AMERICAN TOWER CORP /MA/
Form DEF 14A
April 04, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement.

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

x Definitive Proxy Statement.

¨ Definitive Additional Materials.

¨ Soliciting Material Pursuant to §240.14a-12.

AMERICAN TOWER CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

April 4, 2014

Dear Stockholder:

It is a pleasure to invite you to our 2014 Annual Meeting in Boston, Massachusetts on Tuesday, May 20, 2014 at 11:00 a.m., local time, to be held in the Braemore/Kenmore Room at the Colonnade Hotel, 120 Huntington Avenue, Boston, Massachusetts 02116. We have included the official notice of meeting, proxy statement and form of proxy with this letter. The proxy statement describes in detail the matters listed in the notice of meeting.

Every stockholder vote is important. Therefore, I urge you to vote as soon as possible so that your shares will be represented at the meeting. You may vote your shares over the Internet, or if you received a paper copy of the proxy materials by mail, you can also vote by mail by following the instructions on the proxy card or voting instruction card. Voting over the Internet or by written proxy card or voting instruction card will ensure your representation at the meeting regardless of whether you attend in person. You may withdraw your proxy and vote in person at the meeting if you wish to do so.

Your Board of Directors and management look forward to greeting those of you who are able to attend.

Sincerely,

James D. Taiclet, Jr.
Chairman of the Board, President and

Chief Executive Officer

Table of Contents

AMERICAN TOWER CORPORATION

116 Huntington Avenue

Boston, Massachusetts 02116

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 20, 2014

To the Stockholders:

The 2014 Annual Meeting of Stockholders of American Tower Corporation, a Delaware corporation, will be held in the Braemore/Kenmore Room at the Colonnade Hotel, 120 Huntington Avenue, Boston, Massachusetts 02116, on Tuesday, May 20, 2014 at 11:00 a.m., local time, to consider and act upon the following matters:

1. To elect nine Directors for the ensuing year or until their successors are elected and qualified;

2. To ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for 2014;

3. To approve, on an advisory basis, our executive compensation; and

4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Stockholders of record at the close of business on March 25, 2014 are entitled to notice of, and to vote at, the Annual Meeting. Our stock transfer books will remain open for the transfer of our common stock. For a period of ten days prior to the Annual Meeting, a complete list of the stockholders entitled to vote at the Annual Meeting will be available at our principal executive offices for inspection by any stockholder of record for any purpose germane to the Annual Meeting.

By order of the Board of Directors,

Edmund DiSanto
Executive Vice President, Chief Administrative Officer, General Counsel and Secretary

Boston, Massachusetts

April 4, 2014

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE VOTE AS SOON AS POSSIBLE TO ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. YOU MAY VOTE YOUR SHARES OVER THE INTERNET OR BY MAIL (AS APPLICABLE) BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD OR VOTING

INSTRUCTION CARD.

Table of Contents

TABLE OF CONTENTS

	Page No.
GENERAL INFORMATION	1
Questions and Answers	1
Proxy Summary Statement	4
Security Ownership of Certain Beneficial Owners and Management	7
PROPOSAL 1 ELECTION OF DIRECTORS	9
CORPORATE GOVERNANCE	13
General	13
Annual Evaluation	13
Orientation and Education	13
Determination of Independence	13
Selection of Director Candidates	14
Stock Ownership Guidelines	15
Communications from Stockholders and Other Interested Parties	16
Board Leadership Structure and its Role in the Oversight of Risk	16
Approval of Related Party Transactions	18
Board of Directors Meetings and Committees	18
Audit Committee Report	20
Independent Auditor Fees and Other Matters	21
COMPENSATION AND OTHER INFORMATION CONCERNING DIRECTORS AND OFFICERS	22
Compensation Discussion and Analysis	22
Executive Summary	22
Compensation Philosophy	24
Elements of Compensation	26
Evaluation and Performance Review Process	27
Compensation Determinations for 2013	30
Compensation Determinations for 2014	35
Employment and Other Agreements	35
Equity-Based Award Procedures	36
Stock Ownership Guidelines	37
Anti-Insider Trading Policy	37
Claw Back	37
Tax and Accounting Implications	38
Compensation Committee Report	38
Executive Compensation	39
Employment and Severance Arrangements	45
Director Compensation	48
Securities Authorized for Issuance under Equity Compensation Plans	51
PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	52
PROPOSAL 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION	52
ADDITIONAL INFORMATION	54
Other Matters	54
Section 16(a) Beneficial Ownership Reporting Compliance	54
Proposals of Stockholders	54
Householding of Annual Meeting Materials	54
Annual Report on Form 10-K	55

Table of Contents

AMERICAN TOWER CORPORATION

116 Huntington Avenue

Boston, Massachusetts 02116

PROXY STATEMENT

FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 20, 2014

GENERAL INFORMATION

Questions and Answers

Q. Why did I receive these proxy materials?

A. These proxy materials are furnished in connection with the solicitation of proxies by the Board of Directors of American Tower Corporation, a Delaware corporation (the Company or American Tower), for use at its 2014 Annual Meeting of Stockholders (Annual Meeting) to be held on May 20, 2014, or any adjournments or postponements thereof.

The Company has made these materials available to you on the Internet or, upon your request, delivered printed versions of these materials to you by mail, because you were a stockholder as of March 25, 2014, the record date fixed by the Board of Directors, and are therefore entitled to receive notice of the Annual Meeting (Notice) and to vote on matters presented at the meeting.

Q. Why did I receive a Notice instead of a full set of proxy materials?

A. As permitted by rules adopted by the Securities and Exchange Commission (SEC), we are making this Proxy Statement and our Annual Report to Stockholders for the year ended December 31, 2013 available electronically via the Internet at www.proxyvote.com. Our Annual Report to Stockholders includes a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the SEC on February 26, 2014, excluding exhibits. On or about April 4, 2014, we mailed you a Notice containing instructions on how to access this Proxy Statement and our Annual Report and vote over the Internet. If you received the Notice by mail, you will not receive a printed copy of the proxy materials in the mail. The Notice instructs you on how you may submit your proxy over the Internet. If you received the Notice by mail and would like a printed copy of our proxy materials, you should follow the instructions for requesting those materials included in the Notice.

Q. When and where is the Annual Meeting being held?

A. The Annual Meeting will be held on Tuesday, May 20, 2014 at 11:00 a.m., local time, in the Braemore/Kenmore Room at the Colonnade Hotel, 120 Huntington Avenue, Boston, Massachusetts 02116.

Q. Who is entitled to vote at the Annual Meeting?

A. If you are a holder of American Tower s common stock (Common Stock) at the close of business on March 25, 2014, the record date fixed by the Board of Directors, you may vote the shares of Common Stock that you hold on that date at the Annual Meeting. With respect to the matters submitted for vote at the Annual Meeting, each share of Common Stock is entitled to one vote. On March 25, 2014, there were 395,657,262 shares of Common Stock outstanding and entitled to vote.

Q. What constitutes a quorum for the Annual Meeting?

A. The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock issued and outstanding on March 25, 2014 will constitute a quorum for the transaction of business. We will count abstentions and shares held by brokers or nominees who have not received

instructions from the beneficial owner (broker non-votes) as present for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting.

Q. What items will be voted on at the Annual Meeting and what is the required vote?

A. As a stockholder, you are entitled to vote on the following proposals:

Proposal 1 To elect the nine nominees to the Board of Directors named in this Proxy Statement;

Proposal 2 To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2014; and

Proposal 3 To approve, on an advisory basis, our executive compensation.

Directors receiving an affirmative majority of votes cast (i.e., the number of shares cast for a Director nominee must exceed the number of votes cast against that nominee) will be elected. Similarly, Proposals 2 and 3 each require an affirmative majority of the votes cast (i.e., the number of shares cast for the proposal must exceed the number of votes cast against that proposal). We will not count shares that abstain from voting on a particular matter as votes cast for or against such matter, and therefore, they will have no effect on the outcome of the vote or any of the Proposals.

Although the advisory vote on executive compensation is non-binding, our Compensation Committee of the Board of Directors (Compensation Committee) will consider and take into account the vote results in making future executive compensation determinations.

Q. How will proxies be voted at the Annual Meeting?

If you hold shares through a broker or nominee and do not provide the broker or nominee with specific voting instructions, under the rules that govern brokers or nominees in such circumstances, your broker or nominee will have the discretion to vote such shares on routine matters, but not on non-routine matters. As a result:

Your broker or nominee will not have the authority to exercise discretion to vote such shares with respect to Proposals 1 and 3, because the New York Stock Exchange (NYSE) rules treat these matters as non-routine.

Your broker or nominee will have the authority to exercise discretion to vote such shares with respect to Proposal 2, because that matter is treated as routine under the NYSE rules.

Broker non-votes will be counted as present for purposes of determining the presence or absence of a quorum but will otherwise have no effect on the outcome of the vote on Proposals 1 and 3.

If you are a registered shareowner and no instructions are indicated on a properly executed proxy card submitted by you, the shares represented by the proxy will be voted FOR each of Proposals 1, 2 and 3, and in accordance with the judgment of the proxy holders as to any other matter that may be properly brought before the Annual Meeting, or any adjournments or postponements thereof.

Q. How do I cast a vote?

A. You may vote by any one of the following means:

By Internet Stockholders who received a Notice about the Internet availability of our proxy materials may submit proxies over the Internet by following the instructions on the Notice. Stockholders who have received a paper copy of a proxy card or voting instruction card by mail may submit proxies over the Internet by following the instructions on the proxy card or voting instruction card.

By Mail Stockholders who have received a paper copy of a proxy card or voting instruction card by mail may submit proxies by completing, signing and dating their proxy card or voting instruction card

and mailing it in the accompanying self-addressed envelope. No postage is necessary if mailed in the United States.

In person, at the Annual Meeting Stockholders who hold shares in their name as the stockholder of record may vote in person at the Annual Meeting. Stockholders who are beneficial owners but not stockholders of record may vote in person at the Annual Meeting only with a legal proxy obtained from their broker, trustee or nominee, as applicable.

Properly completed and submitted proxy cards and voting instruction cards, and proxies properly completed and submitted over the Internet, if received in time for voting and not revoked, will be voted at the Annual Meeting in accordance with the instructions contained therein.

Q. Can I change my mind after I vote?

A. Yes. You can change your vote at any time before your proxy is voted at the Annual Meeting. To revoke your proxy, you must either:

file an instrument of revocation with our Secretary, at our principal executive offices, 116 Huntington Avenue, Boston, Massachusetts 02116;

mail a new proxy card dated after the date of the proxy you wish to revoke to our Secretary at our principal executive offices;

submit a later dated proxy over the Internet in accordance with the instructions set forth on the Internet voting website; or

if you are a stockholder of record, or you obtain a legal proxy from your broker, trustee or nominee, as applicable, attend the Annual Meeting and vote in person.

If not revoked, we will vote the proxy at the Annual Meeting in accordance with your instructions indicated on the proxy card or voting instruction card or, if submitted over the Internet, as indicated on the submission.

Q. Who bears the cost of this proxy solicitation?

We bear all proxy solicitation costs. In addition to solicitations by mail, our Board of Directors, our officers and our regular employees, without additional remuneration, may solicit proxies by telephone, facsimile, electronic transmission and personal interviews. We will request brokers, banks, custodians and other fiduciaries to forward proxy soliciting materials to the beneficial owners of Common Stock. We will reimburse them for their reasonable out-of-pocket expenses incurred in connection with distributing proxy materials.

Q. What do I need to do now?

A. You should carefully read and consider the information contained in this Proxy Statement. It contains important information about American Tower that you should consider prior to casting your vote.

Table of Contents

Proxy Summary Statement

Below is a summary of important information you will find in this Proxy Statement. As it is only a summary, please review the complete Proxy Statement before submitting your vote.

Business Performance

Fiscal year 2013 marked another year of significant growth for us. During the course of the year, we completed key strategic acquisitions domestically and internationally, while successfully managing our balance sheet. We also remained focused on our strategic and business objectives, which helped continue to align our short- and long-term goals. Our strategic achievements included:

- Continuing to add to our strong asset base through the addition of new tenants and new equipment for existing tenants through collocation, completing targeted acquisitions of certain complementary site portfolios and build-to-suit construction projects;
- Expanding our domestic portfolio through our acquisition of MIP Tower Holdings LLC (MIPT), a private real estate investment trust (REIT) and parent company to Global Tower Partners, and expanding our global footprint into two new international markets, Costa Rica and Panama;
- Significantly increasing our portfolio scale in our legacy markets in Latin America by acquiring portfolios from Axtel, S.A.B. de C.V. (Axtel) in Mexico and NII Holdings, Inc. (NII) in Mexico and Brazil;
- Adding over 13,000 communications sites, which resulted in the growth of our portfolio to over 67,000 communications sites across 13 served markets;
- Strengthening our financial position by successfully completing a number of key financing initiatives, including a securitization refinancing, two successful registered public debt offerings, a new multi-currency revolving credit facility, term loan and short-term credit facility, in an effort to maintain sufficient liquidity and decrease our cost of capital; and
- Utilizing our capital allocation strategy to maximize available resources across the business portfolio to achieve targeted returns and growth on core assets.

Financial Performance

The following table contains key financial data demonstrating how we have continued to grow our business:

Financial Measure (in millions)	Fiscal Year 2012	Fiscal Year 2013	Percent Change (1)
Total Revenue	$ 2,876	$ 3,361	17%
Total Rental and Management Revenue	$ 2,803	$ 3,287	17%
Operating Income	$ 1,120	$ 1,214	8%
Cash Provided by Operating Activities	$ 1,414	$ 1,599	13%
Adjusted Funds From Operations (2)(4)	$ 1,223	$ 1,470	20%
Adjusted EBITDA (3)(4)	$ 1,892	$ 2,176	15%

(1) This column represents the percentage change from the prior year.

(2) We define Adjusted Funds From Operations (AFFO) as Funds From Operations, as defined by the National Association of Real Estate Investment Trusts (NAREIT FFO), before (i) straight-line revenue and expense; (ii) stock-based compensation expense; (iii) the non-cash portion of our tax provision; (iv) non-real estate related depreciation, amortization and accretion; (v) amortization of deferred financing costs, capitalized interest, debt discounts and premiums and long-term deferred interest charges; (vi) other income (expense); (vii) loss on retirement of long-term obligations; (viii) other operating income (expense); and adjustments for (ix) unconsolidated affiliates and (x) noncontrolling interest, less cash payments related to capital improvements and cash payments related to corporate capital expenditures. We define NAREIT FFO as net income before gains or losses from the sale or disposal of real estate, real estate related impairment charges and real estate related depreciation, amortization and accretion, and including adjustments for (i) unconsolidated affiliates and (ii) noncontrolling interest.

(3) We define Adjusted EBITDA as net income before: income (loss) on discontinued operations, net; income (loss) from equity method investments; income tax provision (benefit); other income (expense); loss on retirement of long-term obligations; interest expense; interest income; other operating income (expense); depreciation, amortization and accretion; and stock-based compensation expense.

(4) AFFO and Adjusted EBITDA are non-GAAP financial measures. Reconciliations to GAAP can be found on pages 38 and 39 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 26, 2014.

Table of Contents

Corporate Governance

We are strongly committed to good corporate governance practices. Our Nominating and Corporate Governance Committee of our Board of Directors (Nominating Committee) continuously reviews our corporate governance practices and market trends, adopting policies that we believe enhance management oversight for the long-term benefit of our stockholders.

Corporate Governance Facts

Board and Other Governance Information	2013
Size of Board	9
Average Age of Directors	61
Number of Independent Directors	8
Only Independent Directors Serve on Committees	Yes
Board Diversity (as to Gender, Race, National Origin, Experience and Skills)	Yes
Average Director Tenure (in years)	9
Annual Election of All Directors	Yes
Majority Voting for Directors	Yes
Separate Chairman & CEO	No
Lead Independent Director	Yes
Independent Directors Meet Without Management Present	Yes
Annual Board and Committee Self-Evaluations	Yes
Annual Independent Director Evaluation of Chairman and CEO, including CEO s Interaction with Board	Yes
Board Orientation/Education Program	Yes
Number of Board Meetings Held in 2013	10
Average Director Attendance	At least 75%
Code of Ethics and Business Conduct Policy for Directors	Yes
Corporate Compliance Program	Yes
Corporate Governance Committee	Yes
Disclosure Committee for Financial Reporting	Yes
Stockholder Approval Rate for Our 2012 Executive Compensation	96%
Resignation Policy	Yes
Stockholder Ability to Call Special Meetings (25% ownership threshold)	Yes
Stock Ownership Guidelines for Directors and Executives	Yes
Review and Approval Policy for Related Party Transactions	Yes

Executive Compensation Philosophy

The objectives of American Tower s pay for performance philosophy, set by the Compensation Committee, are to reward our executive officers for their leadership roles in meeting key near-term goals and objectives, while also positioning American Tower to generate sustainable long-term stockholder value. Our approach in determining executive compensation includes an overall assessment of:

- The Company s performance relative to corporate level goals and objectives;
- Individual performance relative to both corporate and individual goals and objectives;
- The Company s annual financial performance relative to competitors and peer group companies; and
- Other relevant considerations, such as seeking to retain executives who have a multi-year track record of outstanding performance at the Company and future leadership potential.

To achieve our compensation objectives, our total executive compensation program includes the following elements:

Element	Type
Long-Term Incentive Compensation (100% Equity)	**Restricted Stock Units** (representing 50% of equity values) **Stock Options** (representing 50% of equity values)
Cash	**Annual Base Salary** **Short-Term Incentives** (Performance-Based Bonus Awards)

Other key features of our executive compensation program include the following:

- Double Trigger Equity Vesting and No Tax Gross-Ups in a Change of Control
- Reasonable Retirement and Welfare Benefits
- Claw Back Provisions
- Stock Ownership Guidelines
- Anti-Insider Trading Policy
- Independent Compensation Consultant
- Annual Risk Assessment

Table of Contents

Proposals to be Voted on and Voting Recommendations

Proposal	Board Voting Recommendation	Page Reference (for more detail)
Election of Directors (Proposal No. 1)	FOR each director nominee	9
Ratification of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2014 (Proposal No. 2)	FOR	52
Approval, on an advisory basis, of Executive Compensation (Say-On-Pay) (Proposal No. 3)	FOR	52

American Tower Director Nominees

You are being asked to vote on the election of the following nine Directors. All Directors are elected annually by a majority of votes cast. Detailed information about each Director s background, skill set and areas of expertise can be found beginning on page 10.

Name

< countries or for newer U.S. patent applications tends to lag behind actual discoveries and filing of related patent applications. Due to this factor and the large number of patents and patent applications related to RF materials and technologies, and other products and technologies that the Company is pursuing, comprehensive patent searches and analyses associated with RF technologies and other products and technologies that the Company is pursuing are often impractical or not cost-effective. As a result, patent and literature searches cannot fully evaluate the patentability of the claims in its patent applications or whether materials or processes used by the Company for its planned products infringe or will infringe upon existing technologies described in U.S. patents or may infringe

15

Table of Contents

upon claims in patent applications made available in the future. Because of the volume of patents issued and patent applications filed relating to RF technologies and other products and technologies that it is pursuing, the Company believes there is a significant risk that current and potential competitors and other third-parties have filed or will file patent applications for, or have obtained or will obtain, patents or other proprietary rights relating to materials, products or processes used or proposed to be used by the Company. In any such case, to avoid infringement, it would have to either license such technologies or design around any such patents. The Company may be unable to obtain licenses to such technologies or, if obtainable, such licenses may not be available on terms acceptable to the Company or the Company may be unable to successfully design around these third-party patents.

Participation in litigation or patent office proceedings in the U.S. or other countries, which could result in substantial cost to and diversion of effort by the Company, may be necessary to enforce patents issued or licensed to it, to defend itself against infringement claims made by others or to determine the ownership, scope or validity of the proprietary rights of the Company and others. The parties to such litigation may be larger, better capitalized than the Company and better able to support the cost of litigation. An adverse outcome in any such proceedings could subject the Company to significant liabilities to third parties, require it to seek licenses from third parties and/or require it to cease using certain technologies, any of which could have a material adverse effect on the Company s business, operating results and financial condition.

Litigation

The Company has been subject to a number of lawsuits in the past, though none are active as of the date of this filing (March 2005). If the Company is not successful in defending itself against whatever claims and charges may be made against it in the future there may be a material and adverse effect on the Company s business, operating results and financial condition.

Government Regulations

Although the Company believes that its wireless telecommunications products themselves would not be subject to licensing by, or approval requirements of, the FCC, the operation of base stations is subject to FCC licensing and the radio equipment into which the Company s products would be incorporated is subject to FCC approval. Base stations and the equipment marketed for use therein must meet specified technical standards. The ability to sell the Company s wireless telecommunications products is dependent on the ability of wireless base station equipment manufacturers and wireless base station operators to obtain and retain the necessary FCC approvals and licenses. In order for them to be acceptable to base station equipment manufacturers and to base station operators, the characteristics, quality and reliability of the Company s base station products must enable them to meet FCC technical standards. The Company may be subject to similar regulations of the Canadian federal and provincial governments. Any failure to meet such standards or delays by base station equipment manufacturers and wireless base station operators in obtaining the necessary approvals or licenses could have a material adverse effect on the Company s business, operating results and financial condition. In addition, certain RF filters are on the U.S. Department of Commerce s export regulation list. Therefore, exportation of such RF filters to certain countries may be restricted or subject to export licenses.

The Company is subject to governmental labor, safety and discrimination laws and regulations with substantial penalties for violations. In addition, employees and others may bring suit against it for perceived violations of such laws and regulations. Defense against such complaints could result in significant legal costs for us. Although the Company endeavors to comply with all applicable laws and regulations, it may be the subject of complaints in the future, which could have a material adverse effect on the Company s business, operating results and financial condition.

Environmental Liability

Certain hazardous materials may be in research, development and to the extent of any manufacturing operations. As a result, the Company is subject to stringent federal, state and local regulations governing the storage, use and disposal of such materials. It is possible that current or future laws and regulations could require it to make substantial expenditures for preventive or remedial action, reduction of chemical exposure, or waste treatment or disposal. The Company believes it is in material compliance with all environmental regulations and to date has not had to incur significant expenditures for preventive or remedial action with respect to the use of hazardous materials.

Table of Contents

However, the Company s operations, business or assets could be materially and adversely affected by the interpretation and enforcement of current or future environmental laws and regulations. In addition, although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, there is the risk of accidental contamination or injury from these materials. In the event of an accident, the Company could be held liable for any damages that result. Furthermore, the use and disposal of hazardous materials involves the risk that the Company could incur substantial expenditures for such preventive or remedial actions. The liability in the event of an accident or the costs of such actions could exceed available resources or otherwise have a material adverse effect on the business, results of operations and financial condition. The Company carries property and worker s compensation insurances in full force and effect through nationally known carriers which include pollution cleanup or removal and medical claims for industrial incidents.

RISKS RELATED TO ACQUISITIONS AND BUSINESS EXPANSION

Risks of Future Acquisitions

In the future, the Company may pursue acquisitions to obtain products, services and technologies that it believes will complement or enhance its current product or services offerings. At present, no agreements or other arrangements exist with respect to any such acquisition. An acquisition may not produce the revenue, earnings or business synergies as anticipated and may attach significant unforeseen liabilities, and an acquired product, service or technology might not perform as expected. If an acquisition is pursued, the Company s management could spend a significant amount of time and effort in identifying and completing the acquisition and may be distracted from the operations of the business. In addition, management would probably have to devote a significant amount of resources toward integrating the acquired business with the existing business, and that integration may not be successful.

International Operations

The Company is in discussions and has agreements in place with companies in non-U.S. markets to form manufacturing, product development joint ventures and other marketing, distribution or consulting arrangements. For example, the Company has a relationship with a Canadian manufacturing firm for the production of its ANF product. The Company does not believe that the loss of this manufacturing partner would significantly affect its operations. There are many such entities that exist domestically, and the Company s products were designed to be produced by any such entity, and not tied to one in particular.

The Company believes that non-U.S. markets could provide a substantial source of revenue in the future. However, there are certain risks applicable to doing business in foreign markets that are not applicable to companies doing business solely in the U.S. For example, the Company may be subject to risks related to fluctuations in the exchange rate between the U.S. dollar and foreign currencies in countries in which it does business. In addition, it may be subject to the additional laws and regulations of these foreign jurisdictions, some of which might be substantially more

restrictive than similar U.S. ones. Foreign jurisdictions may also provide less patent protection than is available in the U.S., and the Company may be less able to protect its intellectual property from misappropriation and infringement in these foreign markets.

Item 2. Properties

The Company maintains its corporate headquarters in a 15,000 square foot building located in Elk Grove Village, Illinois under a lease which expires in October 2014. This facility houses the Company s manufacturing, research, development, engineering and marketing activities. The Company believes that this facility is adequate and suitable for its current needs and that additional space would be available on commercial terms as necessary to meet any future needs.

Table of Contents

Item 3. Legal Proceedings

Patent Litigation

In July 2001, the Company filed suit in the United States District Court for the District of Delaware against Conductus, Inc. and Superconductor Technologies, Inc. alleging infringement of U.S. Patent No. 6,263,215, entitled Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems (the 215 patent). This suit alleged that Conductus and Superconductor Technologies base station front-end systems containing cryogenically cooled superconducting filters infringe this patent. The Company sought a permanent injunction enjoining Conductus and Superconductor Technologies from marketing, selling or manufacturing these products, as well as triple damages and attorneys fees. Conductus and Superconductor Technologies denied these allegations and asked the court to enter a judgment that the patent is invalid and not infringed. Conductus and Superconductor Technologies also asserted the defense of inequitable conduct and a counterclaim for a declaration that the patent is unenforceable as well as federal and state law counterclaims, including claims of unfair competition. Conductus and Superconductor Technologies sought both compensatory and punitive damages as well as attorneys fees and costs.

On March 26, 2002, the Company replied to Conductus and Superconductor Technologies Second Amended Answer and Counterclaims and filed counterclaims alleging that Conductus and Superconductor Technologies also infringe U.S. Patent No. 6,104,934 entitled Cryoelectronic Receiver Front End and U.S. Patent No. 6,205,340 B1 entitled Cryoelectronic Receiver Front End For Mobile Radio Systems . On April 17, 2002, the court dismissed these (the Company s) counterclaims without prejudice to the Company s right to assert these counterclaims in a separate action.

On February 10, 2003, the court disposed of various motions for summary judgment filed by each party. The court denied Superconductor Technologies motion for summary judgment of invalidity of the 215 patent as well as Conductus motion for summary judgment limiting computation of damages to a reasonable royalty for sales to Dobson Communications, Inc. On Superconductor Technologies motion for summary judgment of non-infringement, the court granted the motion with respect to claim 13 of the 215 patent and otherwise denied the motion with respect to each of the other asserted claims. With regard to Conductus motion for summary judgment of non-infringement, the court granted the motion with respect to claim 13 of the 215 patent and otherwise denied the motion with respect to each of the other asserted claims. In addition, the court denied Conductus motion for summary judgment of invalidity of all asserted claims for causes of action existing prior to the date of issuance of the certificate of correction and of invalidity of claim 13. The court also denied the Company s motions for summary judgment that Superconductor Technologies internal projects are not prior art to the 215 patent and to dismiss the defendants counterclaims alleging unfair competition and interference with business relations.

On April 3, 2003, the jury returned with its verdict. The jury rejected the Company s positions and determined its patent to be invalid. Additionally, the jury determined that inequitable conduct had occurred and subsequently awarded defendants $3.87 million in damages from the Company. The Company was severely disappointed by this verdict and it engaged in the post-trial motion

process to overturn it. On August 21, 2003, the court issued its ruling on the post-trial motions. The court overturned the jury s determination of unfair competition on the part of the Company and denied all requests for damages, including the $3.87 million jury award cited above. The court did not, however, overturn the jury determinations of patent invalidity and unenforceability based on inequitable conduct and denied the Company s motion for a new trial.

During September 2003, the Company filed an appeal of this verdict requesting the reinstatement of its patent and the rights inherent within that patent, and Superconductor Technologies, Inc. filed a cross-appeal requesting reinstatement of the jury award and attorney s fees. Each side filed various legal briefs during 2004, and ultimately participated in an in-person hearing on December 6, 2004.

On February 3, 2005, the Appellate Court issued its ruling. It did not find adequate grounds for reversal of the Trial Court decision, and thus maintained the verdict in favor of the defendant in allowing the patent to remain invalid and unenforceable and in favor of the Company in denying counterclaims for damages raised by the defendant. The Appellate Court s ruling concludes this matter.

In November 2001, the Company filed suit against Dobson Communications, Inc. for allegedly infringing this patent. The action was stayed, per agreement between the parties, until resolution of the matter between the

Table of Contents

Company and Conductus and Superconductor Technologies. The parties agreed that Dobson Communications will be bound by any and all final, non-appealable determinations, holdings or findings with respect to all liability issues in the Company s case against Conductus. The Appellate Court s ruling concludes the Dobson matter as well.

Item 4. Submission of Matters to a Vote of Security Holders

At our annual meeting of shareholders held on December 14, 2004, the following proposals were approved by the margins indicated:

	Voted For	Number of Shares	Withheld
1. To elect two (2) Class II Directors, serve for three years subject to the term limitations inherent in proposal #2, and until a successor is elected and qualified:			
Dr. Amr Abdelmonem	151,742,260		1,842,694
Mr. Tom Powers	151,701,168		1,883,786

		Number of Shares	
	Voted For	Against	Withheld
2. To approve an amendment to the Company s Certificate of Incorporation to eliminate the classification of directors	151,675,952	1,310,212	598,790
3. To ratify the appointment of Grant Thornton LLP as the independent auditors of the Company s financial statements for the fiscal year ending December 31, 2004.	152,334,218	686,478	564,258

19

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Common Stock has been quoted since June 2002 on the American Stock Exchange under the symbol ISO. Prior to that, and until April 1999, the stock had been quoted on the OTC Bulletin Board under the symbol ISCO. From 1993 until April 1999, the Common Stock was quoted on the NASDAQ National Market. The following table shows, for the periods indicated, the reported high and low sale prices for the Common Stock. Such prices reflect prices between dealers, without retail mark up, mark down, or commissions and may or may not reflect actual transactions.

	High	Low
FISCAL YEAR ENDING DECEMBER 31, 2003		
First Quarter	$ 0.46	$ 0.30
Second Quarter	$ 0.43	$ 0.11
Third Quarter	$ 0.62	$ 0.22
Fourth Quarter	$ 0.68	$ 0.18
FISCAL YEAR ENDING DECEMBER 31, 2004		
First Quarter	$ 1.07	$ 0.41
Second Quarter	$ 0.68	$ 0.25
Third Quarter	$ 0.40	$ 0.21
Fourth Quarter	$ 0.50	$ 0.23

On December 31, 2004, there were approximately 300 holders of record of the Common Stock. On such date the closing bid price for the Company s common stock as reported on the American Stock Exchange was $0.36.

Information regarding the Company s equity compensation plans is incorporated by reference to Item 12 of this Form 10K, which incorporates by reference the information set forth in the section entitled Equity Compensation Plan Information which is included in this document.

The Company has never paid cash dividends on the Common Stock and the Company does not expect to pay any dividends on its Common Stock in the foreseeable future.

There were no Recent Sales of Unregistered Securities

Item 6. Selected Financial Data

The following table presents selected consolidated financial data with respect to the Company as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004. The selected consolidated financial data for each of the years in the five-year period ended December 31, 2004 have been derived from the audited consolidated financial statements of the Company. The information set forth below should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

	2000	**2001**	**2002**	**2003**	**2004**
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net sales	$ 495,885	$ 1,981,001	$ 3,662,805	$ 3,238,402	$ 2,621,933
Costs and expenses:					
Cost of sales	2,672,578	3,978,368	3,565,140	1,639,540	1,527,554
Research and development	3,187,768	7,131,654	2,737,084	988,425	1,119,406

Table of Contents

Selling and marketing	1,239,959	3,263,813	2,201,195	959,798	1,164,830
General and administrative	5,967,631	7,738,458	7,972,948	5,614,492	4,757,935
Goodwill amortization	704,165	2,009,974			
Operating loss	(13,276,216)	(22,141,266)	(12,813,562)	(5,963,853)	(5,947,792)
Other income (expense):					
Interest income	174,919	138,696	62,954	5,087	8,660
Interest expense	(5,650,572)	(229,568)	(327,224)	(1,197,309)	(1,028,169)
Other income (expense), net	(16,017)	(5,957,465)			
	(5,491,670)	(6,048,337)	(264,270)	(1,192,222)	(1,019,509)
Loss before extraordinary item	(18,767,886)	(28,189,603)	(13,077,832)	(7,156,075)	(6,967,301)
Extraordinary item-debt extinguishment	(28,297)				
Net loss	$ (18,796,183)	$ (28,189,603)	$ (13,077,832)	$ (7,156,075)	$ (6,967,301)
Basic and diluted loss per common share	$ (0.57)	$ (0.26)	$ (0.09)	$ (0.05)	$ (0.04)
Weighted average number of common shares outstanding	33,037,106	107,829,453	142,884,921	148,080,749	158,977,249
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 2,453,845	$ 1,720,697	$ 216,119	$ 346,409	$ 402,391
Working capital	3,096,173	658,661	1,333,827	735,840	992,925
Total assets	23,750,073	20,927,095	19,183,000	17,723,035	16,986,004
Long-term debt/capital lease obligations, less current portion	198	9,425,000	2,000,000	5,000,000	7,500,000
Stockholders equity (net capital deficiency)	21,644,211	7,975,219	15,380,306	10,943,247	7,247,635

Table of Contents

The Company settled the Siegler litigation during 2001 for a charge to Other Expense of $4.9 million. During 2000 the Company merged with two entities: Spectral Solutions, Inc. and the ANF division of Lockheed Martin Canada. Those mergers primarily increased the intellectual property of the Company, and generated financial results including the goodwill amortization shown during 2000 and 2001, as well as a majority of the approximately $1 million in restructuring costs shown in Other Expense during 2001. Beyond the integration of intellectual property and related matters, these mergers had a substantial impact on operating cost and total loss attributable through 2001, but little impact on the comparability of 2002, 2003 and 2004.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

A NOTE CONCERNING FORWARD-LOOKING STATEMENTS

The discussion below contains certain forward-looking statements that reflect our current expectations regarding the Company s future results of operations, performance and achievements. Please see the discussion of such forward-looking statements under Forward Looking Statements in Item 1 above.

Overview

The Company has shifted from manufacturing in-house to an outsourced manufacturing model wherein the Company supplies raw materials to external parties and products are then completed. This system allows for the Company to outsource procurement in the future if it chooses to do so. Manufacturing partners then produce to specification with Company personnel on hand to assist with quality control. The Company s products are designed for efficient production in this manner, emphasizing solid-state electronics over mechanical devices with moving parts. The decrease in cost associated with these developments, coupled with enhanced product functionality, has allowed the Company to realize improved margins and significantly reduced overhead costs. Extensions of developed technology, based on substantial input from customers, have allowed the Company to launch the RF^2 product family and consider additional solutions while controlling total R&D cost.

The Company has announced several significant recent events, both during 2004 and early 2005, such as the resolution of the patent litigation, increased sales order quantities entering 2005, and the extension of its credit line debt maturity date from April 2005 to April 2006. Despite these improvements, the wireless telecommunications industry is subject to risks beyond the Company s control that can negatively impact customer capital spending budgets (as occurred during 2003) and/or spending patterns (as occurred during 2004). For these and other reasons, the Company s financial statements have been prepared assuming the Company will continue as a going concern.

As an after-market vendor, the Company s revenue has been sporadic, consistent with buying patterns of planning processes within wireless telecommunications carriers. In the past there has been a fourth quarter effect , wherein operators were forced to spend remaining budget or lose it going forward. With the advent of significant projects such as data networks, funds are often reallocated between periods and thus diminish the pool of funds available for normal activities. The Company s objective is to be included in these projects, and thus realize a higher, more stable revenue stream.

Table of Contents

Results of Operations

Years Ended December 31, 2004 and 2003

The Company s net sales decreased $616,000, or 19%, from $3,238,000 in 2003 to $2,622,000 in 2004, as a result of an industry-wide reduction in capital expenditures, particularly during the first half of 2004, in favor of next generation systems generally to be deployed during 2005 and beyond. Consistent with this event, the Company announced more than $2 million in orders received during 2004 that are scheduled for delivery during the first quarter 2005. The Company anticipates its net sales to increase during 2005, as compared to 2004, based on existing and/or anticipated customer orders. The Company announced the receipt of more customer orders for 2005 delivery by February 2005 than for all of 2004.

Cost of products sold decreased $112,000, or 7% from $1,640,000 in 2003 to $1,528,000 in 2004. This decrease is less than the decrease in revenue during the period, reflecting inefficiencies realized due to lower unit volumes. The cost of products sold for 2004 and 2003 consisted of direct material, labor and overhead costs associated with the products that were shipped during the period, as well as other costs consisting primarily of allocated overhead costs. The Company expects the cost of products sold as a percentage of revenue to decrease during 2005 due to anticipated revenue increases and related efficiencies, certain cost control initiatives including supply chain management, and primarily due to the continued emphasis on outsourcing the manufacture of its products. In absolute terms, the Company expects the total cost of products sold expense to increase during 2005 due to the expectation of higher revenues.

The Company s internally funded research and development expenses increased by $131,000, or 13%, from $988,000 in 2003 to $1,119,000 during 2004. This increase was due to the need to deploy resources in order to launch new products, particularly within the RF^2 product family, and broadly to support new product and next generation development for future release. The Company expects these costs to increase slightly during 2005 in connection with the development of new products.

Selling and marketing expenses increased $205,000, or 21%, from $960,000 during 2003 to $1,165,000 during 2004. This increase was due to the addition of additional resources in this area, as well as the expansion of marketing programs. The Company expects these costs to increase during 2005, consistent with expected increases in revenue.

General and administrative expenses decreased $856,000, or 15%, from $5,614,000 in 2003 to $4,758,000 during 2004. This decrease was due to the reduction in expenses in the patent litigation as described elsewhere in this report, as well as the classification of $350,000 in legal settlement expenses during 2003 that did not exist during 2004. The Company expects general and administrative expenses to decrease further during 2005 due to reduced litigation expenses.

Interest income increased $4,000, or 80%, from $5,000 in 2003 to $9,000 during 2004. This increase was due to the timing of payments and funding from the credit line. While operating under its uncommitted line of credit from October 2002 and beyond, the Company has not maintained, and does not expect to maintain, significant amounts of cash on which interest may be earned.

Interest and warrant expense decreased $169,000, or 14%, from $1,197,000 in 2003 to $1,028,000 during 2004. The Company borrowed $2 million during the fourth quarter of 2002 under an uncommitted line of credit with entities affiliated with its two largest shareholders. The Company borrowed additional monies under this line and related supplements during 2003 and 2004. As a result of the borrowings on this line during 2002, 10 million warrants were issued. These warrants were ultimately converted into 10 million shares of the Company s common stock during February 2004. The interest expense recorded during 2004 includes $250,000 of non-cash expense related to these warrants.

The Company has reclassified into General and Administrative costs a previously reported Other Expense item of $350,000 that was accrued as of December 31, 2003 as a contingent liability for the Laves litigation settlement. This settlement was negotiated and entered into during February 2004.

Years Ended December 31, 2003 and 2002

The Company s net sales decreased $425,000, or 12%, from $3,663,000 in 2002 to $3,238,000 in 2003, as a result of a focus on more profitable business and due to an industry-wide reduction in capital expenditures during the first half of 2003. Sales of the Company s HTS products were substantially reduced, while revenues from its ANF products increased and revenues began to be realized on its RF^2 products during the fourth quarter 2003, shortly after the September 2003 product launch.

Table of Contents

Cost of products sold decreased $1,925,000, or 54% from $3,565,000 in 2002 to $1,640,000 in 2003. This occurred despite only a 12% decrease in revenue, as a result of various cost control measures adopted during the preceding two years, including the continued emphasis on outsourcing manufacturing processes and the focus on profitable business, and the nature and value of products sold (i.e., the reduced sales of HTS products and increased sales of ANF and RF² products). The cost of products sold for 2003 and 2002 consisted of direct material, labor and overhead costs associated with the products that were shipped during the period, as well as other costs consisting primarily of allocated overhead costs.

The Company s internally funded research and development expenses decreased by $1,749,000, or 64%, from $2,737,000 in 2002 to $988,000 during 2003. These reductions were primarily due to the shift from initial development to product improvement and related product expansion as the focus of development efforts. The emphasis on new products with a greater probability of profitable near-term commercial sales also was significant in this reduction.

Selling and marketing expenses decreased $1,241,000, or 56%, from $2,201,000 during 2002 to $960,000 during 2003. This decrease was due to cost reductions implemented during the past year, including the reduction of certain personnel and the redeployment of resources into more targeted, direct marketing and selling campaigns.

General and administrative expenses decreased $2,359,000, or 30%, from $7,973,000 in 2002 to $5,614,000 during 2003. This decrease was due to the reduction in expenses in the patent litigation as described elsewhere in this report, which more than offset an increase in non-cash employee compensation and the settlement of the Laves litigation during 2003.

Interest income decreased $58,000, or 92%, from $63,000 in 2002 to $5,000 during 2003. This decrease was due to the timing of the credit line (October 2002). The Company became infused with cash during February 2002 after its Shareholder Rights Offering, increasing interest income during 2002. While operating under its uncommitted line of credit from October 2002 and beyond, the Company has not maintained, and does not expect to maintain, significant amounts of cash on which interest may be earned.

Interest and warrant expense increased $870,000, or 266%, from $327,000 in 2002 to $1,197,000 during 2003. During February 2002, shareholder notes of $9,425,000, plus accrued interest, were repaid following the Shareholder Rights Offering, both of which are described elsewhere in this document. The Company borrowed $2 million during the fourth quarter of 2002 under an uncommitted line of credit with entities affiliated with its two largest shareholders. The Company borrowed an additional $3 million under this line and a related supplement during 2003. As a result of the borrowings on this line, 10 million warrants were issued. The interest expense recorded during 2003 includes $862,000 of non-cash expense related to these warrants.

Other Comparative Results:

During 2001 the Company recorded $6 million of Other Expense . This amount was comprised of a litigation settlement in the Siegler case of $4.9 million as well as approximately $1 million from certain restructuring costs from the consolidation of facilities.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company incurred a net loss of $7 million during the year ended December 31, 2004, and, as of that date, the Company s accumulated deficit is $157 million. In addition, the Company has consistently used, rather than provided, cash in its operations. These factors, among others, as discussed in Note 3 to the financial statements, raise substantial doubt about the Company s ability to continue as a going concern. The Company has been engaged in developing new solutions, and toward that end development spending has preceded sales revenues. Management s plans in regard to these matters include the focusing of development efforts on products with a greater probably of commercial sales, reducing professional fees and discretionary expenditures and increased efficiencies and reduced overhead costs associated with its outsourced production model, all of which are also described in Note 3. The financial statements do not include any adjustments, including any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from the outcome of this uncertainty. Significant uses of cash during 2004 include personnel costs, the cost to produce inventory, legal costs primarily related to the patent appeal, facility related costs, and other uses. Significant sources of cash during 2004 include sales and the resulting realization of customer receivables, the draw of $2.5 million on the credit line, and the exercise of $2 million in warrants.

Table of Contents

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company s ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations.

At December 31, 2004, the Company s cash and cash equivalents, excluding restricted certificates of deposit, were $402,000, an increase of $56,000 from the December 31, 2003 balance of $346,000.

The continuing development of, and expansion in, sales of the Company s RF product lines, as well as the continued defense of its intellectual property, may require a commitment of funds to undertake product line development and to market and sell its RF front-end products. The actual amount of the Company s future funding requirements will depend on many factors, including: the amount and timing of future revenues, the level of product marketing and sales efforts to support the Company s commercialization plans, the magnitude of its research and product development programs, the ability of the Company to improve or maintain product margins, and the costs involved in protecting the Company s patents or other intellectual property.

As of the date of this filing, the Company believes that it has sufficient funds to operate its business as identified herein without the need for substantial future capital sources into the third quarter 2005, and very possibly longer, subject to working capital and other requirements. The Company intends to look into augmenting its existing capital position potentially through other sources of capital. For example, the Company regularly reviews the capital markets for appropriate debt, equity and hybrid instruments in search of both adequate operating capital and the best available capital structure.

Uncommitted Line of Credit

As of the reporting date, the Company had drawn $7.5 million of debt financing under a credit line, as described below. Subsequent to the reporting date, during January 2005, the Company drew the remaining $1 million on the line for a total debt of $8.5 million. During October 2002, the Company entered into an Uncommitted Line of Credit with its two largest shareholders, an affiliate of Elliott Associates, L.P. (Manchester Securities Corporation) and Alexander Finance, L.P. This line provided up to $4 million to the Company. This line was uncommitted, such that each new borrowing under the facility would be subject to the approval of the lenders. Borrowings on this line bore an interest rate of 9.5% and collateralized by all the assets of the Company. Outstanding loans under this agreement would be required to be repaid on a priority basis should the Company receive new funding from other sources. Additionally, the lenders were entitled to receive warrants to the extent funds were drawn down on the line. The warrants bore a strike price of $0.20 per share of common stock and were to expire on April 15, 2004. The credit line was to mature and be due, including accrued interest thereon, on March 31, 2004. Due to an agreement between the parties that did not provide warrants with respect to the more recent $2 million in borrowings, thus 10 million warrants were issued as a result of this transaction. During February 2004, the warrant holders exercised all of their warrants, contributing $2 million to the Company in exchange for 10 million shares of common stock.

According to existing accounting pronouncements and SEC guidelines, the Company allocated the proceeds of these borrowings between their debt and equity components. As a result of these borrowings during 2002, the Company recorded a non-cash charge of $1.2 million through the outstanding term of the warrants (April, 2004). The final $250,000 of that amount was recorded during 2004.

During October 2003 the Company entered into an agreement with its lenders to supplement the credit line with an additional $2 million, $1 million of which was drawn immediately and $1 million available to be drawn upon the Company s request and subject to the approval of the lenders. This supplemental facility bore a 14% rate of interest and was due October 31, 2004. Unlike the previous credit line, the supplemental facility did not include any stock warrants. The term of the previous credit line were not affected by this supplement, and as such the $4 million borrowed under that line, plus accrued interest, remained due March 31, 2004.

During February 2004, these credit lines were extended to a due date of April 2005, with interest after the initial periods to be charged at 14%. No warrants or other inducements were issued with respect to these extensions. Additionally, lenders exercised their 10 million warrants during February 2004, agreeing to let the Company use the funds for general purposes as opposed to repaying debt.

Table of Contents

During July 2004, the Company and its lenders agreed to increase the aggregate loan commitments under the credit line from $6,000,000 to $6,500,000. Simultaneously, the Company drew the remaining $1,500,000 of the financing.

During November 2004, the Company and its lenders agreed to increase the line of credit to up to an additional $2 million to an aggregate loan commitment of $8,500,000, $1 million of which was drawn immediately by the Company with the remaining $1 million available to be drawn upon the Company s request and subject to the approval of the lenders. The remaining $1 million was subsequently drawn down in January 2005.

During February 2005, the consolidated credit line was extended to a due date of April 2006, with interest for the extension period set at 9%. No warrants or other inducements were issued with respect to this extension.

Critical Accounting Policies

The discussion and analysis of the Company s financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Company s financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the notes to the consolidated financial statements.

Revenue Recognition

Revenues from product sales are generally recognized at the time of shipment and are recorded net of estimated returns and allowances. Revenues from services are generally recognized upon substantial completion of the service and acceptance by the customer. The Company has, under certain conditions, granted customers the right to return product during a specified period of time after shipment. In these situations, the Company establishes a liability for estimated returns and allowances at the time of shipment and makes the appropriate adjustment in revenue recognized for accounting purposes. During 2004, no revenue was recognized on products that included a right to return or otherwise required customer acceptance after December 31, 2004. The Company has established a program which, in certain situations, allows customers or prospective customers to field test the Company s products for a specified period of time. Revenues from field

test arrangements are recognized upon customer acceptance of the products.

The Company warrants its products against defects in materials and workmanship typically for a 1-2 year period from the date of shipment, though these terms may be negotiated on a case by case basis. A provision for estimated future costs related to warranty expenses is recorded when revenues are recognized. At December 31, 2004 and 2003, respectively, the Company accrued $34,000 and $100,000 for warranty costs. This warranty reserve is based on the cost to replace a percentage of products in the field at a given point, adjusted by actual experience. Returns and allowances were not significant in any period reported, and form a data point in establishing the reserve. Should this warranty reserve estimate be deemed insufficient, by new information, experience, or otherwise, an increase to warranty expense would be required.

Goodwill and Intangible Assets

During October of 2004, the Company completed the process of evaluating goodwill and other intangible assets for impairment under SFAS No. 142. As the fair value of the enterprise, using quoted market prices for the Company s common stock, exceeded the carrying amount, the goodwill was determined to be not impaired. We assess the potential for impairment of the identifiable intangible assets and goodwill annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If we determine that the value of the intangible assets and goodwill may not be recoverable from future cash flows or otherwise, a write-down of the value of the assets may be required. We estimate the useful lives of our intangible assets and amortize the value over the estimated life. If the actual useful life is shorter than our estimated useful life, we will amortize the remaining book value over the remaining useful life or the asset may be deemed to be impaired and, accordingly, a write-down of the value of the asset may be required.

Table of Contents

Allowance for Doubtful Receivables

An allowance for doubtful receivables may be maintained for potential credit losses. Management specifically analyzes accounts receivable, on a client by client basis, when evaluating the adequacy of our allowance for doubtful receivables including customer credit worthiness and current economic trends and records any necessary bad debt expense based on the best estimate of the facts known to date. Alternatives to this approach include applying a fixed and/or empirical rate of bad debts to receivables. As bad debts have historically been very low (less than 1% of revenue), such an empirical approach would have little impact on the reserve at December 31, 2004. Further, the Company believes its current method to be less arbitrary and more reliable than the alternatives as described. Should the facts regarding the collectability of receivables change, the resulting change in the allowance would be charged or credited to income in the period such determination is made. Such a change could materially impact our financial position and results of operations.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Compensation costs for employee stock options is measured as the excess, if any, of the quoted market price of the Company s common stock at the date of grant over the amount an employee must pay to acquire the stock.

Off Balance Sheet Arrangements

No such arrangements existed as of December 31, 2004, except for leases as described and the minimum lease payments as detailed in this document.

Contractual Obligations	**Payments Due by Period**				
Year	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long Term Debt Obligations					
Capital Lease Obligations					
Operating Lease Obligations	$ 1,739,000	$ 156,000	$ 330,000	$ 360,000	$ 893,000
Purchase Obligations					
Other Long Term Liabilities Reflect on the Registrant s Balance Sheet under GAAP					

Total	$ 1,739,000	$ 156,000	$ 330,000	$ 360,000	$ 893,000

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company does not have any material market risk sensitive instruments.

Table of Contents

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

ISCO International, Inc.

We have audited the accompanying consolidated balance sheets of ISCO International, Inc. (a Delaware corporation) and subsidiaries, as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years ended December 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ISCO International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3, the Company incurred a net loss of $6,967,301 during the year ended December 31, 2004, and, as of that date, the Company s accumulated deficit is $157,063,406. In addition, the Company has consistently used, rather than provided, cash in its operations. These factors, among others, as discussed in Note 3 to the financial statements, raise substantial doubt about the Company s ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Grant Thornton LLP

Chicago, Illinois

January 30, 2005

(except Notes 8 and 12 for which the date is February 24, 2005)

Table of Contents

ISCO INTERNATIONAL

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	**2003**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 402,391	$ 346,409
Inventories	969,048	678,361
Accounts receivable, net of allowance for doubtful accounts of none and $4,000 at December 31, 2004 and 2003, respectively	122,460	1,169,711
Prepaid expenses and other	594,488	321,147
Total current assets	2,088,387	2,515,628
Property and equipment:		
Property and Equipment	824,238	8,957,866
Less: Accumulated depreciation	638,968	8,256,489
	185,270	701,377
Restricted certificates of deposit	291,027	40,527
Goodwill	13,370,000	13,370,000
Intangible assets, net	1,051,320	1,095,503
Total assets	$ 16,986,004	$ 17,723,035

	December 31,	
	2004	**2003**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 202,613	$ 243,647
Employee-related accrued liabilities	112,393	84,157
Accrued professional services	431,491	448,725
Other Accrued liabilities	348,964	638,259
Total current liabilities	1,095,461	1,414,788
Notes and related accrued interest with related parties	8,642,908	5,365,000
Stockholders equity:		
Preferred Stock; 300,000 shares authorized; No shares issued and outstanding at December 31, 2004 and 2003, respectively		
Common stock ($.001 par value); 250,000,000 and 250,000,000 shares authorized and 161,213,703 and 150,149,927 shares issued and outstanding at December 31, 2004 and 2003, respectively	161,214	150,150

Additional paid-in capital (net of unearned comp.)	164,149,827	160,889,202
Accumulated deficit	(157,063,406)	(150,096,105)
Total stockholders equity	7,247,635	10,943,247
Total liabilities and stockholders equity	$ 16,986,004	$ 17,723,035

See the accompanying Notes which are an integral part of the financial statements.

Table of Contents

ISCO INTERNATIONAL

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	**2003**	**2002**
Net sales	$ 2,621,933	$ 3,238,402	$ 3,662,805
Costs and expenses:			
Cost of sales	1,527,554	1,639,540	3,565,140
Research and development	1,119,406	988,425	2,737,084
Selling and marketing	1,164,830	959,798	2,201,195
General and administrative	4,757,935	5,614,492	7,972,948
Total costs and expenses	8,569,725	9,202,255	16,476,367
Operating loss	(5,947,792)	(5,963,853)	(12,813,562)
Other income and (expense):			
Interest income	8,660	5,087	62,954
Non-cash warrant expense	(250,297)	(861,871)	(128,423)
Other interest expense	(777,872)	(335,438)	(198,801)
	(1,019,509)	(1,192,222)	(264,270)
Net loss	$ (6,967,301)	$ (7,156,075)	$ (13,077,832)
Basic and diluted loss per common share	$ (0.04)	$ (0.05)	$ (0.09)
Weighted average number of common shares outstanding	158,977,249	148,080,749	142,884,921

See the accompanying Notes which are an integral part of the financial statements.

Table of Contents

ISCO INTERNATIONAL

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years Ended December 31, 2002, 2003, and 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Unearned Compensation	Total
Balance as of December 31, 2001	107,905,231	$ 107,905	$ 138,612,160	$ (129,862,198)	$ (882,648)	$ 7,975,219
Exercise of stock options and vested DSU s; $0.00 to $0.18 per share	109,725	110	201			311
Rights Offering proceeds received, net	39,929,971	39,930	19,725,055			19,764,985
Deferred Stock Unit Amortization					382,800	382,800
Compensation Expense for Non-Employee Options			26,400			26,400
Compensation Expense for Discount on Employee Options			180,000			180,000
Issuance of Warrants, net			128,423			128,423
Net Loss				(13,077,832)		(13,077,832)
Balance as of December 31, 2002	147,944,927	$ 147,945	$ 158,672,239	$ (142,940,030)	$ (499,848)	$ 15,380,306
Exercise of stock options and vested DSU s; $0.00 to $0.11 per share	1,205,000	1,205	128,045			129,250
Shares Issued in vendor resolution	1,000,000	1,000	499,000			500,000
Deferred Stock Unit Amortization			(308,448)		499,848	191,400
Compensation Expense for			1,036,495			1,036,495

Employee Options					
Issuance of Warrants, net			861,871		861,871
Net Loss				(7,156,075)	(7,156,075)
Balance as of December 31, 2003	150,149,927	$ 150,150	$ 160,889,202	$ (150,096,105)	10,943,247
Exercise of Stock Options	1,063,776	1,064	140,676		141,740
Exercise of Warrants	10,000,000	10,000	1,990,000		2,000,000
Compensation Expense for Discount on Employee Stock Options/Variable Accounting for Stock Options			879,652		879,652
Non-cash Warrant Expense			250,297		250,297
Net Loss				(6,967,301)	(6,967,301)
Balance as of December 31, 2004	161,213,703	161,214	164,149,827	(157,063,406)	7,247,635

See the accompanying Notes which are an integral part of the financial statements.

Table of Contents

ISCO INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2004	**2003**	**2002**
OPERATING ACTIVITIES			
Net loss	$ (6,967,301)	$ (7,156,075)	$ (13,077,832)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	633,794	793,200	744,188
Amortization	50,325	38,368	83,656
Issuance of common stock in connection with vendor settlement		500,000	
Non-cash compensation charges	879,651	1,227,895	589,200
Non-cash warrant issuance-related expense	250,297	861,871	128,423
Disposition of fixed assets		33,646	
Disposition of fixed assets	32,564		
Changes in operating assets and liabilities:			
Accounts receivable	1,047,251	382,201	(1,317,062)
Inventories	(290,687)	218,211	786,097
Prepaid expenses and other	(273,341)	150,771	66,330
Accounts payable	(41,034)	50,189	(344,180)
Accrued liabilities	499,616	(73,095)	(1,289,432)
Net cash used in operating activities	(4,178,865)	(2,972,818)	(13,630,612)
INVESTING ACTIVITIES			
(Increase)/decrease in restricted certificates of deposit	(250,500)	73,981	148,586
Payments of patent costs	(38,707)	(77,343)	(236,892)
Acquisitions of property and equipment, net	(117,687)	(22,780)	(125,956)
Net cash used in investing activities	(406,894)	(26,142)	(214,262)
FINANCING ACTIVITIES			
Proceeds from warrants	2,000,000		
Proceeds from Rights Offering, net			19,764,985
Exercise of stock options	141,740	129,250	311
Proceeds from issuance of notes	2,500,000	3,000,000	2,000,000
Payment of notes			(9,425,000)
Payments on other long-term lease obligations			
Net cash provided by financing activities	4,641,740	3,129,250	12,340,296
Increase/(decrease) in cash and cash equivalents	55,982	130,290	(1,504,578)
Cash and cash equivalents at beginning of period	346,409	216,119	1,720,697
Cash and cash equivalents at end of period	$ 402,391	$ 346,409	$ 216,119

Supplemental cash flow information:			
Cash paid for interest	$	$	$ 208,000

See the accompanying Notes which are an integral part of the financial statements

32

Table of Contents

Notes to the Financial Statements

1. Description of Business

ISCO International and its subsidiaries, Spectral Solutions, Inc., and Illinois Superconductor Canada Corporation, (the Company) address RF (Radio Frequency) and radio link optimization issues, including interference issues, within wireless communications. The Company uses unique products, including ANF, RF², and other solutions, as well as service expertise, in improving the RF handling of a wireless system, particularly the radio link (the signal between the mobile device and the base station). A subset of this function is mitigating the impact of interference on wireless communications systems. These solutions are designed to enhance the quality, capacity, coverage and flexibility of wireless telecommunications services. The Company has historically marketed its products to cellular, PCS and wireless telecommunications service providers and OEM s located both in the United States and in international markets.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, time deposits, money market funds, and commercial paper which have original maturities of three months or less from the date of purchase. Management believes that the financial institutions in which it maintains such deposits are financially sound and, accordingly, minimal credit risk exists with respect to these deposits.

Accounts receivable

The majority of the Company s accounts receivable are due from companies in the telecommunications industry. Credit is extended based on evaluation of a customers financial condition and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become

uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The allowance could be materially different if economic conditions change or actual results deviate from historical trends.

Inventories

Inventories are stated at the lower of cost (determined on a first in, first out basis) or market.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and are depreciated over the estimated useful lives of the assets using both straight line and accelerated methods. The accelerated method used is the double declining balance method. Software is typically amortized over 3 years utilizing the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the asset or the term of the lease. Amortization of leasehold improvements is included in depreciation expense. The useful lives assigned to property and equipment for the purpose of computing book depreciation follow:

Lab equipment	5 years
Manufacturing equipment	3 to 5 years
Office equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	Life of lease

Table of Contents

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company uses a valuation allowance when it determines the amount of deferred tax asset to include in its financial statement for the current period. This valuation allowance is based on historical patterns of taxable income, recognized deferred tax liabilities, and other factors that could impact the current view of future tax asset utilization.

Revenue Recognition and Product Warranty

Revenues from product sales are generally recognized at the time of shipment and are recorded net of estimated returns and allowances. Revenues from services are generally recognized upon substantial completion of the service and acceptance by the customer. The Company has, under certain conditions, granted customers the right to return product during a specified period of time after shipment. In these situations, the Company establishes a liability for estimated returns and allowances at the time of shipment and makes the appropriate adjustment in revenue recognized for accounting purposes. During 2004, no revenue was recognized on products that included a right to return or otherwise required customer acceptance after December 31, 2004. The Company has established a program which, in certain situations, allows customers or prospective customers to field test the Company s products for a specified period of time. Revenues from field test arrangements are recognized upon customer acceptance of the products.

The Company warrants its products against defects in materials and workmanship typically for a 1-2 year period from the date of shipment, though these terms may be negotiated on a case by case basis. A provision for estimated future costs related to warranty expenses is recorded when revenues are recognized. At December 31, 2004 and 2003, respectively, the Company accrued $34,000 and $100,000 for warranty costs. This warranty reserve is based on the cost to replace a percentage of products in the field at a given point, adjusted by actual experience. Returns and allowances were not significant in any period reported, and form a data point in establishing the reserve. Should this warranty reserve estimate be deemed insufficient, by new information, experience, or otherwise, an increase to warranty expense would be required.

Sales to three of the Company s customers accounted for 94% and 98% of the Company s total revenues for 2004 and 2003, respectively. During 2004 the top three customers were Verizon Wireless, U.S. Cellular Corporation, and Pelephone Communications Ltd., respectively.

Advertising Costs

Advertising costs are charged to expense in the period incurred.

Research and Development Costs

Research and development costs related to both present and future products are charged to expense in the period incurred.

Net Loss Per Common Share

Basic and diluted net loss per common share are computed based upon the weighted average number of common shares outstanding. Approximately 9.1 million common shares issuable as of December 31, 2004 upon the exercise of options and warrants are not included in the per share calculations since the effect of their inclusion would be antidilutive.

Table of Contents

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Certain Concentrations and Risks

The Company operates in a highly competitive and rapidly changing industry. Product revenues are currently concentrated with a limited number of customers, and the supply of certain materials is concentrated among a few providers. The development and commercialization of new technologies by any competitor could adversely affect the Company s results of operations.

Goodwill and Intangible Assets

Patents and trademarks represent costs, primarily legal fees and expenses, incurred in order to prepare and file patent applications related to various aspects of the Company s technology and to its current and proposed products. Patents and trademarks are recorded at cost and are amortized using the straight-line method over the shorter of their estimated useful lives or 17 years. The recoverability of the carrying values of patents and trademarks is evaluated on an ongoing basis by Company management. Factors involved in this evaluation include whether the item is in force, whether it has been directly threatened or challenged in litigation or administrative process, continued usefulness of item in current and/or expected utilization by the Company in its solution offerings, perceived value of such material or invention in the marketplace, availability and utilization of alternative or other technologies, the perceived protective value of the item, and other factors.

During 2004 and 2003, the Company wrote off $32,564 and none, respectively, in patent-related costs. Total capitalized patent and trademark costs were $1,051,000 and $1,096,000 at December 31, 2004 and 2003, respectively. Capitalized patent costs related to pending patents were $524,000 and $669,000 at December 31, 2004 and 2003, respectively. Patents and trademarks were reported net of accumulated amortization of $217,000 and $172,000 at December 31, 2004 and 2003, respectively.

As of the reporting date, the Company had recorded goodwill resulting from the acquisitions of Spectral Solutions, Inc. and the Adaptive Notch Filter division of Lockheed Martin Canada, Inc., both during 2000. Beginning January 1, 2002, goodwill is no longer to be amortized but rather to be tested for impairment on an annual basis and between annual tests whenever there is an indication of potential impairment. Impairment losses would be recognized whenever the implied fair value of goodwill is determined to be less than its carrying value. SFAS 142 prescribes a

two-step impairment test to determine whether the carrying value of the Company s goodwill is impaired. The first step of the goodwill impairment test is used to identify potential impairment, while the second step measures the amount of the impairment loss. Step one to this test requires the comparison of the fair value of each reporting unit with its carrying amount, including goodwill. As the Company is comprised of a single reporting unit, the question of fair value is centered upon whether the market value, as measured by market capitalization, of the Company exceeds shareholders equity. The excess of the Company s market capitalization over its reported shareholders equity indicates that the goodwill of the Company s sole reporting unit was not impaired as of December 31, 2004.

35

Table of Contents

The Company s balances of Goodwill and Intangible Assets were as follows:

	As of December 31,	
	2004	2003
	(in thousands of dollars)	
Patents, gross	$ 1,268	$ 1,268
Accumulated amortization	(217)	(172)
Other amortizable intangibles, net	$ 1,051	$ 1,096
Goodwill	$ 13,370	$ 13,370

The following table summarizes the estimated annual pretax amortization expense for the intangible assets with definitive lives:

2005	43
2006	43
2007	43
2008	43
2009	43
Thereafter	836
	$1,051

Fair Value of Financial Instruments

The carrying values of financial instruments approximates fair value.

Long Lived Assets

The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets effective January 1, 2002. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. This adoption did not have a material effect on its results of operations or financial position.

Stock-Based Employee Compensation

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This Statement amends SFAS No. 123, Accounting for Stock-based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported amounts. The amendments to SFAS 123 in paragraphs 2(a)-2(e) of this Statement are effective for financial statements for fiscal years ending after December 15, 2002. The amendment to SFAS 123 in paragraph

Table of Contents

2(f) of this Statement and the amendment to Opinion 28 in paragraph 3 are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company does not expect that adoption of this Statement will have a material effect on its results of operations or financial position.

The Company has a stock-based employee compensation plan, which is more fully described in note 6. The Company applies APB Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for its plans. Stock expense for the twelve-month periods of 2004 and 2003, respectively, is the result of options issued with an exercise price below the underlying stock s market price. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 123, Accounting for Stock-Based Compensation, using the assumptions described in Note 6, to its stock-based employee plans:

	Year Ended December 31,	
	2004	**2003**
	(in thousands of dollars)	
Net loss, as reported	$ 6,967	$ 7,156
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	891	1,228
Less: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of related tax effects	1,297	2,124
Pro forma net loss	$ 7,373	$ 8,052
Earnings per share:		
Basic as reported	$ 0.04	$ 0.05
Basic pro forma	$ 0.05	$ 0.05
Diluted as reported	$ 0.04	$ 0.05
Diluted pro forma	$ 0.05	$ 0.05

New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) and requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. The statement also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (as of January 1, 2006 for the Company) and are to be applied prospectively. The Company does not expect adoption of SFAS No. 151 to have a material effect on its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). This statement requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management.

SFAS No. 123(R) replaces FASB Statement No. 123 (SFAS No. 123), Accounting for Share-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The provisions of SFAS No. 123(R) are required to be applied by public companies that do not file as small business issuers, as of the first interim or annual reporting period that begins after June 15, 2005, and all other public companies as of the first interim or annual reporting period that begins after December 15, 2005.

On April 14, 2005, the SEC adopted a new rule amending the effective date for Statement 123(R). The amended rule allows registrants to implement Statement 123(R) as of the first annual period beginning after June 15, 2005, which is January 1, 2006 for the Company.

The Company intends to continue applying APB Opinion No. 25 to equity-based compensation awards until the effective date of SFAS No. 123(R). At the effective date of SFAS No. 123(R), the Company expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in the Company recognizing compensation cost based on the requirements of SFAS No. 123(R) for all equity-based compensation awards issued after the effective date of this statement with respect to the Company. For all equity-based compensation awards that are unvested as of that date, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the SFAS No. 123 pro forma footnote disclosure. The Company is currently evaluating the impact that adoption of SFAS No. 123(R) may have on its results of operations or financial position and expects that the adoption may or may not have a material effect on the Company s results of operations depending on the level and form of future equity-based compensation awards issued.

Table of Contents

Reclassifications

Certain amounts reported in prior years have been reclassified from what was previously reported to conform to the current year s presentation.

3. Realization of Assets

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has sustained substantial losses from operations in recent years, and such losses have continued through the year ended December 31, 2004. In addition, the Company has used, rather than provided, cash in its operations. Consistent with these facts, the accompanying report from Grant Thornton, LLP, the Company s independent registered public accounting firm, includes the comment that there is substantial doubt about the Company s ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company s ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company has incurred, and continues to incur, losses from operations. For the years ended December 31, 2004, 2003, and 2002, the Company incurred net losses of $7 million, $7.2 million, and $13 million, respectively. During those years the Company implemented strategies to reduce its cash used in operating activities. The Company s strategy included the consolidation of its manufacturing and research and development facilities and a targeted reduction of the employee workforce, increasing the efficiency of the Company s processes, focusing development efforts on products with a greater probability of commercial sales, reducing professional fees and discretionary expenditures, and negotiating favorable payment arrangements with suppliers and service providers. More importantly, the Company configured itself along an outsourcing model, thus allowing for relatively large, efficient production without the associated overhead. The combination of these factors has been highly effective in bringing the Company closer to profitability (from a net loss as high as $28 million during 2001) while enabling it to deliver significant quantities of solutions.

Table of Contents

To date, the Company has financed its operations primarily through public and private equity and debt financings. Subject to the uncommitted nature of the credit line, the Company believes that it has sufficient funds to operate its business as identified herein and to meet its obligations into the third quarter 2005, and quite possibly beyond, depending on working capital and other requirements. The Company intends to continue to review available alternatives in the marketplace as it seeks to augment and/or replace its existing capital position through other sources of capital, whether debt, equity, or hybrid.

4. Inventories

Inventories consist of the following:

	December 31,	
	2004	2003
Raw materials	$ 267,682	$ 356,815
Work-in-process	149,877	66,861
Finished product	551,489	254,685
	$ 969,048	$ 678,361

Cost of product sales for the years ending December 31, 2004 and 2003 includes approximately $57,000 and $130,000, respectively, of costs in excess of the net realizable value of inventory (including obsolete materials).

5. Allowance for Doubtful Accounts

	For the Years Ended December 31,		
	2004	2003	2002
	(in thousands of dollars)		
Beginning Balance	$ 4	$ 54	$ 0
Bad Debt Expense		3	54
Accounts Written Off		53	
Recoveries	4		
Ending Balance	$ 0	$ 4	$ 54

6. Capital Stock

The Company has an authorized class of undesignated preferred stock consisting of 300,000 shares. Preferred stock may be issued in series from time to time with such designations, relative rights, priorities, preferences, qualifications, limitations and restrictions thereof, to the extent that such are not fixed in the Company s certificate of incorporation, as the Board of Directors determines.

On February 9, 1996, the Board of Directors adopted a shareholder rights plan (the Rights Plan). In conjunction with the adoption of the Rights Plan, the Company created one series of preferred stock, consisting of 10,000 shares of Series A Junior Participating Preferred Stock (Series A Preferred). Each share of Series A Preferred would entitle the holder to receive dividends equal to 1,000 times the dividends per share declared with respect to the Company s common stock and, in the event of liquidation, such holders would receive a preference of 1,000 times the aggregate amount to be distributed per share to the holders of the Company s common stock. Pursuant to the Rights Plan, a Series A Right is associated with, and trades with, each share of common stock outstanding. The record date for distribution of such Series A Rights was February 22, 1996, and for so long as the Series A Rights are associated with the common stock, each new share of common stock issued by the Company will include a Series A Right. Each Series A Right will entitle its holder to purchase one one-thousandth of a share of Series A Preferred for $200, subject to adjustment as defined in the Rights Plan. The Series A Rights are not exercisable until the earlier of (i) 10 days after any person or group becomes the beneficial owner of 15% or more of the Company s outstanding common stock, or (ii) 10 business days (unless extended by the Board of Directors) after the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the Company s outstanding common stock. The Company s Board of Directors has indicated that it intends to allow this Rights Plan to expire during February 2006.

Table of Contents

If any person or group (Acquiring Party) acquires 15% or more of the Company s outstanding common stock (Shares Acquisition Date), each holder of a Series A Right, except the Acquiring Party, has the right to receive upon exercise (i) shares of the Company s common stock having a market value equal to two times the exercise price of the Series A Right, and (ii) one Series B Right (Series A Rights and Series B Rights are hereinafter collectively referred to as the Rights). The Board of Directors has the option, after the Shares Acquisition Date but before there has been a 50% acquisition of the Company, to exchange one share of common stock (or one one-thousandth of a share of preferred stock) and one Series B Right for each Series A Right (other than Series A Rights held by the Acquiring Party).

If, after the Series A Rights become exercisable, the Company is involved in a merger or other business combination, or if the Company sells or transfers more than 50% of its assets or earning power, or if an acquiring party engages in certain self-dealing transactions with the Company, as defined in the Rights Plan, each Right then outstanding (other than Rights held by the Acquiring Party) will be exercisable for common stock of the other party to such transaction having a market value of two times the exercise price of the Right. The Company has the right to redeem each Series A Right for $0.01 prior to the Shares Acquisition Date. The Series B Rights, once issued, are not redeemable. The Rights expire on February 9, 2006.

On February 13, 2002, the Company executed an amendment to the Rights Agreement to provide that neither Elliott Associates, L.P. and Elliott International, L.P. (collectively referred to herein as Elliott and with their affiliates, the Elliott Entities) nor Alexander Finance, LP (Alexander) shall be an acquiring person under the Rights Agreement (i) on account of any acquisition of additional common shares purchased directly from ISCO which has been approved in advance by its Board of Directors, or (ii) so long as the acquisition of any additional shares not purchased directly from ISCO, in the aggregate, does not exceed one (1%) percent of the total issued and outstanding ISCO common stock. Additionally, none of the Elliott Entities nor Alexander will be an acquiring person by reason of direct transfers between any of the Elliott Entities or from Alexander to any of its affiliates.

During December 2003, the Company and Morgan and Finnegan L.L.P. (M&F.) entered into a Settlement Agreement and Release. The agreement reflected the resolution of a dispute between the Company and M&F, the Company s former patent counsel. The Company had reserved a two million dollar ($2,000,000) accrued liability related to the dispute. This accrued liability was resolved and no longer necessary due to the resolution of the dispute pursuant to which the Company has issued 1,000,000 shares of common stock to M&F. The stock provided was valued at $500,000, the number of shares multiplied by the market price of the Company s common stock at the time of the transaction. Both the expense that created the accounting reserve and the reversal of that expense upon termination of the reserve occurred during the fiscal year 2003.

At December 31, 2004, authorized but unissued shares of common stock have been reserved for future issuance as follows:

Options outstanding (Note 7)	9,059,000
	9,059,000

7. Stock Options and Warrants

On August 19, 1993, the Board of Directors adopted the 1993 Stock Option Plan for employees, consultants, and directors who are not also employees of the Company (outside directors). This plan reached its ten-year expiration during 2003. During the 2003 annual meeting of shareholders, the Company s shareholders approved a new 2003 Equity Incentive Plan to take the place of the expiring 1993 plan. Unissued options from the 1993 plan were used to fund the 2003 plan. The maximum number of shares issuable under these plans was 14,011,468. These Plans are collectively referred to as the Plan .

For employees and consultants, the Plan provides for granting of Incentive Stock Options (ISOs) and Nonstatutory Stock Options (NSOs). In the case of ISOs, the exercise price shall not be less than 100% (110% in certain cases) of the fair value of the Company s common stock, as determined by the Compensation Committee or full Board as appropriate (the Committee), on the date of grant. In the case of NSOs, the exercise price shall be determined by the Committee, on the date of grant. The term of options granted to employees and consultants will

40

Table of Contents

be for a period not to exceed 10 years (five years in certain cases). Options granted under the Plan default to vest over a four-year period (one-fourth of options granted vest after one year from the grant date and the remaining options vest ratably each month thereafter), but the vesting period is determined by the Committee and may differ from the default period. In addition, the Committee may authorize option grants with vesting provisions that are not based solely on employees rendering of additional service to the Company.

For outside directors, the Plan provides that each outside director will be automatically granted NSOs on the date of their initial election to the Board of Directors. On the date of the annual meeting of the stockholders of the Company, each outside director who is elected, reelected, or continues to serve as a director, shall be granted additional NSOs, except for those outside directors who are first elected to the Board of Directors at the meeting or three months prior. The options granted vest ratably over one or two years, based on the date of grant, and expire after ten years from the grant date.

On May 10, 1999, the Board of Directors granted to each employee of the Company (other than the executive officers of the Company) (collectively, the Non-Executive Employees) the option to (i) reduce the exercise prices of up to a maximum of 15,000 of the unexercised stock options previously granted to such Non-Executive Employee under the Plan to $.5625 per share (the closing price of the Company s Common Stock on May 10, 1999) and (ii) cause all of such stock options not otherwise scheduled to become fully vested on or before May 10, 2000 to become fully vested on such date. As a result thereof, an aggregate of 279,550 stock options previously granted under the Plan were amended as described in the preceding sentence. In addition, on May 10, 1999 the Board of Directors granted to the executive officers and certain Non-Executive Employees of the Company additional non-statutory stock options to purchase an aggregate of 343,575 shares of the Company s Common Stock under the Plan. Such stock options became fully vested on the first anniversary of the date of grant, with exercise prices of $.5625 per share and expire 10 years from the date of grant.

On July 1, 2000, Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25 (FIN 44) was adopted by the Company. FIN 44 requires that stock options that have been modified to reduce the exercise price be subject to variable accounting. The Company accounts for employee stock options under APB Opinion No. 25 and non-employee stock options under Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123).

On May 10, 1999, as described above, the Company re-priced certain stock options granted to employees and in accordance with US GAAP, at that time, the Company accounted for the re-priced stock options as fixed . As a result of adopting FIN 44, the Company is required to apply variable accounting to these options. If the market price of the Company s common stock increases above the July 1, 2000 market price, the Company will have to recognize additional compensation expense equal to the increase in stock price multiplied by the number of re-priced options. No additional expense will be recognized if the stock does not exceed the July 1, 2000 value. However, the impact cannot be determined as it is dependent on the change in the market price of the common stock from July 1, 2000 until the stock options are exercised, forfeited, or expire unexercised. Because the stock price on December 31, 2004 was below that of July 1, 2000, no expense has been recognized during the period.

On February 5, 2001, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to employees during the calendar year of 2000 to the closing share price on such date, or $1.9375 per share. This re-pricing causes these options to be subject to variable accounting as described in FIN 44. Because the stock price on December 31, 2004, was lower than the re-priced strike price no gain or loss was recognized during the period.

On April 1, 2002, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to employees. A new strike price of $0.81 per share was established, provided the respective employees remain with the Company for at least six months following the re-pricing date. In addition, certain stock options granted to directors were repriced, with a new strike price of $1.00 per share. As the stock price on December 31, 2004, was lower than the re-priced strike price no gain or loss was recognized during the period.

On July 17, 2000, the Company granted an option to a non-Company advisor in connection with the establishment of a sales office in Japan to purchase 200,000 shares of common stock at $4.9375 per share, the price

Table of Contents

of the common stock on the date of the grant. According to the Black-Scholes valuation model, the value of the option was $4.53 per share. The option vested 25% immediately, with the balance vesting pro-rata over a three-year period. $906,000 of non-cash compensation expense was to be amortized during the life of the options. This arrangement was terminated during December 2001, as a result of a change in the structure of the Japanese sales office. The cumulative compensation expense charged for these services through termination was $545,000.

On February 15, 2000, the Company s Board of Directors granted to certain executive level employees an aggregate of 440,000 deferred stock units (DSUs) under the Plan. The DSU s represented the right to receive an equivalent number of restricted shares of the Company s common stock. On the date of the grant, the DSU s were set to vest at the rate of 10% on the first anniversary of the date of the grant, with the balance vesting at a rate of 20%, 30%, and 40% at the second, third, and fourth anniversary dates, respectively. The executive level employees had the right to elect to defer receipt of the common stock subject to the DSU s to a later date. In the third quarter of 2000, the Company began to recognize compensation expense for the DSU s over the vesting period (4 years) based on their intrinsic value of $1,925,000, which was the number of DSU s multiplied by the closing price of the Company s common stock on July 18, 2000, the measurement date ($4.38 per share). As of July 3, 2003, all DSU s granted under this plan had been either received or cancelled. As a result of these transactions, unamortized deferred charges of $308,448 were eliminated. No additional expense is expected for this purpose.

On February 15, 2002, the Company completed a Shareholder Rights Offering. Approximately $20 million was raised from existing shareholders as of the recording date in exchange for the issuance of approximately 40 million shares of the Company s common stock. A portion of the proceeds were then used to repay in full $9.8 million of debt and related accrued interest, as well as the payment of various other accrued expenses.

On October 31, 2003, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to directors. A new strike price of $0.24 per share was established. A non-cash charge of $33,000 and ($94,000) was recognized during the fourth quarter and full year ended December 31, 2004, and a net charge of $50,000 recognized since October 31, 2003, to account for the difference between the re-priced strike price and the $0.36 closing price of the Company s common stock on December 31, 2004.

On January 2, 2003, the Company s Board of Directors granted 2,800,000 new stock options to six of the Company s employees, including officers. 950,000 of these options vested immediately, while the remaining 1,850,000 vested monthly in 12 installments. All of the options granted on January 2, 2003 were granted at a discount based on 25% of the average closing price of the Company s common stock as reported on the American Stock Exchange over ten trading days and ultimately valued at a $0.22 discount to the closing price of the Company s common stock as of the date of the grant. During July 2003, the Board of Directors cancelled approximately 2.8 million outstanding options held by certain Company employees, including officers. During January 2004 a total of 3.7 million options were granted to the employees of the Company, including officers, at a similar 25% discount. Such options vested for 1 or 2 years.

A charge of $323,000 and $1.2 million were recognized during the fourth quarter and full year 2004, respectively, to recognize the value of the discounts above. Additionally, certain of these

2003 options were deemed to be properly accounted for using variable accounting. Despite the period of time involved, the Company determined that the lesser of those options granted or cancelled should receive variable accounting treatment as if the former option terms were adjusted prospectively. As such, charges of $16,000 and ($256,000) were recognized during the fourth quarter and full year 2004, respectively, to reflect the $0.36 closing price of the Company s common stock as of December 31, 2004.

During 2004, in addition to the disclosure above, the Company s Board of Directors granted 854,000 stock options to the Company s employees and non-employee Board members. These grants were issued at the closing market price on the date of grant.

Pro forma information regarding net income and earnings per share is required under FASB 123, and has been determined as if the Company had accounted for its stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the years ended December 31, 2004, 2003 and 2002: risk-free interest rate of 2.7%, 2.3%, and 2.9%, respectively; a dividend yield

Table of Contents

of 0%; volatility factor of the expected market price of the Company s common stock of 0.10, 0.10, and 0.15, respectively; and expected life of the options of 4.0 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The table below summarizes all option activity during the three year period ended December 31, 2004:

	Options Outstanding	Exercise Price Per Share	
Outstanding at December 31, 2001	9,639,313	$.00	26.50
Granted	2,171,757	.11	1.45
Exercised	(109,725)	.00	0.18
Forfeited	(3,816,482)	.18	26.50
Outstanding at December 31, 2002	7,884,863	$.00	21.50
Granted	3,570,000	.11	.38
Exercised	(1,283,000)	.00	0.11
Forfeited	(3,512,306)	.00	19.25
Outstanding at December 31, 2003	6,659,557	$.11	21.50
Granted	4,540,000	0.14	0.89
Exercised	(1,045,833)	0.11	0.49
Forfeited	(1,094,288)	0.11	21.50
Outstanding at December 31, 2004	9,059,436	$.11	18.25

The weighted-average exercise price of options outstanding at December 31, 2004, 2003 and 2002, was $0.40, $0.55, and 0.96, respectively. The weighted-average exercise price of options granted, exercised, and forfeited during 2004 was $0.18, $0.13 and $1.28, respectively. The weighted-average fair value of options granted during 2004, 2003 and 2002 was $0.18, $0.16, and $0.18, respectively.

Following is additional information with respect to options outstanding at December 31, 2004:

	Exercise Price from $0.11 to $0.22	Exercise Price from $0.24 to $0.45	Exercise Price from $0.48 to $0.91	Exercise Price from $1.00 to $18.25
OUTSTANDING AT DECEMBER 31, 2004:				
Number of options	5,462,500	1,856,000	499,167	1,241,769
Weighted-average exercise price	$ 0.14	$ 0.33	$ 0.65	$ 1.54
Weighted-average remaining contractual life in years	8	8	6	6
EXERCISABLE AT DECEMBER 31, 2004:				
Number of options	3,388,177	1,238,188	444,458	1,241,769
Weighted-average exercise price	$ 0.13	$ 0.30	$ 0.65	$ 1.54

The total number of unvested options outstanding at December 31, 2004 was 2,747,000, which will vest based on employees continued service to the Company.

During the fourth quarter of 2002, in accordance with the terms of the credit line provided by the Company s two largest shareholders, 10 million warrants were issued to purchase common stock of the Company at an exercise price of $0.20 per share and an expiration date of April 15, 2004. Pursuant to an agreement between the

Table of Contents

parties during 2003, no additional warrants were issued related to borrowings on either the $4 million credit line or $2 million supplement. During February 2004, all 10 million warrants were exercised, resulting in the Company receiving the $2 million aggregate strike price and issuing 10 million shares of common stock.

8. Long-Term Debt

As of the reporting date, the Company had drawn $7.5 million of debt financing under a credit line, as described below. Subsequent to the reporting date, the Company drew the remaining $1 million under this credit line, for a total debt of $8.5 million. During October 2002, the Company entered into an Uncommitted Line of Credit with its two largest shareholders, an affiliate of Elliott Associates, L.P. (Manchester Securities Corporation) and Alexander Finance, L.P. This line provided up to $4 million to the Company. This line was uncommitted, such that each new borrowing under the facility would be subject to the approval of the lenders. Borrowings on this line bore an interest rate of 9.5% and collateralized by all the assets of the Company. Outstanding loans under this agreement would be required to be repaid on a priority basis should the Company receive new funding from other sources. Additionally, the lenders were entitled to receive warrants to the extent funds were drawn down on the line. The warrants bore a strike price of $0.20 per share of common stock and were to expire on April 15, 2004. The credit line was to mature and be due, including accrued interest thereon, on March 31, 2004. Due to an agreement between the parties no warrants were issued with subsequent borrowings. During February 2004, the warrant holders exercised all of their warrants, contributing $2 million to the Company in exchange for 10 million shares of common stock.

According to existing accounting pronouncements and SEC guidelines, the Company allocated the proceeds of these borrowings between their debt and equity components. As a result of these borrowings during 2002, the Company recorded a non-cash charge of $1.2 million through the outstanding term of the warrants (April, 2004). $250,000 and $862,000 of that amount were recorded during 2004 and 2003, respectively. These warrants were valued at $1.2 million of the $2 million debt instrument based on a Black-Scholes valuation that included the difference between the value of the Company s common stock and the exercise price of the warrants on the date of each warrant issuance and a 30% discounted face value of the notes, leaving the remaining $0.8 million as the underlying value of the debt. This $1.2 million was amortized over the vesting period of the warrants (six quarters from the fourth quarter 2002 through the first quarter 2004).

As announced during October 2003, the Company entered into an agreement with its lenders to supplement the credit line with an additional $2 million, $1 million of which was drawn immediately and $1 million subsequently drawn upon the Company s request and subject to the approval of the lenders. This supplemental facility bore a 14% rate of interest and was due October 31, 2004. The term of the previous credit line were not affected by this supplement, and as such the $4 million borrowed under that line, plus accrued interest, remained due March 31, 2004.

During February 2004, these credit lines were extended to a due date of April 2005, with interest after the initial periods to be charged at 14%. No warrants or other inducements were issued with respect to these extensions. Additionally, lenders exercised their 10 million warrants during February 2004, agreeing to let the Company use the funds for general purposes as opposed to

repaying debt.

During July 2004, the Company and its lenders agreed to increase the aggregate loan commitments under the credit line from $6,000,000 to $6,500,000. Simultaneously, the Company drew the remaining $1,500,000 of the financing.

During November 2004, the Company and its lenders agreed to increase the line of credit to up to an additional $2 million to an aggregate loan commitment of $8,500,000, $1 million of which was drawn immediately by the Company with the remaining $1 million available to be drawn upon the Company s request and subject to the approval of the lenders. The remaining $1 million was subsequently drawn down in Janurary 2005.

During February 2005, the consolidated credit line was extended until April 1, 2006. Interest during the extension period is to be charged at 9%.

Table of Contents

9. Income Taxes

The Company has net operating loss carryforwards for tax purposes of approximately $129,565,000 at December 31, 2004. The net operating loss carryforwards expire in the following years:

Year	Amount
2005	$ 7,000
2006	638,000
2007	974,000
2008	1,658,000
2009	3,973,000
2010	8,199,000
2011	11,953,000
2012	11,922,000
2018	11,146,000
2019	10,726,000
2020	15,501,000
2021	24,904,000
2022	13,982,000
2023	5,284,000
2024	8,698,000
	$ 129,565,000

Significant components of the Company s deferred tax assets and liabilities are as follows:

	December 31,	
	2004	2003
Deferred tax assets:		
Net operating loss carryforward	$ 49,236,000	$ 46,436,000
Accrued liabilities	491,000	388,000
Inventories	83,000	326,000
Property and Equipment	958,000	606,000
Total deferred tax assets	50,768,000	47,756,000
Deferred tax liabilities:		
Patent costs	(400,000)	(416,000)
	(400,000)	(416,000)
Net deferred tax assets	50,368,000	47,340,000
Valuation allowance	(50,368,000)	(47,340,000)

Net deferred tax assets	$	$

The valuation allowance increased during 2004 and 2003 by $3,028,000 and $3,164,000, respectively, due primarily to the increase in the net operating loss carryforward. Based on the Internal Revenue Code and changes in the ownership of the Company, utilization of the net operating loss carryforwards will be subject to annual limitations.

10. Leases

The Company leases its manufacturing and office space. Under the terms of the lease in Elk Grove Village, IL, which expires October 2014, the Company is responsible for all real estate taxes and operating expenses.

Future minimum payments under the operating leases consist of the following at December 31, 2004:

Year	Amount
2005	$ 156,000
2006	163,000
2007	167,000
2008	175,000
2009	184,000

Table of Contents

Rent expense totaled $260,000, $302,000, and $450,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

11. 401(k) Plan

The Company has a 401(k) plan covering all employees who meet prescribed service requirements. The plan provides for deferred salary contributions by the plan participants and a Company contribution. Company contributions, if any, are at the discretion of the Board of Directors and are not to exceed the amount deductible under applicable income tax laws. No Company contribution was made for the years ended December 31, 2004, 2003, and 2002.

12. Litigation

Patent Litigation

In July 2001, the Company filed suit in the United States District Court for the District of Delaware against Conductus, Inc. and Superconductor Technologies, Inc. alleging infringement of U.S. Patent No. 6,263,215, entitled Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems (the 215 patent). This suit alleged that Conductus and Superconductor Technologies base station front-end systems containing cryogenically cooled superconducting filters infringe this patent. The Company sought a permanent injunction enjoining Conductus and Superconductor Technologies from marketing, selling or manufacturing these products, as well as triple damages and attorneys fees. Conductus and Superconductor Technologies denied these allegations and asked the court to enter a judgment that the patent is invalid and not infringed. Conductus and Superconductor Technologies also asserted the defense of inequitable conduct and a counterclaim for a declaration that the patent is unenforceable as well as federal and state law counterclaims, including claims of unfair competition. Conductus and Superconductor Technologies sought both compensatory and punitive damages as well as attorneys fees and costs.

On March 26, 2002, the Company replied to Conductus and Superconductor Technologies Second Amended Answer and Counterclaims and filed counterclaims alleging that Conductus and Superconductor Technologies also infringe U.S. Patent No. 6,104,934 entitled Cryoelectronic Receiver Front End and U.S. Patent No. 6,205,340 B1 entitled Cryoelectronic Receiver Front End For Mobile Radio Systems . On April 17, 2002, the court dismissed these (the Company s) counterclaims without prejudice to the Company s right to assert these counterclaims in a separate action.

On February 10, 2003, the court disposed of various motions for summary judgment filed by each party. The court denied Superconductor Technologies motion for summary judgment of invalidity of the 215 patent as well as Conductus motion for summary judgment limiting computation of damages to a reasonable royalty for sales to Dobson Communications, Inc. On Superconductor Technologies motion for summary judgment of non-infringement, the court granted the motion with respect to claim 13 of the 215 patent and otherwise denied the motion with respect to each of the other asserted claims. With regard to Conductus motion for summary

judgment of non-infringement, the court granted the motion with respect to claim 13 of the 215 patent and otherwise denied the motion with respect to each of the other asserted claims. In addition, the court denied Conductus motion for summary judgment of invalidity of all asserted claims for causes of action existing prior to the date of issuance of the certificate of correction and of invalidity of claim 13. The court also denied the Company s motions for summary judgment that Superconductor Technologies internal projects are not prior art to the 215 patent and to dismiss the defendants counterclaims alleging unfair competition and interference with business relations.

On April 3, 2003, the jury returned with its verdict. The jury rejected the Company s positions and determined its patent to be invalid. Additionally, the jury determined that inequitable conduct had occurred and subsequently awarded defendants $3.87 million in damages from the Company. The Company was severely disappointed by this verdict and it engaged in the post-trial motion process to overturn it. On August 21, 2003, the court issued its ruling on the post-trial motions. The court overturned the jury s determination of unfair competition on the part of the Company and denied all requests for damages, including the $3.87 million jury award cited above. The court did not, however, overturn the jury determinations of patent invalidity and unenforceability based on inequitable conduct and denied the Company s motion for a new trial.

Table of Contents

During September 2003, the Company filed an appeal of this verdict requesting the reinstatement of its patent and the rights inherent within that patent, and Superconductor Technologies, Inc. filed a cross-appeal requesting reinstatement of the jury award and attorney s fees.

On February 3, 2005, the Appellate Court issued its ruling. It did not find adequate grounds for reversal of the Trial Court decision, and thus maintained the verdict in favor of the defendant in allowing the patent to remain invalid and unenforceable and in favor of the Company in denying counterclaims for damages raised by the defendant. The Appellate Court s ruling concludes this matter.

In November 2001, the Company filed suit against Dobson Communications, Inc. for allegedly infringing this patent. The action was stayed, per agreement between the parties, until resolution of the matter between the Company and Conductus and Superconductor Technologies. The parties agreed that Dobson Communications will be bound by any and all final, non-appealable determinations, holdings or findings with respect to all liability issues in the Company s case against Conductus. The Appellate Court s ruling concludes the Dobson matter as well.

Laves Litigation

On July 17, 2000 former President and CEO Edward W. Laves filed a two-count complaint (the Complaint) in the Law Division of the Circuit Court of Cook County, Illinois. Laves named as defendants the Company and three directors and sued for breach of contract (Count I) and for violation of the Illinois Wage Payment and Collection Act (Wage Act) (Count II). Laves claimed the defendants constructively terminated him and then failed to pay severance benefits under his employment agreement. On April 8, 2002, Laves was given leave to amend his Complaint and add Count III against the individual director defendants for tortious interference with contractual obligations. According to the Complaint, Laves sought damages against the Company in an amount estimated to exceed $12 million, plus attorney s fees under the Wage Act and pre-and post-judgment interest. He sought the same damages against the individual director defendants, plus $5,000,000 for punitive damages.

During February 2004, the parties reached settlement. Laves was paid $700,000, half of which from the Company and the remainder from the Company s insurance carrier, and all parties agreed to terminate proceedings, with prejudice.

13. Segment Reporting

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information SFAS No. 131 requires a business enterprise, based upon a management approach, to disclose financial and descriptive information about its operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Under this definition, the Company operated as a single segment for all periods presented.

14. Selected Quarterly Financial Data (Unaudited)

A summary of selected quarterly information for 2004 and 2003 is as follows:

	2004 Quarter Ended			
	March 31	June 30	Sep. 30	Dec. 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	$ 422	$ 843	$ 707	$ 650
Gross Profit	113	385	242	354
Net Earnings	(1,958)	(1,287)	(1,714)	(2,009)
Earnings per Share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

	2003 Quarter Ended			
	March 31	June 30	Sep. 30	Dec. 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	$ 1,235	$ 336	$ 378	$ 1,289
Gross Profit	606	4	80	910
Net Earnings	(3,151)	(2,113)	(1,573)	(319)
Earnings per Share	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.00)

Table of Contents

As an after-market vendor, the Company s revenue has fluctuated from quarter to quarter, consistent with buying patterns of planning processes within wireless telecommunications carriers. In the past there has been a fourth quarter effect , wherein operators were forced to spend remaining budget or lose it going forward. With the advent of significant projects such as data networks, funds are often reallocated between periods and thus diminish the pool of funds available for normal activities. The Company s objective is to be included in these projects, and thus realize a higher, more stable revenue stream.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures

(a) An evaluation was performed under the supervision and with the participation of the Company s management, including its Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of December 31, 2004. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported as specified in Securities and Exchange Commission rules and forms.

(b) There were no significant changes in the Company s internal control over financial reporting identified in connection with the evaluation of such controls that occurred during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The Company s Board of Directors currently consists of eight directors. In the interest of effective governance, the board now consists of a single class of directors, with each director serving a one-year term. Each year the full class of directors is subject to stockholder vote. At the Company s 2005 annual meeting, stockholders will vote on the election of eight directors. Each director elected at the annual meeting will serve until the 2006 annual meeting of stockholders and until such director s successor has been elected and qualified, except if the director resigns, is removed or dies before such time.

The board members include employee directors Mr. John Thode and Dr. Amr Abdelmonem, and non-employee directors Dr. George Calhoun, Mr. Michael Fenger, Mr. Jim Fuentes, Mr. Tom Powers, Mr. Ralph Pini, and Mr. Stuart Chase Van Wagenen.

Described below is certain information concerning each director. Each of the members of the Board of Directors is independent as defined by the AMEX corporate governance listing standards other than Mr. Thode, Dr. Abdelmonem and Dr. Calhoun.

48

Table of Contents

Name	Age	Position with the Company	Served as Director Since	Term Expires
John Thode	47	Director, Chief Executive Officer	2005	2005
Stuart Chase Van Wagenen	49	Chairman of the Board of Directors	2001	2005
Amr Abdelmonem	39	Director, Chief Technology Officer	2002	2005
George Calhoun	52	Director	1999	2005
Michael Fenger	37	Director	2004	2005
James Fuentes	49	Director	2003	2005
Ralph Pini	52	Director	2004	2005
Tom Powers	68	Director	1996	2005

Mr. Thode received his BSEE from the University of Illinois, his MSEE from Illinois Institute of Technology, and his Master of Management from J.L. Kellogg School of Management at Northwestern University. He joined Motorola in 1979, and for the next 25 years held numerous titles throughout its wireless industry businesses, including the Wireless Network Systems Group and the CDMA Systems Group. He has broad experience in wireless network infrastructure and handsets. He has led large product development and engineering teams. He has also negotiated substantial supplier and customer contracts and structured numerous strategic relationships. Most recently he served as Vice President & General Manager, 3G Consumer Products, Personal Communications Sector, where he created Motorola s UMTS product lines. Before that, he was Senior Director & General Manager, Wireless Access Systems Division.

Mr. Van Wagenen was elected to the Board in August 2001 and became Chairman of the Board in September 2002. Mr. Van Wagenen is president and founder of Stuart Chase Properties, Inc., in Cleveland, Ohio, a wealth management and trust advisory services firm. Mr. Van Wagenen has extensive investment and operating experiences, including the formation of Spectral Solutions, Inc. and its subsequent sale to the Company in June 1999. His firm s client portfolios include diverse investments in finance, real estate, technology, oil and gas, fast food restaurants, private equity, managed funds, publicly-traded securities, and other industries. He is a trustee of the Western Reserve Historical Society and Ronald McDonald House of Cleveland, Inc. Mr. Van Wagenen received his J.D. from Case Western Reserve University in 1981 and his B.A. from The Ohio State University. Mr. Van Wagenen is the Chair of the Audit Committee and Chair of the Governance Committee and serves on the Compensation Committee.

Dr. Abdelmonem joined the Company in January 1995 and was promoted to Director of Engineering in August 1998, to Vice President of Development Engineering in March 1999, to Chief Technology Officer in December 1999 and additionally served as Chief Executive Officer from June 2002 through January 2005. Dr. Abdelmonem joined the Board of directors in July 2002. Before joining the Company, Dr. Abdelmonem was an engineer with Exxon Corporation in Egypt. Subsequently, he was affiliated with the University of Maryland in a number of research and teaching positions where much of his research focused on semi-conductor laser and advanced filter design. Dr. Abdelmonem earned his B.S. and M.S. degrees in Electrical Engineering from Ain-Shams University in Cairo, Egypt, and his Ph.D. from the University of Maryland. Much of his research focused on semi-conductor laser design, superconducting technology and advanced filter design. Dr. Abdelmonem is a Senior Member of the IEEE and has published numerous documents for industry conferences and trade journals. He holds five patents and has ten patent applications pending. Dr. Abdelmonem holds an M.B.A. from the University of Chicago.

Dr. Calhoun has served as a director since November 1999 and served as the Chief Executive Officer of the Company from November 1999 to June 2002 and as Chairman of the Board from November 2000 to September 2002. Dr. Calhoun joined the Stevens Institute of Technology in July 2003 as Executive-in-Residence, where he teaches in the Undergraduate Program for Business & Technology, at the Howe School of Technology Management. Dr. Calhoun has spent 25 years in the high-tech segment of the wireless communications industry. He previously worked for InterDigital Communications Corporation (NASDAQ: IDCC), where he was involved for twelve years in the pioneering development of digital cellular technology. Subsequently, he was Vice-Chairman of Geotek

Table of Contents

Communications, and was Chairman of an engineering joint venture based in Israel, to develop a spread spectrum frequency-hopping radio system for fleet radio communications. He is also Chairman of both the Board and Audit Committee for Airnet Communications (NASDAQ: ANCC), a smart antenna and software-defined radio technology company. He is also a member of the Board of Insci Corporation (NASDAQ: INSS.OB), a company in the business of electronic content management and digital archiving software. Dr. Calhoun holds one patent (on wireless system architectures), and has published several books on wireless communications, including the best-selling Digital Cellular Radio (Artech, 1988). His most recent book is Third Generation Wireless Systems: Post-Shannon Signal Architectures (Artech, 2003). He is also a Visiting Professor at the Leiden University School of Management in the Netherlands. Dr. Calhoun has a BA degree from the University of Pennsylvania, and a Ph.D. from the Wharton School.

Mr. Fenger was elected to the Board in 2004. Since 2002, he has been Corporate Vice President and Chief Quality Officer of Motorola, Inc. In this capacity he has helped Motorola in its effort to focus on the most promising initiatives and improve the return of those projects. Previously, he served twelve years at General Electric with GE Capital and the Lighting Business Group, where he most recently served as general manager of global supply chain operations for GE Lighting. He holds one patent and a degree in economics from Miami University in Ohio. Mr. Fenger serves on the Governance Committee.

Mr. Fuentes was elected to the Board in November 2003. He is Founder, President and CEO of Clarity Communication Systems, Inc., an Aurora, IL wireless software and systems development company formed in 1998. Previously, Mr. Fuentes served at Lucent Technologies (formerly AT&T Bell Labs) for ten years in various positions, most recently as a senior manager in software development. Prior to joining Bell Labs, Mr. Fuentes served four years at Northrop Defense Systems and six years in Advanced Development Projects at Lockheed Aircraft Company. Mr. Fuentes engineering experiences involve design and development of electronic counter-measures and stability of flight controls systems. He has six patents in the wireless telecommunications field and also received the Hispanic Engineer National Achievement Award for Technical Achievement in Industry in 1995. Currently Mr. Fuentes sits on the WESTEC Advisory Board. He received a B.S. degree majoring in Aeronautical Engineering with a second major in Computer Science from Embry-Riddle Aeronautical University. Mr. Fuentes in a member of the Audit Committee and the Compensation Committee.

Mr. Pini was elected to the Board in 2004 having served as Senior Vice President and Chief Technology Officer, Personal Communications Sector, Motorola, Inc. He has spent twenty-eight years in the global wireless industry. During this period he has been with Motorola s Personal Communications Group, where he managed the global R&D organization of 4000 engineers and served as General Manager of Europe, Middle East and Africa. He has broad experiences across GSM, CDMA, and UMTS platforms. He received his MBA from Lake Forest Graduate School of Management, and both his MS in Electrical Engineering and his BS in Electrical and Computer Science from the University of Illinois, Chicago. Mr. Pini serves on the Governance Committee.

Mr. Powers has served as a director of the Company since October 1996. From 1993 to 1999, he was an Associate Director of the Advanced Manufacturing Center at New Mexico State University in Las Cruces, New Mexico. He is on the board of directors of Material Recovery of North America, a start up company in New Mexico, and is a consultant to a number of companies in the telecommunications industry. From 1989 to 1991, Mr. Powers was President of the cellular

systems business unit of AT&T Network Systems Group, now known as Lucent Technologies, Inc. Under his leadership, the business unit became the market leader in wireless infrastructure equipment in the United States, opened markets internationally and introduced the industry s first digital cellular system. In 1983, he became Vice President of a joint venture between AT&T and Philips Telecommunications B.V. located in the Netherlands. He joined AT&T in 1958 as a member of the technical staff of Bell Laboratories and went on to management positions in consumer products, customer switching systems engineering and network planning. Mr. Powers holds a M.E.E. degree in Electrical Engineering for New York University and a B.S. degree in Electrical Engineering from the University of Arkansas, a diploma in Advanced Marketing from Wharton and is a graduate of the Stanford Executive Program. Mr. Powers is a member of both the Audit Committee and the Compensation Committee, the latter of which he serves as its Chairman.

Table of Contents

Audit Committee

The Audit Committee consists of three directors, Stuart Chase Van Wagenen (Chairman), James Fuentes and Tom Powers, all of whom are independent as defined by the rules of the Securities and Exchange Commission and American Stock Exchange. The Board of Directors has determined that Mr. Van Wagenen is an Audit Committee financial expert as defined in regulations of the Securities and Exchange Commission under the Sarbanes-Oxley Act of 2002.

Code of Conduct

The Company has a Code of Business Conduct and Ethics, which was attached as an exhibit to the 2003 annual report. The Company requires all employees, officers and directors to adhere to this Code in addressing the legal and ethical issues encountered in conducting their work. The Code of Business Conduct and Ethics requires that the Company s employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity and in the Company s best interest. The Company s Code of Business Conduct and Ethics is intended to comply with Item 406 of the SEC s Regulation S-K and the rules of the American Stock Exchange.

The Code of Business Conduct and Ethics includes procedures for reporting violations of the Code, which are applicable to all employees. The Sarbanes-Oxley Act of 2002 requires companies to have procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Code of Business Conduct and Ethics also includes these required procedures.

Compensation Committee Interlocks and Insider Participation

During 2004, Tom Powers served as Chairman of the Compensation Committee of the Board of Directors. Mr. Powers does not currently serve as an officer of the Company. There are no compensation committee interlocks between the Company and any other entity involving the Company s or such entity s executive officers or board members. Neither Mr. Van Wagenen nor Mr. Fuentes, who joined the Compensation Committee during 2004, are officers of the Company or have similar interlocks.

Executive Officers

Set forth below is a table identifying executive officers of the Company who are not identified in the tables entitled Directors. Biographical information for Mr. Thode and Dr. Abdelmonem are set forth above under Directors.

Name	Age	Position with Company
Frank Cesario	35	Chief Financial Officer

Mr. Cesario joined the Company during August 2000 as Controller and has served as Acting Chief Financial Officer since April 2002 and Chief Financial Officer since December 2002. Previously, Mr. Cesario was Group Controller for copper and brass producer Outokumpu Copper, Inc. and subsidiaries, a U.S. group with approximately $500 million in annual revenue and owned by Helsinki-based Outokumpu Oyj. Mr. Cesario has an MBA (Finance) from DePaul University in Chicago, a B.S. in Accountancy from the University of Illinois, and began his career at KPMG Peat Marwick.

The Board of Directors elects officers annually and such officers, subject to the terms of certain employment agreements, serve at the discretion of the board. See Executive Compensation . The Company has entered into employment agreements with Mr. Thode and Dr. Abdelmonem. There are no family relationships among any of the directors or executive officers of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s officers (as defined under Section 16(a) of the Securities Exchange Act), directors and persons who own greater than 10% of a

51

Table of Contents

registered class of the Company s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on a review of the forms it has received and on written representations from certain reporting persons that no such forms were required for them, the Company believes that during 2004, except for an option grant to Mr. Pini that was subsequently reported on Form 4 by Mr. Pini, all of the Section 16(a) filing requirements applicable to its officers, directors and 10% beneficial owners were complied with by such persons.

Item 11. Executive Compensation

The following table provides information concerning the annual and long-term compensation for services in all capacities to the Company for the years ended December 31, 2004, 2003 and 2002 of (i) each person who served as the Company s chief executive officer and (ii) the four most highly compensated executive officers whose salary and bonus for services rendered in all capacities to the Company for the fiscal year ended December 31, 2003 exceeded $100,000 (collectively, the Named Executive Officers).

Summary Compensation Table

	Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	*Year*	*Salary*	*Bonus*	*Restricted Stock Awards*	*Securities Underlying Options*	*All Other Compensation*
Amr Abdelmonem (1)	2004	200,000			1,800,000	
	2003	200,000			900,000	
Chief Executive Officer	2002	207,194			1,050,000	
Frank Cesario (2)	2004	120,000			400,000	
	2003	120,000			250,000	
Chief Financial Officer	2002	102,000			30,000	

(1) Dr. Abdelmonem was named Chief Technology Officer during 1999 and has continued to serve in this capacity through the filing date in 2005, and also served as Chief Executive Officer from June 2002 through January 2005.
(2) Mr. Cesario was named Chief Financial Officer during 2002.

Note: Mr. John Thode joined the Company as Chief Executive Officer during January 2005 with an annual salary of $225,000.

Option Grants In 2004

The following table contains information concerning the grant of stock options by the Company to the Named Executive Officers during 2004. There were no stock appreciation rights granted in 2004. Information provided in this table is as of December 31, 2004.

Name	*Number of Securities Underlying Options Granted*	*Percent of Total Options Granted to Employees in Fiscal Year*	*Exercise Price Per Share*	*Expiration Date*	*Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)*	
					5%	*10%*
Amr Abdelmonem	1,800,000	39.6%	$ 0.14	Jan 2014	$ 2,064,288	$ 3,436,302
Frank Cesario	400,000	8.8%	$ 0.14	Jan 2014	$ 458,731	$ 763,623

(1) Potential realizable value is presented net of the option exercise price but before any federal or state income taxes associated with exercise. The assumed stock price appreciation rates used to determine the potential realize value are prescribed by the Securities and Exchange Commission rules for illustrative purposes only and are not intended to forecast or predict future stock prices. Actual gains are dependent on the future performance of the Common Stock and the option holder s continued employment throughout the vesting period.

Table of Contents

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides information concerning the Named Executive Officers unexercised options at December 31, 2004. None of the Named Executive Officers held or exercised any stock appreciation rights, during 2004.

	Shares Acquired On	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-The-Money Options at December 31, 2004	
Name	**Exercise (#)**	**($)(1)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Amr Abdelmonem	512,500	133,250	1,662,500	975,000	$ 365,750	$ 214,500
Frank Cesario	200,000	28,000	233,333	216,667	$ 51,333	$ 47,667

(1) The value per option is calculated by subtracting the exercise price from the closing price of the Common Stock on the American Stock Exchange on the transaction date(s).

Employment Agreements.

The Company has an employment agreement with John Thode to be President and Chief Executive Officer dated as of January 6, 2005. Under the agreement, Mr. Thode s annual base salary will be $225,000. Mr. Thode s employment may be terminated at any time. If Mr. Thode is terminated by the Company without cause, as defined in the agreement, Mr. Thode will receive six months of his annual base salary and six months continuation of his group health benefits. If Mr. Thode is terminated by the Company for cause, he will be entitled only to the payment of accrued and unpaid salary through the date of such termination. Mr. Thode s agreement also contains customary restrictive covenants, including a covenant not to complete with the Company for a period of twelve months following any cessation of his employment.

Mr. Thode was also granted non-qualified options to purchase up to 1,550,000 shares of the Company s common stock. The options were issued outside of the Company s 2003 Equity Incentive Plan, but were nonetheless subject to terms substantially identical to the 2003 Equity Incentive Plan. The option will vest with respect to 62,500 shares on the last day of each of the 12 calendar months ending after the grant date (or, if sooner, upon a change in control of the Company), provided that Mr. Thode is still employed by the Company through the applicable vesting date. The option will vest with respect to 400,000 of the remaining 800,000 shares if the Company achieves certain quarterly and annual revenue objectives and 400,000 of the remaining 800,000 shares if the Company achieves certain quarterly and annual cash flow objectives during the 2005 fiscal year and Mr. Thode remains employed by the Company through the applicable vesting date. The option will have an exercise price equal to $0.43 per share, which was the closing price of the Company s common stock on the date of grant, which was January 11, 2005. The option expires ten years from the date of grant, unless earlier terminated.

If Mr. Thode s employment is terminated: (1) by Mr. Thode s death or disability, Mr. Thode or his estate or personal representative will be entitled to exercise the option, the extent vested at the time of his termination, for up to a year after his death or termination due to disability; (2) by the Company for cause, any portion of the option not already exercised will be immediately and automatically forfeited; or (3) for any other reason, the option may be exercised, to the extent vested at the time of his termination, for up to 90 days following his termination.

The Company has an employment agreement with Amr Abdelmonem dated as of January 1, 2001 to be Chief Technology Officer of the Company. Dr. Abdelmonem subsequently became the Chief Executive Officer of

Table of Contents

the Company from June 2002 through January 2005. The agreement is for a term of three years, with one-year renewal options. Dr. Abdelmonem is paid an annual salary of $200,000 and is paid a severance of one year s salary if (i) the Company terminates his employment without Cause (as defined in the agreement) or (ii) Dr. Abdelmonem terminates his employment for Good Reason (as defined in the agreement), which such severance is offset by any income received by Dr. Abdelmonem during the severance period. His severance is increased to two years salary in the case of a change in control (as defined in the agreement) of the Company and a termination as described previously. Dr. Abdelmonem also receives a severance of six months salary if his employment contract expires without renewal. Dr. Abdelmonem s agreement includes a provision for a bonus to be paid at the discretion of the Board of Directors and certain non-competition, non-solicitation, assignment of invention and confidentiality provisions.

Director Compensation.

Each non-employee director receives a monthly retention fee of $1,000. In addition, the Chairman of the Board and the Chairman of the Audit Committee each receives a $5,000 retention fee and the Chairman of the Compensation Committee and Chairman of the Governance Committee each receives a $2,000 retention fee.

In addition, the Board has established a compensation policy to provide that each Non-Employee Director who is re-elected or continues to serve as a director because his or her term had not expired shall be granted an option to purchase 50,000 shares of common stock at the reported closing price of the common stock on the date of each annual meeting of the stockholders of the Company, provided that no such automatic grant shall be made to a Non-Employee Director who was first elected to the Board of Directors at the first such meeting or was first elected to the Board of Directors within three months prior to such annual meeting. Such options vest monthly over a one-year period from the date of grant.

In addition, the current policy provides for the grant of Non-Qualified Stock Options (NQSOs) to purchase 25,000 shares of common stock to each Non-Employee Director who is appointed or continues to serve on the Audit Committee of the Board of Directors and the Chairman of the Audit Committee receives a grant of NQSOs to purchase 50,000 shares of common stock. Each Non-Employee Director who is appointed or continues to serve on the compensation committee and the governance committee of the Board of Directors receives a grant of NQSOs to purchase 10,000 shares of common stock and the Chairman of the compensation committee and the Chairman of the governance committee each receives a grant of NQSOs to purchase 25,000 shares of common stock. The Chairman of the Board receives a grant of NQSOs to purchase 50,000 shares of common stock. These options are granted in consideration of such director s service on a committee or as chairman. Each of the options are granted at the reported closing price of the common stock on the date of each annual meeting of the stockholders of the Company or on the date such director joins a committee or is named chairman of such committee, provided that annual grants are not made to a Non-Employee Director who was first appointed to the committee or as chairman within three months prior to such annual meeting. These stock options vest monthly over a one-year period from the date of grant and expire ten years from the date of grant.

All Non-Employee Directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending board and committee meetings.

54

Table of Contents

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options, warrants and rights under the Company s 1993 Plan and under the 2003 Equity Incentive Plan as of December 31, 2004.

Plan Category	Number of Securities to be issued upon exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans approved by security holders	9,059,436	$ 0.40	1,877,324(1)
Equity compensation plans not approved by security holders			
Total	9,059,436	$ 0.40	1,877,324(1)

(1) The 1993 Plan terminated in August 2003 and was replaced by the 2003 Equity Incentive Plan.

The following table sets forth information regarding the beneficial ownership of Common Sock as of March 23, 2005, except as otherwise indicated in the relevant footnote, by (1) each person or group that the Company knows beneficially owns more than 5% of Common Stock, (2) each of the Company s directors and director nominees, (3) the Named Executive Officers, and (4) all current executive officers and directors as a group. Unless otherwise indicated, the address of each person identified below is c/o the Company at its principal executive offices.

The percentages of beneficial ownership shown below are based on 161,218,703 shares of Common Stock outstanding as of March 23, 2005, unless otherwise stated. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes those securities over which a person may exercise voting or investment power. In addition, shares of Common Stock which a person has the right to acquire upon the exercise of stock options and/or warrants within 60 days of the date of this table are deemed outstanding for the purpose of computing the percentage ownership of that person, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated in the footnotes to this table or as affected by applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.

Table of Contents

	Number of Shares of Common Stock Beneficially Owned	Percent of Class
5% Stockholders		
Alexander Finance, LP.	32,898,179(1)	20.4%
Elliott Associates, L.P.	14,861,168(2)	9.2%
Elliott International, L.P.	10,404,159(2)	6.5%
Directors and Named Executive Officers		
Amr Abdelmonem	2,069,500(3)	1.27%
Stuart Chase Van Wagenen	352,500(4)	*
George Calhoun	955,666(5)	*
James Fuentes	110,417(6)	*
Tom Powers	440,855(7)	*
Michael Fenger	58,333(8)	*
Ralph Pini	46,500(9)	*
John Thode	300,000(10)	*
Frank Cesario	518,036(11)	*
All directors and executive officers as a group (9 persons)	4,851,807(12)	2.93%

* Less than 1%.

(1) As reflected in a Form 4 dated March 2, 2005. The address for Alexander Finance, L.P. is 1560 Sherman Avenue Evanston, IL 60201.
(2) As reflected in a Form 4 dated February 28, 2005 for Elliott Associates, L.P. and a Form 4 dated February 28, 2005 for Elliott International, L.P. The address of Elliott Associates, L.P. is 712 Fifth Avenue, New York, New York 10019 and the address of Elliott International, L.P. is c/o Elliot International Capital Advisors, Inc. 712 Fifth Avenue New York, New York 10019.
(3) Includes outstanding options to purchase 2,037,500 shares which were exercisable as of March 31, 2005, or within 60 days from such date.
(4) Includes outstanding options to purchase 302,500 shares which were exercisable as of March 31, 2005, or within 60 days from such date.
(5) Includes outstanding options to purchase 891,666 shares which were exercisable as of March 31, 2005, or within 60 days from such date.
(6) Represents outstanding options to purchase shares which were exercisable as of March 31, 2005, or within 60 days from such date.
(7) Includes outstanding options to purchase 437,667 shares, which were exercisable as of March 31, 2005, or within 60 days from such date.
(8) Represents outstanding options to purchase shares, which were exercisable as of March 31, 2005, or within 60 days from such date.
(9) Includes outstanding options to purchase 37,500 shares, which were exercisable as of March 31, 2005, or within 60 days from such date.
(10) Represents outstanding options to purchase shares, which were exercisable as of March 31, 2005, or within 60 days from such date.
(11) Includes outstanding options to purchase 316,666 shares, which were exercisable as of March 31, 2005, or within 60 days from such date.
(12) Includes outstanding options to purchase 4,492,249 shares, which were exercisable as of March 31, 2005, or within 60 days from such date.

Item 13. Certain Relationships and Related Transactions

During October 2002, the Company entered into an Uncommitted Line of Credit with its two largest shareholders, an affiliate of Elliott Associates, L.P. (Manchester Securities Corporation and Alexander Finance, L.P.). This line provided that up to $4 million to be borrowed by the Company, with $1 million borrowed during October 2002 upon completion of the transaction. $1 million was borrowed during November 2002 and a third borrowing of $1 million occurred in March 2003. This line is uncommitted, such that each new borrowing under the facility would be subject to the approval of the lenders. If approved by the lenders, the Company could borrow up to an additional $1 million.

Table of Contents

Borrowings on this line bore an interest rate of 9.5% and collateralized by all the assets of the Company. Outstanding loans under this agreement would be required to be repaid on a priority basis should the Company receive new funding from other sources. Additionally, the lenders are entitled to receive warrants to the extent funds are drawn down on the line. The warrants bore a strike price of $0.20 per share of common stock and expire on April 15, 2004. The credit line was to mature and be due, including accrued interest thereon, on March 31, 2004. Warrants to purchase 10 million shares of common stock were issued in connection with the borrowings under the line of credit during the year ended December 31, 2002. No warrants were issued in connection with March 2003 borrowing under the line of credit. Up to 5 million warrants may be issued in the event the Company is authorized to borrow the $1 million remaining under the facility. Therefore, a maximum of 15 million warrants may be issued as a result of this transaction, presuming certain antidilutive features are not triggered.

On October 24, 2003, the Company and the lenders amended the terms of their loan agreement to reflect: (i) an increase in the aggregate commitment of the lenders to from $4,000,000 to $6,000,000; (ii) the elimination of warrant issuances from future drawdowns; (iii) interest on future loans will bear interest at the rate of 14% per annum; (iv) that future loans mature on October 31, 2004; (v) and that future loans be subject to the discretion of the Lenders. The Company borrowed $1,000,000 from the line of credit agreement upon execution of the amendment. During February 2004, the lenders exercised warrants to purchase 10,000,000 shares of common stock. The Company received the $2,000,000 aggregate strike price for the exercise of these warrants.

During July 2004, the Company and its lenders agreed to increase the aggregate loan commitments under the credit line from $6,000,000 to $6,500,000. Simultaneously, the Company drew the remaining $1,500,000 of the financing.

During November 2004, the Company and its lenders agreed to increase the line of credit to up to an additional $2 million to an aggregate loan commitment of $8,500,000, $1 million of which was drawn immediately by the Company with the remaining $1 million available to be drawn upon the Company s request and subject to the approval of the lenders. The remaining $1 million was subsequently drawn down in January 2005.

During February 2005, the consolidated credit line was extended until April 1, 2006. Interest during the extension period is to be charged at 9%.

Item 14. Principal Accounting Fees and Services

Grant Thornton LLP has served as the Company s independent registered public accountants since December 2000. Grant Thornton LLP has been selected to continue as the Company s independent registered public accountants for the current year.

During the fiscal years ended December 31, 2004 and 2003, fees in connection with services rendered by Grant Thornton LLP, the Company s independent registered accounting firm, were as set forth below:

Fee Category	Fiscal 2004	Fiscal 2003
Audit Fees	$ 111,566	$ 114,683
Audit-Related Fees		
Tax Fees	31,171	34,739
All Other Fees		
TOTAL	$ 142,737	$ 149,422

Audit fees consisted of fees for the audit of the Company s annual financial statements and review of quarterly financial statements as well as services normally provided in connection with statutory and regulatory filings or engagements, consents and assistance with and review of the Company s documents filed with the SEC.

Tax fees consisted primarily of fees for tax compliance, tax advice and tax planning services.

The Company made no other payments to Grant Thornton LLP during 2004 which constituted other fees.

Table of Contents

Policy for Pre-Approval of Audit and Non-Audit Services

The Audit Committee s policy is to pre-approve all audit services and all non-audit services that the Company s independent auditor is permitted to perform for us under applicable federal securities regulations. As permitted by the applicable regulations, the Committee s policy utilizes a combination of specific pre-approval on a case-by-case basis of individual engagements of the independent auditor and pre-approval of certain engagements up to predetermined dollar thresholds that are reviewed annually by the Committee. Specific pre-approval is mandatory for the annual financial statement audit engagement, among others.

All engagements of the independent auditor to perform any audit services and non-audit services have been pre-approved by the Committee in accordance with the pre-approval policy. The policy has not been waived in any instance.

The Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee. The Chairman of the Audit Committee must report any decisions to the Audit Committee at the next scheduled meeting.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K/A:

1. The following financial statements of the Company, with the report of independent auditors, are filed as part of this Form 10-K/A:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003, and 2002

Consolidated Statements of Stockholders Equity (Net Capital Deficiency) for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003, and 2002

Notes to Consolidated Financial Statements

2. The following financial statement schedules of the Company are filed as part of this Form 10-K/A:

All financial schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned financial statements.

3. Exhibits are listed in the Exhibit Index to this Form 10-K/A.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, on the 4th day of May, 2005. Filing deadline moved up because of leap year.

ISCO INTERNATIONAL

By: /s/ JOHN THODE

John Thode
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 4th day of May, 2005.

Signature	Title
/s/ JOHN THODE John Thode	Chief Executive Officer and Director (Principal Executive Officer and Director)
/s/ FRANK CESARIO Frank Cesario	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ STUART CHASE Stuart Chase Van Wagenen	Director and Chairman of the Board
/s/ GEORGE CALHOUN George Calhoun	Director
/s/ AMR ABDELMONEM Amr Abdelmonem	Director and Chief Technology Officer
/s/ MICHAEL FENGER Michael Fenger	Director
/s/ JAMES FUENTES James Fuentes	Director

/s/ RALPH PINI	Director
Ralph Pini	
/s/ TOM POWERS	Director
Tom Powers	

59

Table of Contents

ISCO INTERNATIONAL

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company s Registration Statement on Form S-3/A, filed with the Securities and Exchange Commission (SEC) on August 13, 1998, Registration No. 333-56601 (the August 1998 S-3).
3.2	By-Laws of the Company, incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Company s Registration Statement on Form S-1, filed with the SEC on October 26, 1993, Registration No. 33-67756 (the IPO Registration Statement).
3.3	Certificate of Amendment of Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.3 to the IPO Registration Statement.
3.4	Certificate of Amendment of Certificate of Incorporation of the Company, incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-3/A, filed with the SEC on July 1, 1999, Registration No. 333-77337.
3.5	Certificate of Amendment of Certificate of Incorporation of the Company filed July 18, 2000, incorporated by reference to the Company s registration statement on Form S-8 filed August 7, 2000 (the August 2000 S-8).
3.6	Certificate of Amendment to Certificate of Incorporation filed with the Secretary of State of the State of Delaware on June 25, 2001, incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on June 27, 2001.
3.7	Certificate of Amendment to Certificate of Incorporation filed with the Secretary of State of the State of Delaware on December 16, 2004, incorporated by reference to Exhibit 3.7 to the Company s Annual Report on Form 10-K filed on March 31, 2005 (the 2004 10-K).
4.1	Specimen stock certificate representing Common Stock, incorporated by reference to Exhibit 4.1 to the IPO Registration Statement.
4.2	Rights Agreement dated as of February 9, 1996 between the Company and LaSalle National Trust, N.A., incorporated by reference to the Exhibit to the Company s Registration Statement on Form 8-A, filed with the SEC on February 12, 1996.
4.3	The SSI Replacement Nonqualified Stock Option Plan, incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-8, filed with the SEC on November 3, 2000, Registration No. 333-49268.*
4.4	Amendment No. 1 to the Rights Agreement between ISCO International, Inc. (formerly Illinois Superconductor Corporation) and LaSalle National Trust Association (formerly known as LaSalle National Trust Company) dated as of February 9, 1996, incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed with the SEC on February 22, 2002.
10.1*	Form of Amended and Restated Director Indemnification Agreement, incorporated by reference to Exhibit 10 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998.
10.2	

Public Law Agreement dated February 2, 1990 between Illinois Department of Commerce and Community Affairs and the Company, incorporated by reference to Exhibit 10.5 to the IPO Registration Statement.

10.3 Public Law Agreement dated December 30, 1991 between Illinois Department of Commerce and Community Affairs and the Company, amended as of June 30, 1992, incorporated by reference to Exhibit 10.6 to the IPO Registration Statement.

10.4 Subcontract and Cooperative Development Agreement dated as of June 1, 1993 between American Telephone and Telegraph Company and the Company, incorporated by reference to Exhibit 10.9 to the IPO Registration Statement.

10.5 Intellectual Property Agreement dated as of June 1, 1993 between American Telephone and Telegraph Company and the Company, incorporated by reference to Exhibit 10.10 to the IPO Registration Statement.

10.6 License Agreement dated January 31, 1990 between the Company and Northwestern University, incorporated by reference to Exhibit 10.13 to the IPO Registration Statement.

10.7 License Agreement dated February 2, 1990 between the Company and ARCH Development Corporation, incorporated by reference to Exhibit 10.14 to the IPO Registration Statement.

10.8 License Agreement dated August 9, 1991 between the Company and ARCH Development Corporation, incorporated by reference to Exhibit 10.15 to the IPO Registration Statement.

10.9 License Agreement dated October 11, 1991 between the Company and ARCH Development Corporation, incorporated by reference to Exhibit 10.16 to the IPO Registration Statement.

Table of Contents

10.10	Public Law Agreement dated August 18, 1993 between Illinois Department of Commerce and Community Affairs and the Company, incorporated by reference to Exhibit 10.17 to the IPO Registration Statement.
10.11*	Form of Officer Indemnification Agreement incorporated by reference to Exhibit 10.17 to the Company s Annual Report on Form 10-K for the year ended December 31, 1998.
10.12	Escrow Agreement dated August 8, 2000 among the Company, Russell Scott, III, as stockholder representative, and American National Bank and Trust Company, as escrow agent, incorporated by reference to Exhibit 10.25 to the Company s registration statement on Form S-2 filed September 7, 2000, Registration No. 333-45406 (the September S-2).
10.13*	Employment Agreement with Amr Abdelmonem dated January 1, 2001, incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-3 filed on April 20, 2001.
10.14	ISCO International, Inc. Amended and Restated 1993 Stock Option Plan, incorporated by reference to Appendix C and D of the Company s Definitive Proxy materials filed on May 22, 2001.
10.15	Secured 9½% Grid Note dated October 23, 2002 between ISCO International, Inc. and Alexander Finance L.P. in the principal amount of $1,752,400, incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on October 24, 2002.
10.16	Secured 9½% Grid Note dated October 23, 2002 between ISCO International, Inc. and Manchester Securities Corporation in the principal amount of $2,247,600, incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on October 24, 2002.
10.17	Registration Rights Agreement dated October 23, 2002 between ISCO International, Inc. Manchester Securities Corporation, and Alexander Finance L.P., incorporated by reference to Exhibit 10.7 to the Company s Current Report on Form 8-K filed on October 24, 2002.
10.18	ISCO International, Inc. 2003 Equity Incentive Plan incorporated by reference to the Appendix A to the Company s Proxy Statement filed on November 14, 2003.
10.19	Secured 14% Grid Note dated October 24, 2003 between ISCO International, Inc. and Alexander Finance, L.P. in the principal amount of $876,200, incorporated by reference to Exhibit 10.10 to the Company s Current Report on Form 8-K filed on October 27, 2003.
10.20	Secured 14% Grid Note dated October 24, 2003 between ISCO International, Inc. and Manchester Securities Corporation in the principal amount of $1,123,800, incorporated by reference to Exhibit 10.11 to the Company s Current Report on Form 8-K filed on October 27, 2003.
10.21	Secured 14% Grid Note dated July 23, 2004 between ISCO International, Inc. and Alexander Finance, L.P. in the principal amount of $386,900, incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on July 28, 2004.
10.22	Secured 14% Grid Note dated July 23, 2004 between ISCO International, Inc. and Manchester Securities Corporation in the principal amount of $113,100, incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on July 28, 2004.
10.23	Stock Purchase Agreement dated December 15, 2003 between ISCO International, Inc. and Morgan & Finnegan, L.L.P., incorporated by reference to Exhibit 10.1 to the Company s Current Report of Form 8-K filed on December 16, 2003.
10.24	Office/Service Center Lease Agreement dated July 20, 2004 between ISCO International, Inc. and D&K Elk Grove Industrial II, LLC, incorporated by reference to

Exhibit 10.24 to the 2004 10-K.

10.25 Third Amended and Restated Loan Agreement dated November 10, 2004 between ISCO International, Inc., Manchester Securities Corporation, and Alexander Finance L.P., incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on November 12, 2004.

10.26 Third Amended and Restated Security Agreement dated November 10, 2004 between ISCO International, Inc., Spectral Solutions, Inc., Illinois Superconductor Canada Corporation, Manchester Securities Corporation, and Alexander Finance L.P., incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on November 12, 2004.

10.27 Secured 14% Grid Note dated November 10, 2004 between ISCO International, Inc. and Alexander Finance, L.P. in the principal amount of $1,100,000, incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on November 12, 2004.

10.28 Secured 14% Grid Note dated November 10, 2004 between ISCO International, Inc. and Manchester Securities Corporation in the principal amount of $900,000, incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on November 12, 2004.

10.29 Third Amended and Restated Guaranty of Spectral Solutions, Inc. dated November 10, 2004, incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed on November 12, 2004.

10.30 Third Amended and Restated Guaranty of Illinois Superconductor Canada Corporation dated November 10, 2004, incorporated by reference to Exhibit 10.6 to the Company s Current Report on Form 8-K filed on November 12, 2004.

Table of Contents

10.31	Letter Agreement dated January 6, 2005 between ISCO International, Inc. and John Thode (including Non-Qualified Stock Option Agreement) incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on January 12, 2005.
10.32	Amendment to Loan Documents dated February 10, 2005 between ISCO International, Inc., Manchester Securities Corporation, Alexander Finance, L.P., Spectral Solutions, Inc. and Illinois Superconductor Corporation, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 15, 2005.
14	Code of Ethics incorporated by reference to Exhibit 14 to the Company s Annual Report on Form 10-K filed on March 30, 2004.
23.1**	Consent of Grant Thornton LLP
31.1**	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adapted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2**	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adapted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32**	Certification Pursuant To 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement required to be filed as an exhibit on this Form 10-K.

** Filed herewith