

ISCO INTERNATIONAL INC
Form DEF 14A
October 26, 2005

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

Filed by the Registrant

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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

ISCO INTERNATIONAL, INC.

(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):

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:

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(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):

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(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

1001 Cambridge Drive

Elk Grove Village, Illinois 60007

October 26, 2005

Dear Stockholder:

On behalf of the board of directors, I cordially invite you to attend the 2005 Annual Meeting of Stockholders of ISCO International, Inc., to be held on Friday, December 9, 2005, beginning at 10:00 a.m., local time, at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL 60018.

The matters that we expect will be acted upon at the meeting are described in the attached Proxy Statement and include:

- (1) To elect eight (8) directors to the Company's board of directors for a term of one (1) year and until his successor is duly elected and qualified;
- (2) To approve the Amendments to the Company's 2003 Equity Incentive Plan, as described in the Proxy Statement;
- (3) To ratify the appointment by the board of directors of Grant Thornton LLP as the independent auditors of the Company's financial statements for the fiscal year ending December 31, 2005; and
- (4) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR ALL OF THE PROPOSALS IN THE PROXY STATEMENT.

It is important that your shares be represented whether or not you are able to be present at the Annual Meeting. Please sign and date the enclosed proxy card and promptly return it to us in the enclosed postage paid envelope.

Your vote is very important, regardless of the amount of stock that you own.

We believe your support for the proposals described in the Proxy Statement is essential for us to continue with this program. Please return your proxy card as soon as possible.

Sincerely,

/s/ John Thode
John Thode
Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON DECEMBER 9, 2005

To the Stockholders of

ISCO International, Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of ISCO International, Inc. (the Company), a Delaware corporation, will be held at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL 60018 beginning at 10:00 a.m., local time, for the following purposes:

- (1) To elect eight (8) directors to the Company's board of directors for a term of one (1) year and until his successor is duly elected and qualified;
- (2) To approve the Amendments to the Company's 2003 Equity Incentive Plan, as described in the Proxy Statement;
- (3) To ratify the appointment by the board of directors of Grant Thornton LLP as the independent auditors of the Company's financial statements for the fiscal year ending December 31, 2005; and
- (4) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The board of directors has fixed the close of business on October 11, 2005 as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record of the Company as of the close of business on October 11, 2005 will be entitled to vote at the Annual Meeting. The Company will maintain a complete list of its stockholders entitled to vote at the Annual Meeting at its headquarters located at 1001 Cambridge Drive, Elk Grove Village, IL for ten days prior to the date of the Annual Meeting. If the Company has to adjourn the Annual Meeting, then it will take action on the items described above on the date to which the Annual Meeting is adjourned.

By Order of the Board,

/s/ Frank Cesario
Frank Cesario, Secretary

Elk Grove Village, IL

October 26, 2005

1001 CAMBRIDGE DRIVE
ELK GROVE VILLAGE, ILLINOIS 60007

PROXY STATEMENT

The accompanying proxy is solicited on behalf of the board of directors (the Board) of ISCO International, Inc., a Delaware corporation (the Company), for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held at 10:00 a.m., local time, on December 9, 2005 at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL 60018, and any adjournment or postponement thereof. This Proxy Statement and accompanying proxy are first being mailed to stockholders on or about October 26, 2005.

Record Date and Outstanding Shares. The Board has fixed the close of business on October 11, 2005 as the record date (the Record Date) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof. As of the Record Date, the Company had outstanding 183,018,703 shares of common stock, par value \$.001 per share, including attached preferred stock purchase rights (the common stock).

Each of the outstanding shares of common stock is entitled to one vote on all matters to come before the Annual Meeting. As of the Record Date, none of the Company's preferred stock, par value \$.001 per share, was outstanding.

Voting of Proxies. Mr. John Thode and Mr. Frank Cesario, the persons named as proxies on the proxy card accompanying this Proxy Statement, were selected by the Board of the Company to serve in such capacity. Mr. Thode and Mr. Cesario are officers of the Company and Mr. Thode is also a member of the board of directors. **Each executed and returned proxy will be voted in accordance with the directions indicated thereon, or if no direction is indicated, such proxy will be voted in accordance with the recommendations of the Board contained in this Proxy Statement.**

Each stockholder giving a proxy has the power to revoke it at any time before the shares it represents are voted. Revocation of a proxy is effective upon receipt by the Secretary of the Company of either (i) an instrument revoking the proxy or (ii) a duly executed proxy bearing a later date. Additionally, a stockholder may change or revoke a previously executed proxy by voting in person at the Annual Meeting.

Required Vote. The affirmative vote of a plurality of the shares of common stock voted in person or by proxy is required to elect a nominee for director. The affirmative vote of a majority of the shares of common stock present, in person or represented by proxy at the Annual Meeting and entitled to vote on the matters is required to approve the amendments to the Company's 2003 Equity Incentive Plan and ratification of the appointment of Grant Thornton LLP as the Company's independent auditors.

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Quorum; Abstentions and Broker Non-Votes. A majority of the shares of common stock issued and outstanding as of the Record Date is required to transact business at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of election appointed for the Annual Meeting.

Abstentions and broker non-votes will be included in determining the presence of a quorum. Abstentions and broker non-votes will have no effect on the election of directors. In the case of the amendment to the Company's 2003 Equity Incentive Plan, and the ratification of the appointment of the independent auditors, abstentions will have the effect of votes against the proposal, but broker non-votes will have no effect on the outcome.

Stockholder List. A list of stockholders entitled to vote at the Annual Meeting, arranged in alphabetical order, showing the address and number of shares registered in the name of each stockholder, will be open to the examination of any stockholder for any purpose germane to the Annual Meeting during ordinary business hours commencing November 30, 2005 and continuing through the date of the Annual Meeting at the principal offices of the Company, 1001 Cambridge Drive, Elk Grove Village, Illinois 60007.

Who Can Help Answer Your Questions?

If you have questions about the Annual Meeting or would like additional copies of this Proxy Statement, you should contact our Corporate Secretary, Frank Cesario, 1001 Cambridge Drive, Elk Grove Village, Illinois 60007, telephone (847) 391-9400.

Annual Report

The Company's Annual Report to Stockholders for the year ended December 31, 2004, accompanies this Proxy Statement.

A Warning About Forward-Looking Statements

The Company makes forward-looking statements in this document. These forward-looking statements are subject to risks and uncertainties, including those that are enumerated under the heading "Risk Factors" in the Company's Annual Report to Stockholders on Form 10-K/A for the year ended December 31, 2004 and in the Company's other filings with the Securities and Exchange Commission. Such risks and uncertainties could cause actual results to differ materially from those projected. Therefore, there can be no assurance that such statements will prove to be correct. In some cases, you can identify forward-looking statements by terminology such as may, will, should, plans, believes, anticipates, expects and intends, or the negative of such terms and similar terminology. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated events.

PROPOSAL 1
ELECTION OF DIRECTORS

The Board currently consists of eight directors. At the Annual Meeting, all eight directors are to be elected for a term of one year expiring at the 2006 Annual Meeting of Stockholders. **The recommends that the stockholders vote FOR the election of the nominees named in this Proxy Statement to continue to serve as directors of the Company.** See Nominees for Election below.

If at the time of the Annual Meeting a nominee should be unable or decline to serve, a proxy named on the proxy card accompanying this Proxy Statement will vote for such substitute nominee as the Board recommends, or vote to allow the vacancy created thereby to remain open until filled by the board of directors, as the Board recommends. The Board has no reason to believe that any nominee will be unable or will decline to serve as a director if elected.

Nominees for Election

The name of the nominees for the office of director, together with certain information concerning such nominees, is set forth below:

<i>Name</i>	<i>Age</i>	<i>Position with the Company</i>	<i>Served as Director Since</i>
John Thode	47	Director, Chief Executive Officer	2005
Stuart Chase Van Wagenen	49	Chairman of the Board of Directors	2001
Amr Abdelmonem	40	Director, Chief Technology Officer	2002
George Calhoun	53	Director	1999
Michael Fenger	38	Director	2004
James Fuentes	50	Director	2003
Ralph Pini	53	Director	2004
Tom Powers	69	Director	1996

Mr. Thode received his BSEE from the University of Illinois, his MSEE from Illinois Institute of Technology, and his Master of Management/Master of Business Administration 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. He also serves on the board of the Intermuseum Conservation Association, Cleveland. 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

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Wagenen is the Chair of the Board's Audit and the Governance Committees and serves on the Board's 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 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 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 Airmet 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 Board's 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 is a member of the Board's Audit and Compensation Committees.

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 Board's 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

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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 Board's Audit and the Compensation Committees, the latter of which he serves as its Chairman.

Director Compensation. During 2004, the Company provided a cash retainer to each director of the Company who was not an employee of the Company (a Non-Employee Director) for his service on the board of directors, and each Non-Employee Director participated in the ISCO International, Inc. 2003 Equity Incentive Plan (the 2003 Plan). The 2003 Plan does not require automatic grants to directors. However, 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 at the first such meeting or was first elected to the Board within three months prior to such annual meeting. Such options vest monthly over a one-year period from the date of grant and expire ten years from the date of grant.

In addition, the current policy provides for the annual grant of non-qualified stock options (NQSOs) to directors for service on Board committees. Under this policy each Non-Employee Director who is appointed or continues to serve on the Audit Committee of the Board receives a grant of NQSOs to purchase 25,000 shares of common stock 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 either of the Compensation or Governance Committees of the Board receives a grant of NQSOs to purchase 10,000 shares of common stock and the Chairmen of the Compensation and Governance Committees 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 of a committee. 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.

Pursuant to the 2003 Plan, for their service on the Board, Messrs. Van Wagenen, Powers, Fenger, Fuentes, Pini and Dr. Calhoun were each granted an option to purchase 50,000 shares of common stock on December 14, 2004 at a per share exercise price of \$0.39. On that same date, and pursuant to the compensation program above, for their service on committees of the Board, Mr. Van Wagenen was granted an option to purchase 160,000 shares of common stock, Mr. Powers was granted an option for 40,000 shares of common stock, Mr. Fenger was granted an option to purchase 10,000 shares of common stock, Mr. Fuentes was granted an option to purchase 35,000 shares of common stock, and Mr. Pini was granted an option to purchase 10,000 shares of common stock, all at an exercise price of \$0.39 per share. Finally, pursuant to their joining the Board during 2004 and consistent with the policies detailed above, Mr. Fenger was granted an option to purchase 50,000 shares of common stock on April 28, 2004, with an exercise price of \$0.58 per share and Mr. Pini was granted an option to purchase 50,000 shares of common stock on August 10, 2004, with an exercise price of \$0.22 per share.

In addition to option grants, the Company began providing cash compensation to its directors for their service on the Board during 2003. Each Director receives an annual retention fee of \$12,000 payable on a monthly basis during each fiscal year. In addition, the Chairman of the Board and the Chairman of the Audit Committee each receive an additional \$5,000 retention fee and the Chairman of the Compensation Committee and the Chairman of the Governance Committee each receives a \$2,000 retention fee.

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

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Meetings. During the year ended December 31, 2004, the Board held 10 meetings. Except for Dr. Calhoun, who attended 70% of the number of board meetings, each director attended at least 75% of the aggregate of the number of board meetings (during the period of his service as a director) and the total number of meetings of committees on which he

served that were held (during the period of his service as a member of such committee) during 2004. The Company does not have a formal policy regarding director attendance at Annual Meetings of Stockholders. However, the Company does ask directors to use their best efforts to be available for, and attend, the Annual Meeting of Stockholders. All seven directors (at the time of the meeting) attended the 2004 Annual Meeting of Stockholders.

Independent Directors. The Board has determined that Messrs. Van Wagenen, Fenger, Fuentes, Pini and Powers, and Dr. Calhoun, are each independent pursuant to Section 121A of the American Stock Exchange (AMEX) rules.

Committees of the Board. The Board has established an Audit Committee, a Compensation Committee, and a Corporate Governance Committee each of which is comprised entirely of independent directors as that term is defined under Securities and Exchange Commission (SEC) and AMEX rules.

The Audit Committee consists of Mr. Van Wagenen (Chairman), Mr. Powers and Mr. Fuentes. The Board has determined that Mr. Van Wagenen is a financial expert under AMEX rules. The Audit Committee generally has responsibility for selecting the Company's independent auditors, reviewing the plan and scope of the audit, approving any non-audit services provided by the Company's independent auditors, reviewing the Company's audit and control functions, oversight of the Company's insider trading policy and reporting to the full Board regarding all of the foregoing. The Audit Committee held six meetings in 2004. See Report of the Audit Committee.

The Compensation Committee consists of Mr. Powers (Chairman), Mr. Van Wagenen and Mr. Fuentes. The Compensation Committee generally has responsibility for recommending to the Board guidelines and standards relating to the determination of executive compensation, reviewing the Company's executive compensation policies and reporting to the full Board regarding the foregoing. The Compensation Committee also has responsibility for administering the 2003 Plan, determining the number of options to be granted to the Company's executive officers and employees pursuant to the 2003 Plan and reporting to the full Board regarding the foregoing functions. The Compensation Committee held 12 meetings in 2004. See Report of the Compensation Committee .

The Corporate Governance Committee was formed during 2004 and consists of Mr. Van Wagenen (Chairman), Mr. Fenger and Mr. Pini. The Corporate Governance Committee acts as both the board's corporate governance committee and nominating committee. The Corporate Governance Committee reviews and makes recommendations to the Board regarding Board organization, membership (including the identification and recommendation of potential candidates for election to the board), function and effectiveness, and committee structure, membership, function and effectiveness. The Corporate Governance Committee evaluates the performance of the board as a whole, the Committees and the individual directors. The Corporate Governance Committee held one meeting in 2004.

Director Nominations

The Corporate Governance Committee currently serves as our nominating committee. The Corporate Governance Committee seeks director candidates based upon a number of qualifications, including their independence, knowledge, judgment, character, leadership skills, education and experience. The Corporate Governance Committee particularly emphasizes significant experience in the wireless telecommunications industry. The Corporate Governance Committee operates through a charter which was attached to the Company's 2004 Proxy Statement as Appendix A.

As part of the process of selecting board candidates, the Corporate Governance Committee reviews the appropriate skills and characteristics required of board members. The Corporate Governance Committee does not generally rely upon third-party search firms to identify board

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candidates. Instead, it relies on recommendations from a wide variety of its business contacts, including current executive officers, directors and stockholders, as a source for potential board candidates. The Corporate Governance Committee evaluates the above criteria as well as the current composition of the Board and the need for audit committee expertise. The Corporate Governance Committee then recommends to the Board for nomination the candidates which it believes best suit the needs of the company. The Corporate Governance Committee has recommended to the Board for nomination Messrs. Fenger, Fuentes, Pini, Powers, Thode and Van Wagenen and Drs. Abdelmonem and Calhoun to serve as directors for 2006 and until their respective successors are duly elected and qualified.

In accordance with the provisions of our By-Laws, a stockholder entitled to vote at such meeting may nominate candidates for election to the board of directors.

A stockholder who wishes to nominate a director candidate must timely deliver a notice to the Secretary of the Company delivered to, or mailed and received by, the Secretary of the Company at the principal executive offices of the Company at 1001 Cambridge Drive, Elk Grove Village, IL 60007. To be timely, the notice must be delivered not less than 60 days nor more than 90 days prior to the meeting; provided, however, that if the Company has not publicly disclosed (in the manner provided in the By-Laws) the date of the meeting at least 70 days prior to the meeting date, the notice must be received not later than the close of business on the tenth day following the day on which the Company publicly discloses the meeting date.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director all information relating to the person that would be required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), including such person's written consent to being named in the proxy statement as a nominee and to serving as director if elected; and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder as they appear on the Company's books and (ii) the number of shares of the Company which are beneficially owned by such stockholder, by class and series.

Stockholders' nominees that comply with these procedures will receive the same consideration at the Annual Meeting of Stockholders that other nominees receive.

Policy for Stockholder Communication with Directors

Stockholders may communicate with the members of the board of directors, either individually or collectively, by writing to the Board at 1001 Cambridge Drive, Elk Grove Village, IL 60007. These communications will be reviewed by the office of the Company's corporate Secretary as agent for the non-management directors in facilitating direct communication to the board of directors. The Secretary's office will treat communications containing complaints relating to accounting, internal accounting controls, or auditing matters as reports under the Company's Whistleblower Policy. Further the Secretary's office will disregard communications that are bulk mail, solicitations to purchase products or services, not directly related either to the Company or to the non-management directors' roles as members of the board, sent other than by stockholders in their capacities as such or from particular authors or regarding particular subjects that the non-management directors may specify from time to time, and all other communications which do not meet the applicable requirements or criteria described below, consistent with the instructions of the non-management directors.

General Communications. The Secretary's office will summarize all stockholder communications directly relating to the Company's business operations, its board, its officers, its activities or other matters and opportunities closely related to the Company. This summary and copies of the actual stockholder communications will then be circulated to the Chairman of the Corporate Governance Committee on a biweekly basis.

Shareholder Proposals and Nominations. Stockholder proposals are reviewed by the Secretary's office for compliance with the requirements for such proposals set forth in the Company's Bylaws and in Rule 14a of the Securities Exchange Act of 1934 and as described in this Proxy Statement. Stockholder proposals that meet these requirements will be summarized by the Secretary's office. Summaries and copies of the stockholder proposals are circulated to the Chairman of the Corporate Governance Committee.

Stockholder nominations for directors are reviewed by the Secretary's office for compliance with the requirements for such nominations that are set forth in the Company's Bylaws and as described in this Proxy Statement. Stockholder nominations that meet these requirements are summarized by the Secretary's office. Summaries and copies of the nominations are circulated to the Chairman of the Corporate Governance Committee.

Retention of Shareholder Communications. Any stockholder communications which are not circulated to the Chairman of the Corporate Governance Committee because they do not meet the applicable requirements or criteria described above will be retained by the Secretary's office for at least ninety calendar days from the date on which they are received, so that these communications may be reviewed by the non-management directors to whom they were addressed should any of the non-management directors elect to do so.

Distribution of Shareholder Communications. Except as otherwise required by law or upon the request of a non-management director, the Chairman of the Corporate Governance Committee will determine when and whether a stockholder communication should be circulated among one or more members of the board and/or Company management.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2004, Tom L. Powers, Stuart Chase Van Wagenen and James J. Fuentes served as members of the Compensation Committee of the Board. None of Mr. Powers, Mr. Van Wagenen or Mr. Fuentes currently serves 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.

Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>
Frank Cesario	36	Chief Financial Officer

Mr. Cesario joined the Company during August 2000 as Controller and served as Acting Chief Financial Officer from April 2002 until December 2002 when Mr. Cesario was named Chief Financial Officer. 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 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 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 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.

Executive Compensation

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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 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, 2004 exceeded \$100,000 (collectively, the Named Executive Officers).

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Summary Compensation Table

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

<i>Name</i>	<i>Number of Securities Underlying Options Granted</i>	<i>Percent of Total Options Granted to Employees in Fiscal Year</i>	<i>Exercise Price Per Share</i>	<i>Expiration Date</i>	<i>Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)</i>	
					<i>5%</i>	<i>10%</i>
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 realizable 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.

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

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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.

<i>Name</i>	<i>Shares Acquired On Exercise (#)</i>	<i>Value Realized (\$)(1)</i>	<i>Number of Securities Underlying Unexercised Options at December 31, 2004</i>		<i>Value of Unexercised In-The-Money Options at December 31, 2004</i>	
			<i>Exercisable</i>	<i>Unexercisable</i>	<i>Exercisable</i>	<i>Unexercisable</i>
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
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 compete 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 the Company from June 2002 through January 2005. The initial term of the agreement was for 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 and certain non-competition, non-solicitation, assignment of invention and confidentiality provisions.

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 is uncommitted, such that each new borrowing under the facility would be subject to the approval of the lenders. Borrowings on this line are 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.

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.

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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.

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

On August 2, 2005, the Company and its lenders agreed to extend the due date from April 2006 until August 1, 2007. This transaction was a part of a financing transaction in which the lenders (including their affiliates) purchased an aggregate of 20 million shares of the Company's common stock for \$4.4 million and agreed to waive their right to receive the financing proceeds under the terms of the line of credit, allowing the Company to use the funds for product development or general working capital purposes.

Subsequently, pursuant to the provisions of Section 16 of the Securities Exchange Act of 1934, these entities also remitted approximately \$0.6 million in profits from sales of Company common stock during the six months preceding this financing.

THE FOLLOWING REPORT OF THE COMPENSATION COMMITTEE AND THE PERFORMANCE GRAPH ON PAGE 15 WILL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THIS INFORMATION BY REFERENCE. THE FOLLOWING REPORT SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

Report of the Compensation Committee

The objectives of the Compensation Committee in determining the levels and components of executive compensation are (i) providing executives with both cash and equity incentives to further the interests of the Company and its stockholders, (ii) compensating them at appropriate levels with a recognition of compensation levels of executive officers at other high technology companies at a comparable stage of development, and (iii) attracting, rewarding and retaining outstanding executive officers to the Company. Generally, the compensation of all executive officers is composed of a base salary plus a discretionary bonus based upon achievement of specified goals. In addition, the Company grants stock options, from time to time in its discretion, to base potential compensation on stockholder return and to provide for compensation based upon the common stock performance over time. The Compensation Committee also recommends stock option grants to non-executive employees of the Company so as to encourage a team approach towards the success of the Company to the benefit of the stockholders.

The Compensation Committee recommended to the Board the extension of the employment agreement with Dr. Abdelmonem by allowing Dr. Abdelmonem's agreement to automatically renew in accordance with its terms after engaging in a contract negotiation process with Dr. Abdelmonem. In determining the base salaries of the executive officers, the Compensation Committee considered the performance of each executive, the nature of the executive's responsibilities, the salary levels of executives at high technology companies at a comparable stage of development, including other publicly held companies that are developing competitive products, and the Company's general compensation practices. The Board did not award a bonus to Dr. Abdelmonem, nor to any other officer, for 2004. Furthermore, no raises in salary were approved for Executive Officers in 2004.

The Compensation Committee was involved in the contract negotiations with Mr. John Thode. It also reviewed non-employee director compensation for reasonability based, in part, on industry trends and comparables. The non-employee director compensation program is described previously in this document.

The Compensation Committee typically recommends the grant of stock options to executive officers and other employees with the purpose of aligning the executive officers and other employees with the interests of stockholders and encouraging a long-term focus in managing the Company. From time to time, the Compensation Committee evaluates this policy in light of the market and competitive factors. The exercise price of these stock options is generally the fair market value of the common stock on the dates of grant. Vesting periods are used to retain key employees and to emphasize the long-term aspect of contribution and performance. In recommending stock option grants to executives under the Plan, the Compensation Committee considers a number of factors, including the performance of the executive, achievement of goals, the responsibilities of the executive, review of compensation of executives in high technology companies at a comparable stage of development, and a review of the number and exercise prices of stock options each executive currently possesses. Stock options were granted by the Board to each of Dr. Abdelmonem and Mr. Cesario in January 2004.

Compensation of Chief Executive Officer.

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Dr. Abdelmonem was appointed Chief Executive Officer in July 2002, and served in this capacity until January 2005. Dr. Abdelmonem has been the Company's Chief Technology Officer since 2000, and remains in this capacity currently. His compensation package as Chief Executive Officer of salary, stock options and bonus potential was not changed from the compensation he received as the Company's Chief Technology Officer. A base salary of \$200,000 was therefore continued for Dr. Abdelmonem for the remainder of 2002 and continued through 2004 without a raise. In addition, grants of options to purchase 1,800,000 shares of common stock was made to him on January 21, 2004. These grants were designed to provide Dr. Abdelmonem with a continuing incentive to remain with the Company and contribute to corporate success.

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In January 2005, the Company entered into a letter agreement in connection with Mr. Thode's employment as Chief Executive Officer. Under the agreement, Mr. Thode's annual base salary will be \$225,000. 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. These grants were designed to provide Mr. Thode with a continuing incentive to remain with the Company and contribute to corporate success.

Compliance with Section 162(m). The Compensation Committee generally intends for compensation paid to the executive officers to be tax deductible to the Company pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (Section 162(m)). Section 162(m) provides that compensation paid to the executive officers in excess of \$1,000,000 cannot be deducted by the Company for Federal income tax purposes. However, this limitation does not apply to performance-based compensation, provided that certain conditions are satisfied. Although the Company's policy is generally to preserve the federal income tax deductibility of compensation paid, the Compensation Committee retains the authority to approve payments that may not be deductible if it believes that such payments are in the best overall interests of the Company and its stockholders.

Members of the Compensation Committee:

Tom L. Powers (Chairman)

Stuart Chase Van Wagenen

James J. Fuentes

October 16, 2005

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE WILL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT TO THE EXTENT THAT WE SPECIFICALLY INCORPORATE THIS INFORMATION BY REFERENCE. THE FOLLOWING REPORT SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

Report of the