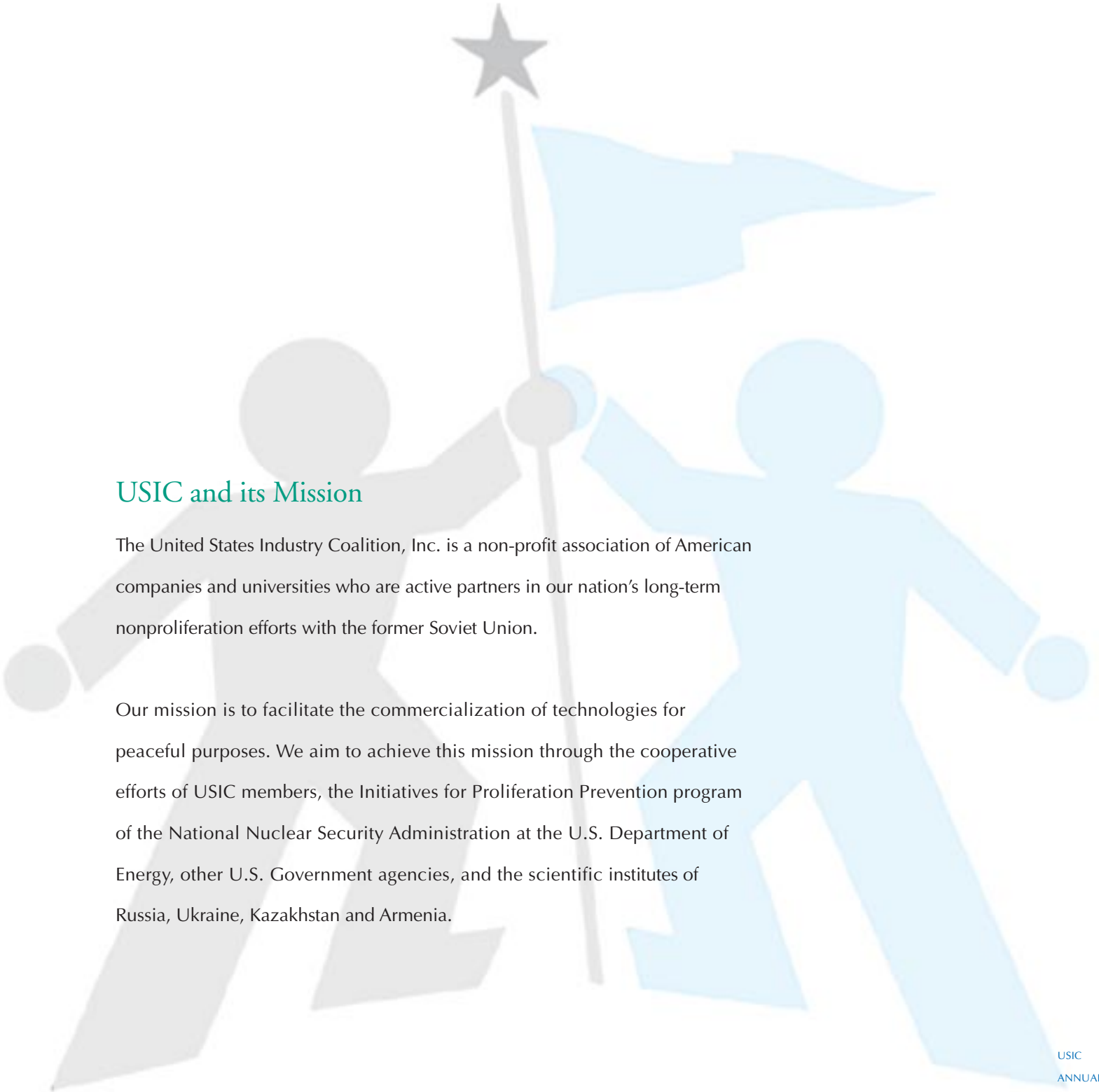
partnerships for prosperity & security

USIC ANNUAL REPORT 2002-2003

United States Industry Coalition, Inc.



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 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.

Partnerships for Prosperity & Security

MUTUAL COOPERATION, OPENNESS, PREDICTABILITY.

these

These principles are shaping the partnership between the United States and Russia. At the September 2003 summit at Camp David, our two nations once again demonstrated their attachment to this qualitatively new character of our relationship.

In their joint declaration, President Bush and President Putin pledged cooperation in solving key international problems, and to increase coordination in combating international terrorism, in boosting bilateral ties in energy, trade, and high-technology, and in protecting intellectual property rights.

Our two leaders recognize the critical need for a partnership that will build and strengthen the prosperity and security of both nations, and that of people around the world. As in any genuine partnership, each must be willing to assume the risks inherent in acting in a cooperative, open and predictable manner. Similar relationships are occurring between the United States, Kazakhstan, and Ukraine.

As these unprecedented partnerships are tested and forged at government-to-government levels, U.S. industry continues to move on a business-to-business level to create strong new economic ties with these countries.

The Initiatives for Proliferation Prevention (IPP) program the U.S. Department of Energy's National Nuclear Security Administration (DOE/NNSA) is a remarkable vehicle to achieve these important relationships at both levels. IPP is designed to advance U.S. government interests in national security and nonproliferation, while reducing risks for U.S. business to invest in development of high-technology products and new enterprises. The number of U.S. companies interested in IPP continues to grow each year.

There is equally exciting growth in the number of scientific institutes and entrepreneurial companies in the former Soviet Union who are ready to partner with U.S. industry to bring emerging technologies to the market. These technology partnerships will form the basis for sustainable jobs in these former Soviet republics, thereby contributing to the creation of stable, prosperous and democratic societies. At the same time, these new technologies address the needs of the world whether in energy, materials science, information technology or technologies with humanitarian applications.

It is in our national interest to encourage development of these new technologies and emerging businesses in Russia and other former Soviet republics — Ukraine, Kazakhstan, Armenia and soon Georgia and Uzbekistan. But we face a serious obstacle.

Barriers to Partnerships

funding

Funding for the IPP program appears to be frozen well below current demand. From an all-time high of $35M in FY02, the budget was reduced to $22M in FY03 and is likely to remain close to that level in FY04. To meet the estimated demand for new and continuing projects, IPP will need $50M.

As we strive to address this budget shortfall, one theme continues to plague our efforts. Critics in Congress and elsewhere point to high "uncosted balances" for IPP and other DOE programs in Russia. As indicated by the name, these are appropriated funds that have yet to be fully expended. The mistaken impression is that fresh funds are not needed if previous funding "is not being used". This viewpoint paints an inaccurate picture, which must be clarified.

The phrase "committed funds" better captures the reality, i.e. funding applied to an approved IPP project is carrying out the intended nonproliferation work both before and after costing of each allocated dollar. Once funds are committed to projects, the process of engaging former Soviet institutes is underway in earnest. The engagement process continues as contracts are carried out, even as some payments are held back for receipt of acceptable research results. Throughout the process and all its complications and delays, contracts are being written, scientists put to work and paid, equipment purchased and installed, and new technologies developed, tested, validated, and refined.

These funds do not sit idle — they generate precisely the type of East-West interaction with former Soviet weapons institutes and scientists that is the nonproliferation basis of the IPP program. USIC and its members must accurately convey this situation to Congress, in order to characterize the complicated details of doing business in Russia, which are well-known to those who work there, but difficult for others to understand.

We also want our Congressional appropriators and authorizers to recognize the positive side of the equation: USIC membership has reached beyond 150 companies — more than doubling in four years. Fifteen projects have been successfully commercialized and many more are in the pipeline. Several members have successfully raised capital investments in new production lines for their flourishing IPP projects. In fact, capital raised over the past two years by USIC members has significantly exceeded what Congress has invested in IPP during the same period.

All of this is a concrete sign of IPP's success and the value of industry-government cooperation in achieving essential nonproliferation and national

WHAT ARE UNCOSTED BALANCES?

Uncosted balances are the direct result of working in Russia and with DOE, where procurement rules dictate that funds must be allocated to projects before contract negotiations can begin. Writing contracts in Russia, Ukraine, and Kazakhstan take substantially longer than in the West — in many cases one year or more. Once contracts are in place, individual payments are made only upon receipt of acceptable deliverables — usually a time-consuming process when Russian organizations are involved. In many ways, uncosted balances are the reflections of necessary program controls to ensure proper use of public funds in the uncertain post-Soviet environment. A more rapid system of funds disbursement either puts funds at greater risk or conflicts with U.S. government financial rules, and sometimes both. IPP program management and the Inter-Laboratory Board are working with DOE to adopt the term "committed funds" instead of "uncosted balances."

NEW PARTNERSHIP IN RUSSIA…

Start-up enterprise FROLA, Inc. develops, manufactures, markets and sells advanced fiber optic components to the optical telecommunications and instrumentation market. With partners in Moscow and the formerly closed nuclear city of Snezhinsk, FROLA will build a modern fiber optic manufacturing facility designed to meet Russian market needs – while also meeting both IPP and NCI nonproliferation goals.

FROLA
New Mexico

VOLIUS
Moscow

Snezhinsk

Sandia National Laboratories

security goals. Not only are thousands of weapons scientists employed under the program and a growing number of graduates of the program working in sustainable, well-paying jobs, but the foundation of a strong middle class in Russia, Kazakhstan, and Ukraine is being built. Such a middle class is essential to strengthening stable, peaceful democracies in those countries.

But without an increase in the IPP program budget, a huge U.S. opportunity to create business partnerships in the former Soviet Union will be only partially met and our goals of stemming a brain drain will be stretched further into the future.

Some USIC members have been talking to their Representatives and Senators; we hope these efforts will bear fruit and the IPP budget will grow.

Expanding Partnerships

The potential for USIC and its members to assist the United States in using industry to foster national security goals is not limited to the IPP program. In 2002-2003, USIC began to position itself to qualify for and launch new initiatives which will lead to new opportunities for our members.

We have begun work with the Nuclear Cities Initiative (NCI) program at DOE/NNSA. Since 1998, NCI has worked in three of Russia's ten closed nuclear cities: Sarov, Snezhinsk and Zheleznogorsk. Our goal is to assist DOE/NNSA in its efforts to downsize these cities which design, develop, and manufacture nuclear weapons. New business ventures with USIC members will enhance commercialization efforts in these closed cities and thereby help speed their conversion to civilian economies.

The U.S. Civilian Research & Development Foundation (CRDF) has long been an ally and supporter of USIC in our shared goals of nonproliferation and global peace. Today we are in the early stages of developing a cooperative arrangement to leverage our respective strengths — CRDF in promoting science and research, USIC in promoting high-tech commercialization — in collaborative efforts to build new nonproliferation programs outside the former Soviet Union.

USIC is also in discussions with the Russian Academy of Sciences on development of a new vehicle through which our members could work with Russian scientists on a tax-free basis under existing Russian law. If we achieve this goal, it is certain to be a giant step forward in attracting even greater U.S. industry investment in Russian business.

The biggest event for USIC this year has been management of the "Partnerships for Prosperity & Security" tradeshow in Philadelphia in November 2003. USIC was asked by DOE/NNSA to produce the tradeshow in order to showcase high technologies ready for commercialization to U.S. companies. Nearly 150 exhibitors demonstrated technologies from Ukraine, Kazakhstan, and Russia in the areas of energy, nanotechnology, radiopharmaceuticals, IT, detection technology, and more. The program also included expert panels on intellectual property rights, raising venture and banking capital, and other essential steps for doing business in the former Soviet Union. In the months ahead, USIC will conduct numerous follow-on activities to nurture the new partnerships between U.S. companies and exhibitors that develop as a result of this special event.

Finally, we should note the establishment of our sister organization in Russia. The National Industry Coalition (NIC), modeled on USIC, was established with support from USIC and DOE. NIC's goal will be to form a coalition of Russian companies and other institutions dedicated to commercializing science and technology, and to help formation of partnerships with USIC member companies. Their new facilities are available to USIC members when in Moscow. Russian company membership in NIC is expected to grow as a direct aftereffect of the Partnerships tradeshow.

NEW PARTNERSHIP IN UKRAINE…

International giant General Electric is bringing 125 years of successful innovations to its first IPP project in Ukraine. GE is working with the E.O. Paton Welding Institute on an electron beam physical vapor deposition (PVD) detection technology with broad application across industries. The project goal is to enable Paton to compete in the global market with next generation PVD coatings.

New York Kyiv

In last year's annual report, we forecast a difficult year. Success has added to our burdens. Nevertheless, 2002-2003 was an extremely prosperous year in terms of accomplishments for USIC and its member companies. We have every reason to believe that next year will be even more successful, especially if the amount of government support is increased for essential nonproliferation programs such as IPP and NCI.

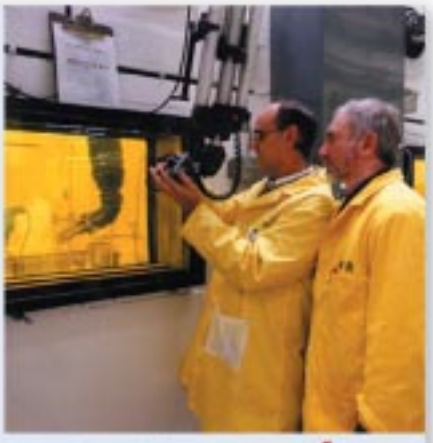
With your support, we look forward to the new challenges that make our work so interesting and important.

Steven P. Kadner

Victor E. Alessi

NEW PARTNERSHIP IN KAZAKHSTAN…

TCInternational is a small, privately held company providing innovative solutions in nuclear medicine, therapeutic technologies and diagnostic imaging systems. With its seventh IPP project since 1994, TCI is turning to the Institute of Nuclear Physics in Kazakhstan for cost-effective production of the Ge-68 radioisotope as a calibration source for PET imaging.



TCI Medical

New Mexico

INSTITUTE of NUCLEAR PHYSICS

Almaty

Los Alamos NATIONAL LABORATORY

Measuring Commercial Success

In early 2003, 44 current and former USIC members (and in a few cases, their NIS partners) whose IPP projects were either completed or underway were surveyed to determine their progress in commercializing technology supported by the IPP program. Key data collected included: revenues generated by the U.S. companies and NIS partners in FY 2002; private investment attracted by the U.S. companies in FY 2002; and jobs created or supported in the U.S. and NIS (jobs supported by IPP dollars were not included) as a direct result of technology commercialization.

This "FY02 Success Survey" is now the foundation for future research and tracking of our members' progress and success.

Findings

Thirty-six companies responded to the questionnaire.
Eight companies declined to or did not respond.
Sixteen companies reported these results:

Revenues FY02

- $23.95M generated by U.S. companies in sales and other revenues
- $6.81M generated by NIS partners in annual revenues

FY02 revenues for a handful of companies exceeds the total FY03 IPP budget. Increasing the IPP budget will allow more companies to pursue and achieve similar success.

Investment FY02

- $40.6M in U.S. companies from private, institutional and venture capital investors

Equity markets are responding favorably to technologies and products supported by the IPP program despite the economic downturn.

Jobs FY02

- 563 in NIS (280 FT and 283 PT)
- 57 in the U.S.

IPP and USIC are meeting our primary nonproliferation mission by creating and/or sustaining high-tech jobs in the former Soviet Union… with the added benefit of new U.S. jobs, too.

Financial Statements

Statement of Activities

	FY03 unaudited	FY02 unaudited	FY01 audited	FY00 audited
REVENUES				
Membership Dues	$ 218,825	$ 177,183	$ 113,367	$135,200
Contract Revenue-Gov't Contract	2,296,782	1,257,267	945,801	737,987
Investment Gain / (Loss)	-	(6,940)	(10,894)	-
Interest & other income	30,575	14,777	9,531	12,719
Total Revenues	2,546,182	1,442,287	1,057,805	885,906
EXPENSES				
Membership	75,203	59,920	48,136	32,476
DOE Co-Op Agreement	1,452,971	1,257,267	945,801	737,987
Management & General	9,443	40,281	3,776	46,043
Indirect Cost	-	-	-	-
Tradeshow	853,680	-	-	-
Total Expenses	2,391,297	1,357,468	997,713	816,506
Change in Net Assets	154,885	84,819	60,092	69,400
Net Assets, beginning of year	417,547	335,945	275,853	206,453
Net Assets, end of year	572,432	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

EXPENSES	FY03 unaudited	FY02 unaudited	FY01 audited	FY00 audited
Personnel	$ 812,980	$ 676,445	$ 556,893	$432,891
Conference & Seminar	6,665	4,796	1,474	10,159
Temp Services	-	-	1,117	4,046
Licenses and Fees	4,458	2,451	1,785	1,741
Consulting	90,498	112,022	89,198	89,733
*Tradeshow	853,680	-	-	-
Office Supplies	8,159	13,986	6,345	5,521
Office Equipment Purchases	34,509	28,663	35,038	2,738
Bank Fees	1,111	2,131	-	-
Telephone	26,859	20,068	14,870	15,370
Equipment Rental	180	-	6,491	6,982
Travel	130,937	93,400	55,146	82,217
Meals	84	1,000	5,311	9,451
Meetings	40,033	8,592	8,158	3,347
Insurance Expense	11,354	22,247	11,362	11,314
Postage and Delivery	6,062	3,990	3,279	3,170
Printing and Reproduction	29,845	-	15,356	10,174
Professional Fees				
Legal Fees	95,359	123,332	49,503	19,707
Computer Services	60,994	-	-	-
Accounting	40,205	89,933	78,817	61,045
Other Professional Fees	4,695	-	5,189	1,262
Program Activities	17,128	42,924	-	-
Rent	107,503	104,668	42,485	43,269
Miscellaneous	7,999	6,820	9,896	2,369
Total Expenses	2,391,297	1,357,468	997,713	816,506

** One-time-only expense for FY03 and FY04*

USIC Members

as of September 2003

Primary Members

4WAVE, Inc.
ACSPECT Corporation
ADAPCO
ADMA Products, Inc.
Advanced Biotherapy, Inc.
Advanced Composite Structures, LLC
AgraQuest Inc.
AlphaMed, Inc.
Apollo Sheet Metal, Inc.
Applied Natural Sciences, Inc.
Archer Daniels Midland Company
Argonide Corporation
ArthroCare Corporation
AS&E High Energy Systems
Atlantic Richfield Company
Atlas Weathering Services Group
Bahia 21 Corporation
Bailey-Parks Urethane, Inc.
Barringer Instruments, Inc.
BASF Corporation
Becker Microbial Products, Inc.
Bio-Nucleonics Pharma, Inc.
Biogenesis Enterprises, Inc.
BioLuminate, Inc.
BNFL, Inc.
Boeing Space Systems
Brookhaven Technology Group
Brush Engineered Materials, Inc.
Bryant College
Burle Industries, Inc.
Canberra Aquila
Caterpillar Inc.
Ceramatec Inc.
CH2M HILL, Inc.
ChevronTexaco Corporation
Cognosci, Inc.
Cordin Company
CTG Software, Inc.
CyberTech International
Cyclotec Advanced Medical Technologies, Inc.
Detroit Medical Center
Diversa Corporation
Dow AgroSciences LLC
DuPont Company
Dye Seed Ranch
Eagle Picher Industries, LLC
Ecological Planning and Toxicology, Inc.
Empire Magnetics, Inc.
Ener1 Battery Company
Energy Conversion Devices
Eurotech, Ltd.
Excom, Inc.
Felton International, Inc.
Fenix Technology International
Flanders Filters, Inc.
Flint Hills Scientific, LLC
Flowserve Corporation
FROLA, Inc.
Fuel Cell Energy, Inc.
General Atomics
General Electric Company
Global Nuclear Fuel-Americas, LLC
GOW-MAC Instrument Co.
GWE Systems, Inc.
Halliburton Energy Services, Inc.
HandyLab, Inc.
Holtec International
Humidifirst
Institute for Applied Science
International Systems Group
International Technology Exchange
Ion Focus Technology, Inc.
Isonics Corporation
Kirkham Motorsports
KMS Technologies-KJT Enterprises
Lakrom, Ltd.
LaSen, Inc.
Latitude Manufacturing Technologies
LifeTime Pharmaceuticals, Inc.
LUXOFT
Materials and Systems Research, Inc.
Maverix, Inc.
MELE Associates, Inc.
MER Corporation
Metallicum LLC
Millennium Technology, Inc.
MOTOROLA
MRO Software, Inc.
Multimax, Inc.
NEOgas, Ltd.
New Horizon Technologies, Inc.
New Horizons Diagnostics Corp.
NorthWest Nuclear LLC
Numotech, Inc.
Oil Space, Inc.
ONDEO Nalco Energy Services
Oxford Instruments
Paratek Microwave, Inc.
PHLburg Technologies, Inc.
Phygen, Inc.
Pinnacle Technology, Inc.
Promega Corporation
PVI Vacuum System Tech.
Radiant Detector Technologies
Radiation Monitoring Devices
Research International, Inc.
RWE NUKEM, Inc.
Sass & Sass, Inc.
SciClone Pharmaceuticals
Science & Engineering Services
Scientific Utilization, Inc.
Seattle Systems / USMC
SolarEn International Corp.
Spatial Corp.
Spectra Gases, Inc.
Spectra Quest, Inc.
Stellar Display Corporation
Stolar Horizon, Inc.
SureBeam Corporation
Technology Commercialization Int'l.
Teknichal Services
The Stanton Group
Thorium Power
Turner Consulting Group
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ViewSystems, Inc.
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Fuel Cell Acquisition Group, Inc.
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International Technologies
Lawyers Alliance for World Security
Mid-Atlantic – Russia Business Council
Milmoe Consulting Services
Molycorp, Inc.
Oakton International Corp.
ORTEC Products
Pulse Technology Systems
Rustec, Inc.
Schonstedt Instruments Company
Sibertech
Stable Earth Technology
Sweet Analysis Services, Inc.
Telemus Solutions
Trykor, Inc.
Ukraine-U.S. Business Council
U.S.-Russia Business Council
W. VA Technology Advancement Corp.

IPP Partners

Russia

A.N. Nesmeyanov Institute of Organoelement Compounds
All-Russian Institute of Technical Physics (Snezhinsk)
All-Russian Nuclear Power Engineering Research & Development Institute
All-Russian Scientific Research Institute of Automatics
All-Russian Scientific Research Institute of Experimental Physics (Sarov)
Biofil
Budker Institute of Nuclear Problems
Center A.A. Bochvar Scientific Research Institute of Inorganic Materials
Center for Ecological Research and Bio-Resources Development
Chepetsky Mechanical Plant/Sovlux Battery
Engelhardt Institute of Molecular Biology
Experimental Plant for the Design and Manufacturing of Scientific Equipment
GAMALEYA Institute of Epidemiology & Microbiology
General Physics Institute
Institute of Applied Physics
Institute of Genetics and Selection of Industrial Organisms
Institute of High Current Electronics
Institute of Highly Pure Biopreparations
Institute of Immunological Engineering
Institute of Metals Superplasticity Problems
Institute of Physics and Power Engineering
Intersolarcenter
JSC Biochimmesh
Karpov Institute of Physical Chemistry
Kinetic Technologies Ltd. (KINTECH)
Kurchatov Institute of Atomic Energy
KVANT
Lebedev Physics Institute
Makeyev Design Bureau of State Rocket Center
MedEquipment/Joint Venture
Mining and Chemical Combine (Zheleznogorsk)
Moscow Engineering Physics Institute
Republican Engineering Technical Center
Research Center of Toxicology and Hygienic Regulations of Biopreparations
Russian Research Center for Molecular Diagnostics and Therapy
Sarov Open Computing Center
Scientific Research Institute of Measuring Systems
Shemyakin Institute of Bioorganic Chemistry
Soliton Scientific and Research Center
SPEKTR Conversia
St. Petersburg Electrotechnical University
St. Petersburg Nuclear Physics Institute
State Research Center for Applied Microbiology
State Research Institute of Organic Chemistry and Technology
Ural Process Engineering Ltd
VECTOR–State Research Institute of Virology and Biotechnology
Zelinsky Institute of Organic Chemistry

Ukraine

E.O. Paton Electric Welding Institute
International Center for Electron Beam Technology
International Institute of Cell Biology
Kharkiv Physical-Technical Institute
TexMet
Ukraine Institute of Organic Chemistry
Yangel Yuzhnoye State Design Office

Kazakhstan

Institute of Nuclear Physics of the National Nuclear Center
National Nuclear Center of Kazakhstan
Ulba Metallurgical Plant

Inter-Laboratory Board

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Brookhaven National Laboratory
Idaho National Engineering & Environmental Laboratory
Lawrence Berkeley National Laboratory
Lawrence Livermore National Laboratory
Los Alamos National Laboratory
National Renewable Energy Laboratory
NNSA Kansas City Plant
Oak Ridge National Laboratory
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