fully paid and nonassessable shares of common stock, no par value, of the Surviving Corporation equal to the number of Common Shares outstanding on a fully diluted basis immediately prior to the Effective Time.

SECTION 2.09 Company Option Plans. The Company shall take all actions necessary so that, immediately prior to the Effective Time, (A) each outstanding option to purchase Common Shares (an "Option") granted under the Company's Discount Stock Option Plan, 1995 Incentive Stock Option Plan, 1985 Incentive Stock Option Plan and 1982 Incentive Stock Option Plan (collectively, the "Option Plans"), whether or not then exercisable or vested, shall become fully

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exercisable and vested, (B) each Option which is then outstanding shall be cancelled and (C) in consideration of such cancellation, and except to the extent that Parent or the Purchaser and the holder of any such Option otherwise agree, immediately following consummation of the Merger, the Company shall promptly pay to such holders of Options an amount in respect thereof equal to the product of (1) the excess of the Merger Price over the exercise price thereof and (2) the number of Common Shares subject thereto (such payment to be net of taxes required by law to be withheld with respect thereto); provided that the foregoing shall be subject to the obtaining of any necessary consents of holders of Options, it being agreed that the Company and Parent will use their commercially reasonable best efforts to obtain any such consents.

SECTION 2.10 Shareholders' Meeting.

(a) If required by the Company's articles of incorporation and/or applicable Law in order to consummate the Merger, the Company, acting through its Board of Directors, shall, in accordance with applicable Law:

(i) duly call, give notice of, convene and hold a special meeting of the Shareholders (the "Shareholders' Meeting") as soon as practicable following the acceptance for payment of and payment for Shares by the Purchaser pursuant to the Offer for the purpose of considering and taking action upon this Agreement;

(ii) prepare and file with the SEC a preliminary proxy statement relating to the Merger and this Agreement and use its commercially reasonable best efforts (x) to obtain and furnish the information required to be included by the SEC in the Proxy Statement (as hereinafter defined) and, after the consultation with Parent, to respond promptly to any comments made by the SEC with respect to the preliminary proxy statement and, subject to compliance with SEC rules and regulations, to cause a definitive proxy statement (the "Proxy Statement") to be mailed to the Shareholders and (y) to obtain the necessary approvals of the Merger and this Agreement by the Shareholders; and

(iii) subject to the fiduciary obligations of the Board of Directors of the Company under applicable Law, include in the Proxy Statement the recommendation of the Board of Directors of the Company that the Shareholders vote in favor of the approval of the Merger and the adoption of this Agreement.

(b) Parent and the Purchaser will furnish to the Company the information relating to Parent and the Purchaser required under the Exchange Act and the rules and regulations thereunder to be set forth in the Proxy Statement.

(c) Parent agrees that it will (i) vote, or cause to be voted, all of the Shares then owned by it, the Purchaser or any of its other subsidiaries in favor

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of the approval of the Merger and the adoption of this Agreement and (ii) take or cause to be taken all additional corporate actions necessary for the Purchaser to adopt and approve this Agreement and the transactions contemplated hereby.

SECTION 2.11 Merger Without Meeting of Shareholders. Notwithstanding Section 2.10, in the event that Parent, the Purchaser or any other subsidiary of Parent shall have acquired at least 90% of the outstanding Shares pursuant to the Offer (including as a result of the exercise of the Stock Option Agreement) and prior transactions, the parties hereto agree to take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after the acceptance for payment of and payment for Shares by the Purchaser pursuant to the Offer without a meeting of Shareholders, in accordance with Section 1110 of the GCL.

SECTION 2.12 Earliest Consummation. Each party hereto shall use its commercially reasonable best efforts to consummate the Merger as soon as practicable. If the conditions set forth in Annex I hereto are satisfied, or waived, the Purchaser shall consummate the Offer and accept for payment Shares tendered therein and thereafter effectuate the Merger.

ARTICLE III

DISSENTING SHARES; PAYMENT FOR SHARES

SECTION 3.01 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, Shares outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal for such shares in accordance with Section 1300 of the GCL, if such Section 1300 provides for appraisal rights for such Shares in the Merger ("Dissenting Shares"), shall not be converted into the right to receive the Merger Price as provided in Section 2.07, unless and until such holder fails to perfect or withdraws or otherwise loses his right to appraisal and payment under the GCL. If, after the Effective Time, any such holder fails to perfect or withdraws or loses his right to appraisal, then such Dissenting Shares shall thereupon be treated as if they had been converted as of the Effective Time into the right to receive the Merger Price, if any, to which such holder is entitled, without interest or dividends thereon. The Company shall give Parent prompt notice of any demands received by the Company for appraisal of Shares and, prior to the Effective Time, Parent shall have the right to participate in all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, except with the prior written consent of Parent, make any payment with respect to or settle or offer to settle, any such demands.

SECTION 3.02 Payment for Shares.

(a) Prior to the commencement of the Offer, Purchaser shall appoint a United States bank or trust company mutually acceptable to the Company and Parent to act as paying agent (the "Paying Agent") for the

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payment of the Offer Price and the Merger Price. Prior to the payment time thereof, Parent shall deposit or shall cause to be deposited with the Paying Agent in a separate fund established for the benefit of the holders of Shares, for payment in accordance with this Article III, through the Paying Agent (the "Payment Fund"), immediately available funds in amounts necessary to make the payments pursuant to the Offer, Section 2.07 and this Section 3.02 to holders (other than the Company or any subsidiary of the Company or Parent, Purchaser or any other subsidiary of Parent, or holders of Dissenting Shares). The Paying Agent shall pay the Offer Price and the Merger Price out of the Payment Fund.

From time to time at or after the Effective Time, Parent shall take all lawful action necessary to make the appropriate cash payments, if any, to holders of Dissenting Shares. Prior to the Effective Time, Parent shall enter into appropriate commercial arrangements to ensure effectuation of the immediately preceding sentence. The Paying Agent shall invest the Payment Fund as directed by Parent or the Purchaser in obligations of, or guaranteed by, the United States of America, in commercial paper obligations rated A-1 or P-1 or better by Moody's Investor Services or Standard & Poor's Corporation, respectively, or in certificates of deposit, bank repurchase agreements or bankers' acceptances of commercial banks with capital exceeding $1 billion, in each case with maturities not exceeding seven days. Parent shall cause the Payment Fund to be promptly replenished to the extent of any losses incurred as a result of the aforementioned investments. All earnings thereon shall inure to the benefit of the Surviving Corporation. If for any reason (including losses) the Payment Fund is inadequate to pay the amounts to which holders of Shares shall be entitled under Section 2.07 and this Section 3.02, Parent shall in any event be liable for payment thereof. The Payment Fund shall not be used for any purpose except as expressly provided in this Agreement.

(b) Promptly after the Effective Time, the Paying Agent shall mail to each record holder of certificates (the "Certificates") that immediately prior to the Effective Time represented Shares entitled to payment of the Merger Price pursuant to Section 2.07 (other than Certificates representing Dissenting Shares and Certificates representing Shares held by Parent or the Purchaser, any wholly-owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly-owned subsidiary of the Company) a form of letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Paying Agent and instructions for use in surrendering such Certificates and receiving the aggregate Merger Price, in respect thereof. Upon the surrender of each such certificate and subject to applicable withholding, the Paying Agent shall pay the holder of such Certificate in respect of Shares, the Merger Price multiplied by the number of Shares formerly represented by such Certificate, and such Certificate shall forthwith be cancelled. Until so surrendered, each such Certificate (other than Certificates representing Dissenting Shares and Certificates representing Shares held by Parent or the

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Purchaser, any wholly-owned subsidiary of Parent or the Purchaser, in the treasury of the Company or by any wholly-owned subsidiary of the Company) shall represent solely the right to receive the aggregate Merger Price relating thereto. No interest or dividends shall be paid or accrued on the Merger Price. If the Merger Price (or any portion thereof) is to be delivered to any person other than the person in whose name the Certificate formerly representing Shares is registered, it shall be a condition to such right to receive such Merger Price, as applicable, that the Certificate so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the person surrendering such Certificates shall pay to the Paying Agent any transfer or other taxes required by reason of the payment of the Merger Price to a person other than the registered holder of the Certificate surrendered, or shall establish to the satisfaction of the Paying Agent that such tax has been paid or is not applicable.

(c) Promptly following the date which is 270 days after the Effective Time, the Paying Agent shall deliver to the Surviving Corporation all cash, Certificates and other documents in its possession relating to the transactions described in this Agreement, and the Paying Agent's duties shall terminate. Thereafter, each holder of a Certificate formerly representing a Share may surrender such Certificate to the Surviving Corporation and (subject to applicable abandoned property, escheat and similar laws) receive in consideration therefor the aggregate Merger Price, without any interest or dividends thereon.

(d) After the Effective Time, there shall be no transfers on the stock transfer books of the Surviving Corporation of any Shares, which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates formerly representing Shares are presented to the Surviving Corporation or the

Paying Agent, they shall be surrendered and cancelled in return for the payment of the aggregate Merger Price relating thereto, as provided in this Article III, subject to applicable law in the case of Dissenting Shares.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and the Purchaser as follows (with such exceptions thereto as are set forth in the disclosure schedule delivered by the Company to Parent on the date hereof (the "Company Disclosure Statement")):

SECTION 4.01 Organization and Qualification; Subsidiaries. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Each of the Company's subsidiaries (the

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"Subsidiaries") is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. The Company and each of the Subsidiaries has the requisite corporate power and authority to own, operate or lease its properties and to carry on its business as it is now being conducted, and is duly qualified or licensed to do business, and is in good standing, in each jurisdiction in which the nature of its business or the properties owned, operated or leased by it makes such qualification, licensing or good standing necessary, except where the failures to have such power or authority, or the failures to be so qualified, licensed or in good standing, individually, and in the aggregate, would not have a Material Adverse Effect on the Company. The term "Material Adverse Effect on the Company", as used in this Agreement, means any change in or effect on the business, results of operations, assets or condition (financial or otherwise) of the Company or any of the Subsidiaries that is materially adverse to the Company and the Subsidiaries taken as a whole.

SECTION 4.02 Articles of Incorporation and By-Laws. The Company has heretofore made available to Parent and the Purchaser a complete and correct copy of the articles of incorporation and the by-laws, each as amended to the date hereof and a copy of which is set forth in Section 4.02 of the Company Disclosure Statement, of each of the Company and the Subsidiaries.

SECTION 4.03 Capitalization. The authorized capital stock of the Company consists of 20,000,000 Common Shares and 2,000,000 shares of preferred stock, no par value (the "Preferred Stock"). As of the close of business on December 10, 1997, there were 10,511,576 Common Shares issued and no shares of Preferred Stock issued. The Company has no shares of capital stock reserved for issuance, except that, as of December 10, 1997, there were 1,201,102 Common Shares reserved for issuance pursuant to Options granted pursuant to the Option Plans. Since March 31, 1997, the Company has not issued any shares of capital stock except pursuant to the exercise of Options outstanding as of such date and in accordance with their terms. All the outstanding Common Shares are, and all Common Shares which may be issued pursuant to the exercise of outstanding Options and pursuant to the Stock Option Agreement will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and nonassessable. There are no bonds, debentures, notes or other indebtedness having general voting rights (or convertible into Shares having such rights) ("Voting Debt") of the Company or any of the Subsidiaries issued and outstanding. Except as set forth in this Section 4.03 and except for the Merger and the Stock Option Agreement, there are no existing options, warrants, calls, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the issued or unissued capital stock of the Company or any of the Subsidiaries, obligating the Company or any of the Subsidiaries to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or any of the Subsidiaries or securities convertible into or exchangeable for such shares or equity interests or obligations of the Company or any of the Subsidiaries to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment. Except (i) as contemplated by the Merger contemplated by this Agreement, (ii) for the Company's obligations under the Option Plans and (iii) for the Company's

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obligations under the Stock Option Agreement, there are no outstanding contractual obligations of the Company or any of the Subsidiaries to repurchase, redeem or otherwise acquire any Common Shares or the capital stock of the Company or any of the Subsidiaries. Each of the outstanding shares of capital stock of each of the Subsidiaries is duly authorized, validly issued, fully paid and nonassessable, and such shares of the Subsidiaries as are

owned by the Company or by another Subsidiary are owned in each case free and clear of any lien, claim, option, charge, security interest, limitation, encumbrance and restriction of any kind (any of the foregoing being a "Lien"). Section 4.03 of the Company Disclosure Statement contains a complete list as of the date hereof of each Subsidiary and sets forth with respect to each of the Subsidiaries its name and jurisdiction of organization and, with respect to each Subsidiary that is not wholly-owned by the Company or another Subsidiary, the percentage of shares of capital stock or share capital owned by the Company or a Subsidiary. Except for the capital stock of the Subsidiaries or as set forth in Section 4.03 of the Company Disclosure Statement, the Company does not own, directly or indirectly, any capital stock or other ownership interest in any corporation, partnership, limited liability company, joint venture or other entity.

SECTION 4.04 Authority. The Company has all necessary corporate power and authority to execute and deliver this Agreement and the Stock Option Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Stock Option Agreement by the Company and the consummation by the Company of the transactions contemplated hereby and thereby have been duly and validly authorized and approved by the Board of Directors of the Company and no other corporate proceedings on the part of the Company are necessary to authorize or approve this Agreement or the Stock Option Agreement or to consummate the transactions contemplated hereby or thereby (other than, with respect to the Merger, the approval and adoption of the Merger and this Agreement by holders of the Shares to the extent required by the Company's articles of incorporation and by applicable Law). This Agreement and the Stock Option Agreement have been duly and validly executed and delivered by the Company and, assuming the due and valid authorization, execution and delivery of this Agreement and the Stock Option Agreement by Parent and the Purchaser, constitute valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity. The Board of Directors of the Company has, at a meeting of such Board duly held on December 11, 1997, approved and adopted this Agreement, the Stock Option Agreement, the Offer and the Merger and the other transactions contemplated hereby and thereby, determined that the Offer Price to be received by the holders of Shares pursuant to the Offer and the Merger is fair to the holders of the Shares and recommends that the holders of Shares tender their Shares pursuant to the Offer.

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SECTION 4.05 No Conflict; Required Filings and Consents.

(a) None of the execution and delivery of this Agreement or the Stock Option Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or thereby or the compliance by the Company with any of the provisions hereof or thereof will (i) conflict with or violate the articles of incorporation or by-laws of the Company or the comparable organizational documents of any of the Subsidiaries, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to the Company or the Subsidiaries, or by which any of them or any of their respective properties or assets may be bound or affected, or (iii) result in a violation or breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in any loss of any material benefit, or the creation of any Lien on any of the property or assets of the Company or any of the Subsidiaries (any of the foregoing referred to in clause (ii) or this clause (iii) being a "Violation") pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties may be bound or affected, except in the case of the foregoing clauses (ii) or (iii) for any Violation which, individually and in the aggregate, would not have a Material Adverse Effect on the Company.

(b) None of the execution and delivery of this Agreement or the Stock Option Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or thereby or the compliance by the Company with any of the provisions hereof or thereof will require any consent, waiver, approval, authorization or permit of, or registration or filing with or notification to (any of the foregoing being a "Consent"), any government or subdivision thereof, or any administrative, governmental or regulatory

authority, agency, commission, tribunal or body, domestic, foreign or supranational (a "Governmental Entity"), except for (i) compliance with any applicable requirements of the Exchange Act, (ii) the filing of an agreement of merger together with an officer's certificate of the Company and the Purchaser pursuant to the GCL, (iii) compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and any requirements of any foreign or supranational Antitrust Laws (as hereinafter defined), (iv) such filings and approvals as may be required by any applicable state securities, "blue sky" or takeover Laws, and (v) Consents or filings the failure of which to obtain or make, individually and in the aggregate, would not have a Material Adverse Effect on the Company or materially adversely affect the ability of the Company to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

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SECTION 4.06 SEC Reports and Financial Statements.

(a) The Company has filed with the SEC all forms, reports, schedules, registration statements and definitive proxy statements required to be filed by the Company with the SEC from March 31, 1997 until the date hereof (the "SEC Reports"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Exchange Act or the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder applicable, as the case may be, to such SEC Reports, and none of the SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(b) The consolidated balance sheets as of March 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1997 (including the related notes and schedules thereto) of the Company contained in the Company's Form 10-K for the year ended March 31, 1997 included in the SEC Reports present fairly, in all material respects, the consolidated financial position and the consolidated results of operations and cash flows of the Company and its consolidated subsidiaries as of the dates or for the periods presented therein in conformity with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto).

(c) The consolidated balance sheets and the related statements of income and cash flows (including in each case the related notes thereto) of the Company contained in the Forms 10-Q for the periods ended June 30, 1997 and September 30, 1997 and included in the SEC Reports (collectively, the "Quarterly Financial Statements") have been prepared in accordance with the requirements for interim financial statements contained in Regulation S-X. The Quarterly Financial Statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly and do present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of the Company for all periods presented therein in conformity with GAAP applied on a consistent basis during the periods involved.

(d) The Company and the Subsidiaries have no liabilities or obligations of any nature (whether absolute, accrued, contingent, unmatured, unaccrued, unliquidated, unasserted, conditional or otherwise) except for liabilities or obligations (i) reflected or reserved against on the balance sheet as of September 30, 1997 (including the notes thereto) included in the Quarterly Financial Statements, (ii) incurred in the ordinary course of business consistent with past practice since such date, or (iii) as set forth in Schedule 4.06 to the Company Disclosure Statement.

SECTION 4.07 Information. None of the information supplied by the Company in writing specifically for inclusion or incorporation by reference in (i) the Offer Documents, (ii) the Schedule 14D-9, (iii) the Proxy Statement or (iv) any

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other document to be filed with the SEC or any other Governmental Entity in connection with the transactions contemplated by this Agreement (the "Other Filings") will, at the respective times filed with the SEC or other Governmental Entity and, in addition, in the case of the Proxy Statement, at the date it or any amendment or supplement is mailed to the Shareholders, at the time of the Shareholders' Meeting and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder,

except that no representation is made by the Company with respect to statements made therein based on information supplied by Parent or the Purchaser in writing specifically for inclusion in the Proxy Statement.

SECTION 4.08 Tax Matters.

(a) Provision For Taxes. The provision made for taxes on the balance sheet as of September 30, 1997, which balance sheet is included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 (the "Recent Balance Sheet"), is sufficient for the payment of all federal, state, foreign, county, local and other income, ad valorem, excise, profits, franchise, occupation, property, payroll, sales, use, gross receipts and other taxes (and any interest and penalties) and assessments of the Company and the Subsidiaries, whether or not disputed, at the date of the Recent Balance Sheet and for all years and periods prior thereto. Since the date of the Recent Balance Sheet, neither the Company nor any Subsidiary has incurred any taxes other than taxes incurred in the ordinary course of business consistent in type and amount with past practices of the Company and the Subsidiaries.

(b) Tax Returns Filed. Except as set forth on Schedule 4.08(a) of the Company Disclosure Statement, all federal, state, foreign, county, local and other tax returns required to be filed by or on behalf of the Company and the Subsidiaries have been timely filed and when filed were true and correct in all material respects, and the taxes shown as due thereon were paid or adequately accrued. Except as set forth on Schedule 4.08(b) of the Company Disclosure Statement, neither the Company nor any of the Subsidiaries is the beneficiary of any extension of time within which to file tax returns. The Company has delivered to Parent and the Purchaser true and complete copies of all tax returns or reports filed by the Company and the Subsidiaries for taxable periods ending on or after December 31, 1991. The Company and each Subsidiary have withheld and paid all taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, creditor, shareholder, independent contractor or third party, and have filed all required information returns.

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(c) Tax Audits. The federal and state income tax returns of the Company and the Subsidiaries have been audited by the Internal Revenue Service and appropriate state taxing authorities for the periods and to the extent set forth in Schedule 4.08(c) of the Company Disclosure Statement, and neither the Company nor any Subsidiary has received from the Internal Revenue Service or from the tax authorities of any state, county, local or other jurisdiction any (i) notice of underpayment of taxes or other deficiency which has not been paid or (ii) any objection to any return or report filed by the Company or the Subsidiaries. No claim has been made by a tax authority in a jurisdiction where any of the Company and the Subsidiaries does not file tax returns that the Company or any Subsidiary is or may be subject to taxation by that jurisdiction. Except as set forth in Schedule 4.08(c) of the Company Disclosure Statement, neither the Company nor any of the Subsidiaries has waived any statute of limitations with respect to taxes, or has agreed to an extension of time with respect to a tax assessment or deficiency. There are outstanding no agreements or waivers extending the statutory period of limitations applicable to any taxes.

(d) Consolidated Group. Schedule 4.08(d) of the Company Disclosure Statement lists every year that the Company or any Subsidiaries were a member of an affiliated group of corporations that filed a consolidated tax return on which the statute of limitations does not bar a federal tax assessment, and lists each corporation that has been part of such group. No affiliated group of corporations of which the Company or any of the Subsidiaries has been a member has discontinued filing consolidated returns during the past five years. A copy of any tax sharing agreement to which the Company or any of the Subsidiaries is a party has been delivered by the Company to Parent and the Purchaser.

(e) Other. Except as set forth in Schedule 4.08(e) of the Company Disclosure Statement, neither the Company nor any Subsidiary has (i) filed any consent or agreement under Section 341(f) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) applied for any tax ruling, (iii) entered into a closing agreement with any taxing authority, (iv) filed an election under Section 338(g) or Section 338(h)(10) of the Code (nor has a deemed election under Section 338(e) of the Code occurred), (v) made any payments that will not be deductible because of Section 280G of the Code, or (vi) been a party to any tax allocation or tax sharing agreement. The Company is not a "United States real property holding corporation" within the meaning of Section 897 of the Code.

SECTION 4.09 No Litigation. There is no action, suit, arbitration, proceeding, investigation or inquiry, whether civil, criminal or administrative ("Litigation"), pending or, to the knowledge of the Company or the Subsidiaries, threatened against the Company or the Subsidiaries, their respective businesses or any of their assets, nor does the Company or the Subsidiaries know, or have grounds to know, of any basis for any Litigation that would have, individually or in the aggregate, a Material Adverse Effect on the Company. Except as set forth in Schedule 4.09 of the Company Disclosure Statement, neither the Company

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nor the Subsidiaries or any of their respective assets which are material to the conduct of the business of the Company and the Subsidiaries, taken as a whole, as heretofore conducted are subject to any Order (as hereinafter defined) of any Governmental Entity.

SECTION 4.10 Compliance With Laws and Orders.

(a) Compliance. The Company and the Subsidiaries are in compliance with all applicable laws, ordinances, rules or regulations (collectively, "Laws") and orders, writs, injunctions, judgments, plans or decrees (collectively, "Orders") of any Governmental Entity, except for such failures to so comply which, individually and in the aggregate, would not have a Material Adverse Effect on the Company. The business operations of the Company and the Subsidiaries are not being conducted in violation of any Law or Order of any Governmental Entity, except for possible violations which, individually or in the aggregate, would not have a Material Adverse Effect on the Company.

(b) Licenses and Permits. The Company and the Subsidiaries have all material licenses, permits, approvals, authorizations and consents of all Governmental Entities and all certification organizations required for the conduct of the business of the Company and the Subsidiaries (as presently conducted and as proposed to be conducted under any existing business plan of the Company or any Subsidiary) and operation of the facilities of the Company and the Subsidiaries.

(c) Environmental Matters. The applicable Laws relating to pollution or protection of the environment or health, including Laws relating to emissions, discharges, generation, storage, labeling, releases or threatened releases of pollutants, contaminants, radioactive material, chemicals or industrial, toxic, hazardous or petroleum or petroleum-based substances, hazardous substances or wastes ("Waste") into the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Waste including, without limitation, the Clean Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act and the Comprehensive Environmental Response Compensation Liability Act, as amended, and their state, local and foreign counterparts are herein collectively referred to as the "Environmental Laws".

The operations of Company and the Subsidiaries have at all times been (within the period of any applicable statute of limitations) and are currently in compliance with all Environmental Laws and there are no conditions and have been no acts or omissions in connection with the operations of the Company or the Subsidiaries or with any real property now or ever owned or leased by the Company or any Subsidiary which would impose liability under any Environmental Law, including but not limited to liability for Waste disposed on or off-site prior to the Effective Time.

Except as set forth in Schedule 4.10(c) of the Company Disclosure Statement, the Company has not received any written notice nor, to the knowledge

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of the Company or the Subsidiaries, is there any matter threatened against the Company or any Subsidiary, with respect to any of their respective facilities of any material violation of or liability under any Environmental Laws which would have a Material Adverse Effect on the Company.

SECTION 4.11 Title to Properties. The Company and the Subsidiaries have good and marketable title to all of their respective assets, business and properties, including, without limitation, all such properties (tangible and intangible) reflected in the Recent Balance Sheet, except for inventory disposed of in the ordinary course of business since the date of such Recent Balance Sheet, free and clear of all mortgages, Liens, claims, licenses, equities, options, conditional sales contracts, assessments, levies, easements, covenants, reservations, restrictions, rights-of-way, exceptions, limitations, charges or encumbrances of any nature

whatsoever except those described in Schedule 4.11 of the Company Disclosure Statement, and, in the case of real property, Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings (and which have been sufficiently accrued or reserved against in the Recent Balance Sheet), municipal and zoning ordinances and easements for public utilities, none of which interfere with the use of the property as currently utilized. None of the Company's or any Subsidiary's assets, business or properties are subject to any restrictions with respect to the transferability thereof.

SECTION 4.12 Labor Matters. Except as set forth in Schedule 4.12 of the Company Disclosure Statement, neither the Company nor any Subsidiary is a party to any collective bargaining agreement. The employment agreements that have been entered into by either the Company or any Subsidiary are set forth in Schedule 4.12 of the Company Disclosure Statement. Except to the extent set forth in Schedule 4.12 of the Company Disclosure Statement, (a) there is no unfair labor practice charge or complaint against the Company or the Subsidiaries pending or, to the knowledge of the Company or the Subsidiaries, threatened; (b) there is no labor strike, dispute, request for representation, slowdown or stoppage actually pending or, to the knowledge of Company or the Subsidiaries, threatened against or affecting the Company or the Subsidiaries nor any secondary boycott with respect to products of the Company or the Subsidiaries; (c) no question concerning representation has been raised or, to the knowledge of the Company or the Subsidiaries, is threatened respecting the employees of the Company or the Subsidiaries; and (d) there are no administrative charges or court complaints against the Company or the Subsidiaries concerning alleged employment discrimination or other employment related matters pending or, to the knowledge of the Company or the Subsidiaries, threatened before the U.S. Equal Employment Opportunity Commission or any Governmental Entity.

SECTION 4.13 Employee Benefit Plans.

(a) Disclosure. Schedule 4.13(a) of the Company Disclosure Statement sets

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forth all pension, thrift, savings, profit sharing, retirement, incentive bonus or other bonus, medical, dental, life, accident insurance, benefit, employee welfare, disability, group insurance, stock purchase, stock option, stock appreciation, stock bonus, executive or deferred compensation, hospitalization and other similar fringe or employee benefit plans, programs and arrangements, and any employment or consulting contracts, "golden parachutes," collective bargaining agreements, severance agreements or plans, vacation and sick leave plans, programs, arrangements and policies, including, without limitation, all "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")). The items described in the foregoing sentence and all employee manuals, and all written or binding oral statements of policies, practices or understandings relating to employment, which are provided to, for the benefit of, or relate to, any persons employed by the Company or any Subsidiary are hereinafter sometimes referred to collectively as "Employee Plans/Agreements," and each individually as an "Employee Plan/Agreement." True and correct copies of all the Employee Plans/Agreements, including all amendments thereto, have heretofore been made available to the Purchaser. No Employee Plan/Agreement is a "multiemployer plan" (as defined in Section 4001 of ERISA), and neither the Company nor any Subsidiary has ever contributed nor been obligated to contribute to any such multiemployer plan.

(b) Terminations, Proceedings, Penalties, etc. With respect to each employee benefit plan (including, without limitation, the Employee Plans/Agreements) that is subject to the provisions of Title IV of ERISA and with respect to which the Company or any Subsidiary or any of their assets may, directly or indirectly, be subject to any material liability, contingent or otherwise, or the imposition of any Lien (whether by reason of the complete or partial termination of any such plan, the funded status of any such plan, any "complete withdrawal" (as defined in Section 4203 of ERISA) or "partial withdrawal" (as defined in Section 4205 of ERISA) by any person from any such plan, or otherwise):

(i) no such plan has been terminated so as to subject, directly or indirectly, any assets of the Company or any Subsidiary to any liability, contingent or otherwise, or the imposition of any lien under Title IV of ERISA;

(ii) no proceeding has been initiated or, to the knowledge of the Company or any Subsidiary, threatened by any person (including the Pension Benefit Guaranty Corporation ("PBGC")) to terminate any such plan;

(iii) no condition or event currently exists or currently is expected to occur that could subject, directly or indirectly, any assets of the Company or any Subsidiary to any liability, contingent or otherwise, or the imposition of any lien under Title IV of ERISA, whether to the PBGC or to any other person or otherwise on account of the termination of any such plan;

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(iv) if any such plan were to be terminated, or if the Company or any Subsidiary caused a partial or total withdrawal from any such plan, as of the Effective Time, no assets of the Company or any Subsidiary would be subject, directly or indirectly, to any liability, contingent or otherwise, or the imposition of any Lien under Title IV of ERISA;

(v) no "reportable event" (as defined in Section 4043 of ERISA) has occurred with respect to any such plan;

(vi) no such plan which is subject to Section 302 of ERISA or Section 412 of the Code has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code, respectively), whether or not waived; and

(vii) no such plan is a plan described in Section 413(c) of the Code.

(c) Prohibited Transactions, etc. There have been no "prohibited transactions" within the meaning of Section 406 or 407 of ERISA or Section 4975 of the Code for which a statutory or administrative exemption does not exist with respect to any Employee Plan/Agreement. To the knowledge of the Company and the Subsidiaries, no event or omission has occurred in connection with which the Company or any Subsidiary or any Employee Plan/Agreement, directly or indirectly, could be subject to any material liability under ERISA, the Code or any other Law or Order applicable to any Employee Plan/Agreement.

(d) Full Funding. The funds available under each Employee Plan/Agreement that is subject to Title IV of ERISA or Section 412 of the Code which is intended to be a funded plan equal or exceed the amounts required to be paid, or which would be required to be paid if such Employee Plan/Agreement were terminated, on account of rights vested or accrued as of the Effective Time (using the actuarial methods and assumptions then used by the Company's actuaries in connection with the funding of such Employee Plan/ Agreement).

(e) Controlled Group; Affiliated Service Group; Leased Employees. Other than the current relationship between the Company and the Subsidiaries, neither the Company nor any Subsidiary has ever been a member of a controlled group of corporations as defined in Section 414(b) of the Code or in common control with any unincorporated trade or business as determined under Section 414(c) of the Code. Neither the Company nor any Subsidiary is or ever has been a member of an "affiliated service group" within the meaning of Section 414(m) of the Code. There are not any leased employees within the meaning of Section 414(n) of the Code who perform services for the Company or any Subsidiary for which the Company or any Subsidiary has not materially complied with the terms of the applicable Employee Plans/Agreements.

(f) Payments and Compliance. With respect to each Employee Plan/Agreement, (i) all payments currently due and owing from the Company and any Subsidiary to date have been made and all amounts accrued to date as liabilities of the Company or any Subsidiary which have not been paid have been recorded on the books of the Company and the Subsidiaries and are reflected in the Recent

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Balance Sheet in accordance with GAAP; (ii) the Company and the Subsidiaries have materially complied with, and each such Employee Plan/Agreement conforms in form and operation to, all applicable laws and regulations, including but not limited to ERISA and the Code, in all material respects and all reports and information relating to such Employee Plan/Agreement required to be filed with any Governmental Entity have been timely filed; (iii) all reports and information relating to each such Employee Plan/Agreement required to be disclosed or provided to participants or their beneficiaries have been timely disclosed or provided; (iv) each such Employee Plan/Agreement which is intended to qualify under Section 401 of the Code has received a favorable

determination (or, in the case of a standardized plan, the opinion) letter from the Internal Revenue Service with respect to such qualification, its related trust has been determined to be exempt from taxation under Section 501(a) of the Code, and nothing has occurred since the date of such letter that has or is likely to have a material adverse effect on such qualification or exemption; (iv) there are no actions, suits or claims pending (other than routine claims for benefits) or, to the knowledge of the Company or the Subsidiaries, threatened with respect to such Employee Plan/Agreement; and (v) no Employee Plan/Agreement is a plan which is established and maintained outside the United States primarily for the benefit of individuals substantially all of whom are nonresident aliens.

(g) Post-Retirement Benefits. No Employee Plan/Agreement provides benefits, including, without limitation, death or medical benefits (whether or not insured) with respect to current or former employees of the Company or any Subsidiary beyond their retirement or other termination of service other than (i) coverage mandated by applicable law, (ii) death or retirement benefits under any Employee Plan/Agreement that is an employee pension benefit plan, (iii) deferred compensation benefits accrued as liabilities on the books of the Company (including the Recent Balance Sheet), (iv) disability benefits under any Employee Plan/Agreement, (v) benefits arising in connection with a severance or separation plan, program or arrangement or (vi) conversion rights under ordinary life insurance policies.

(h) No Triggering of Obligations. Except as set forth on Schedule 4.13(h) to the Company Disclosure Statement, the consummation of the transactions contemplated by this Agreement and the Stock Option Agreement will not (i) entitle any current or former employee of the Company or any Subsidiary to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due to any such employee or former employee.

(i) Future Commitments. Neither the Company nor any Subsidiary has announced any plan or legally binding commitment to create any additional Employee Plans/Agreements or to amend or modify any existing Employee

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Plan/Agreement, except to the extent necessary or appropriate to comply with applicable Law.

SECTION 4.14 Trade Rights. Schedule 4.14 of the Company Disclosure Statement lists all Trade Rights (as defined below) in which the Company or any Subsidiary has any interest, specifying whether such Trade Rights are owned, controlled, used or held (under license or otherwise) by the Company or any Subsidiary, and also indicating which of such Trade Rights are registered. All Trade Rights shown as registered in Schedule 4.14 of the Company Disclosure Statement have been properly registered, all pending registrations and applications have been properly made and filed and all annuity, maintenance, renewal and other fees relating to registrations or applications are current. In order to conduct the business of the Company and the Subsidiaries, as such is currently being conducted or proposed to be conducted under currently existing business plans, neither the Company nor any Subsidiary requires any Trade Rights that it does not already have. Neither the Company nor any Subsidiary is infringing and/or has infringed any Trade Rights of another in the operation of the business of the Company and the Subsidiaries, nor, to the knowledge of the Company and the Subsidiaries, is any other person infringing the Trade Rights of the Company or the Subsidiaries. Neither the Company nor any Subsidiary has granted any license or made any assignment of any Trade Right listed on Schedule 4.14 of the Company Disclosure Statement, nor does the Company or any Subsidiary pay any royalties or other consideration for the right to use any Trade Rights of others. There is no Litigation pending or, to the knowledge of the Company and the Subsidiaries, threatened to challenge the Company's or any Subsidiary's right, title and interest with respect to its continued use and right to preclude others from using any Trade Rights of the Company or any Subsidiary. All Trade Rights of the Company and the Subsidiaries are valid, enforceable and in good standing, and, to the knowledge of the Company and the Subsidiaries, there are no equitable defenses to enforcement based on any act or omission of the Company or the Subsidiaries. The consummation of the transactions contemplated hereby or by the Stock Option Agreement will not alter or impair any Trade Rights owned or used by Company or the Subsidiaries. As used herein, the term "Trade Rights" shall mean and include: (i) all trademark rights, business identifiers, trade dress, service marks, trade names and brand names, all registrations thereof and applications therefor and all goodwill associated with the foregoing; (ii) all copyrights, copyright registrations and copyright applications,

and all other rights associated with the foregoing and the underlying works of authorship; (iii) all patents and patent applications, and all international proprietary rights associated therewith; (iv) all contracts or agreements granting any right, title, license or privilege under the intellectual property rights of any third party; (v) all inventions, mask works and mask work registrations, know-how, discoveries, improvements, designs, trade secrets, shop and royalty rights, employee covenants and agreements respecting intellectual property and non-competition and all other types of intellectual property; and

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(vi) all claims for infringement or breach of any of the foregoing.

SECTION 4.15 Material Adverse Change. Since March 31, 1997, except as otherwise set forth in the Company's Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 1997 and except as set forth in Schedule 4.15 to the Company Disclosure Statement, there has not been any change in the business of the Company and the Subsidiaries, results of operations, assets or condition (financial or otherwise) of the Company and the Subsidiaries that is materially adverse to the Company and the Subsidiaries taken as a whole. Since March 31, 1997, except as otherwise set forth in the Company's Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 1997 and except as set forth in Schedule 4.15 to the Company Disclosure Statement, the Company and the Subsidiaries have conducted their businesses only in the ordinary course of business consistent with past practices and there has not been, directly or indirectly:

(a) any payment or granting by the Company or any of the Subsidiaries of any increase in compensation to any director or executive officer of the Company or, except in the ordinary course of business and consistent with past practice, any employee of the Company or the Subsidiaries;

(b) any granting by the Company or any of the Subsidiaries to any such director, executive officer or employee of any increase in severance or termination pay, except as required under employment, severance or termination agreements or plans in effect prior to the date of this Agreement;

(c) any entry by the Company or any of the Subsidiaries into any employment, severance or termination agreement with any such director or executive officer;

(d) any adoption or increase in payments to or benefits under any Employee Plans/Agreements;

(e) any change in accounting methods, principles or practices by the Company and the Subsidiaries, except insofar as may have been required by a change in GAAP;

(f) any declaration, setting aside, or payment of any dividend or any other distribution in respect of the Company's capital stock; any redemption, purchase or other acquisition by the Company of any capital stock of the Company, or any security relating thereto; or any other payment to any shareholder of the Company as such a shareholder;

(g) any sale, lease or other transfer or disposition of any properties or assets of the Company or any Subsidiary, except for the sale of inventory items in the ordinary course of business;

(h) any discharge of any obligation or liability (whether accrued, absolute, contingent or otherwise), other than in the ordinary course of business consistent with past practices;

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(i) any indebtedness for borrowed money incurred, assumed or guaranteed by the Company or any Subsidiary, which will not be repaid prior to the Effective Time; or

(j) any agreement or commitment to do any of the things described in the preceding clauses (a) through (i).

SECTION 4.16 Certain Approvals. The Board of Directors of the Company has taken appropriate action such that the provisions of Section 1203 of the GCL will not apply to any of the transactions contemplated by this Agreement, the Stock Option Agreement and the Stockholder Agreements.

SECTION 4.17 Brokers. None of the Company, the Subsidiaries, or any of their respective officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees,

commission or finder's fees in connection with the transactions contemplated by this Agreement or the Stock Option Agreement.

SECTION 4.18 State Takeover Statutes; Applicability of Articles of Incorporation; Required Vote. Except for Section 1101 of the GCL, no California takeover statute or similar statute applies or purports to apply to the Offer or the Merger, or to this Agreement, the Stock Option Agreement or the Stockholder Agreements or the transactions contemplated hereby or thereby. The Board of Directors of the Company has taken such action as may be necessary to ensure that the supermajority vote provision of ARTICLE FOUR of the Company's articles of incorporation is inapplicable to the Offer or the Merger, or to this Agreement, the Stock Option Agreement or the Stockholders Agreements or the transactions contemplated hereby or thereby. In the event the Shareholders' Meeting is required to approve the Merger and the adoption of this Agreement, the approval by the holders of a majority of the votes entitled to be cast by all holders of Common Stock is the only vote required to approve the Merger and the adoption of this Agreement.

SECTION 4.19 Year 2000 Compliance. Except as identified on Schedule 4.19 of the Company Disclosure Statement, none of the personal property, equipment or assets owned or utilized by the Company and the Subsidiaries, including but not limited to computer software, databases, hardware, controls and peripherals, contains any defect related to the occurrence of the year 2000 or the use of any date after December 31, 1999 in connection with such property or asset (a "Year 2000 Defect"). Except as identified on Schedule 4.19 of the Company Disclosure Statement, none of the property or assets owned or utilized by the Company and the Subsidiaries will fail to perform in any material respect or require any repair, rewrite, conversion or other adaption because of, or due in any way to, a Year 2000 Defect.

ARTICLE V

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REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PURCHASER

Parent and the Purchaser jointly and severally represent and warrant to the Company as follows:

SECTION 5.01 Organization and Qualification. Parent is a corporation duly organized, validly existing and in good standing under the laws of Delaware. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Each of Parent and the Purchaser has the requisite corporate power and authority to own, operate or lease its properties and to carry on its business as it is now being conducted, and is duly qualified or licensed to do business, and is in good standing, in each jurisdiction in which the nature of its business or the properties owned, operated or leased by it makes such qualification, licensing or good standing necessary, except where the failure to have such power or authority, or the failure to be so qualified, licensed or in good standing, would not have a Material Adverse Effect on Parent. The term "Material Adverse Effect on Parent", as used in this Agreement, means any change in or effect on the business, operations, financial condition or prospects of Parent or any of its subsidiaries that would be materially adverse to Parent and its subsidiaries taken as a whole.

SECTION 5.02 Authority. Each of Parent and the Purchaser has all necessary corporate power and authority to execute and deliver this Agreement and the Stock Option Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Stock Option Agreement by Parent and the Purchaser and the consummation by Parent and the Purchaser of the transactions contemplated hereby and thereby have been duly and validly authorized and approved by the Boards of Directors of Parent and the Purchaser and by the sole stockholder of the Purchaser and no other corporate proceedings on the part of Parent or the Purchaser are necessary to authorize or approve this Agreement or the Stock Option Agreement or to consummate the transactions contemplated hereby or thereby. Each of this Agreement and the Stock Option Agreement has been duly executed and delivered by each of Parent and the Purchaser and, assuming the due and valid authorization, execution and delivery by the Company, constitutes a valid and binding obligation of each of Parent and the Purchaser enforceable against each of them in accordance with its respective terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity.

SECTION 5.03 No Conflict; Required Filings and Consents.

(a) None of the execution and delivery of this Agreement or the Stock Option Agreement by Parent or the Purchaser, the consummation by Parent or the

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Purchaser of the transactions contemplated hereby or thereby or the compliance by Parent or the Purchaser with any of the provisions hereof or thereof will (i) conflict with or violate the organizational documents of Parent or the Purchaser, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to Parent or the Purchaser, or any of their subsidiaries, or by which any of them or any of their respective properties or assets may be bound or affected, or (iii) result in a Violation pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or the Purchaser, or any of their respective subsidiaries, is a party or by which any of their respective properties or assets may be bound or affected, except in the case of the foregoing clauses (ii) and (iii) for any such Violations which would not have a Material Adverse Effect on Parent or materially adversely affect the ability of Parent or the Purchaser to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

(b) None of the execution and delivery of this Agreement or the Stock Option Agreement by Parent and the Purchaser, the consummation by Parent and the Purchaser of the transactions contemplated hereby or thereby or the compliance by Parent and the Purchaser with any of the provisions hereof or thereof will require any Consent of any Governmental Entity, except for (i) compliance with any applicable requirements of the Exchange Act, (ii) the filing of an agreement of merger together with an officer's certificate of the Company and the Purchaser pursuant to the GCL, (iii) compliance with the HSR Act and any requirements of any foreign or supranational Antitrust Laws, and (iv) Consents or filings the failure of which to obtain or make would not have a Material Adverse Effect on Parent or materially adversely affect the ability of Parent or the Purchaser to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

SECTION 5.04 Information. None of the information supplied or to be supplied by Parent and the Purchaser in writing specifically for inclusion in (i) the Offer Documents, (ii) the Schedule 14D-9, (iii) the Proxy Statement or (iv) the other filings will, at the respective times filed with the SEC or such other Governmental Entity and, in addition, in the case of the Proxy Statement at the date it or any amendment or supplement is mailed to Shareholders, at the time of the Shareholders' Meeting and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

SECTION 5.05 Financing. Parent or the Purchaser has available the funds necessary to consummate the Offer and the Merger and the transactions contemplated hereby on a timely basis.

SECTION 5.06 Brokers. None of Parent, the Purchaser, or any of their respective subsidiaries, officers, directors or employees, has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finder's fees in connection with the transactions contemplated by this Agreement or the Stock Option Agreement for or with respect to which the Company is or might be liable.

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SECTION 5.07 Purchaser.

(a) Parent owns all of the outstanding stock of Purchaser; at all times prior to the Merger, no person other than Parent has owned, or will own, any of the outstanding stock of Purchaser. Purchaser was formed by Parent solely for the purpose of engaging in the transactions contemplated by this Agreement.

(b) There are not as of the date of this Agreement, and there will not be at the Effective Time, any outstanding or authorized options, warrants, calls, rights, commitments or any other agreements of any character which Purchaser is a party to, or may be bound by, requiring it to issue, transfer, sell, purchase, redeem or acquire any shares of its capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for or acquire, any shares of its capital stock.

(c) As of the date of this Agreement and the Effective Time, except for obligations incurred in connection with this Agreement or the transactions contemplated hereby, Purchaser has not and will not have

incurred, directly or indirectly through any other corporation, any obligations or liabilities of any kind or engaged in any activities of any type or kind whatsoever or entered into any arrangement or arrangements with any person or entity.

(d) Parent will make available, and Purchaser will have, at or before the date on which Parent or the Purchaser acquires Shares pursuant to the Offer, adequate funds to accept for payment, purchase and pay for all of the Shares tendered and not withdrawn pursuant to the Offer.

SECTION 5.08 No Share Acquisition. Neither Parent nor the Purchaser has acquired any of the Shares during the two year period prior to the date hereof.

ARTICLE VI

COVENANTS

SECTION 6.01 Conduct of Business of the Company. Except as required by this Agreement or with the prior written consent of Parent, during the period from the date of this Agreement to the Effective Time, the Company will and will cause each of the Subsidiaries to conduct its operations only in the ordinary course of business consistent with past practice and will use its best efforts and will cause each of the Subsidiaries to use its best efforts, to preserve intact the business organization of the Company and each of the Subsidiaries, to keep available the services of its and their present officers and key employees and to preserve the goodwill of those having business relationships with it. Without limiting the generality to the foregoing, and except as otherwise

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required by this Agreement or as set forth in Section 6.01 of the Company Disclosure Statement, the Company will not, and will not permit any of the Subsidiaries to, prior to the Effective Time, without the prior written consent of Parent:

(a) adopt any amendment to its charter or by-laws or comparable organizational documents;

(b) except for issuances of capital stock of the Subsidiaries to the Company, or to a wholly-owned Subsidiary of the Company, issue, reissue or sell or authorize the issuance, reissuance or sale of additional shares of capital stock of any class, or shares convertible into capital stock of any class, or any rights, warrants or options to acquire any convertible shares or capital stock, other than the issuance of Shares, pursuant to Options outstanding on the date of this Agreement or pursuant to the Stock Option Agreement;

(c) declare, set aside or pay any dividend or other distribution (whether in cash, shares or property or any combination thereof) in respect of any class or series of its capital stock other than between any of the Company and any Subsidiary which is wholly-owned by the Company;

(d) split, combine, subdivide, reclassify or redeem, purchase or otherwise acquire, or propose to redeem or purchase or otherwise acquire, any shares of its capital stock, or any of its other shares;

(e) except for (A) increases in salary, wages and benefits of non-executive officers or employees of the Company or the Subsidiaries in the ordinary course of business consistent with past practice, (B) increases in salary, wages and benefits granted to officers and employees of the Company or the Subsidiaries in conjunction with new hires, promotions or other changes in job status in the ordinary course of business consistent with past practice, or (C) increases in salary, wages and benefits to employees of the Company or the Subsidiaries pursuant to collective bargaining agreements entered into in the ordinary course of business consistent with past practice, (i) increase the compensation or fringe benefits payable or to become payable to its directors, officers or key employees (whether from the Company or any of the Subsidiaries), or (ii) pay any benefit not required by any existing plan or arrangement (including, without limitation, the granting of stock options, stock appreciation rights, shares of restricted stock or performance units), or (iii) grant any severance or termination pay to (except pursuant to existing agreements, plans or policies and as required by such agreements, plans or polices), or (iv) enter into any employment or severance agreement with, any director, officer or other key employee of the Company or any of the Subsidiaries or (iv) establish, adopt, enter into, or amend any collective bargaining, bonus, profit sharing, thrift, compensation, stock option, restricted stock or Employee Plans/Agreements for the benefit or welfare of any directors, officers or current or former employees, except in each case to the extent required by applicable Law or regulation;

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(f) acquire, sell, lease or dispose of any assets (other than inventory) which are material to the Company and the Subsidiaries, taken as a whole, or enter into any commitment to do any of the foregoing or enter into any material commitment or transaction outside the ordinary course of business consistent with past practice;

(g) (i) incur, assume or pre-pay any long-term debt or incur or assume any short-term debt, except that the Company and the Subsidiaries may incur, assume or pre-pay debt in the ordinary course of business consistent with past practice under existing lines of credit, (ii) pay, discharge, settle or satisfy as other claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise, other than in the ordinary course of business consistent with past practice, (iii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, or (iv) make any loans, advances or capital contributions to, or investments in, any other person except in the ordinary course of business consistent with past practice and except for loans, advances, capital contributions or investments between any Subsidiary wholly-owned by the Company and the Company or another Subsidiary wholly-owned by the Company;

(h) make any tax election that would have a material effect on the tax liability of the Company or the Subsidiaries or settle or compromise any tax liability of the Company or the Subsidiaries that would materially affect the aggregate tax liability of the Company or the Subsidiaries;

(i) except in the ordinary course of business consistent with past practice, enter into, modify, amend or terminate any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise or license which is material to the Company and the Subsidiaries or waive, release or assign any material rights or claims; or

(j) agree in writing or otherwise to take any of the foregoing actions.

SECTION 6.02 Information. From the date hereof until the Effective Time, the Company will, and will cause the Subsidiaries, and each of its and their respective officers, directors, employees, counsel, advisors and representatives (collectively, the "Company Representatives") to, provide Parent and the Purchaser and their respective officers, employees, counsel, advisors and representatives (collectively, the "Parent Representatives") access, during normal business hours and upon reasonable notice, to the offices and other facilities and to the books and records of the Company and the Subsidiaries, and will permit Parent and the Purchaser to make inspections of such as either of them may reasonably require (including environmental testing) and will cause the Company Representatives and the Subsidiaries to furnish Parent, the Purchaser and the Parent Representatives to the extent available with such other information with respect to the business of the Company and the Subsidiaries as Parent and the Purchaser may from time to time reasonably request; provided, however, that all requests for such access, inspection or information pursuant to this Section 6.02 shall be made through the President and Chief Executive

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Officer of the Company or such other person as he shall designate in writing to Parent. Unless otherwise required by Law, Parent and the Purchaser will, and will cause the Parent Representatives to hold any such information in confidence until such time as such information otherwise becomes publicly available through no wrongful act of Parent, the Purchaser or the Parent Representative, all as specifically provided in the confidentiality agreement, dated August 1, 1997, between Voith Sulzer Papiertechnik GmbH & Co KG and the Company (the "Confidentiality Agreement").

SECTION 6.03 Commercially Reasonable Best Efforts. Subject to the terms and conditions herein provided and to applicable legal requirements, each of the parties hereto agrees to use its commercially reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, in the case of the Company, consistent with the fiduciary duties of the Company's Board of Directors, and to assist and cooperate with the other parties hereto in doing, as promptly as practicable, all things necessary, proper or advisable under applicable Laws and regulations to ensure that the conditions set forth in Annex I and Article VII are satisfied and to consummate and make effective the transactions contemplated by the Offer, this Agreement and the Stock Option Agreement.

In addition, if at any time prior to the Effective Time any event or circumstance relating to either the Company or Parent or the Purchaser or any of their respective subsidiaries should be discovered by the Company or Parent, as the case may be, and which should be set forth in an amendment to the Offer

Documents or Schedule 14D-9, the discovering party will promptly inform the other party of such event or circumstance. If at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement or the Stock Option Agreement, including the execution of additional instruments, the proper officers and directors of each party to this Agreement or the Stock Agreement, as the case may be, shall take all such necessary action.

SECTION 6.04 Consents.

(a) Each of the parties will use its commercially reasonable best efforts to obtain as promptly as practicable all Consents of any Governmental Entity or any other person required in connection with, and waivers of any Violations that may be caused by, the consummation of the transactions contemplated by the Offer, the Merger, this Agreement and the Stock Option Agreement.

(b) In furtherance and not in limitation of the foregoing, Parent shall use its commercially reasonable best efforts to resolve such objections, if any, as may be asserted with respect to the transactions contemplated by this Agreement or the Stock Agreement under any antitrust, competition or trade regulatory laws, rules or regulations of any domestic or foreign government or governmental

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authority or any multinational authority ("Antitrust Laws").

(c) Any party hereto shall promptly inform the others of any material communication from the United States Federal Trade Commission, the Department of Justice or any other domestic or foreign government or governmental or multinational authority regarding any of the transactions contemplated by this Agreement or the Stock Option Agreement. If any party or any affiliate thereof receives a request for additional information or documentary material from any such government or authority with respect to the transactions contemplated by this Agreement or the Stock Option Agreement, then such party will endeavor in good faith to make, or cause to be made, as soon as reasonably practicable and after consultation with the other party, an appropriate response in compliance with such request. Parent will advise the Company promptly in respect of any understandings, undertakings or agreements (oral or written) which Parent proposes to make or enter into with the Federal Trade Commission, the Department of Justice or any other domestic or foreign government or governmental or multinational authority in connection with the transactions contemplated by this Agreement or the Stock Option Agreement.

SECTION 6.05 Public Announcements. So long as this Agreement is in effect, Parent, the Purchaser and the Company agree to use reasonable efforts to consult with each other before issuing any press release or otherwise making any public statement with respect to the transactions contemplated by this Agreement or the Stock Option Agreement.

SECTION 6.06 Employee Benefit Arrangements. Parent agrees that the Company will honor and, from and after the Effective Time, Parent will cause the Surviving Corporation to honor, all Employee Plans/Agreements to which the Company or any of its Subsidiaries is presently a party which have been disclosed hereunder; provided , however, that nothing contained in this Section 6.06 shall limit or restrict the Surviving Corporation's right on or after the Effective Time to amend, modify or terminate any Employee Plans/Agreements in accordance with the terms thereof and applicable Law.

SECTION 6.07 No Solicitation.

(a) The Company represents and warrants to, and covenants and agrees with, Parent and the Purchaser that neither the Company nor any of the Subsidiaries has any agreement, arrangement or understanding with any potential acquirer that directly or indirectly, would be violated, or require any payments, by reason of the execution, delivery and/or consummation of this Agreement and the Stock Option Agreement. The Company shall, and shall use its commercially reasonable best efforts to cause the Subsidiaries and the officers, directors, employees, investment bankers, attorneys and other agents and representatives of the Company and the Subsidiaries to, immediately cease any existing discussions or negotiations with any person (including a "person" as defined in Section 13(d)(3) of the Exchange Act) other than Parent or the Purchaser (a "Third Party") heretofore conducted with respect to any Acquisition Transaction (as hereinafter defined). The Company shall not, and shall use its commercially reasonable best efforts to cause the Subsidiaries and the officers, directors, employees, investment bankers, attorneys and other agents and representatives of

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the

Company and the Subsidiaries not to, directly or indirectly, (x) solicit, initiate, continue, facilitate or encourage (including by way of furnishing or disclosing non-public information) any inquiries, proposals or offers from any Third Party with respect to, or that could reasonably be expected to lead to, any acquisition or purchase of a material portion of the assets or business of, or any significant equity interest in (including by way of a tender offer), or any amalgamation, merger, consolidation or business combination with, or any recapitalization or restructuring, or any similar transaction involving, the Company or any of the Subsidiaries (the foregoing being referred to collectively as an "Acquisition Transaction"), or (y) negotiate, explore or otherwise communicate in any way with any Third Party with respect to any Acquisition Transaction or enter into, approve or recommend any agreement, arrangement or understanding requiring the Company to abandon, terminate or fail to consummate the Offer and/or the Merger or any other transaction contemplated hereby or by the Stock Option Agreement. Notwithstanding anything to the contrary in the foregoing, the Company may in response to an unsolicited written proposal with respect to an Acquisition Transaction involving the acquisition of all of the Shares (or all or substantially all of the assets of the Company and the Subsidiaries) from a Third Party (which proposal (1) is not subject to a financing condition and is from a person that a nationally recognized investment bank advises in writing is financially capable of consummating such proposal or (2) is subject to financing, but is from a person that a nationally recognized investment bank advises in writing is financially capable of achieving such financing to consummate such proposal), (i) furnish or disclose non-public information to such Third Party and (ii) negotiate, explore or otherwise communicate with such Third Party, in each case only if (A) after being advised in writing by its outside counsel with respect to its fiduciary obligations to the Shareholders under applicable Law, the Board of Directors of the Company determines in good faith that taking such action is necessary in the exercise of its fiduciary obligations under applicable Law (the proposal with respect to an Acquisition Transaction meeting such requirements being a "Superior Proposal"), (B) prior to furnishing or disclosing any non-public information to, or entering into discussions or negotiations with, such Third Party, the Company receives from such Third Party an executed confidentiality agreement with terms no less favorable in the aggregate to the Company than those contained in the Confidentiality Agreement, but which confidentiality agreement shall not provide for any exclusive right to negotiate with the Company or any payments by the Company and (C) the Company advises Parent of all such non-public information delivered to such Third Party concurrently with such delivery; provided, however, that the Company shall not, and shall cause its affiliates not to, enter into a definitive agreement with respect to a Superior Proposal unless the Company first complies with Section 6.07(b) hereof, including the last sentence thereof, and then unless (I) the Company concurrently terminates this Agreement in accordance with the terms hereof, pays any Termination Fee required under Section 8.03(b) and agrees to pay any other amounts required under such Section

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8.03(b) and (II) such agreement permits the Company, subject to the fiduciary duties of the Board of Directors, to terminate it if it receives a Superior Proposal, such termination and related provisions to be on terms no less favorable to the Company, including as to fees and reimbursement of expenses, as those contained herein.

(b) The Company shall promptly (but in any event within one business day of the Company becoming aware of same) advise Parent of the receipt by the Company, any of the Subsidiaries or any of the Company's bankers, attorneys or other agents or representatives of any inquiries or proposals relating to an Acquisition Transaction and any actions taken pursuant to Section 6.07(a). The Company shall promptly (but in any event within three business days of the Company becoming aware of same) provide Parent with a copy of any such inquiry or proposal in writing and a written statement with respect to any such inquiries or proposals not in writing, which statement shall include the identity of the parties making such inquiries or proposal and the material terms thereof; provided, however, that the Company shall not be obligated to provide a copy of, or a written statement with respect to, any such inquiry if, after being advised in writing by its outside legal counsel with respect to its fiduciary obligations, the Board of Directors of the Company determines that not providing such copy or written statement is necessary to allow the Board of Directors of the Company to fulfill its fiduciary duties to the Shareholders under applicable Law. The Company shall, from time to time, promptly (but in any event within one business day of the Company becoming aware of same) inform Parent of the status and content of and material developments (including the calling of meetings of the Board of Directors of the Company to take action with respect to such Acquisition Transaction) with respect to any discussions regarding any Acquisition Transaction with a Third Party; provided, however, that the Company shall not be

obligated to make such disclosure if, after being advised in writing by its outside legal counsel with respect to its fiduciary obligations, the Board of Directors of the Company determines that not providing such disclosure is necessary to allow the Board of Directors of the Company to fulfill its fiduciary duties to the Shareholders under applicable Law. For the avoidance of doubt, the Company agrees that it will not enter into any agreement with respect to a Superior Proposal unless and until Parent has been given the opportunity at least six business days prior to the entering into such agreement to match the terms of such agreement.

(c) The Company has obtained the oral agreement of each member of the Board of Directors of the Company and of its executive officers that each such person will comply with the provisions of this Section 6.07.

SECTION 6.08 Notification of Certain Matters. Parent and the Company shall promptly notify each other of (a) the occurrence or non-occurrence of any fact or event which would be reasonably likely (i) to cause any representation or

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warranty contained in this Agreement or the Stock Option Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Effective Time or (ii) to cause any material covenant, condition or agreement hereunder or under the Stock Option Agreement not to be complied with or satisfied in all material respects and (b) any failure of the Company, Parent or the Purchaser, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder or under the Stock Option Agreement in any material respect; provided, however, that no such notification shall affect the representations or warranties of any party or the conditions to the obligations of any party hereunder or under the Stock Option Agreement.

SECTION 6.09 State Takeover Laws. The Company shall, upon the request of the Purchaser, take all reasonable steps to assist in any challenge by the Purchaser to the validity or applicability to the transactions contemplated by this Agreement and the Stock Option Agreement, including the Offer and the Merger and by the Stockholder Agreements, of any state takeover law.

SECTION 6.10 Indemnification and Insurance.

(a) The Purchaser and Parent agree that until six years from the date the Shares are purchased by Parent or the Purchaser in the Offer (the "Acceptance Date"), the Purchaser will maintain all rights to indemnification now existing in favor of the directors, officers, employees, fiduciaries and agents of the Company as provided in the Company's Articles of Incorporation and Bylaws or otherwise in effect under any agreement on the date of this Agreement and that the Articles of Incorporation and Bylaws of the Purchaser shall not be amended to reduce or limit the rights of indemnity afforded to the present and former directors and officers of the Company, or the ability of the Purchaser to indemnify them, nor to hinder, delay or make more difficult the exercise of such rights of indemnity or the ability to indemnify.

(b) The Purchaser will at all times exercise the powers granted to it by its Articles of Incorporation, its Bylaws, and by applicable law to indemnify and hold harmless to the fullest extent possible present or former directors, officers, employees, fiduciaries and agents of the Company against any threatened or actual claim, action, suit, proceeding or investigation made against them arising from their service in such capacities (or service in such capacities for another enterprise at the request of the Company) prior to, and including the Acceptance Date for at least six years from the Acceptance Date. Parent shall assume and perform the obligations of the Purchaser under this Section 6.10; provided, that, any indemnified party shall make a good faith effort (which shall not include any requirement to bring any suit, claim, action, or other proceeding) to cause the Purchaser to perform its obligations under this Section 6.10 before requesting Parent to assume and perform such obligations.

(c) Should any threatened or actual claim action, suit, proceeding or investigation be made against any present or former director, officer, employee, fiduciary or agent of the Company, arising from his services as such, within six years from the Effective Time, the provisions of this Section 6.10 shall

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continue in effect until the final disposition of all such claims.

(d) Any indemnified party wishing to claim indemnification under this Section, upon learning of any such action, suit, claim, proceeding or investigation, shall notify Parent and the Purchaser within 15 days thereof; provided, however, that any failure so to notify Parent and the Purchaser of any obligation to

indemnify such indemnified party or of any other obligation imposed by this Section shall not affect such obligations except to the extent Parent and/or the Purchaser is actually prejudiced thereby. Parent and the Purchaser shall be entitled to assume the defense of any such action, suit, claim, proceeding or investigation with counsel of its choice, unless there is, under applicable standards of professional conduct, a conflict of any significant issue between the positions of Parent and the Purchaser, on the one hand, and the indemnified parties, on the other, in which event the indemnified parties as a group may retain one law firm to represent them with respect to such matter. Neither Parent or the Purchaser, on the one hand, nor the indemnified parties, on the other hand, may settle any such action, suit, claim, proceeding or investigation without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed.

(e) In addition to the foregoing, Parent shall cause the Purchaser to honor in accordance with their terms any indemnification agreements in existence on the date hereof between the Company and any present or former director, officer, employee, fiduciary or agent of the Company.

(f) The parties agree that the provisions of this Section 6.10 will not require Parent or the Purchaser to maintain directors' and officers' insurance coverage in favor of the Company's present and former directors and officers.

(g) Notwithstanding anything in this Agreement to the contrary, in the event this Agreement is terminated in accordance with its terms before the consummation of the Merger, the Purchaser's and Parent's obligations under this Section 6.10 shall cease upon such termination.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

SECTION 7.01 Conditions to Each Party's Obligation to Effect the Merger If the Offer Shall Have Been Consummated. The respective obligations of Parent, the Purchaser and the Company to consummate the Merger if the Offer shall have been consummated are subject to the satisfaction or waiver in writing by each party hereto at or before the Effective Time, of each of the following conditions (the "Second-Step Conditions"):

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(a) Shareholder Approval. The Shareholders shall have duly approved the transactions contemplated by this Agreement, to the extent required pursuant to the requirements of the Company's articles of incorporation and applicable Law.

(b) Purchase of Shares. The Purchaser shall have accepted for payment and paid for Shares pursuant to the Offer in accordance with the terms hereof; provided, that this condition shall be deemed to have been satisfied with respect to Parent and the Purchaser if the Purchaser fails to accept for payment or pay for Shares pursuant to the Offer in violation of the terms of the Offer.

(c) Injunctions; Illegality. The consummation of the Merger shall not be restrained, enjoined or prohibited by any order, judgment, decree, injunction or ruling of a court of competent jurisdiction or any Governmental Entity, and there shall not have been any statute, rule or regulation enacted, promulgated or deemed applicable to the Merger by any Governmental Entity that prevents the consummation of the Merger.

(d) No Material Adverse Change. No Material Adverse Change in the Company (as defined below) shall have occurred and be in effect at the Effective Time; provided, that this condition shall be deemed to have been satisfied with respect to the Company if Parent agrees to waive satisfaction thereof. The term "Material Adverse Change in the Company," as used in this Section 7.01(d) means a change in the business of the Company as a result of an extraordinary event outside of the ordinary course of business which would be materially adverse to the Company's sales or profits. Notwithstanding the foregoing, a Material Adverse Change in the Company shall not include (i) any change in the Company's business because of any defect or deficiency in the Company's existing product line occurring in the ordinary course of business and that can be remedied in the ordinary course of business, (ii) any loss by the Company of orders from, or sales to, direct competitors of Parent or (iii) the loss of orders or sales due to general market conditions in the paper industry.

ARTICLE VIII

TERMINATION; AMENDMENTS; WAIVER

SECTION 8.01 Termination. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time prior to the Effective Time, whether or not approval thereof by the Shareholders has been obtained:

(a) by the mutual written consent of Parent, the Purchaser and the Company prior to the date on which Parent's designees constitute a majority of the Board of Directors of the Company; or

(b) by the Company if the Company is not in material breach of any of its representations, warranties, covenants or arrangements contained in this Agreement and the Stock Option Agreement and if (i) the Purchaser fails to

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commence the Offer as provided in Section 1.01 hereof, (ii) the Purchaser shall not have accepted for payment and paid for Shares pursuant to the Offer in accordance with the terms thereof on or before April 30, 1998 or (iii) the Purchaser fails to purchase validly tendered Shares in violation of the terms of the Offer or this Agreement; or

(c) by Parent or the Company if the Offer expires or is terminated or withdrawn pursuant to its terms without any Shares being purchased thereunder; provided, however, that Parent may terminate this Agreement pursuant to this Section 8.01(c) upon the termination or withdrawal of the Offer only if Parent's or the Purchaser's termination or withdrawal of the Offer is not in violation of the terms of this Agreement or the Offer; or

(d) by Parent or the Company if any court or other Governmental Entity shall have issued, enacted, entered, promulgated or enforced any order, judgment, decree, injunction, or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, judgment, decree injunction, ruling or other action shall have become final and nonappealable; or

(e) by the Company if, prior to the purchase of Shares pursuant to the Offer in accordance with the terms of this Agreement, (i) there shall have occurred, on the part of Parent or the Purchaser, a material breach of any representation, warranty, covenant or agreement contained in this Agreement which is not curable or, if curable, is not cured within seven business days after written notice of such breach is given by the Company to the party committing the breach or (ii) the Company (A) enters into a definitive agreement with respect to a Superior Proposal as permitted under Section 6.07(a) hereof and after complying with the provisions of Section 6.07(b) hereof, and (B) pays any Termination Fee and agrees to pay any other amounts required under Section 8.03(b); or

(f) by Parent if, prior to the purchase of Shares pursuant to the Offer in accordance with the terms of this Agreement, (i) there shall have occurred, on the part of the Company, a breach of any representation, warranty, covenant or agreement contained in this Agreement which individually, or in the aggregate, if not cured would be reasonably likely to have a Material Adverse Effect on the Company and which is not curable or, if curable, is not cured within the later of (x) 7 business days after written notice of such breach is given by Parent to the Company and (y) the satisfaction of all conditions to the Offer not related to such breach or (ii) the Board of Directors of the Company or committee thereof shall have withdrawn or modified (or shall have resolved to withdraw or modify), in a manner adverse to Parent, its approval or recommendation of this Agreement or any of the transactions contemplated hereby and the Board of Directors of the Company and such committee shall not have fully reinstated such approval or recommendations within two business days or shall have recommended (or resolved to recommend) an Acquisition Transaction (other than the Offer and Merger) to the Shareholders and at least ten business days shall have passed since such recommendation (or resolution); or

(g) by Parent if it is not in material breach of its obligation hereunder or under the Offer and no Shares shall have been purchased pursuant to the Offer

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on or before April 30, 1998.

SECTION 8.02 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.01, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party or its directors, officers or stockholders, other than the provisions of this Section 8.02, Section 8.03

and the last sentence of Section 6.02, which shall survive any such termination. The Stock Option Agreement shall also survive any such termination. Nothing obtained in this Section 8.02 shall relieve any party from liability for any breach of this Agreement or the Confidentiality Agreement.

SECTION 8.03 Fees and Expenses.

(a) Except as otherwise provided herein, whether or not the Merger is consummated, all costs and expenses incurred in connection with the Offer, this Agreement, the Stock Option Agreement and the transactions contemplated by this Agreement and the Stock Option Agreement shall be paid by the party incurring such expenses.

(b) In the event this Agreement is terminated pursuant to Section 8.01(e)(ii), 8.01(f)(i) (other than for a termination due to an unintentional breach of a representation or warranty by the Company) or 8.01(f)(ii), then the Company shall promptly reimburse Parent for the documented out-of-pocket fees and expenses (but in no event greater than $500,000) of Parent and the Purchaser related to this Agreement, the Stock Option Agreement, the transactions contemplated hereby and thereby and any related financing and in the event this Agreement is terminated pursuant to 8.01(e)(ii), then the Company shall promptly pay Parent a Termination Fee of $1,200,000 by wire transfer of same day funds to an account designated by the Parent as a condition precedent to such termination.

(c) In the event that (i) any person shall have publicly disclosed a proposal regarding an Acquisition Transaction and (ii) following such disclosure, either (x) April 30, 1998 occurs without the Revised Minimum Number being satisfied or the requisite stockholder approval of the Merger being obtained (other than as a result of a material breach hereof by Parent or the Purchaser that has not been cured within the time period set forth in Article VIII of this Agreement) or (y) the Company breaches (prior to the time that the designees of the Purchaser constitute a majority of the Board of Directors of the Company) any of its material obligations hereunder and does not cure such breach within the time period set forth in Article VIII of this Agreement or (z) the Agreement is terminated pursuant to Section 8.01(f)(ii), and (iii) not later than twelve months after any such termination the Company shall have entered into an agreement for an Acquisition Transaction, or an Acquisition Transaction shall have been consummated, then the Company shall promptly, but in no event

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later than immediately prior to, and as a condition of, entering into such definitive agreement, or, if there is no such definitive agreement then immediately upon consummation of the Acquisition Transaction, pay Parent a Termination Fee of $1,200,000 which amount shall be payable by wire transfer of same day funds to an account designated by the Parent. Notwithstanding anything to the contrary contained herein, in no event shall the Company be obligated to pay more than one Termination Fee in accordance with this Agreement.

(d) The Company acknowledges that the agreements contained in Section 8.03(b) and (c) are an integral part of the transactions contemplated in this Agreement and constitute liquidated damages and not a penalty, and that, without these agreements, Parent and the Purchaser would not enter into this Agreement; accordingly, if the Company fails to promptly pay the amount due pursuant to Section 8.03(b) and (c), and, in order to obtain such payment, Parent or the Purchaser commences a suit that results in a judgment against the Company for the fee and expenses set forth in Section 8.03(b) and (c), the Company shall pay to Parent its documented out-of-pocket costs and expenses (including attorneys' fees) in connection with such suit. No termination of this Agreement pursuant to Article VIII or otherwise shall prejudice the ability of a non-breaching party from seeking damages from any other party for any breach of this Agreement, including, without limitation, attorneys' fees and the right to pursue any remedy at law or in equity.

SECTION 8.04 Amendment. Subject to Section 1.03(c), this Agreement may be amended by the Company, Parent and the Purchaser at any time before or after any approval of this Agreement by the Shareholders but, after any such approval, no amendment shall be made which decreases the Merger Price or which adversely affects the rights of the Shareholders hereunder without the requisite affirmative vote of such Shareholders; provided, however, that this Agreement shall not be amended after the time, if ever, that the Purchaser's designees constitute a majority of the Board of Directors of the Company. This Agreement may not be amended except by an instrument in writing signed on behalf of all the parties.

SECTION 8.05 Extension; Waiver. Subject to Section 1.03(c), at any time prior to the Effective Time, the parties hereto may (i) extend the time for the performance of any of the obligations or other acts of any other party hereto, (ii) waive any inaccuracies in the representations and warranties contained herein by any other party or in any document, certificate or writing delivered pursuant hereto by any other party or (iii) waive compliance with any of the agreements of any other party or with any conditions to its own obligations, it being understood that the other conditions set forth in Annex I may be waived by Parent and the Purchaser without the consent of the Company. Any agreement on the part of any party 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 IX

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MISCELLANEOUS

SECTION 9.01 Non-Survival of Representations and Warranties. The representations and warranties made in this Agreement shall not survive beyond the Effective Time.

SECTION 9.02 Entire Agreement; Assignment.

(a) This Agreement (including the documents and the instruments referred to herein) and the Confidentiality Agreement constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof.

(b) Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other party. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. This Agreement is not intended to confer upon any person other than Parent, the Purchaser and the Company any rights or remedies hereunder.

SECTION 9.03 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, each of which shall remain in full force and effect.

SECTION 9.04 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by overnight courier or facsimile to the respective parties as follows:

If to Parent or the Purchaser:
Voith Sulzer Paper Technology North America Inc.
2200 N. Roemer Road
Appleton, Wisconsin 54913
Attention: Paul Bouthilet
Fax: (920) 731-7409

with a copy to:

Foley & Lardner
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Ralf R. Boer, Esq.
Fax: (414) 297-4900

If to the Company:
Impact Systems, Inc.
14600 Winchester Boulevard
Los Gatos, California 95030

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Attention: Kenneth P. Ostrow
Fax: (408) 379-0910

with a copy to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94306
Attention: Arthur F. Schneiderman, Esq.
Fax: (650) 493-6811

or to such other address as the person to whom notice is given may have previously furnished to the other in writing in the manner set forth above (provided that notice of any change of address shall be effective only upon receipt thereof).

SECTION 9.05 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 9.06 WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY OR DISPUTE THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE STOCK OPTION AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (II) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.06.

SECTION 9.07 Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

SECTION 9.08 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

SECTION 9.09 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except with respect to Sections 1.03(c), 2.09, 6.07 and 6.10, nothing in this Agreement, express or

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implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 9.10 Certain Definitions. As used in this Agreement:

(a) the term "affiliate", as applied to any person shall mean any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting shares, by contract or otherwise;

(b) the term "person" shall include individuals, corporations, partnerships, trusts, other entities and groups (which term shall include a "group" as such term is defined in Section 13(d)(3) of the Exchange Act); and

(c) the term "subsidiary" or "subsidiaries" means, with respect to Parent, the Company or any other person, any corporation, partnership, joint venture or other legal entity of which Parent, the Company or such

other person, as the case may be (either alone or through or together with any other subsidiary), owns, directly or indirectly, stock or other equity interests the holders of which are generally entitled to more than 50% of the vote for the election of the board of directors or other governing body of such corporation or other legal entity.

SECTION 9.11 SPECIFIC PERFORMANCE. THE PARTIES HERETO AGREE THAT IRREPARABLE DAMAGE WOULD OCCUR IN THE EVENT THAT ANY OF THE PROVISIONS OF THIS AGREEMENT WERE NOT PERFORMED IN ACCORDANCE WITH THEIR SPECIFIC TERMS OR WERE 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 COURT OF THE UNITED STATES OR ANY STATE HAVING JURISDICTION, THIS BEING IN ADDITION TO ANY OTHER REMEDY TO WHICH THEY ARE ENTITLED AT LAW OR IN EQUITY.

ANNEX I

CONDITIONS TO THE OFFER. Notwithstanding any other provisions of the Offer, the Purchaser shall not be required to accept for payment or pay for any tendered Shares, unless there are validly tendered and not withdrawn prior to the expiration date for the Offer that number of Common Shares which, when added to the Shares owned by the Purchaser, will represent at least 90% of the

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outstanding Common Shares on a fully diluted basis (after giving pro forma effect to the potential issuance of any Shares issuable under the Stock Option Agreement) on the date of purchase (the "Minimum Condition"); provided, however, that the Minimum Condition must be waived by the Purchaser and the Revised Minimum Number may be substituted therefor as contemplated by Section 1.01(b) of the Merger Agreement. Furthermore, notwithstanding any other provisions of the Offer, the Purchaser shall not be required to accept for payment or pay for any tendered Shares until expiration of all applicable waiting periods under the HSR Act and the satisfaction of conditions under any other applicable Antitrust Laws and the Purchaser may, subject to the terms of the Merger Agreement, amend the Offer or postpone the acceptance for payment of tendered Shares if at any time on or after the date of the Merger Agreement and before the expiration of the Offer, any of the following events (each, an "Event") shall occur:

(a) any order, preliminary or permanent injunction, decree, judgment or ruling in any suit, action or proceeding is entered that (i) makes illegal or otherwise directly or indirectly restrains or prohibits the acquisition by Parent or the Purchaser of any Shares under the Offer or the making or consummation of the Offer or the Merger, the performance by the Company of any of its material obligations under the Merger Agreement or the Stock Option Agreement or the consummation of any purchase of Shares contemplated by the Merger Agreement, the Stock Option Agreement or related agreements, (ii) prohibits or limits the ownership or operation by the Company, Parent or any of their respective subsidiaries of a material portion of the Business or assets of the Company and the Subsidiaries, taken as a whole, or Parent and the Subsidiaries, taken as a whole, or compels the Company or Parent to dispose of or hold separate any material portion of the Business or assets of the Company and the Subsidiaries, taken as a whole, or Parent and its subsidiaries, taken as a whole, as a result of the Offer or the Merger, (iii) imposes material limitations on the ability of Parent or the Purchaser to acquire or hold, or exercise full rights of ownership of, any Shares accepted for payment pursuant to the Offer or acquired pursuant to the Stock Option Agreement, including, without limitation, the right to vote such Shares on all matters properly presented to the Shareholders or (iv) prohibits Parent or any of its subsidiaries from effectively controlling in any material respect the Business or operation of the Company and the Subsidiaries; or

(b) any Law is enacted, entered, enforced, promulgated or deemed applicable to the Offer, the Merger or the transactions contemplated by the Stock Option Agreement, or any other action is taken by any Governmental Entity, other than the application to the Offer, the Merger or the transactions contemplated by the Stock Option Agreement of applicable waiting periods under the HSR Act or applicable conditions under other Antitrust Laws that results, directly or indirectly, in any of the consequences referred to in clauses (i) through (iv) of paragraph (a) above; or

(c) (i) the Board of Directors of the Company or any committee thereof withdraws or modifies in a manner adverse to Parent or the Purchaser its approval or recommendation of the Offer, the Merger, the Merger Agreement or the Stock Option Agreement or approves or recommends any Acquisition Transaction, or (ii) the Company enters into any agreement to consummate any Acquisition

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Transaction; or

(d) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified as to Material Adverse Effect are not true and correct, or any such representations and warranties that are not so qualified are not true and correct in any respect (when taken together with all other failures of such representations and warranties to be true and correct) that would have a Material Adverse Effect on the Company, in each case at the date of the Merger Agreement or at the scheduled expiration of the Offer (as though made as of such date, except that those representations and warranties that address matters only as of a particular date shall remain true and correct as of such date); or

(e) the Merger Agreement shall have been terminated in accordance with its terms; or

(f) the Company shall have breached or failed to perform in any material respect any of its obligations, covenants or agreements under the Merger Agreement or the Stock Option Agreement and such breach or failure to perform is not curable or, if curable, is not cured within seven (7) business days after written notice of such breach or failure is given by Parent to the Company; or

(g) there shall have occurred, and continued to exist, (i) any general suspension of, or limitation on prices for, trading in securities on the New York Stock Exchange or the Nasdaq National Market, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or Germany, (iii) a commencement of a war, armed hostilities or other national or international crisis directly involving the United States or Germany (other than an action involving solely United Nations' personnel or support of United Nations' personnel), or (iv) in the case of any of the events described in the foregoing clauses (i) through (iii) existing at the time of the commencement of the Offer, a material acceleration or worsening thereof.

The foregoing conditions are for the benefit of Parent and the Purchaser and may be asserted by Parent or the Purchaser regardless of the circumstances giving rise to any such conditions and may be waived by Parent or the Purchaser in whole or in part at any time and from time to time in their sole discretion. The failure by Parent or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

The capitalized terms used in this Annex I shall have the meanings set forth in the Agreement to which it is annexed, except that the term "Merger Agreement" shall be deemed to refer to the Agreement to which this Annex I is appended.

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IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its respective officer thereunto duly authorized, all as of the day and year first above written.

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: Executive Vice President

By: /s/ PAUL BOUTHILET

Name: Paul Bouthilet
Title: Secretary

VOITH SULZER ACQUISITION CORP.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: President

By: /s/ PAUL BOUTHILET

Name: Paul Bouthilet
Title: Secretary

IMPACT SYSTEMS, INC.

By: /s/ KENNETH P. OSTROW

Name: Kenneth P. Ostrow
Title: President

By: /s/ ROBERT M. GORSKI

Name: Robert M. Gorski
Title: V.P. Finance and Secretary

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EXHIBIT (C)(2)

STOCKHOLDER AGREEMENT

AGREEMENT, dated December 11, 1997, among Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), Voith Sulzer Acquisition Corp., a California corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), and Elsag International N.V. (the "Stockholder").

W I T N E S S E T H :

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent, the Purchaser and Impact Systems, Inc., a California corporation (the "Company"), have entered into an Agreement and Plan of Merger (as such agreement may hereafter be amended from time to time, the "Merger Agreement"), pursuant to which the Purchaser will be merged with and into the Company (the "Merger"); and

WHEREAS, in furtherance of the Merger, Parent and the Company desire that as soon as practicable (and not later than five business days) after the announcement of the execution of the Merger Agreement, the Purchaser shall commence a cash tender offer (the "Offer") to purchase at the Offer Price all outstanding shares of Common Stock (each as defined in Section 1 hereof), including all of the Securities (as defined in Section 2 hereof) beneficially owned by the Stockholder; and

WHEREAS, as an inducement and a condition to entering into the Merger Agreement, Parent has required that the Stockholder agree, and the Stockholder has agreed, to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement:

(a) "Beneficially Owned" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person (as hereinafter defined) shall include securities Beneficially Owned by all other Persons with whom such Person would constitute a "group" within the meaning of Section 13(d)(3) of the Exchange Act.

(b) "Common Stock" shall mean the Common Stock, no par value, of the Company.

(c) "Offer Price" shall mean cash in the amount of $2.75 per share of Common Stock or, if greater, the price per share paid by the Purchaser in the Offer.

(d) "Person" shall mean an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

(e) Capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Merger Agreement.

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2. Tender of Shares.

(a) In order to induce Parent and the Purchaser to enter into the Merger Agreement, the Stockholder hereby agrees to validly tender (or cause the record owner of such shares to validly tender), and not to withdraw, pursuant to and in accordance with the terms of the Offer, not later than the fifth business day after commencement of the Offer pursuant to Section 1.01 of the Merger Agreement and Rule 14d-2 under the Exchange Act, the number of shares of Common Stock set forth opposite the Stockholder's name on Schedule I hereto (the "Existing Securities", and together with any shares of Common Stock acquired by the Stockholder in any capacity after the date hereof and prior to the termination of this Agreement by means of purchase, dividend, distribution, exercise of options or other rights to acquire Common Stock or in any other way, the "Securities"), all of which are Beneficially Owned by the Stockholder. The Stockholder hereby

acknowledges and agrees that Parent's and the Purchaser's obligation to accept for payment and pay for the Securities in the Offer, including the Securities Beneficially Owned by the Stockholder, is subject to the terms and conditions of the Offer.

(b) The Stockholder hereby permits Parent and the Purchaser to publish and disclose in the Offer Documents and, if approval of the Company's stockholders is required under applicable law, the Proxy Statement (including all documents and schedules filed with the SEC) its identity and ownership of the Securities and the nature of its commitments, arrangements and understandings under this Agreement; provided that the Stockholder shall have a right to review and comment on such disclosure a reasonable time before it is publicly disclosed.

3. Option.

(a) In order to induce Parent and the Purchaser to enter into the Merger Agreement, the Stockholder hereby grants to Purchaser an irrevocable option (a "Securities Option") to purchase the Securities (the "Option Securities") at the Offer Price (the "Purchase Price"). If (i) the Merger Agreement is terminated in accordance with Section 8.01(c), 8.01(e)(ii), 8.01(f) or 8.01(g) thereof, or (ii) the Merger Agreement is terminated in accordance with Section 8.01(b)(ii) thereof and (x) the Stockholder shall have breached the agreements set forth in Section 2(a) hereof or (y) at the time of such termination the Minimum Condition shall not have been satisfied, the Securities Option shall, in any such case, become exercisable, in whole but not in part, upon the first to occur of any such event and remain exercisable in whole but not in part until the date which is 90 days after the date of the occurrence of such event (the "90 Day Period"), so long as: (i) all waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), required for the purchase of the Securities upon such exercise shall have expired or been waived and any other conditions under the other Antitrust Laws shall have been satisfied and (ii) there shall not be in effect any preliminary injunction or other order issued by any Governmental Entity prohibiting the exercise of the Securities Option pursuant to this Agreement; provided that if (i) all HSR Act waiting periods shall not have expired or been waived or the conditions under the other Antitrust Laws shall not have been satisfied or (ii) there shall be in effect any such injunction or order, in each case on the expiration of the 90 Day Period, the 90 Day Period shall be extended until five (5) business days after the later of (A) the later of the date of expiration or waiver of all HSR Act waiting periods or the date on which the applicable conditions under the other Antitrust Laws have been satisfied, and (B) the date of removal or lifting of such injunction or order. In the event that the Purchaser wishes to exercise the Securities Option, the Purchaser shall send a written notice (the "Notice") to

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the Stockholder identifying the place and date (not less than two (2) nor more than ten (10) business days from the date of the Notice) for the closing of such purchase.

(b) In the event the Option Securities are acquired by the Purchaser pursuant to the exercise of the Securities Option (the "Acquired Securities"), the Stockholder shall be entitled to receive, and the Purchaser shall promptly pay to the Stockholder, upon any subsequent disposition, transfer or sale ("Sale") of the Acquired Securities during the term of this Agreement an amount per share in cash equal to 50% of the difference between the net proceeds received per share in the Sale and the Purchase Price. The Purchaser shall only effect any Sale in an arms' length bona fide transaction to an unaffiliated third party.

4. Additional Agreements.

(a) Voting Agreement. The Stockholder shall, at any meeting of the stockholders of the Company, however called, or in connection with any written consent of the stockholders of the Company, vote (or cause to be voted) all Securities then held of record or Beneficially Owned by the Stockholder, (i) in favor of the Merger, the execution and delivery by the Company of the Merger Agreement and the Stock Option Agreement and the approval of the terms thereof and each of the other actions contemplated by the Merger Agreement, the Stock Option Agreement and this Agreement and any actions required in furtherance thereof and hereof; and (ii) against any proposal relating to an Acquisition Transaction and against any action or agreement that would impede, frustrate, prevent or nullify this Agreement, or result in a breach in any respect of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement or the Stock Option Agreement or which would result in any of the conditions set forth in Annex I to the Merger Agreement or set forth in Article VII of the Merger Agreement not being fulfilled.

(b) No Inconsistent Arrangements. The Stockholder hereby covenants and agrees that, except as contemplated by this Agreement and the Merger Agreement, it shall not (i) transfer (which term shall include, without limitation, any sale, gift, pledge (other than a pledge which does not impair the Stockholder's ability to perform under this Agreement) or other disposition), or consent to any transfer of, any or all of the Securities or any interest therein, (ii) enter into any contract, option or other agreement or understanding with respect to any transfer of any or all of the Securities or any interest therein, (iii) grant any proxy, power-of-attorney or other authorization in or with respect to the Securities, (iv) deposit the Securities into a voting trust or enter into a voting agreement or arrangement with respect to the Securities or (v) take any other action that would in any way restrict, limit or interfere with the performance of its obligations hereunder or the transactions contemplated hereby or by the Merger Agreement or the Stock Option Agreement (including, without limitation, any action that would cause the Merger to be subject to Section 1101 of the GCL).

(c) Grant of Irrevocable Proxy; Appointment or Proxy.

(i) The Stockholder hereby irrevocably grants to, and appoints, Parent and Ray Hall and Paul Bouthilet, or either of them, in their respective capacities as officers or directors of Parent, and any individual who shall hereafter succeed to any such office or directorship of Parent, and each of them individually, the Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Stockholder, to vote the Securities, or grant a consent or approval in

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respect of the Securities, in favor of the various transactions contemplated by the Merger Agreement and the Stock Option Agreement (the "Transactions") and against any proposal relating to an Acquisition Transaction.

(ii) The Stockholder represents that any proxies heretofore given in respect of the Stockholder's Securities are not irrevocable, and that any such proxies are hereby revoked.

(iii) The Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement. The Stockholder hereby affirms that the irrevocable proxy set forth in this Section 4(c) is given in connection with the execution of the Merger Agreement, and that such irrevocable proxy is given to secure the performance of the duties of the Stockholder under this Agreement. The Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. The Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. Such irrevocable proxy is executed and intended to be irrevocable in accordance with the provisions of Section 705 of the GCL. A legend reflecting the foregoing irrevocable proxy shall be placed on the certificate or certificate representing the Securities.

(d) No Solicitation. The Stockholder hereby agrees, in the capacity as a stockholder of the Company, that neither the Stockholder nor any affiliates, representatives or agents shall (and, if the Stockholder is a corporation, partnership, trust or other entity, the Stockholder shall cause its officers, directors, partners, and employees, representatives and agents, including, but not limited to, investment bankers, attorneys and accountants, not to), directly or indirectly, 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, the Purchaser or any of their respective affiliates or representatives) concerning any proposal relating to an Acquisition Transaction. The Stockholder will immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any proposal relating to an Acquisition Transaction. The Stockholder will immediately communicate to Parent the terms of any proposal, discussion, negotiation or inquiry (and will disclose any written materials received by the Stockholder in connection with such proposal, discussion, negotiation or inquiry) and the identity of the party making such proposal or inquiry which it may receive in respect of any such Acquisition Transaction. Any action taken by the Company or any member of the Board of Directors of the Company in accordance with Section 6.07 of the Merger Agreement shall be deemed not to violate this Section 4(d).

(e) Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the

transactions contemplated by this Agreement. Each party shall promptly consult with the other and provide any necessary information and material with respect to all filings made by such party with any Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

(f) Waiver of Appraisal Rights. The Stockholder hereby waives any rights of

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appraisal or rights to dissent from the Merger that it may have.

5. Representations and Warranties of the Stockholder. The Stockholder hereby represents and warrants to Parent and the Purchaser as follows:

(a) Ownership of Securities. The Stockholder is the record and Beneficial Owner of the Existing Securities, as set forth on Schedule I. On the date hereof, the Existing Securities constitute all of the Securities owned of record or Beneficially Owned by the Stockholder. The Stockholder has sole voting power and sole power to issue instructions with respect to the matters set forth in Sections 2, 3 and 4 hereof, sole power of disposition, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of the Existing Securities with no limitations, qualifications or restrictions on such rights, subject to applicable securities laws and the terms of this Agreement.

(b) Power; Binding Agreement. The Stockholder has the power and authority to enter into and perform all of the Stockholder's obligations under this Agreement. The execution, delivery and performance of this Agreement by the Stockholder will not violate any other agreement to which the Stockholder is a party including, without limitation, any voting agreement, proxy arrangement, pledge agreement, shareholders agreement or voting trust. This Agreement has been duly and validly executed and delivered by the Stockholder and constitutes a valid and binding agreement of the Stockholder, enforceable against the Stockholder in accordance with its terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity. There is no beneficiary or holder of a voting trust certificate or other interest of any trust of which the Stockholder is a trustee, or any party to any other agreement or arrangement, whose consent is required for the execution and delivery of this Agreement or the consummation by the Stockholder of the transactions contemplated hereby.

(c) No Conflicts. Except for filings under the HSR Act, other applicable Antitrust Laws and the Exchange Act (i) no filing with, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution and delivery of this Agreement by the Stockholder, the consummation by the Stockholder of the transactions contemplated hereby and the compliance by the Stockholder with the provisions hereof and (ii) none of the execution and delivery of this Agreement by the Stockholder, the consummation by the Stockholder of the transactions contemplated hereby or compliance by the Stockholder with any of the provisions hereof, except in cases in which any conflict, breach, default or violation described below would not interfere with the ability of such Stockholder to perform such Stockholder's obligations hereunder, shall (A) conflict with or result in any breach of any organizational documents applicable to the Stockholder, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, modification or acceleration) under, any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which the Stockholder is a party or by which the Stockholder or any of its properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to the Stockholder or any of such Stockholder's properties or assets.

(d) No Liens. Except as permitted by this Agreement, the Existing Securities and the certificates representing such securities are now, and at all times during the term hereof will be, held by the Stockholder, or by a nominee or custodian for the benefit of the Stockholder, free and clear of all Liens, proxies, voting trusts or agreements, understandings or arrangements or any other rights whatsoever, except for any such Liens or proxies arising hereunder.

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(e) No Finder's Fees. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Stockholder.

(f) Reliance by Parent. The Stockholder understands and acknowledges that Parent is entering into, and causing the Purchaser to enter into, the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement.

6. Representations and Warranties of Parent and the Purchaser. Each of Parent and the Purchaser hereby represents and warrants to the Stockholder as follows:

(a) Power; Binding Agreement. Parent and the Purchaser each has the corporate power and authority to enter into and perform all of its obligations under this Agreement. The execution, delivery and performance of this Agreement by each of Parent and the Purchaser will not violate any other agreement to which either of them is a party. This Agreement has been duly and validly executed and delivered by each of Parent and the Purchaser and constitutes a valid and binding agreement of each of Parent and the Purchaser, enforceable against each of Parent and the Purchaser in accordance with its terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity.

(b) No Conflicts. Except for filings under the HSR Act, other applicable Antitrust Laws and the Exchange Act, (i) no filing with, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution of this Agreement by each of Parent and the Purchaser, the consummation by each of Parent and the Purchaser of the transactions contemplated hereby and the compliance by Parent and the Purchaser with the provisions hereof and (ii) none of the execution and delivery of this Agreement by each of Parent and the Purchaser, the consummation by each of Parent and the Purchaser of the transactions contemplated hereby or compliance by each of Parent and the Purchaser with any of the provisions hereof, except in cases in which any conflict, breach, default or violation described below would not interfere with the ability of Parent or the Purchaser to perform their respective obligations hereunder, shall (A) conflict with or result in any breach of any organizational documents applicable to either of Parent or the Purchaser, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, modification or acceleration) under, any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which either of Parent or the Purchaser is a party or by which either of Parent or the Purchaser or any of their properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to either of Parent or the Purchaser or any of their properties or assets.

7. Further Assurances. From time to time, at the other party's request and without further consideration, each party hereto shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

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8. Stop Transfer. The Stockholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of the Securities, unless such transfer is made in compliance with this Agreement. In the event of a stock dividend or distribution, or any change in the Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Securities" shall refer to and include the Securities as well as all such stock dividends and distributions and any shares into which or for which any and all of the Securities may be changed or exchanged.

9. Termination. The covenants, agreements and proxy contained herein with respect to the Securities shall terminate upon the earlier of (a) the Effective Time, (b) the first anniversary of the date hereof, or (c) the termination of the Merger Agreement pursuant to Section 8.01(a), 8.01(b)(i), 8.01(b)(iii), 8.01(d) or 8.01(e)(i) thereof.

10. No Limitation. Nothing in this Agreement shall be construed to prohibit any officer or affiliate of the Stockholder who is or has designated a member of the Board of Directors of the Company from taking any action solely in his capacity as a member of the Board of Directors of the Company or from exercising his fiduciary duties as a member of such Board of Directors.

11. Miscellaneous.

(a) Entire Agreement. This Agreement and the Merger Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Binding Agreement. This Agreement and the obligations hereunder shall attach to the Securities and shall be binding upon any person or entity to which legal or beneficial ownership of the Securities shall pass, whether by operation of law or otherwise, including, without limitation, the Stockholder's administrators or successors. Notwithstanding any transfer of Securities, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

(c) Assignment. This Agreement shall not be assigned by operation of law or otherwise without the prior written consent of the Stockholder or Parent and the Purchaser, as the case may be, provided that Parent or the Purchaser may assign, in its respective sole discretion, its rights and obligations hereunder to any direct or indirect subsidiary of Parent, but no such assignment shall relieve Parent or the Purchaser of its obligations hereunder if such assignee does not perform such obligations.

(d) Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated, except upon the execution and delivery of a written agreement executed by the parties hereto.

(e) Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if given) by hand delivery or telecopy (with a confirmation copy sent for next day delivery via courier service, such as Federal Express), or by any courier service, such as Federal Express, providing proof of delivery. All communications hereunder shall be delivered to the respective parties at the following addresses:

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If to the Stockholder:

c/o Elsag Bailey International N.V.
29801 Euclid Avenue
Wyckliffe, Ohio 44092

Attention: Mark Santo
Telephone No.: (216) 585-8651
Telecopy No.: (216) 585-8821

Copy to:

Fenwick & West LLP
Two Palo Alto Square
Palo Alto, California 94304

Attention: David K. Michaels
Telephone No.: (415) 494-0600
Telecopy No.: (415) 494-1417

If to Parent
or the Purchaser:

Voith Sulzer Paper Technology North America Inc.
2200 N. Roemer Road
Appleton, Wisconsin 54913
Attention: Paul Bouthilet
Telephone No.: (920) 731-0769
Telecopy No.: (920) 731-7409

Copy to:

Foley & Lardner
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Ralf R. Boer
Telephone No.: (414) 271-2400
Telecopy No.: (414) 297-4900

or to such other address as the person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.

(f) Severability. Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein. Notwithstanding anything to the contrary contained in this Agreement, neither Parent nor the Purchaser shall be deemed to be the owner, nor shall Parent or the Purchaser have the power to vote for the election of directors, with respect to some or all of the Securities for purposes of the California General Corporation Law until the purchase of, and payment for, such Securities is actually consummated. The rights of Parent and the Purchaser hereunder shall be limited as provided in the preceding sentence.

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(g) Specific Performance. Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

(h) Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

(i) No Waiver. The failure of any party hereto to exercise any rights, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of, and shall not be enforceable by, any person or entity who or which is not a party hereto.

(k) Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California, without giving effect to the principles of conflicts of law thereof.

(l) Waiver of Jury Trial. Each party hereto hereby waives any right to a trial by jury in connection with any action, suit or proceeding brought in connection with this Agreement.

(m) Descriptive Headings. The descriptive headings used herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(n) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, Parent, the Purchaser and the Stockholder have caused this Agreement to be duly executed as of the day and year first above written.

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: Executive Vice President

By: /s/ PAUL BOUTHILET

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---

Name: Paul Bouthilet
Title: Secretary

VOITH SULZER ACQUISITION CORP.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: President

By: /s/ PAUL BOUTHILET

Name: Paul Bouthilet
Title: Secretary

ELSAG INTERNATIONAL N.V.

By: /s/ MARK V. SANTO

Name: Mark V. Santo
Title: Group VP

SCHEDULE I

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED
<S>	<C>
Elsag International N.V.	2,378,900

</TABLE>

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EXHIBIT (C)(3)

STOCKHOLDER AGREEMENT

AGREEMENT, dated December 11, 1997, among Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), Voith Sulzer Acquisition Corp., a California corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), and Kenneth P. Ostrow (the "Stockholder").

WITNESSETH:

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent, the Purchaser and Impact Systems, Inc., a California corporation (the "Company"), have entered into an Agreement and Plan of Merger (as such agreement may hereafter be amended from time to time, the "Merger Agreement"), pursuant to which the Purchaser will be merged with and into the Company (the "Merger"); and

WHEREAS, in furtherance of the Merger, Parent and the Company desire that as soon as practicable (and not later than five business days) after the announcement of the execution of the Merger Agreement, the Purchaser shall commence a cash tender offer (the "Offer") to purchase at the Offer Price all outstanding shares of Common Stock (each as defined in Section 1 hereof), including all of the Securities (as defined in Section 2 hereof) beneficially owned by the Stockholder; and

WHEREAS, as an inducement and a condition to entering into the Merger Agreement, Parent has required that the Stockholder agree, and the Stockholder has agreed, to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement:

(a) "Beneficially Owned" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person (as hereinafter defined) shall include securities Beneficially Owned by all other Persons with whom such Person would constitute a "group" within the meaning of Section 13(d)(3) of the Exchange Act.

(b) "Common Stock" shall mean the Common Stock, no par value, of the Company.

(c) "Offer Price" shall mean cash in the amount of $2.75 per share of Common Stock or, if greater, the price per share paid by the Purchaser in the Offer.

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(d) "Person" shall mean an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

(e) Capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Merger Agreement.

2. Tender of Shares.

(a) In order to induce Parent and the Purchaser to enter into the Merger Agreement, the Stockholder hereby agrees to validly tender (or cause the record owner of such shares to validly tender), and not to withdraw, pursuant to and in accordance with the terms of the Offer, not later than the fifth business day after commencement of the Offer pursuant to Section 1.01 of the Merger Agreement and Rule 14d-2 under the Exchange Act, the number of shares of Common Stock set forth opposite the Stockholder's name on Schedule I hereto (the "Existing Securities", and together with any shares of Common Stock acquired by the Stockholder in any capacity after the date hereof and prior to the termination of this Agreement by means of purchase, dividend, distribution, exercise of options or other rights to acquire Common Stock or in any other

way, the "Securities"), all of which are Beneficially Owned by the Stockholder. The Stockholder hereby acknowledges and agrees that Parent's and the Purchaser's obligation to accept for payment and pay for the Securities in the Offer, including the Securities Beneficially Owned by the Stockholder, is subject to the terms and conditions of the Offer.

(b) The Stockholder hereby permits Parent and the Purchaser to publish and disclose in the Offer Documents and, if approval of the Company's stockholders is required under applicable law, the Proxy Statement (including all documents and schedules filed with the SEC) its identity and ownership of the Securities and the nature of its commitments, arrangements and understandings under this Agreement; provided that the Stockholder shall have a right to review and comment on such disclosure a reasonable time before it is publicly disclosed.

3. Option.

(a) In order to induce Parent and the Purchaser to enter into the Merger Agreement, the Stockholder hereby grants to Purchaser an irrevocable option (a "Securities Option") to purchase the Securities (the "Option Securities") at the Offer Price (the "Purchase Price"). If (i) the Merger Agreement is terminated in accordance with Section 8.01(c), 8.01(e)(ii), 8.01(f) or 8.01(g) thereof, or (ii) the Merger Agreement is terminated in accordance with Section 8.01(b)(ii) thereof and (x) the Stockholder shall have breached the agreements set forth in Section 2(a) hereof or (y) at the time of such termination the Minimum Condition shall not have been satisfied, the Securities Option shall, in any such case, become exercisable, in whole but not in part, upon the first to occur of any such event and remain exercisable in whole but not in part until the date which is 90 days after the date of the occurrence of such event (the "90 Day Period"), so long as: (i) all waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), required for the purchase of the Securities upon such exercise shall have expired or been waived and any

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other conditions under the other Antitrust Laws shall have been satisfied and (ii) there shall not be in effect any preliminary injunction or other order issued by any Governmental Entity prohibiting the exercise of the Securities Option pursuant to this Agreement; provided that if (i) all HSR Act waiting periods shall not have expired or been waived or the conditions under the other Antitrust Laws shall not have been satisfied or (ii) there shall be in effect any such injunction or order, in each case on the expiration of the 90 Day Period, the 90 Day Period shall be extended until five (5) business days after the later of (A) the later of the date of expiration or waiver of all HSR Act waiting periods or the date on which the applicable conditions under the other Antitrust Laws have been satisfied, and (B) the date of removal or lifting of such injunction or order. In the event that the Purchaser wishes to exercise the Securities Option, the Purchaser shall send a written notice (the "Notice") to the Stockholder identifying the place and date (not less than two (2) nor more than ten (10) business days from the date of the Notice) for the closing of such purchase.

(b) In the event the Option Securities are acquired by the Purchaser pursuant to the exercise of the Securities Option (the "Acquired Securities"), the Stockholder shall be entitled to receive, and the Purchaser shall promptly pay to the Stockholder, upon any subsequent disposition, transfer or sale ("Sale") of the Acquired Securities during the term of this Agreement an amount per share in cash equal to 50% of the difference between the net proceeds received per share in the Sale and the Purchase Price. The Purchaser shall only effect any Sale in an arms' length bona fide transaction to an unaffiliated third party.

4. Additional Agreements.

(a) Voting Agreement. The Stockholder shall, at any meeting of the stockholders of the Company, however called, or in connection with any written consent of the stockholders of the Company, vote (or cause to be voted) all Securities then held of record or Beneficially Owned by the Stockholder, (i) in favor of the Merger, the execution and delivery by the Company of the Merger Agreement and the Stock Option Agreement and the approval of the terms thereof and each of the other actions contemplated by the Merger Agreement, the Stock Option Agreement and this Agreement and any actions required in furtherance thereof and hereof; and (ii) against any proposal relating to an Acquisition Transaction and against any action or agreement that would impede, frustrate, prevent or nullify this Agreement, or result in a breach in any respect of any covenant, representation or warranty or any other obligation or agreement of the Company under the

Merger Agreement or the Stock Option Agreement or which would result in any of the conditions set forth in Annex I to the Merger Agreement or set forth in Article VII of the Merger Agreement not being fulfilled.

(b) No Inconsistent Arrangements. The Stockholder hereby covenants and agrees that, except as contemplated by this Agreement and the Merger Agreement, it shall not(i) transfer (which term shall include, without limitation, any sale, gift, pledge (other than a pledge which does not impair the Stockholder's

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ability to perform under this Agreement) or other disposition), or consent to any transfer of, any or all of the Securities or any interest therein, (ii) enter into any contract, option or other agreement or understanding with respect to any transfer of any or all of the Securities or any interest therein, (iii) grant any proxy, power-of-attorney or other authorization in or with respect to the Securities, (iv) deposit the Securities into a voting trust or enter into a voting agreement or arrangement with respect to the Securities or (v) take any other action that would in any way restrict, limit or interfere with the performance of its obligations hereunder or the transactions contemplated hereby or by the Merger Agreement or the Stock Option Agreement (including, without limitation, any action that would cause the Merger to be subject to Section 1101 of the GCL).

(c) Grant of Irrevocable Proxy; Appointment or Proxy.

(i) The Stockholder hereby irrevocably grants to, and appoints, Parent and Ray Hall and Paul Bouthilet, or either of them, in their respective capacities as officers or directors of Parent, and any individual who shall hereafter succeed to any such office or directorship of Parent, and each of them individually, the Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Stockholder, to vote the Securities, or grant a consent or approval in respect of the Securities, in favor of the various transactions contemplated by the Merger Agreement and the Stock Option Agreement (the "Transactions") and against any proposal relating to an Acquisition Transaction.

(ii) The Stockholder represents that any proxies heretofore given in respect of the Stockholder's Securities are not irrevocable, and that any such proxies are hereby revoked.

(iii) The Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement. The Stockholder hereby affirms that the irrevocable proxy set forth in this Section 4(c) is given in connection with the execution of the Merger Agreement, and that such irrevocable proxy is given to secure the performance of the duties of the Stockholder under this Agreement. The Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. The Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. Such irrevocable proxy is executed and intended to be irrevocable in accordance with the provisions of Section 705 of the GCL. A legend reflecting the foregoing irrevocable proxy shall be placed on the certificate or certificate representing the Securities.

(d) No Solicitation. The Stockholder hereby agrees, in the capacity as a stockholder of the Company, that neither the Stockholder nor any affiliates, representatives or agents shall (and, if the Stockholder is a corporation, partnership, trust or other entity, the Stockholder shall cause its officers, directors, partners, and employees, representatives and agents, including, but not limited to, investment bankers, attorneys and accountants, not to), directly or indirectly, 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, the Purchaser or any of

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their respective affiliates or representatives) concerning any proposal relating to an Acquisition Transaction. The Stockholder will immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any proposal relating to an Acquisition Transaction. The Stockholder will immediately communicate to Parent the terms of any proposal, discussion, negotiation or inquiry (and will disclose any written materials received by the Stockholder in connection with such proposal, discussion, negotiation or inquiry) and the identity of the party making such proposal or inquiry which it may receive in respect of any such Acquisition Transaction. Any action taken by the Company or any member of the Board of Directors of the Company in accordance with Section 6.07 of the Merger Agreement shall be deemed not to violate this Section 4(d).

(e) Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated by this Agreement. Each party shall promptly consult with the other and provide any necessary information and material with respect to all filings made by such party with any Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

(f) Waiver of Appraisal Rights. The Stockholder hereby waives any rights of appraisal or rights to dissent from the Merger that it may have.

5. Representations and Warranties of the Stockholder. The Stockholder hereby represents and warrants to Parent and the Purchaser as follows:

(a) Ownership of Securities. The Stockholder is the record and Beneficial Owner of the Existing Securities, as set forth on Schedule I. On the date hereof, the Existing Securities constitute all of the Securities owned of record or Beneficially Owned by the Stockholder. The Stockholder has sole voting power and sole power to issue instructions with respect to the matters set forth in Sections 2, 3 and 4 hereof, sole power of disposition, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of the Existing Securities with no limitations, qualifications or restrictions on such rights, subject to applicable securities laws and the terms of this Agreement.

(b) Power; Binding Agreement. The Stockholder has the power and authority to enter into and perform all of the Stockholder's obligations under this Agreement. The execution, delivery and performance of this Agreement by the Stockholder will not violate any other agreement to which the Stockholder is a party including, without limitation, any voting agreement, proxy arrangement, pledge agreement, shareholders agreement or voting trust. This Agreement has been duly and validly executed and delivered by the Stockholder and constitutes a valid and binding agreement of the Stockholder, enforceable against the Stockholder in accordance with its terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii)

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is subject to general principles of equity. There is no beneficiary or holder of a voting trust certificate or other interest of any trust of which the Stockholder is a trustee, or any party to any other agreement or arrangement, whose consent is required for the execution and delivery of this Agreement or the consummation by the Stockholder of the transactions contemplated hereby.

(c) No Conflicts. Except for filings under the HSR Act, other applicable Antitrust Laws and the Exchange Act (i) no filing with, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution and delivery of this Agreement by the Stockholder, the consummation by the Stockholder of the transactions contemplated hereby and the compliance by the Stockholder with the provisions hereof and (ii) none of the execution and delivery of this Agreement by the Stockholder, the consummation by the Stockholder of the transactions contemplated hereby or compliance by the Stockholder with any of the provisions hereof, except in cases in which any conflict, breach, default or violation described below would not interfere with the ability of such Stockholder to perform such Stockholder's obligations hereunder, shall (A) conflict with or result in any breach of any organizational documents applicable to the Stockholder, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, modification or acceleration) under, any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which the Stockholder is a party or by which the Stockholder or any of its properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to the Stockholder or any of such Stockholder's properties or assets.

(d) No Liens. Except as permitted by this Agreement, the Existing Securities and the certificates representing such securities are now, and at all times during the term hereof will be, held by the Stockholder, or by a nominee or custodian for the benefit of the Stockholder, free and clear of all Liens, proxies, voting

trusts or agreements, understandings or arrangements or any other rights whatsoever, except for any such Liens or proxies arising hereunder.

(e) No Finder's Fees. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Stockholder.

(f) Reliance by Parent. The Stockholder understands and acknowledges that Parent is entering into, and causing the Purchaser to enter into, the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement.

6. Representations and Warranties of Parent and the Purchaser. Each of Parent and the Purchaser hereby represents and warrants to the Stockholder as follows:

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(a) Power; Binding Agreement. Parent and the Purchaser each has the corporate power and authority to enter into and perform all of its obligations under this Agreement. The execution, delivery and performance of this Agreement by each of Parent and the Purchaser will not violate any other agreement to which either of them is a party. This Agreement has been duly and validly executed and delivered by each of Parent and the Purchaser and constitutes a valid and binding agreement of each of Parent and the Purchaser, enforceable against each of Parent and the Purchaser in accordance with its terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity.

(b) No Conflicts. Except for filings under the HSR Act, other applicable Antitrust Laws and the Exchange Act, (i) no filing with, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution of this Agreement by each of Parent and the Purchaser, the consummation by each of Parent and the Purchaser of the transactions contemplated hereby and the compliance by Parent and the Purchaser with the provisions hereof and (ii) none of the execution and delivery of this Agreement by each of Parent and the Purchaser, the consummation by each of Parent and the Purchaser of the transactions contemplated hereby or compliance by each of Parent and the Purchaser with any of the provisions hereof, except in cases in which any conflict, breach, default or violation described below would not interfere with the ability of Parent or the Purchaser to perform their respective obligations hereunder, shall (A) conflict with or result in any breach of any organizational documents applicable to either of Parent or the Purchaser, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, modification or acceleration) under, any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which either of Parent or the Purchaser is a party or by which either of Parent or the Purchaser or any of their properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to either of Parent or the Purchaser or any of their properties or assets.

7. Further Assurances. From time to time, at the other party's request and without further consideration, each party hereto shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

8. Stop Transfer. The Stockholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of the Securities, unless such transfer is made in compliance with this Agreement. In the event of a stock dividend or distribution, or any change in the Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Securities" shall refer to and include the Securities as well as all such stock dividends and distributions and any shares into which or for which any and all of the Securities may be changed or exchanged.

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9. Termination. The covenants, agreements and proxy contained herein with respect to the Securities shall terminate upon the earlier of (a) the Effective Time, (b) the first anniversary of the date hereof, or

(c) the termination of the Merger Agreement pursuant to Section 8.01(a), 8.01(b)(i), 8.01(b)(iii), 8.01(d) or 8.01(e)(i) thereof.

10. No Limitation. Nothing in this Agreement shall be construed to prohibit any officer or affiliate of the Stockholder who is or has designated a member of the Board of Directors of the Company from taking any action solely in his capacity as a member of the Board of Directors of the Company or from exercising his fiduciary duties as a member of such Board of Directors.

11. Miscellaneous.

(a) Entire Agreement. This Agreement and the Merger Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Binding Agreement. This Agreement and the obligations hereunder shall attach to the Securities and shall be binding upon any person or entity to which legal or beneficial ownership of the Securities shall pass, whether by operation of law or otherwise, including, without limitation, the Stockholder's administrators or successors. Notwithstanding any transfer of Securities, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

(c) Assignment. This Agreement shall not be assigned by operation of law or otherwise without the prior written consent of the Stockholder or Parent and the Purchaser, as the case may be, provided that Parent or the Purchaser may assign, in its respective sole discretion, its rights and obligations hereunder to any direct or indirect subsidiary of Parent, but no such assignment shall relieve Parent or the Purchaser of its obligations hereunder if such assignee does not perform such obligations.

(d) Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated, except upon the execution and delivery of a written agreement executed by the parties hereto.

(e) Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if given) by hand delivery or telecopy (with a confirmation copy sent for next day delivery via courier service, such as Federal Express), or by any courier service, such as Federal Express, providing proof of delivery. All communications hereunder shall be delivered to the respective parties at the following addresses:

If to the Stockholder:

Kenneth P. Ostrow

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14600 Winchester Boulevard
Los Gatos, California 95030
Telephone No.: (408) 379-0910
Telecopy No.: (408) 379-7275

If to Parent
or the Purchaser:

Voith Sulzer Paper Technology North America Inc.
2200 N. Roemer Road
Appleton, Wisconsin 54913
Attention: Paul Bouthilet
Telephone No.: (920) 731-0769
Telecopy No.: (920) 731-7409

Copy to:

Foley & Lardner
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Ralf R. Boer
Telephone No.: (414) 271-2400
Telecopy No.: (414) 297-4900

or to such other address as the person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.

(f) Severability. Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein. Notwithstanding anything to the contrary contained in this Agreement, neither Parent nor the Purchaser shall be deemed to be the owner, nor shall Parent or the Purchaser have the power to vote for the election of directors, with respect to some or all of the Securities for purposes of the California General Corporation Law until the purchase of, and payment for, such Securities is actually consummated. The rights of Parent and the Purchaser hereunder shall be limited as provided in the preceding sentence.

(g) Specific Performance. Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at

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law or in equity.

(h) Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

(i) No Waiver. The failure of any party hereto to exercise any rights, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of, and shall not be enforceable by, any person or entity who or which is not a party hereto.

(k) Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California, without giving effect to the principles of conflicts of law thereof.

(l) Waiver of Jury Trial. Each party hereto hereby waives any right to a trial by jury in connection with any action, suit or proceeding brought in connection with this Agreement.

(m) Descriptive Headings. The descriptive headings used herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(n) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, Parent, the Purchaser and the Stockholder have caused this Agreement to be duly executed as of the day and year first above written.

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: Executive Vice President

By: /s/ PAUL BOUTHILET

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Name: Paul Bouthilet
Title: Secretary

VOITH SULZER ACQUISITION CORP.

By: /s/ R. RAY HALL

Name: R. Ray Hall
Title: President

By: /s/ PAUL BOUTHILET

Name: Paul Bouthilet
Title: Secretary

KENNETH P. OSTROW

By: /s/ KENNETH P. OSTROW

(signature)

ELSAG INTERNATIONAL. M.V.

By: /s/ MARK V. SANTO

Name: Mark V. Santo
Title: Group VP

SCHEDULE I

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED
<S>	<C>
Kenneth P. Ostrow	668,484

</TABLE>

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EXHIBIT (C)(4)

STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT, dated December 11, 1997 (this "Agreement"), by and among Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Parent"), Voith Sulzer Acquisition Corp., a California corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), and Impact Systems, Inc., a California corporation (the "Company").

W I T N E S S E T H:

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent, the Purchaser and the Company are entering into an Agreement and Plan of Merger (as such agreement may hereafter be amended from time to time, the "Merger Agreement"; capitalized terms used but not defined in this Agreement shall have the meanings ascribed to them in the Merger Agreement), which provides, upon the terms and subject to the conditions thereof, for (i) the commencement by the Purchaser of a tender offer (the "Offer") to purchase all of the issued and outstanding shares of the common stock, no par value, of the Company ("Common Stock") at the applicable Offer Price and (ii) the subsequent merger of the Purchaser with and into the Company (the "Merger"), whereby each share of Common Stock, other than shares owned directly or indirectly by Parent, the Purchaser or the Company and other than Dissenting Shares, will be converted into the right to receive in cash the Offer Price applicable thereto; and

WHEREAS, as a condition to the willingness of Parent and the Purchaser to enter into the Merger Agreement, Parent and the Purchaser have required that the Company agree, and in order to induce Parent and the Purchaser to enter into the Merger Agreement, the Company has agreed, to grant the Purchaser an option to purchase shares of Common Stock, upon the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement and in the Merger Agreement, the parties hereto agree as follows:

ARTICLE I

THE TOP-UP STOCK OPTION

SECTION 1.1. Grant of Top-Up Stock Option. Subject to the terms and conditions set forth herein, the Company hereby grants to the Purchaser an irrevocable option (the "Top-Up Stock Option") to purchase that number of shares of Common Stock (the "Top-Up Option Shares") equal to the number of shares of Common Stock that, when added to the number of shares of Common Stock owned by the Purchaser and its affiliates immediately following consummation of the

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Offer, shall constitute 90% of the shares of Common Stock then outstanding on a fully diluted basis (assuming the issuance of the Top-Up Option Shares) at a purchase price per Top-Up Option Share equal to the Offer Price; provided, however, that the Top-Up Stock Option shall not be exercisable if the number of shares of Common Stock subject thereto exceeds the number of authorized shares of Common Stock available for issuance. The Company agrees to provide Parent and the Purchaser with information regarding the number of shares of Common Stock available for issuance on an ongoing basis.

SECTION 1.2. Exercise of Top-Up Stock Option. (a) Subject to the conditions set forth in Section 2.1 and any additional requirements of Law, the Top-Up Stock Option may be exercised by the Purchaser, in whole but not in part, at any one time after the occurrence of a Top-Up Exercise Event (as defined below) and prior to the Top-Up Termination Date (as defined below).

(b) A "Top-Up Exercise Event" shall occur for purposes of this Agreement upon the Purchaser's acceptance for payment pursuant to the Offer of shares of Common Stock constituting more than 50% but less than 90% of the shares of Common Stock then outstanding on a fully diluted basis.

(c) Except as provided in the last sentence of this Section 1.2.(c), the "Top-Up Termination Date" shall occur for purposes of this Agreement upon the earliest to occur of:

(i) the Effective Time;

(ii) the date which is ten (10) business days after the occurrence of Top-Up Exercise Event; and

(iii) the termination of the Merger Agreement.

Notwithstanding the occurrence of the Top-Up Termination Date, the Purchaser shall be entitled to purchase the Top-Up Option Shares if it has exercised the Top-Up Stock Option in accordance with the terms hereof prior to such occurrence, and the occurrence of the Top-Up Termination Date shall not affect any rights hereunder which by their terms do not terminate or expire prior to or as of such date.

(d) In the event the Purchaser wishes to exercise the Top-Up Stock Option, the Purchaser shall send to the Company a written notice (a "Top-Up Exercise Notice", the date of which notice is referred to herein as the "Top-Up Notice Date") specifying the denominations of the certificate or certificates evidencing the Top-Up Option Shares which the Purchaser wishes to receive, the place for the closing of the purchase and sale pursuant to the Top-Up Stock Option (the "Top-Up Closing") and a date not earlier then three (3) business days nor later then ten (10) business days from the Top-Up Notice Date for the Top-Up Closing (the "Top-Up Closing Date"); provided, however, that (i) if the Top-Up Closing cannot be consummated by reason of any applicable Laws or Orders, the period of time that otherwise would run pursuant to this sentence shall run

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instead from the date on which such restriction on consummation has expired or been terminated and (ii) without limiting the foregoing, if prior notification to or approval of any Governmental Entity is required in connection with such purchase, the Purchaser and the Company shall promptly file the required notice or application for approval and shall cooperate in the expeditious filing of such notice or application, and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which, as the case may be, (A) any required notification period has expired or been terminated or (B) any required approval has been obtained, and in either event, any requisite waiting period has expired or been terminated. The Company shall, within two (2) business days after receipt of the Top-Up Exercise Notice, deliver written notice to the Purchaser specifying the number of Top-Up Option Shares and the aggregate purchase price therefor.

ARTICLE II

CLOSING

SECTION 2.1. Conditions to Closing. The obligation of the Company to deliver Top-Up Option Shares upon the exercise of the Top-Up Stock Option is subject to the following conditions:

(a) All waiting periods, if any, under the HSR Act applicable to the issuance of the Top-Up Option Shares hereunder shall have expired or have been terminated and the conditions under any other applicable Antitrust Laws shall have been satisfied; and

(b) There shall be no preliminary or permanent injunction or other final, non-appealable judgment by a court of competent jurisdiction preventing or prohibiting the exercise of the Top-Up Stock Option or the delivery of the Top-Up Option Shares in respect of such exercise.

SECTION 2.2. Closing. (a) At the Top-Up Closing, (i) the Company shall deliver to the Purchaser a certificate or certificates evidencing the applicable number of Top-Up Option Shares (in the denominations specified in the Top-Up Exercise Notice), and (ii) the Purchaser shall purchase each Top-Up Option Share from the Company at the Top-Up Price. Payment by the Purchaser of the Top-Up Price for the Top-Up Option Shares shall be made by wire transfer of immediately available funds to an account designated by the Company.

(b) The Company shall pay all expenses, and any and all Federal, state and local taxes and other charges, that may be payable in connection with the preparation, issuance and delivery of stock certificates under this Section 2.2.

(c) Certificates evidencing Top-Up Option Shares delivered hereunder may include legends legally required including the legend in substantially the following form:

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THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE REOFFERED OR SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

It is understood and agreed that the foregoing legend shall be removed by delivery of substitute certificate(s) without such legend upon the sale of the Top-Up Option Shares pursuant to a registered public offering or Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), or any other sale as a result of which such legend is no longer required.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and the Purchaser (except as otherwise disclosed in writing on the date hereof) as follows:

SECTION 3.1. Organization; Authority Relative to this Agreement. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California. The Company has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly and validly executed and delivered by the Company and, assuming the due and valid authorization, execution and delivery by Parent and the Purchaser, constitutes a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, and by general equitable principles.

SECTION 3.2. Authority to Issue Shares. The Company has taken all necessary corporate action to authorize and reserve and permit it to issue, and at all times from the date hereof through the Top-Up Termination Date shall have reserved, all the Top-Up Option Shares issuable pursuant to this Agreement. All of the shares of Common Stock issuable under the Top-Up Stock Option, upon their issuance and delivery in accordance with the terms of this Agreement, will be duly authorized, validly issued, fully paid and nonassessable, will be delivered free and clear of all security interests, liens, claims, pledges, options, rights of first refusal, agreements, limitations on the Purchaser's voting rights, charges, adverse rights and other encumbrances of any nature whatsoever (other than this Agreement) and will not be subject to any preemptive rights.

SECTION 3.3. No Conflict; Required Filings and Consents. (a) The execution and delivery of this Agreement by the Company does not, and the performance by the Company of its obligations hereunder and the consummation of the transactions contemplated hereby will not, (i) conflict with or violate the

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articles of incorporation or bylaws or equivalent organizational documents of the Company or any of the Subsidiaries, (ii) assuming that all Consents and filings described in Section 3.3(b) have been obtained or made, conflict with or violate any Law applicable to the Company or the Subsidiaries or by which any property or asset of the Company or the Subsidiaries is bound or affected or (iii) result in any Violation pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties may be bound or affected.

(b) No Consent of, or filing with, any Governmental Entity is required by the Company in connection with the execution and delivery of this Agreement, the performance by the Company of its obligations hereunder or the consummation by the Company of the transactions contemplated hereby, except for

(i) compliance with the HSR Act and any requirements of any other Antitrust Laws and (ii) Consents or filings the failure of which to be obtained or made would not, individually or in the aggregate, prevent or materially delay the consummation of the transactions contemplated hereby or the performance by the Company of any of its obligations hereunder.

ARTICLE IV

COVENANTS OF THE COMPANY

SECTION 4.1. Further Action. The Company shall use its best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated hereunder, including, without limitation, using all reasonable efforts to obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Entities.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PURCHASER

Parent and the Purchaser hereby represent and warrant to the Company as follows:

SECTION 5.1. Organization; Authority Relative to this Agreement. Each of Parent and the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Each of Parent and the Purchaser has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of

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this Agreement by Parent and the Purchaser and the consummation by Parent and the Purchaser of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Parent and the Purchaser. This Agreement has been duly and validly executed and delivered by Parent and the Purchaser and, assuming the due and valid authorization, execution and delivery by the Company, constitutes a valid and binding obligation of Parent and the Purchaser, enforceable against each of Parent and the Purchaser in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, and by general equitable principles.

SECTION 5.2. No Conflict; Required Filings and Consents. (a) The execution and delivery of this Agreement by Parent and the Purchaser do not, and the performance by Parent and the Purchaser of their obligations hereunder and the consummation of the transactions contemplated hereby will not, (i) conflict with or violate the articles of incorporation or bylaws or equivalent organizational documents of Parent or the Purchaser, (ii) assuming that all Consents and filings described in Section 5.2(b) have been obtained or made, conflict with or violate any Law applicable to Parent or the Purchaser or by which any property or asset of Parent or the Purchaser is bound or affected or (iii) result in any Violation pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or the Purchaser is a party or by which Parent or the Purchaser or any of their respective properties may be bound or affected.

(b) No Consent of, or filing with, any Governmental Entity is required by Parent or the Purchaser in connection with the execution and delivery of this Agreement, the performance by Parent or the Purchaser of any of its obligations hereunder or the consummation by Parent or the Purchaser of the transactions contemplated hereby, except for (i) compliance with the HSR Act and any requirements of any other Antitrust Laws and (ii) Consents or filings the failure of which to be obtained or made would not, individually or in the aggregate, prevent or materially delay the consummation of the transactions contemplated hereby or the performance by Parent or the Purchaser of any of their respective obligations hereunder.

ARTICLE VI

COVENANTS OF THE PURCHASER

SECTION 6.1. Distribution. The Purchaser shall acquire the Top-Up Option Shares for investment purposes only (and, only for the purpose of effecting a short-form merger with the Company) and not with a view to any distribution thereof in violation of the Securities Act.

ARTICLE VII

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MISCELLANEOUS

SECTION 7.1. Amendment. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 7.2. Waiver. Any party hereto may (a) extend the time for or waive compliance with the performance of any obligation or other act of any other party hereto or (b) waive any inaccuracy in the representations and warranties contained herein or in any document delivered pursuant hereto. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

SECTION 7.3. Fees and Expenses. Except as otherwise provided herein or in Section 8.03 of the Merger Agreement, all costs, fees and expenses incurred in connection with this Agreement shall be paid by the party incurring such expenses.

SECTION 7.4. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally or sent by telecopy or by overnight courier (providing proof of delivery) to the respective parties at their addresses as specified in Section 9.04 of the Merger Agreement.

SECTION 7.5. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner to the fullest extent permitted by applicable Law in order that the transactions contemplated hereby may be consummated as originally contemplated to the fullest extent possible.

SECTION 7.6. Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise, by any of the parties hereto without the prior written consent of the other parties, except that the Purchaser may assign, in its discretion, any or all of its rights, interests and obligations hereunder to Parent or any direct or indirect subsidiary of Parent, but no such assignment shall relieve the Purchaser of any of its obligations hereunder. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and permitted assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, express or implied, is intended to confer on any person other than the parties hereto or

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their respective successors and permitted assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 7.7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to the principles of conflicts of laws thereof.

SECTION 7.8. ENFORCEMENT. THE PARTIES AGREE THAT IRREPARABLE DAMAGE WOULD OCCUR IN THE EVENT THAT ANY OF THE PROVISIONS OF THIS AGREEMENT WERE NOT PERFORMED IN ACCORDANCE WITH THEIR SPECIFIC TERMS OR WERE

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 OF THIS AGREEMENT IN ANY COURT OF THE UNITED STATES OR ANY STATE HAVING JURISDICTION, THIS BEING IN ADDITION TO ANY OTHER REMEDY TO WHICH THEY ARE ENTITLED AT LAW OR IN EQUITY.

SECTION 7.9. Headings. The descriptive headings contained in this Agreement are included for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 7.10. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

SECTION 7.11. Entire Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, all as of the date first written above.

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

By: /s/ R. RAY HALL

Name: R. Ray Hall

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Title: Executive Vice President

By: /s/ PAUL BOUTHILET

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Name: Paul Bouthilet
Title: Secretary

VOITH SULZER ACQUISITION CORP.

By: /s/ R. RAY HALL

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Name: R. Ray Hall
Title: President

By: /s/ PAUL BOUTHILET

\-------------------------------------
Name: Paul Bouthilet
Title: Secretary

IMPACT SYSTEMS, INC.

By: /s/ KENNETH P. OSTROW

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Name: Kenneth P. Ostrow
Title: President

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EXHIBIT (C)(5)

NONCOMPETITION AGREEMENT

This NONCOMPETITION AGREEMENT (the "Agreement"), dated the 11th day of December, 1997 by and between Voith Sulzer Paper Technology North America Inc., a Delaware corporation ("Voith") and Kenneth P. Ostrow (the "Executive").

BACKGROUND

Simultaneously with the execution hereof, Voith and Impact Systems, Inc. ("Impact") are entering into an Agreement and Plan of Merger of even date herewith (the "Merger Agreement") which provides in part, that Voith and Voith Sulzer Acquisition Corp. will offer to purchase any and all of the shares of Common Stock of the Company pursuant to a cash tender offer (the "Tender Offer").

Executive is an executive of Impact and has been actively involved in the development and marketing of Impact's products together with its present or future subsidiaries (collectively, "Impact"). Voith intends to continue the business of Impact after the Acceptance Date (as defined below), and integrate such business into Voith's ongoing business. To preserve and protect the assets of Impact, including Impact's goodwill, customers and trade secrets of which Executive has, and will, in his role as an employee of Voith, have knowledge, and to preserve and protect Voith's goodwill and business interests going forward, and in consideration for Voith's entering into and performing under the Merger Agreement, Executive has agreed to enter into this Agreement.

Executive and Voith believe the limitations as to time, geographical area and scope of activity contained in this Agreement hereof are reasonably necessary to, and no greater than that required to, protect the goodwill and business interests purchased by Voith.

1. Consideration. In consideration for Executive's performance pursuant to the terms and conditions of this Agreement, Voith shall (i) purchase any of the shares of Impact owned by Executive pursuant to the Merger Agreement and (ii) pay Executive $700,000 on the date the Merger contemplated by the Merger Agreement is consummated (the "Acceptance Date"); $432,000 on the first anniversary of the Acceptance Date and $467,000 on the second anniversary of the Acceptance Date.

2. Noncompete. Executive agrees that during the period beginning on the Acceptance Date and continuing for five (5) years thereafter, he shall not enter into the employ of, or render services to, any firm, corporation, or organization in a capacity that gives him responsibility for that segment of such entity's business which derives more than ten percent (10%) of its annual revenues from sales of products which directly compete with products which were

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offered by Impact at the Acceptance Date.

3. Geographic Area. The parties acknowledge that the business of Voith, Impact and their subsidiaries is international in scope. Accordingly, in order to secure Voith the benefits of the Merger, the parties agree that the geographical areas in which the restrictions provided for in this Agreement apply include all cities, counties and states of the United States of America. In addition, the parties agree that the geographical areas in which the restrictions provided for in this Agreement apply include all foreign nations outside the United States of America in which Voith, Impact or any of their subsidiaries has engaged in sales, or otherwise conducted business or selling efforts, at any time during the two (2) years prior to the Acceptance Date.

4. Severability. The parties intend that the covenants contained in this Agreement be construed as a series of separate covenants, one for each county of each state of the United States and each nation. Except for geographic coverage, each such separate covenant shall be deemed identical in terms of the covenants contained in this Agreement. If, in any judicial proceeding, a court shall refuse to enforce any of the separate covenants (or any part thereof) deemed included in this Agreement, then such unenforceable covenant (or such part) shall be deemed eliminated from this Agreement for the purpose of those proceedings to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Agreement should ever be deemed to exceed the time or geographic limitations, or the

scope of these covenants, as permitted by applicable law, then such provisions shall be reformed to the maximum time or geographic limitations, as the case may be, permitted by applicable laws.

5. Injunctions. Executive acknowledges that any breach of the covenants of this Agreement will result in immediate and irreparable injury to Voith and, accordingly, consents to the application of injunctive relief and such other equitable remedies for the benefit of Voith as may be appropriate in the event such a breach occurs or is threatened. The foregoing remedies will be in addition to all other legal remedies to which Voith may be entitled hereunder, including, without limitation, monetary damages. Voith shall notify Executive of any purported breach of the Agreement and Executive shall have a reasonable period to cure such purported breach.

6. Miscellaneous.

(a) Notices. Any and all notices permitted or required to be given under this Agreement must be in writing. Notices will be deemed given (i) when personally received or when sent by facsimile transmission (to the receiving party's facsimile number), (ii) on the first business day after having been sent by commercial overnight courier with written verification of receipt, or (iii) on the third business day after having been sent by registered or certified mail from a location on the United States mainland, return receipt requested, postage

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prepaid, whichever occurs first, at the address set forth below or at any new address, notice of which will have been given in accordance with this Section 6(a):

If to Voith: Voith Sulzer Paper Technology North America, Inc.
200 N. Roemer Road
Appleton, WI 54913
Attn: Paul Bouthilet

If to Executive, at Executive's address in the personnel records of Voith.

(b) Amendments. This Agreement contains the entire agreement and supersedes and replaces all prior agreements between Voith and Executive or Impact and Executive concerning the subject matter hereof. This Agreement may not be changed or modified in whole or in part except by a writing signed by the party against whom enforcement of the change or modification is sought.

(c) Successors and Assigns. This Agreement will not be assignable by either Executive or Voith except that the rights and obligations of Voith under this Agreement may be assigned to a corporation which becomes the successor to Voith as the result of a merger or other corporate reorganization and which continues the business of Voith or any other subsidiary of Voith, provided that, in the case of a subsidiary, Voith guarantees the performance by such assignee of Voith's obligations hereunder.

(d) Governing Law. This Agreement shall be construed in accordance with, and governed in all respects by, the law of California, as applied to agreements entered into, and to be performed entirely in such state, by residents of such state.

(e) No Waiver. The failure of either party to insist on strict compliance with any of the terms of this Agreement in any instance or instances will not be deemed to be a waiver of any term of this Agreement or of that party's right to require strict compliance with the terms of this Agreement in any other instance.

(f) Counterparts. This Agreement may be executed in counterparts which when taken together will constitute one instrument. Any copy of this Agreement with the original signatures of all parties appended will constitute an original.

(g) Legal Costs. In the event that Executive sues to enforce his rights under this Agreement, Voith shall pay Executive all costs to Executive of such litigation.

(h) Termination. In the event the merger contemplated by the Merger Agreement is not consummated prior to the termination of the Merger Agreement, this Agreement shall terminate and no payments shall be due Executive hereunder.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

VOITH SULZER PAPER TECHNOLOGY
NORTH AMERICA INC.

By: /s/ R. RAY HALL

Title: Executive Vice President

KENNETH P. OSTROW

/s/ KENNETH P. OSTROW

(Signature)

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