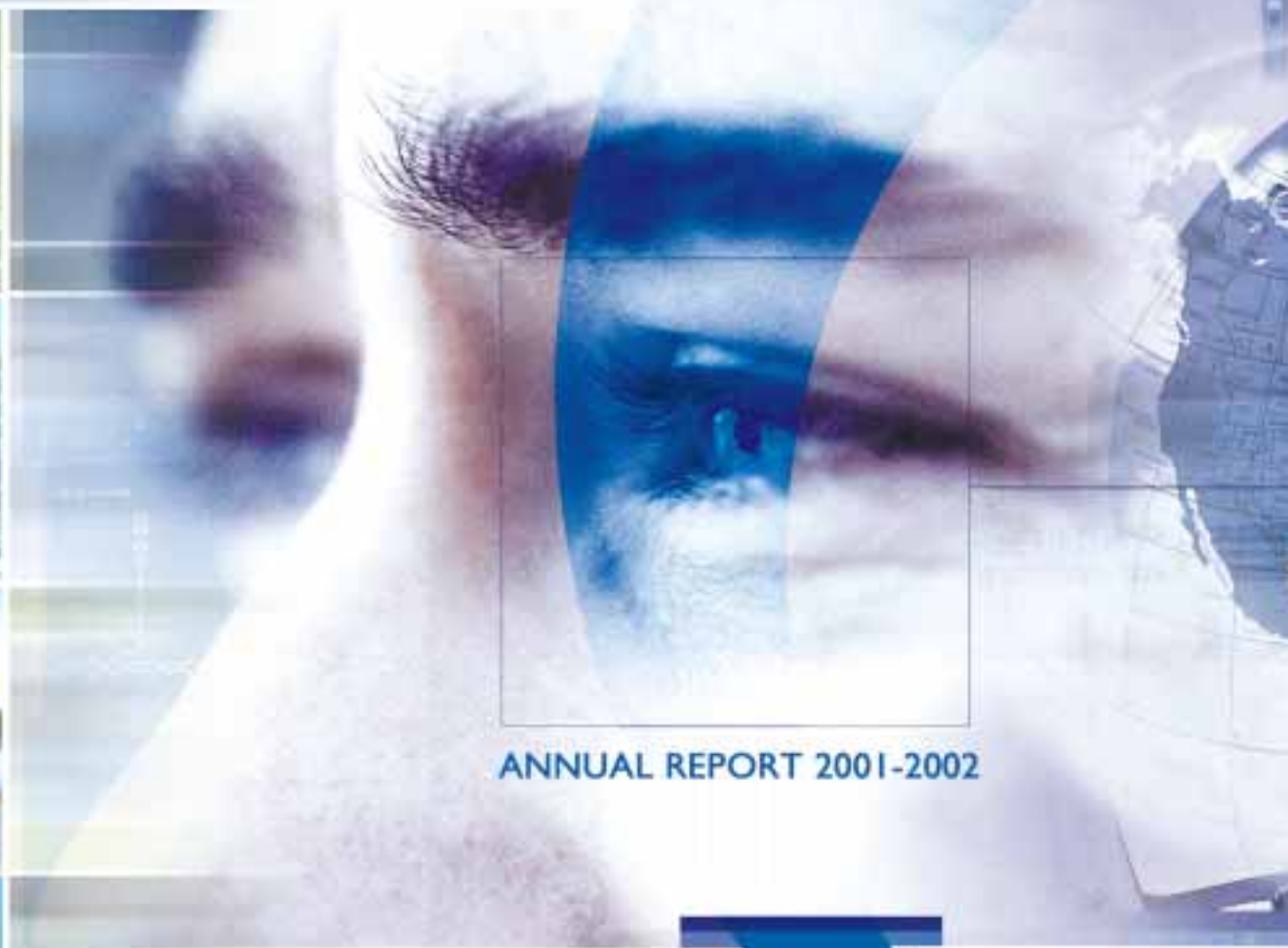




Creating Opportunities

IN THE NEW ERA



ANNUAL REPORT 2001-2002



USIC and its Mission

The United States Industry Coalition, Inc. is a non-profit association of American companies and universities who are active partners in our nation's long-term nonproliferation efforts with the former Soviet Union.

Our mission is to facilitate the commercialization of technologies for peaceful purposes. We aim to achieve this mission through the cooperative efforts of USIC members, the Initiatives for Proliferation Prevention (IPP) program of the National Nuclear Security Administration at the U.S. Department of Energy, other U.S. Government agencies, and the scientific institutes of Russia, Ukraine, Kazakhstan and Armenia.



A “NEW ERA”



At their Spring 2002 summit, U.S. President George Bush and Russian Federation President Vladimir Putin announced a “New Era” in U.S.-Russian relations. In so doing, the two leaders asserted partnership and cooperation to advance stability, security, economic integration, and a commitment to jointly counter global challenges. They stated their intention to use the potential of international trade to expand economic ties between the two countries, and to further integrate Russia into the world economy.

The Bush-Putin declaration struck a familiar chord to those of us at USIC who are involved in the Initiatives for Proliferation Prevention (IPP) program of the National Nuclear Security Administration at the U.S. Department of Energy.

Our work in the past few years has anticipated this new direction in U.S.-Russian relations. USIC members and their IPP partners—former Soviet weapons institutes, their spin-off companies, and DOE national laboratories—have been on the ground since 1994, striving to create new jobs and wealth in both the United States and the former Soviet Union. Bold new commercial ventures across a wide range of new technologies are underway, designed to provide opportunities for those scientists, engineers, and technicians who used to be involved in weapons of mass destruction in the former Soviet Union. Through IPP, USIC members and their partners are part of the engine generating new high-tech industries that will form the foundation for future prosperity.

The declaration of a “New Era” gave an energetic boost to our efforts, and USIC welcomes stronger strategic, diplomatic, and economic ties. The events of September 11, 2001 were a stark reminder that work begun years ago by IPP and other U.S. nonproliferation programs to stem the flow of weapons expertise or materials to dangerous countries and organizations is more important than ever. Every project launched by USIC-IPP is one more block in preventing that expertise from flooding the world proliferation markets. Every job created makes it less likely that poverty will thrust talent into the hands of those who would terrorize the world for their narrow and cruel purposes.

USIC and our member companies are proud of our part in making the world safer and more secure. In this report, we highlight some of our achievements and set forth future goals. As always, we welcome comments from our members and colleagues.



Steven P. Kadner
Chairman
USIC Board of Directors



Victor E. Alessi
President & CEO
United States Industry
Coalition, Inc.

CREATING OPPORTUNITIES IN THE NEW ERA

In 2001-2002, USIC concentrated on increasing the potential for commercial success for our member companies and their former Soviet partners. This is, of course, a team effort involving the DOE-HQ staff, the national laboratories, the ISTC* and the CRDF**. As a result, we have seen a dramatic increase in the number of projects approved, continued success for IPP projects that have graduated to commercialization, and growth in the numbers of projects that will reach commercial maturity over the next year. The number of long-term, sustainable jobs for former Soviet weapons scientists continued its steady growth: it is approaching 1,000 and is expected to more than double within a year or so.

We tackled tough long-standing problems this year, and are pleased to report progress on three fronts:

Speedier review and approval of project proposals.

Collaborative efforts with the Inter-Laboratory Board (ILAB) and DOE-HQ have led to significant improvements and reductions in the time spent reviewing project proposals. But more improvement is needed. The process remains too slow in an era where technologies change so rapidly. Delays often take away the competitive edge of IPP projects. USIC will continue to focus on this area next year.

Smoother funding mechanisms.

DOE-HQ has worked hard to improve the funding process. The CRDF has been unstinting in its efforts to facilitate funding those projects under its purview. The ISTC is now considering measures to significantly speed funding through that organization. One key is to take steps - such as U.S. and Russian export control clearances - in parallel rather than serially. USIC is ready to assist wherever possible; however, some of these problems could be solved if the recipient countries help make the task easier, quicker, and smoother. USIC will continue to do all in its power to facilitate improvements in this area.

Intellectual Property Rights.

The process of ironing out intellectual property rights needs to be made clear and unambiguous so that companies will be willing to participate and investors will risk their capital to begin production. Attorneys from DOE-HQ and the office of USIC's General Counsel will continue their work to refine the intellectual property issues protecting USIC member companies, their FSU partners and the U.S. Government. It is anticipated that new guidance will be issued in the year ahead.

To meet the most challenging aspect of technology commercialization, USIC explored innovative mechanisms to support our members in the quest for financing to complete commercialization and bring their products to market. Of course, this is a very difficult area in the present economic circumstances, but we are happy to report some progress.

* International Science & Technology Center

** U.S. Civilian Research & Development Foundation

Our new Project Finance Specialist is working with small business members who, either at or nearing the end of their IPP project, need assistance in identifying sources of capital. We have made inroads to various companies who specialize in raising such capital. In 2003, USIC hopes to unveil new avenues to funding vehicles for our small business members.

USIC also worked to cultivate a variety of new opportunities for our members throughout the year.

National Industry Coalition Formed in Russia

In April 2002, USIC and IPP announced the formation of the National Industry Coalition (NIC), a new Moscow-based non-profit organization. NIC, referred to as USIC's sister organization, will be an independent association of Russian businesses, institutes, and investors designed to advance Russian and U.S. business interests in commercializing Russian technology. NIC offices will serve as "home-away-from-home" for USIC members while in Moscow. Our expectation is that by facilitating relationships with established and credible Russian entities, NIC will make it easier for USIC members to do business in Russia.



Strengthening IPP in Kazakhstan and Ukraine

New ground was broken in our relationships with Ukraine and Kazakhstan. We worked closely with DOE-HQ and the Embassy of the Republic of Kazakhstan to focus attention on two ambitious new nuclear nonproliferation projects that will create hundreds of jobs in Kazakhstan (see page 8). Our new strategic relationship with the Ukraine-U.S. Business Council is an important step towards similar success in job creation for weapons scientists in Ukraine, where USIC and IPP are committed to increasing the number of active IPP projects. The Business Council, based in Washington, DC, and the Science and Technology Center of Ukraine, located in Kyiv, can play key roles in helping to establish, monitor and support new U.S.-Ukrainian commercial partnerships.

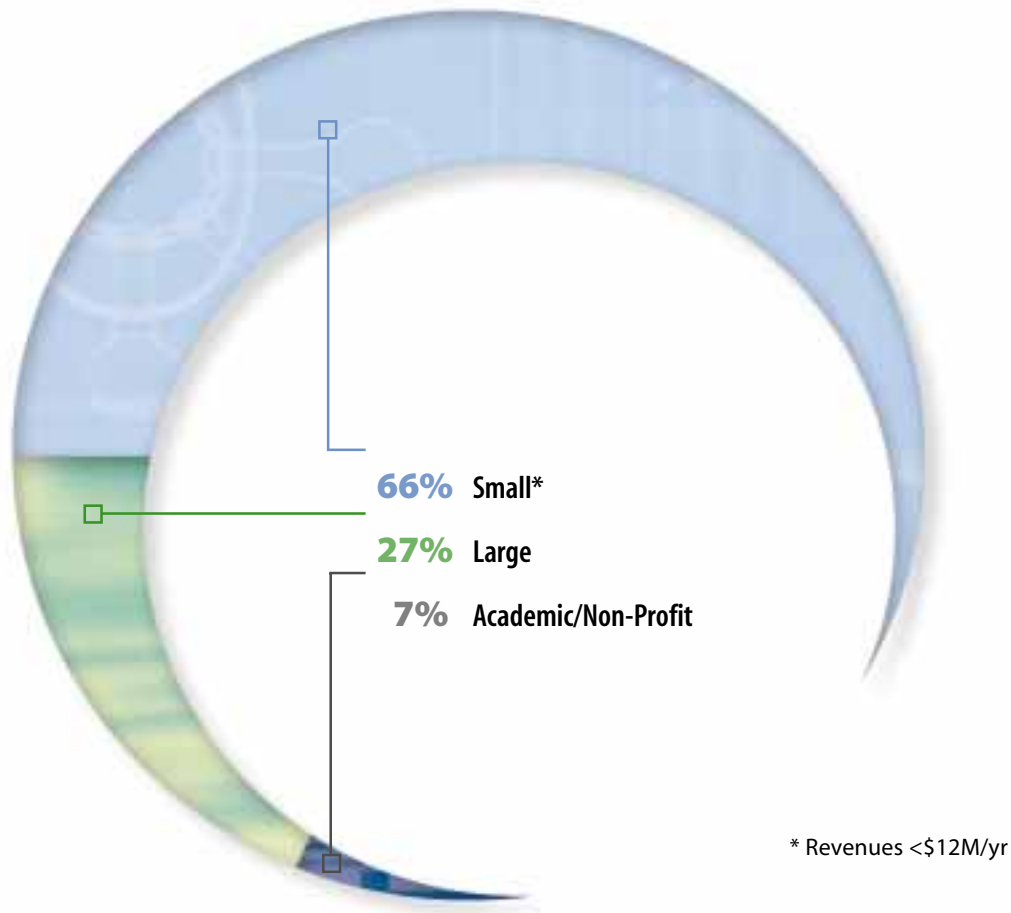


IPP Expands to Armenia

Although weapons of mass destruction scientists lived in all the republics of the former Soviet Union, IPP had operated recently only in Russia, Ukraine and Kazakhstan. In June 2002, the program announced expansion to Armenia, a small republic that played a large role in Soviet science. Armenia represented only one percent of the Soviet population, but Armenian scientists were responsible for many times that percentage of Soviet science and technology, primarily in defense. We expect new prospects for U.S. industry partners to emerge in the months ahead.



USIC Member Composition



Increased Funding Led to Membership Growth

The IPP budget in FY02 reached a high mark of \$35 million, which allowed funding of many projects previously held back by insufficient monies, as well as approval of many new project proposals. The funding increase led to a sharp rise in USIC membership in 2001-2002, jumping from 107 members at the end of last year to a record high of 146 as of September 30, 2002. The proportion of small to large business members remained steady: two-thirds of USIC members are small businesses.

CHALLENGES AHEAD

2001-2002 was a banner year by almost any standard. Twelve new lines of high-tech products were on the market, thousands of weapons scientists were gainfully employed in IPP projects and in successful commercial ventures. USIC member companies have begun to command widespread attention as significant contributors to our nation's nonproliferation and national security goals to prevent a scientific "brain drain" from the former Soviet Union to proliferant countries or sub-national organizations.

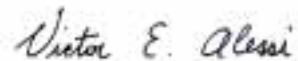
In pushing hard to create opportunities in this "New Era" ushered in by the two presidents, we should not minimize the difficulties that will stand in our way. We need to work with all of USIC's partners—DOE-HQ, the national laboratories, the weapons institutes and spin-off companies in Russia, Ukraine, Kazakhstan and Armenia—as we help U.S. companies commercialize science.

Next year will be difficult. The discouraging climate for raising capital will continue well into the next fiscal year if not longer. As of this writing, next year's appropriations for IPP are disappointing. Just when the program was succeeding in reaching its goals, the budget was decreased.

Yet we believe that USIC will continue to exceed expectations despite these and other obstacles. Our task now is to seek alternative ways to do what we do well—commercialize science and technology—by building other avenues to success. With your support, we look forward to another successful year for USIC, our members, and the IPP program.



Steve P. Kadner
Chairman



Victor E. Alessi
President & CEO

THREE USIC MEMBERS WIN COVETED R&D 100 AWARDS

Three USIC members and their IPP partners were among the winners selected for the top 100 most technologically significant new products of the year.

Argonide Corporation of Sanford, Florida; **Cyclotec Advanced Medical Technologies** of Lauderhill, Florida; and **Stolar Horizon** of Raton, New Mexico are long-term members of USIC whose IPP projects have reached the commercialization stage. The 40th annual awards competition sponsored by *R&D Magazine* seeks to honor significant commercial promise in products, materials or processes developed by the international research and development community.

Argonide Corporation won its second R&D100 award in two years with its NanoCeram™ nano alumina fibers. These unique fibers, with a diameter of only 2 nanometers, are able to attract and retain bacteria, viruses, and other macromolecules. Their high surface areas allow rapid sorption kinetics, ideal for chemisorbency of dissolved heavy metals. Filters with NanoCeram™ fibers will have multiple applications, from air and water purification and sterilization to pharmaceutical processing and artificial bone composition. Argonide's IPP partners are the **Design Technology Center** in Tomsk, Russia and the **National Renewable Energy Laboratory** in Golden, Colorado.

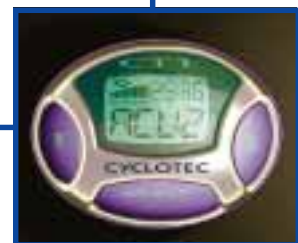


Filters using Argonide's NanoCeram™ nano alumina fibers will be manufactured by the Design Technology Center in Tomsk. The product will fill a niche in the \$10 Billion filters industry.



STIM-2002 are non-invasive, easy-to-use wireless pain relief devices designed by **Cyclotec Advanced Medical Technologies**. These FDA-approved devices, which are worn or placed directly on the body, deliver low-level electrical impulses for treatment of acute or chronic muscle or joint pain. The Cyclotec product features push-button or remote control units that can be fitted into a variety of bandages, splints or braces. The **BioPhysical Laboratories (Biofil)** in Sarov, Russia, and **Lawrence Livermore National Laboratory** in Livermore, California are Cyclotec's IPP partners.

STIM-2002 delivers pain relief without drugs. Target markets include sports medicine, home health care, industrial medicine, rehabilitation, and emergency care.



Stolar Horizon has two independent products based on its core technology of Electromagnetic wave Detection and Imaging Transceiver (EDIT) systems. The **Horizon Sensor** is mounted on the cutter drum of a mining machine, inches away from the coal-cutting bits. The sensor takes accurate readings of the cutter drum location relative to the rock layer bounding the coal seam, thus allowing the operator to cut cleaner coal in a more rapid manner, without damaging equipment or compromising the supporting roof rock. Stolar's **EDIT Landmine Detector** is a compact, high-resolution, low-cost unit able to detect all landmines (metallic and plastic) buried in any soil type. Stolar will provide the equipment for both military and humanitarian demining operations.



Advances in radar technology have wide-ranging applications, from cleaner, more efficient coal mining to elimination of dangerous hand probing for hidden landmines. Market projections for both products reach billions of dollars.



Energy Secretary Spencer Abraham and Kazakhstan Ambassador Kanat B. Saudabayev prepare to announce a new uranium recovery project at a January 2002 briefing held at DOE Headquarters in Washington, DC.

SECRETARY ABRAHAM CITES IPP PROJECTS IN KAZAKHSTAN

Secretary of Energy Spencer Abraham drew attention to two IPP nuclear nonproliferation projects in Kazakhstan at separate announcements in Washington, DC and Kansas City. Both projects at **ULBA Metallurgical Plant**, a former nuclear weapons facility, support the new National Energy Policy by improving the nation's energy security, bolstering the global economy, and enhancing international cooperation.

In January 2002, Secretary Abraham announced a project in which ULBA will use its advanced solvent extraction technology to recover low-enriched uranium from uranium concentrates. The recovered uranium will then be made available as a power source to civilian power reactors throughout the world. The uranium project immediately created 50 new civilian jobs for former nuclear weapons scientists, and is expected to create hundreds more jobs at ULBA in the coming years.

USIC members **Global Nuclear Fuel-Americas** of Wilmington, NC, and **RWE NUKEM** of Danbury, CT, together with **Brookhaven National Laboratory** of Upton, NY, are IPP partners with ULBA.



The successful transition of ULBA from a nuclear weapons plant to a viable commercial entity is critical to U.S. national security, stated Secretary Abraham in his July 2002 keynote address at the Kazakhstan Trade & Investment Opportunities conference in Kansas City.



On January 30, USIC President & CEO Vic Alessi introduced Secretary Abraham, who termed the Kazakhstani IPP projects "a superior combination of private enterprise...with the nonproliferation objectives shared by both nations."

In July 2002, the Secretary announced a second IPP project in which ULBA will expand and upgrade its capacity for production of copper beryllium (CuBe) master alloy. ULBA produced beryllium products for Soviet military and aerospace applications for nearly 50 years. Today, CuBe has commercial applications as a component in products ranging from small appliances and computers to telecommunications. The plant is expected to reap significant economic benefits from commercial CuBe, estimated at over \$10 Million per year. At least 150 jobs will be sustained over the next 8-10 years.

ULBA's copper beryllium project partners are USIC members **Brush Wellman** of Cleveland, Ohio and **RWE NUKEM**. The **Los Alamos National Laboratory** provides technical assistance.

U.S. Industry Coalition, Inc.

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* Non-Voting Members

FINANCIAL STATEMENTS STATEMENT OF ACTIVITIES

	FY02 unaudited	FY01 audited	FY00 audited
REVENUES			
Membership Dues	\$ 177,183	\$ 113,367	\$ 135,200
Contract Revenue-Gov't Contract	1,257,267	945,801	737,987
Investment Gain / (Loss)	(6,940)	(10,894)	-
Interest & other income	14,777	9,531	12,719
Total Revenues	\$1,442,287	\$1,057,805	\$885,906
EXPENSES			
Membership	\$ 59,920	\$ 48,136	\$ 32,476
DOE Co-Op Agreement	1,257,267	945,801	737,987
Management & General	40,281	3,776	46,043
Indirect Cost	-	-	-
Total Expenses	1,357,468	997,713	816,506
Change in Net Assets	84,819	60,092	69,400
Net Assets, beginning of year	335,945	275,853	206,453
Net Assets, end of year	\$ 420,764	\$ 335,945	\$275,853

Copies of audits for FY01 and FY00 are available from the USIC office.

FINANCIAL STATEMENTS SCHEDULE OF FUNCTIONAL EXPENSES

	FY02 unaudited	FY01 audited	FY00 audited
EXPENSES			
Personnel	\$ 676,445	\$556,893	\$432,891
Conference & Seminar	4,796	1,474	10,159
Temp Services	-	1,117	4,046
Licenses and Fees	2,451	1,785	1,741
Consulting	112,022	89,198	89,733
Office Supplies	13,986	6,345	5,521
Office Equipment Purchases	28,663	35,038	2,738
Bank Fees	2,131	-	-
Telephone	20,068	14,870	15,370
Equipment Rental	-	6,491	6,982
Travel	93,400	55,146	82,217
Meals	1,000	5,311	9,451
Meetings	8,592	8,158	3,347
Insurance Expense	22,247	11,362	11,314
Postage and Delivery	3,990	3,279	3,170
Printing and Reproduction	-	15,356	10,174
Professional Fees			
Legal Fees	123,332	49,503	19,707
Computer Services	-	-	-
Accounting	89,933	78,817	61,045
Other Professional Fees	-	5,189	1,262
Program Activities	42,924	-	-
Rent	104,668	42,485	43,269
Miscellaneous	6,820	9,896	2,369
Total Expenses	\$1,357,468	\$997,713	\$816,506

USIC MEMBERS as of September 30, 2002

PRIMARY MEMBERS

4WAVE, Inc.
ACSPECT Corporation
ADAPCO, Ltd.
ADMA Products, Inc.
Advanced Biotherapy, Inc.
Advanced Composite Structures, LLC
Advanced Technologies Industries, Inc.
AEA Technology Engineering Software, Inc.
AgraQuest Inc.
AlphaMed, Inc.
American-Russian Environmental Services Inc.
Archer Daniels Midland Company
Argonide Corporation
ArthroCare Corporation
AS&E High Energy Systems
Atlas Weathering Services Group
Bahia 21 Corporation
Bailey-Parks Urethane, Inc.
Barringer Instruments, Inc.
BASF Corporation
Battelle Memorial Institute
Becker Microbial Products, Inc.
BioLuminate, Inc.
Bio-Nucleonics
BNFL, Inc.
Boeing Space Systems
Brookhaven Technology Group, Inc.
Brush Engineered Materials, Inc.
Bryant College
Burle Industries, Inc.
Canberra Aquila, Inc.
ChevronTexaco Corporation
Cordin Company
Credit Suisse First Boston
CTG Software, Inc.
Cyclotec Advanced Medical Technologies, Inc.
Detroit Medical Center
Dexall Biomedical Labs, Inc.
Diversa Corporation
Dow AgroSciences LLC
DuPont
Dye Seed Ranch
Eagle Picher Industries, LLC
Eaton Holdings Ltd., Inc.
Empire Magnetics, Inc.
Ener1 Battery Company
Energy Conversion Devices
Eurotech, Ltd.
Excom, Inc.
Felton International, Inc.
Fenix Technology International, Inc.

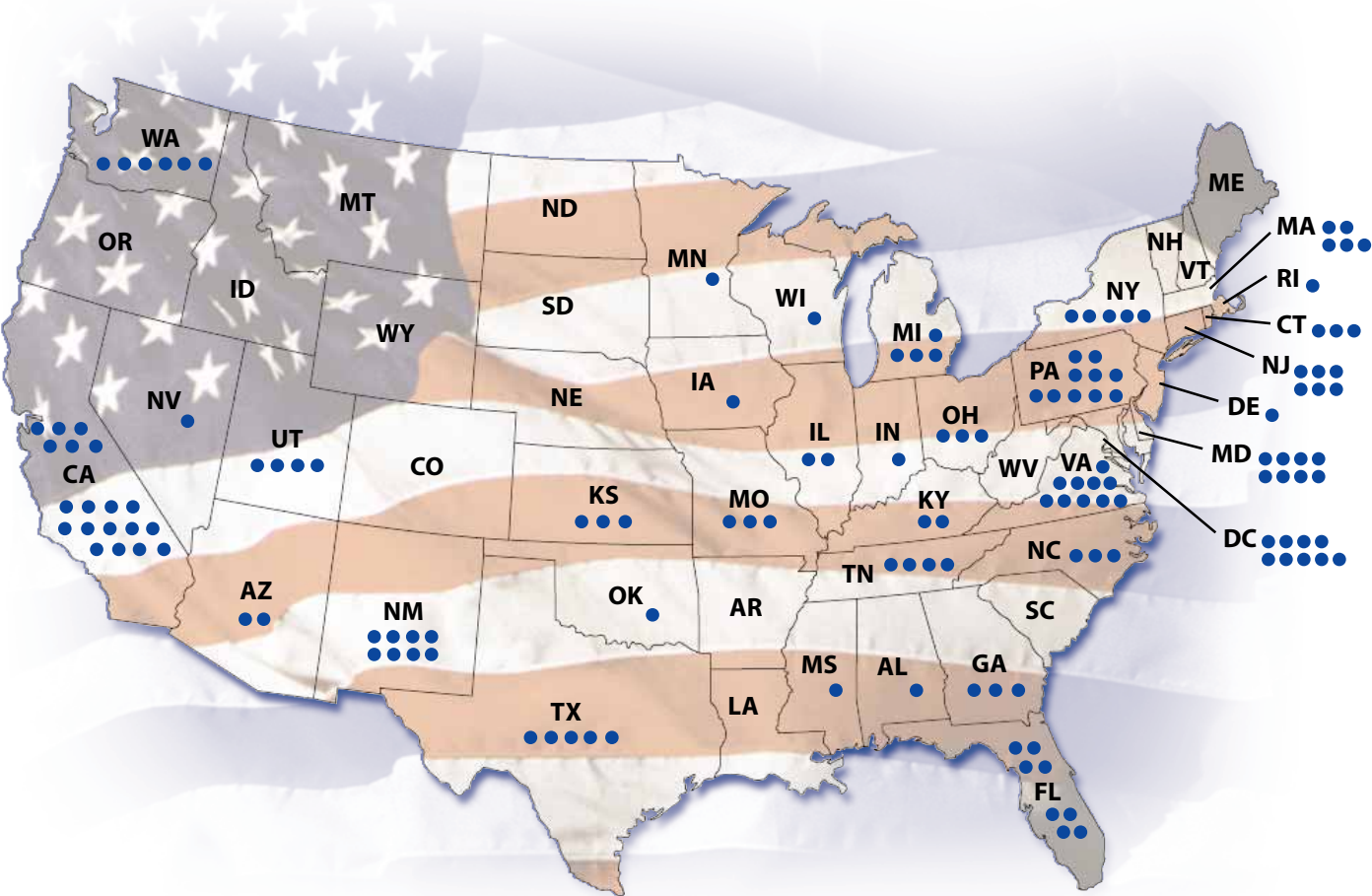
Flint Hills Scientific, LLC
Flowserve Corporation
Fresenius Medical Care N.A.
Fuel Cell Energy, Inc.
General Atomics
General Electric Company
Global Nuclear Fuel-Americas, LLC
GOW-MAC Instrument Co.
Halliburton Energy Services, Inc.
HandyLab, Inc.
Humidifirst
Industrial Cleaning & Environmental Services, Inc.
Informed Diagnostics, Inc.
Institute for Applied Science
Ion Focus Technology, Inc.
Isonics Corporation
Kirkham Motorsports
KMS Technologies
Lakrom, Ltd.
LaSen, Inc.
LUXOFT
Materials and Systems Research, Inc.
Maverix, Inc.
MELE Associates, Inc.
MER Corporation
Metallicum LLC
Mississippi State University
MOTOROLA
MRO Software, Inc.
Multimax, Inc.
NEOgas, Ltd.
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New Horizon Technologies, Inc.
NorthWest Nuclear LLC
Numotech, Inc.
Ohio Willow Wood Co.
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Paratek Microwave, Inc.
PHLburg Technologies, Inc.
Phygen, Inc.
Pinnacle Technology, Inc.
Promega Corporation
Pulse Technology Systems, Inc.
PVI Vacuum System Technology
Radiant Detector Technologies
Radiation Monitoring Devices
RedZone Robotics Inc.
Research International, Inc.
RWE NUKEM, Inc.
Sass & Sass, Inc.
SciClone Pharmaceuticals, Inc.
Scientific Utilization, Inc.
Seattle Systems / USMC

SolarEn International Corporation
Spectra Gases, Inc.
Stellar Display Corporation
Stolar Horizon, Inc.
SureBeam Corporation
Synmatix Corporation
TCI International, Inc.
The Stanton Group
Thorium Power
Triox Technologies
United Technologies Corporation
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Valent Biosciences Corporation
Veridian
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Virtual Pro, Inc.
Wayne Farms, LLC
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Rustec, Inc.
Sibertech
Stable Earth Technology
Sweet Analysis Services, Inc.
Telemus Solutions
Ukraine-U.S. Business Council
U.S.-Russia Business Council

USIC Member Locations





United States Industry Coalition, Inc.

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