PUBLIC STORAGE INC /CA
Form 424B5
June 18, 2004
Table of Contents

Filed Pursuant to Rule 424(B)(5)

Registration No. 333-101425

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 4, 2004)

4,000,000 Shares

Public Storage, Inc.

Depositary Shares Each Representing 1/1,000 of a Share of

7.125% Cumulative Preferred Stock, Series B

Liquidation Preference Equivalent to $25.00 Per Depositary Share

---

We are selling 4,000,000 depositary shares each representing 1/1,000 of a share of our 7.125% Cumulative Preferred Stock, Series B. The shares of Preferred Stock represented by the depositary shares will be deposited with EquiServe Trust Company, N. A., as depositary. As a holder of depositary shares, you will be entitled to all proportional rights, preferences and privileges of the Preferred Stock. We have granted the underwriters an option to purchase up to 600,000 additional depositary shares to cover over-allotments. The following is a summary of the Preferred Stock:

We will pay cumulative distributions on the Preferred Stock, from the date of original issuance, at the rate of 7.125% of the liquidation preference per year ($1.78125 per year per depositary share).

We will pay distributions on the Preferred Stock quarterly, beginning on September 30, 2004 (with the payment on that date being based pro rata on the number of days from the original issuance of the Preferred Stock).

We are not allowed to redeem the Preferred Stock before June 30, 2009, except in order to preserve our status as a real estate investment trust.

On and after June 30, 2009, we may, at our option, redeem the Preferred Stock by paying you $25.00 per depositary share, plus any accrued and unpaid distributions.

The Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities.

Investors in the depositary shares representing interests in the Preferred Stock generally have no voting rights, except if we fail to pay distributions for six or more quarters or as required by law.

We intend to apply to have the depositary shares listed on the New York Stock Exchange (the NYSE) under the symbol PSAPrB. If this application is approved, trading of the depositary shares on the NYSE is expected to begin within 30 days following initial delivery of the depositary shares.

Investing in the depositary shares involves risks. See Risk Factors beginning on page 1 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$ 25.00	$ 100,000,000
Underwriting Discount	$ 0.7875	$ 3,150,000(1)
Proceeds to Public Storage (before expenses)	$ 24.2125	$ 96,850,000

(1) See Underwriting section beginning on page S-14 of this prospectus supplement for a discussion regarding certain additional underwriting compensation.

The underwriters are offering the depositary shares subject to various conditions. The underwriters expect to deliver the depositary shares to purchasers on or about June 30, 2004.

Citigroup

Credit Suisse First Boston

Deutsche Bank Securities

A.G. Edwards

Morgan Stanley

Wachovia Securities

Goldman, Sachs & Co.

Raymond James

RBC Capital Markets

Wells Fargo Securities, LLC

June 16, 2004

Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

This Prospectus Supplement and the accompanying Prospectus, including documents incorporated by reference, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are inherently subject to risk and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors in the accompanying Prospectus and in Management s Discussion and Analysis of Financial Condition and Results of Operations in our most recent annual and quarterly reports.

Table of Contents

THE COMPANY

We are a fully integrated, self-administered and self-managed real estate investment trust that acquires, develops, owns and operates self-storage facilities which offer self-storage spaces for lease for personal and business use. We are the largest owner and operator of self-storage facilities in the United States with equity interests (through direct ownership, as well as general and limited partnership interests), as of March 31, 2004, in 1,413 storage facilities located in 37 states. We also have a significant ownership in PS Business Parks, Inc., a REIT that, as of March 31, 2004, had equity interests in 18.3 million net rentable square feet of commercial space located in eight states.

The following table reflects the geographic diversification of our storage facilities:

	At March 31, 2004	
	Number of Facilities	Net Rentable Square Feet (in thousands)
California:		
Southern	167	10,852
Northern	143	8,246
Texas	163	11,000
Florida	139	8,199
Illinois	95	5,829
Georgia	62	3,626
Colorado	50	3,145
Washington	43	2,736
Maryland	43	2,458
New Jersey	42	2,449
Missouri	38	2,172
Virginia	39	2,388
New York	37	2,200
Ohio	30	1,863
Tennessee	23	1,311
Oregon	25	1,171
North Carolina	24	1,266
South Carolina	24	1,082
Alabama	22	895
Kansas	22	1,316
Nevada	22	1,409
Pennsylvania	20	1,360
Indiana	18	1,050
Other States (15 states)	122	7,448
Totals	1,413	85,471

Table of Contents

USE OF PROCEEDS

We estimate net proceeds from this offering of approximately $96,650,000, after all anticipated issuance costs (approximately $111,177,500 if the underwriters over-allotment option is exercised in full). We intend to use the net proceeds from this offering to make investments in self-storage facilities and in entities that own self-storage facilities, to redeem preferred securities and for other general corporate purposes.

Pending application of the net proceeds as described above, the net proceeds of this offering will be deposited in interest bearing accounts or invested in certificates of deposit, United States government obligations or other short-term, high-quality debt instruments selected at our discretion.

RECENT DEVELOPMENTS

We have contracts to acquire a total of 30 existing self-storage facilities in five states at an aggregate cost, including estimated closing and systems conversion costs, of $119,000,000, consisting of a combination of cash, senior securities and assumption of debt. Each of these contracts is subject to significant contingencies, and there is no assurance that any of these facilities will be acquired.

Table of Contents

DESCRIPTION OF PREFERRED STOCK AND DEPOSITARY SHARES

General

Under our Articles of Incorporation, as amended, the Board of Directors is authorized without further shareholder action to provide for the issuance of up to 50,000,000 shares of preferred stock, in one or more series, with such voting powers, full or limited, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be set forth in resolutions providing for the issue of preferred stock adopted by the Board of Directors. At March 31, 2004, we had outstanding 7,368,486 shares of preferred stock and had reserved for issuance an additional 14,600 shares of preferred stock.

Prior to issuance, the Board of Directors will have adopted resolutions creating the 7.125% Cumulative Preferred Stock, Series B (the Preferred Stock). When issued, the Preferred Stock will have a liquidation value of $25,000 per share, will be fully paid and nonassessable, will not be subject to any sinking fund or other obligation of the Company to repurchase or retire the Preferred Stock, and will have no preemptive rights.

EquiServe Trust Company, N. A. will be the transfer agent and dividend disbursing agent for the Preferred Stock.

Each Depositary Share represents 1/1,000 of a share of Preferred Stock. The shares of the Preferred Stock will be deposited with EquiServe Trust Company, N. A., as Depositary (the Preferred Stock Depositary), under a Deposit Agreement among the Company, the Preferred Stock Depositary and the holders from time to time of the depositary receipts (the Depositary Receipts) issued by the Preferred Stock Depositary under the Deposit Agreement. The Depositary Receipts will evidence the Depositary Shares. Subject to the terms of the Deposit Agreement, each holder of a Depositary Receipt evidencing a Depositary Share will be entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Preferred Stock represented by the Depositary Share (including dividend, voting, redemption and liquidation rights and preferences). See Description of the Depositary Shares in the accompanying Prospectus and Depositary Shares below.

Immediately following our issuance of the Preferred Stock, we will deposit the Preferred Stock with the Preferred Stock Depositary, which will then issue and deliver the Depositary Receipts to us. We will, in turn, deliver the Depositary Receipts to the underwriters. Depositary Receipts will be issued evidencing only whole Depositary Shares.

We intend to apply to have the Depositary Shares listed on the NYSE. The Preferred Stock will not be listed and we do not expect that there will be any trading market for the Preferred Stock except as represented by the Depositary Shares.

Ownership Restrictions

For a discussion of ownership limitations that apply to the Preferred Stock and related Depositary Shares, see Description of Common Stock Ownership Limitations in the accompanying Prospectus.

Preferred Stock

The following is a brief description of the terms of the Preferred Stock which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Preferred Stock, the form of which is filed as an exhibit to, or incorporated by reference in, the Registration Statement of which this Prospectus Supplement constitutes a part.

Table of Contents

Ranking

With respect to the payment of dividends and amounts upon liquidation, the Preferred Stock will rank pari passu with our 9.50% Cumulative Preferred Stock, Series D, 10% Cumulative Preferred Stock, Series E, 9.75% Cumulative Preferred Stock, Series F, 8.75% Cumulative Preferred Stock, Series M, 8.600% Cumulative Preferred Stock, Series Q, 8.000% Cumulative Preferred Stock, Series R, 7.875% Cumulative Preferred Stock, Series S, 7.625% Cumulative Preferred Stock, Series T, 7.625% Cumulative Preferred Stock, Series U, 7.500% Cumulative Preferred Stock Series V, 6.500% Cumulative Preferred Stock, Series W, 6.450% Cumulative Preferred Stock, Series X, 6.850% Cumulative Preferred Stock, Series Y, 6.250% Cumulative Preferred Stock, Series Z, 6.125% Cumulative Preferred Stock, Series A (collectively, together with the Preferred Stock, the Senior Preferred Stock) and any other shares of preferred stock issued by us, whether now or hereafter issued, ranking pari passu with the Senior Preferred Stock (including shares of preferred stock issued upon conversion of the 9.5% Series N, 9.5% Series NN and 9.125% Series O Cumulative Redeemable Perpetual Preferred Units of one of our operating partnerships), and will rank senior to the Common Stock and any other capital stock of the Company ranking junior to the Preferred Stock.

Dividends

Holders of shares of Preferred Stock, in preference to the holders of shares of the Common Stock, and of any other capital stock issued by us ranking junior to the Preferred Stock as to payment of dividends, will be entitled to receive, when and as declared by the Board of Directors out of assets of the Company legally available for payment, cash dividends payable quarterly at the rate of 7.125% of the liquidation preference per year ($1,781.25 per year per share, equivalent to $1.78125 per year per Depositary Share). Dividends on the shares of Preferred Stock will be cumulative from the date of issue and will be payable quarterly on or before March 31, June 30, September 30 and December 31, commencing September 30, 2004, to holders of record as they appear on the stock register of the Company on such record dates, not less than 15 or more than 45 days preceding the payment dates thereof, as shall be fixed by the Board of Directors. If the last day of a quarter falls on a non-business day, we may pay dividends for that quarter on the first business day following the end of the quarter. After full dividends on the Preferred Stock have been paid or declared and funds set aside for payment for all past dividend periods and for the then current quarter, the holders of shares of Preferred Stock will not be entitled to any further dividends with respect to that quarter.

When dividends are not paid in full upon the Preferred Stock and any other shares of preferred stock of the Company ranking on a parity as to dividends with the Preferred Stock (including the other series of Senior Preferred Stock), all dividends declared upon the Preferred Stock and any other preferred shares of the Company ranking on a parity as to dividends with the Preferred Stock shall be declared pro rata so that the amount of dividends declared per share on such Preferred Stock and such other shares shall in all cases bear to each other the same ratio that the accrued dividends per share on the Preferred Stock and such other preferred shares bear to each other. Except as set forth in the preceding sentence, unless full dividends on the Preferred Stock have been paid for all past dividend periods, no dividends (other than in Common Stock or other shares of capital stock issued by us ranking junior to the Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be made on the Common Stock or on any other shares of capital stock issued by us ranking junior to or on a parity with the Preferred Stock as to dividends or upon liquidation.

Unless full dividends on the Preferred Stock have been paid for all past dividend periods, we and our subsidiaries may not redeem, repurchase or otherwise acquire for any consideration (nor may we or they pay or make available any moneys for a sinking fund for the redemption of) any shares of Common Stock or any other shares of capital stock issued by us ranking junior to or on a parity with the Preferred Stock as to dividends or upon liquidation except by conversion into or exchange for shares of capital stock issued by us ranking junior to the Preferred Stock as to dividends and upon liquidation.

If for any taxable year, we elect to designate as capital gain dividends (as defined in the Internal Revenue Code) any portion of the dividends paid or made available for the year to the holders of all classes and series of

Table of Contents

our stock, then the portion of the dividends designated as capital gain dividends that will be allocable to the holders of Preferred Stock will be an amount equal to the total capital gain dividends multiplied by a fraction, the numerator of which will be the total dividends paid or made available to the holders of Preferred Stock for the year, and the denominator of which will be the total dividends paid or made available to holders of all classes and series of our outstanding stock for that year.

Our revolving credit facility with a commercial bank restricts our ability to pay distributions in excess of 95% of our Funds from Operations for the prior four fiscal quarters. Funds from operations is defined in the loan agreement generally as net income before gain on sale of real estate, extraordinary loss on early retirement of debt and deductions for depreciation, amortization and non-cash charges. Our management believes that this restriction will not impede our ability to pay the dividends on the Preferred Stock in full.

Dividends paid by regular C corporations to persons or entities that are taxed as individuals now are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on the Preferred Stock, generally will continue to be taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See Additional Federal Income Tax Consequences.

Conversion Rights

The Preferred Stock will not be convertible into shares of any other class or series of capital stock of the Company.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Preferred Stock will be entitled to receive out of our assets available for distribution to stockholders, before any distribution of assets is made to holders of Common Stock or of any other shares of capital stock issued by us ranking as to such distribution junior to the Preferred Stock, liquidating distributions in the amount of $25,000 per share (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid dividends (whether or not earned or declared) for the then current, and all prior, dividend periods. If upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Preferred Stock and any other shares of stock issued by us ranking as to any such distribution on a parity with the Preferred Stock (including other series of Senior Preferred Stock) are not paid in full, the holders of the Preferred Stock and of such other shares will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Stock will not be entitled to any further participation in any distribution of assets by us.

For purposes of liquidation rights, a consolidation or merger of the Company with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Company is not a liquidation, dissolution or winding up of the Company.

Redemption

Except in certain circumstances relating to our qualification as a REIT, we may not redeem the shares of Preferred Stock prior to June 30, 2009. On and after June 30, 2009, at any time or from time to time, we may redeem the shares of Preferred Stock in whole or in part at our option at a cash redemption price of $25,000 per share of Preferred Stock (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid dividends to the date of redemption. If fewer than all the outstanding shares of Preferred Stock are to be redeemed, the shares to be redeemed will be determined by the Board of Directors of the Company, and such shares shall be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Board of Directors of the Company.

Table of Contents

Notwithstanding the foregoing, if any dividends, including any accumulation, on the Preferred Stock are in arrears, we may not redeem any Preferred Stock unless we redeem simultaneously all outstanding Preferred Stock, and we may not purchase or otherwise acquire, directly or indirectly, any Preferred Stock; provided, however, that this shall not prevent the purchase or acquisition of the Preferred Stock pursuant to a purchase or exchange offer if such offer is made on the same terms to all holders of the Preferred Stock.

Notice of redemption of the Preferred Stock will be given by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us, postage prepaid, not less than 30 or more than 60 days prior to the redemption date, addressed to the respective holders of record of shares of Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Company. Each notice shall state: (1) the redemption date; (2) the number of shares of Preferred Stock to be redeemed; (3) the redemption price per share of Preferred Stock; (4) the place or places where certificates for the Preferred Stock are to be surrendered for payment of the redemption price; and (5) that dividends on the shares of Preferred Stock to be redeemed will cease to accrue on such redemption date. If fewer than all the shares of Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Preferred Stock to be redeemed from such holder. In order to facilitate the redemption of shares of Preferred Stock, the Board of Directors may fix a record date for the determination of shares of Preferred Stock to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

Notice having been given as provided above, from and after the date specified therein as the date of redemption, unless we default in providing funds for the payment of the redemption price on such date, all dividends on the Preferred Stock called for redemption will cease. From and after the redemption date, unless we so default, all rights of the holders of the Preferred Stock as stockholders of the Company, except the right to receive the redemption price (but without interest), will cease. Upon surrender in accordance with such notice of the certificates representing any such shares (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require and the notice shall so state), the redemption price set forth above shall be paid out of the funds provided by the Company. If fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

Subject to applicable law and the limitation on purchases when dividends on the Preferred Stock are in arrears, we may, at any time and from time to time, purchase any shares of Preferred Stock in the open market, by tender or by private agreement.

Voting Rights

Except as indicated below, or except as expressly required by applicable law, holders of the Preferred Stock will not be entitled to vote.

If the equivalent of six quarterly dividends payable on the Preferred Stock or any other series of preferred stock are in default (whether or not declared or consecutive), holders of the Preferred Stock (voting as a class with all other series of Senior Preferred Stock) will be entitled to elect two additional directors until all dividends in default have been paid or declared and set apart for payment.

Such right to vote separately to elect directors shall, when vested, be subject, always, to the same provisions for vesting of such right to elect directors separately in the case of future dividend defaults. At any time when such right to elect directors separately shall have so vested, we may, and upon the written request of the holders of record of not less than 20% of the total number of preferred shares of the Company then outstanding shall, call a special meeting of shareholders for the election of directors. In the case of such a written request, such special

Table of Contents

meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in our Bylaws, provided that we shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual meeting of shareholders, and the holders of all classes of outstanding preferred stock are offered the opportunity to elect such directors (or fill any vacancy) at such annual meeting of shareholders. Directors so elected shall serve until the next annual meeting of our shareholders or until their respective successors are elected and qualify. If, prior to the end of the term of any director so elected, a vacancy in the office of such director shall occur, during the continuance of a default in dividends on preferred shares of the Company, by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term of such former director by the appointment of a new director by the remaining director or directors so elected.

The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding shares of the Preferred Stock and any other series of preferred stock ranking on a parity with the Preferred Stock as to dividends or upon liquidation (which includes the other series of Senior Preferred Stock), voting as a single class, will be required to authorize another class of shares senior to the Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation. The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding shares of the Preferred Stock will be required to amend or repeal any provision of, or add any provision to, the Articles of Incorporation, including the Certificate of Determination, if such action would materially and adversely alter or change the rights, preferences or privileges of the Preferred Stock.

No consent or approval of the holders of shares of the Preferred Stock will be required for the issuance from the Company s authorized but unissued preferred stock of other shares of any series of preferred stock ranking on a parity with or junior to the Preferred Stock as to payment of dividends and distribution of assets, including other shares of Preferred Stock.

Depositary Shares

The following is a brief description of the terms of the Depositary Shares which does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Deposit Agreement (including the form of Depositary Receipt contained therein), which is filed as an exhibit to, or incorporated by reference in, the Registration Statement of which this Prospectus Supplement constitutes a part.

Dividends

The Depositary will distribute all cash dividends or other cash distributions received in respect of the Preferred Stock to the record holders of Depositary Receipts in proportion to the number of Depositary Shares owned by such holders on the relevant record date, which will be the same date as the record date fixed by us for the Preferred Stock. In the event that the calculation of such amount to be paid results in an amount which is a fraction of one cent, the amount the Depositary shall distribute to such record holder shall be rounded to the next highest whole cent.

In the event of a distribution other than in cash, the Depositary will distribute property received by it to the record holders of Depositary Receipts entitled thereto, in proportion, as nearly as may be practicable, to the number of Depositary Shares owned by such holders on the relevant record date, unless the Depositary determines (after consultation with us) that it is not feasible to make such distribution, in which case the Depositary may (with our approval) adopt any other method for such distribution as it deems equitable and appropriate, including the sale of such property (at such place or places and upon such terms as it may deem equitable and appropriate) and distribution of the net proceeds from such sale to such holders.

Liquidation Preference

In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of each Depositary Share will be entitled to 1/1000th of the liquidation preference accorded each share of the Preferred Stock.

Table of Contents

Redemption

Whenever we redeem any Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Stock so redeemed. The Depositary will publish a notice of redemption of the Depositary Shares containing the same type of information and in the same manner as our notice of redemption and will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of the Preferred Stock and the Depositary Shares to the record holders of the Depositary Receipts. In case less than all the outstanding Depositary Shares are to be redeemed, the Depositary Shares to be so redeemed shall be determined pro rata or by lot in a manner determined by the Board of Directors.

Voting

Promptly upon receipt of notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Receipts as of the record date for such meeting. Each such record holder of Depositary Receipts will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the number of shares of Preferred Stock represented by such record holder s Depositary Shares. The Depositary will endeavor, insofar as practicable, to vote such Preferred Stock represented by such Depositary Shares in accordance with such instructions, and we will agree to take all action which may be deemed necessary by the Depositary in order to enable the Depositary to do so. The Depositary will abstain from voting any of the Preferred Stock to the extent that it does not receive specific instructions from the holders of Depositary Receipts.

Withdrawal of Preferred Stock

Upon surrender of Depositary Receipts at the principal office of the Depositary, upon payment of any unpaid amount due the Depositary, and subject to the terms of the Deposit Agreement, the owner of the Depositary Shares evidenced thereby is entitled to delivery of the number of whole shares of Preferred Stock and all money and other property, if any, represented by such Depositary Shares. Partial shares of Preferred Stock will not be issued. If the Depositary Receipts delivered by the holder evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of whole shares of Preferred Stock to be withdrawn, the Depositary will deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Depositary Shares. Holders of Preferred Stock thus withdrawn will not thereafter be entitled to deposit such shares under the Deposit Agreement or to receive Depositary Receipts evidencing Depositary Shares therefor.

Amendment and Termination of Deposit Agreement

The form of Depositary Receipt evidencing the Depositary Shares and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between us and the Depositary. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of Depositary Shares will not be effective unless such amendment has been approved by the holders of at least a majority of the Depositary Shares then outstanding. No such amendment may impair the right, subject to the terms of the Deposit Agreement, of any owner of any Depositary Shares to surrender the Depositary Receipt evidencing such Depositary Shares with instructions to the Depositary to deliver to the holder the Preferred Stock and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law. The Deposit Agreement may be terminated by us or the Depositary only if (i) all outstanding Depositary Shares have been redeemed or (ii) there has been a final distribution in respect of the Preferred Stock in connection with any dissolution of the Company and such distribution has been made to all the holders of Depositary Shares.

Table of Contents

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Depositary in connection with the initial deposit of the Preferred Stock and the initial issuance of the Depositary Shares, and redemption of the Preferred Stock and all withdrawals of Preferred Stock by owners of Depositary Shares. Holders of Depositary Receipts will pay transfer, income and other taxes and governmental charges and certain other charges as are provided in the Deposit Agreement to be for their accounts. In certain circumstances, the Depositary may refuse to transfer Depositary Shares, may withhold dividends and distributions and sell the Depositary Shares evidenced by such Depositary Receipt if such charges are not paid.

Miscellaneous

The Depositary will forward to the holders of Depositary Receipts all reports and communications from us which are delivered to the Depositary and which we are required to furnish to the holders of the Preferred Stock. In addition, the Depositary will make available for inspection by holders of Depositary Receipts at the principal office of the Depositary, and at such other places as it may from time to time deem advisable, any reports and communications received from the Company which are received by the Depositary as the holder of Preferred Stock.

Neither the Depositary nor any Depositary s Agent (as defined in the Deposit Agreement), nor the Registrar (as defined in the Deposit Agreement) nor the Company assumes any obligation or will be subject to any liability under the Deposit Agreement to holders of Depositary Receipts other than for its gross negligence, willful misconduct or bad faith. Neither the Depositary, any Depositary s Agent, the Registrar nor the Company will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the Deposit Agreement. The Company and the Depositary are not obligated to prosecute or defend any legal proceeding in respect of any Depositary Shares, Depositary Receipts or Preferred Stock unless reasonably satisfactory indemnity is furnished. The Company and the Depositary may rely on written advice of counsel or accountants, on information provided by holders of Depositary Receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Resignation and Removal of Depositary

The Depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the Depositary, any such resignation or removal to take effect upon the appointment of a successor Depositary and its acceptance of such appointment. Such successor Depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least $150,000,000.

ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

For a discussion of the taxation of the Company and the tax considerations relevant to shareholders generally, see Material U.S. Federal Income Tax Considerations in the accompanying Prospectus. The following is a summary of certain additional federal income tax considerations pertaining to the acquisition, ownership and disposition of the Depositary Shares and should be read in conjunction with the referenced sections in the accompanying Prospectus. This discussion of additional considerations is general in nature and is not exhaustive of all possible tax considerations, nor does the discussion address any state, local or foreign tax considerations. This discussion of additional considerations is

based on current law and does not purport to deal with all aspects of federal income taxation that may be relevant to a prospective shareholder in light of its particular circumstances or to certain types of shareholders (including insurance companies, financial institutions,

Table of Contents

broker-dealers, tax exempt investors, foreign corporations and persons who are not citizens or residents of the United States) subject to special treatment under the federal income tax laws. We have not requested and will not request a ruling from the Internal Revenue Service (the Service) with respect to any of the federal income tax issues discussed below or in the accompanying Prospectus. Prospective investors should consult, and must depend on, their own tax advisors regarding the federal, state, local, foreign and other tax consequences of holding and disposing of the Depositary Shares.

Taxation of Holders of Depositary Shares

General. Owners of the Depositary Shares will be treated for federal income tax purposes as if they were owners of the Preferred Stock represented by such Depositary Shares. Accordingly, such owners will take into account, for federal income tax purposes, income to which they would be entitled if they were holders of such Preferred Stock. See Description of the Depositary Shares Federal Income Tax Considerations in the accompanying Prospectus. Withdrawals of Preferred Stock for Depositary Shares are not taxable events for federal income tax purposes.

Dividends and Other Distributions; Withholding. For a discussion of the taxation of the Company, the treatment of dividends and other distributions with respect to shares of the Company, and the withholding rules, see Material U.S. Federal Income Tax Considerations Taxation of Public Storage as a REIT, Taxation of U.S. Shareholders, Taxation of Non-U.S. Shareholders and Information Reporting and Backup Withholding Tax Applicable to Shareholders in the accompanying Prospectus. In determining the extent to which a distribution on the Depositary Shares constitutes a dividend for tax purposes, the earnings and profits of the Company will be allocated first to distributions with respect to the Preferred Stock and all other series of preferred stock that are equal in rank as to distributions and upon liquidation with the Preferred Stock, and second to distributions with respect to Common Stock of the Company.

Sale or Exchange of Depositary Shares. Upon the sale, exchange or other disposition of Depositary Shares to a party other than the Company, a holder of Depositary Shares will realize capital gain or loss measured by the difference between the amount realized on the sale, exchange or other disposition of the Depositary Shares and such shareholder s adjusted tax basis in the Depositary Shares (provided the Depositary Shares are held as a capital asset). For a discussion of capital gain taxation see Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders and Taxation of Non-U.S. Shareholders in the accompanying Prospectus.

Redemption of Depositary Shares. Whenever the Company redeems any Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Stock so redeemed. The treatment to a holder of Depositary Shares accorded to any redemption by the Company (as distinguished from a sale, exchange or other disposition) of Preferred Stock held by the Depositary and corresponding redemption of Depositary Shares can only be determined on the basis of particular facts as to the holder of Depositary Shares at the time of redemption. In general, a holder of Depositary Shares will recognize capital gain or loss measured by the difference between the amount received upon the redemption and the holder of the Depositary Shares adjusted tax basis in the Depositary Shares redeemed (provided the Depositary Shares are held as a capital asset) if such redemption (i) results in a complete termination of a holder s interest in all classes of stock of the Company under Section 302(b)(3) of the Internal Revenue Code of 1986, as amended (the Code) or (ii) is not essentially equivalent to a dividend with respect to the holder under Section 302(b)(1) of the Code. In applying these tests, there must be taken into account not only any Depositary Shares owned by the holder, but also such holder s ownership of Common Stock, equity stock, other series of preferred stock and any options (including stock purchase rights) to acquire any of the foregoing. The holder also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

Table of Contents

If a particular holder of Depositary Shares owns (actually or constructively) no shares of Common Stock or equity stock of the Company or an insubstantial percentage of the outstanding shares of Common Stock, equity stock or preferred stock of the Company, based upon current law, it is probable that the redemption of Depositary Shares from such a holder would be considered not essentially equivalent to a dividend. However, whether a distribution is not essentially equivalent to a dividend depends on all of the facts and circumstances, and a holder of Depositary Shares intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from the Depositary Shares will be treated as a distribution on the Depositary Shares as described under Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders and Taxation of Non-U.S. Shareholders in the accompanying Prospectus. If the redemption is taxed as a dividend, the holder of Depositary Shares adjusted tax basis in the redeemed Depositary Shares will be transferred to any other stockholdings of the holder of Depositary Shares in the Company. If the holder of Depositary Shares owns no other stockholdings in the Company, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Table of Contents

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date of this Prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter s name.

Underwriter	Number of shares
Citigroup Global Markets Inc.	630,000
Credit Suisse First Boston LLC	610,000
Deutsche Bank Securities Inc.	610,000
A.G. Edwards & Sons, Inc.	610,000
Morgan Stanley & Co. Incorporated	610,000
Wachovia Capital Markets, LLC	610,000
Goldman, Sachs & Co.	80,000
Raymond James & Associates, Inc.	80,000
RBC Dain Rauscher Inc.	80,000
Wells Fargo Securities, LLC	80,000
Total	4,000,000

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all of the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters, for whom Citigroup Global Markets Inc., Credit Suisse First Boston LLC, Deutsche Bank Securities Inc., A.G. Edwards & Sons, Inc., Morgan Stanley & Co. Incorporated, Wachovia Capital Markets, LLC, Goldman, Sachs & Co., Raymond James & Associates, Inc., RBC Dain Rauscher Inc. and Wells Fargo Securities, LLC are acting as representatives, propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and some of the shares to dealers at the public offering price less a concession not to exceed $0.50 per share. The underwriters may allow, and dealers may reallow, a concession not to exceed $0.45 per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 600,000 additional Depositary Shares at the public offering price less the underwriting discount and accumulated dividends, if any. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional Depositary Shares approximately proportionate to that underwriter s initial purchase commitment.

We intend to apply to have our Depositary Shares listed on the NYSE. The underwriters have advised us that they intend to make a market in the depositary shares prior to the commencement of trading on the NYSE. The underwriters will have no obligation to make a market in the depositary shares, however, and may cease market making activities, if commenced, at any time.

Table of Contents

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional Depositary Shares.

	No Exercise	Full Exercise
Per share	$ 0.7875	$ 0.7875
Total	$ 3,150,000	$ 3,622,500

In connection with the offering, Citigroup Global Markets Inc. on behalf of the underwriters may purchase and sell Depositary Shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Depositary Shares in excess of the number of Depositary Shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Depositary Shares in the open market after the distribution has been completed in order to cover syndicate short positions. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Depositary Shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of Depositary Shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. repurchases Depositary Shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline on the market price of the Depositary Shares. They may also cause the price of the Depositary Shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue any of them at any time.

We estimate that our portion of the total expenses of this offering will be $200,000.

Certain of the underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

The lenders under our credit facility include Citicorp Real Estate, Inc., an affiliate of Citigroup Global Markets Inc., Deutsche Bank Trust Company Americas, an affiliate of Deutsche Bank Securities Inc., Wachovia Bank, National Association, an affiliate of Wachovia Capital Markets, LLC, Credit Suisse First Boston, New York branch, an affiliate of Credit Suisse First Boston LLC, and Wells Fargo Bank, National Association, an affiliate of Wells Fargo Securities, LLC. Wells Fargo Bank, National Association is managing agent of the facility.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

We expect that delivery of the Depositary Shares will be made against payment therefor on or about June 30, 2004, which is the tenth business day following the expected date of the Prospectus Supplement. Under Rule 15c6-1 of the Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Depositary Shares on the expected date of the Prospectus Supplement or the next succeeding six business days will be required, by virtue of the fact that the Depositary Shares initially will settle in T+10, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisor.

Table of Contents

LEGAL MATTERS

Certain legal matters relating to the Preferred Stock and Depositary Shares will be passed upon for us by David Goldberg, our vice-president and senior counsel, and for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California. Mr. Goldberg owns 68,702 shares of Common Stock, 3,396 depositary shares representing interests in equity stock, and has options to acquire an additional 38,959 of Common Stock. Skadden, Arps, Slate, Meagher & Flom LLP has from time to time represented us and our affiliates on unrelated matters.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended December 31, 2003, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements and schedule are incorporated by reference in reliance on Ernst & Young LLP s report given on their authority as experts in accounting and auditing.

Table of Contents

Prospectus

$1,000,000,000

Public Storage, Inc.

By this prospectus, we may offer

Common Stock

Preferred Stock

Equity Stock

Depositary Shares

Warrants

Debt Securities

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and the supplements carefully before you invest.

Please read Risk Factors beginning on page 1 for a discussion of material risks you should consider before you invest.

Our common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol PSA.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this prospectus or determined if this prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

June 4, 2004

Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any state where the offer is not permitted. The information contained in or incorporated by reference in this prospectus is accurate only as of the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

	1997	1998	1999	2000		
Illinois Superconductor	100	101	11	6	12	8
H&Q Technology Index	100	124	153	218	502	320
NASDAQ Market Index	100	123	149	208	390	235

PROPOSAL 2

Amendment of the Certificate of Incorporation

To Change the Name of the Company To
ISCO International, Inc.

The board of directors has approved and recommends that the Company s stockholders approve a proposal to change the corporate name of the Company to ISCO International, Inc. The amendment will be accomplished by amending our Certificate of Incorporation. The form of the proposed amendment is annexed to this Proxy Statement as Appendix B.

Reasons for the Name Change. The board of directors has determined that the name change is in the best interests of the Company and its stockholders as the new name reflects the Company s expansion as a worldwide provider of a broad range of communication technology products and solutions.

Effect of the Name Change. If the amendment is adopted, Article 1 of our Certificate of Incorporation would be amended to read as follows:

The name of the Corporation is ISCO International, Inc. (the Corporation).

In addition, all other references to our corporate name in our Certificate of Incorporation would be changed to ISCO International, Inc. The approval of the name change will not affect in any way the validity of currently outstanding stock certificates and will not require our stockholders to surrender or exchange any stock certificates that they currently hold.

The board of directors has sole discretion as to whether to file the proposed amendment to the Certificate of Incorporation. If the name change of the Company is not effected by the first anniversary of the Annual Meeting, the board of director s authority to effect the name change will terminate and stockholder approval again would be required prior to implementing any name change.

Required Vote. The affirmative vote of a majority of all outstanding common stock entitled to vote at the Annual Meeting is required to approve the foregoing proposal.

Recommendation of the Board Of Directors. **The board of directors recommends a vote FOR the proposal to approve the amendment to the Certificate of Incorporation changing the name of the Company to ISCO International, Inc.**

PROPOSAL 3

AMENDMENTS TO THE

ILLINOIS SUPERCONDUCTOR CORPORATION 1993 STOCK OPTION PLAN

On August 19, 1993, the board of directors adopted, and the stockholders subsequently approved, the Illinois Superconductor Corporation 1993 Stock Option Plan. Originally, there were 380,000 shares of Common Stock authorized for issuance under the Plan. In 1994, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a

total of 380,000 shares to 455,000 shares of Common Stock. In 1995, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a total of 455,000 shares to 655,000 shares of Common Stock. In 1996, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a total of 655,000 shares to 1,055,000 shares of Common Stock. In 1997, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a total of 1,055,000 shares to 1,750,000 shares of Common Stock. In 1999, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a total of 1,750,000 shares to 2,511,468 shares of Common Stock. In 2000, the board of directors approved, and the stockholders subsequently approved, an amendment to the Plan to increase the number of shares authorized for issuance under the Plan from a total of 2,511,468 shares to 6,011,468 shares of Common Stock.

As of December 31, 2000, the Company had granted options to purchase 5,446,392 shares and granted 440,000 deferred stock units (DSUs) under the Plan, or 97.9%, of the 6,011,468 shares of Common Stock currently reserved for issuance under the Plan. In 2001, the board of directors adopted certain amendments to the Plan including, among other items, an increase in the number of authorized shares from 6,011,468 to 14,011,468 and an increase in the maximum number of shares for which stock options may be granted to any individual employee during any calendar year from 500,000 to 1,500,000, and voted to present certain of these amendments for stockholder approval at the Annual Meeting. The amendments to the Plan which stockholder approval is being sought are (1) to increase the number of shares reserved for issuance under the Plan from 6,011,468 shares to 14,011,468 shares and (2) to increase the maximum number of shares for which stock options may be granted to any individual employee during any calendar year from 500,000 shares to 1,500,000 shares. The text of the amendments with references to specific sections in the Plan is attached to this Proxy Statement as Appendix C.

The board of directors believes that the well recognized benefits of stock option plans outweigh any burden to the stockholders arising from the award of stock options and DSUs, and include (i) the ability to attract and retain qualified engineering, technical and administrative personnel, as well as Non-Employee Directors, in the face of an increasingly competitive hiring environment; (ii) the encouragement of the acquisition by key employees and Non-Employee Directors of a proprietary interest in the Company; (iii) the ability to fashion attractive incentive awards based upon the performance of the Company and the price for the Common Stock; (iv) better alignment of the interests of employees, consultants and Non-Employee Directors with the interests of the Company s stockholders; and (v) the greater reliance on options may lessen the need to make cash bonus payments in future years, thus conserving cash for reinvestment in the Company.

The Company believes that its growth and long-term success depend in large part upon attracting, retaining and motivating key personnel, and that such retention and motivation can be achieved in part through the grant of stock options. The Company also believes that stock options will play an important role in our success by encouraging and enabling the directors, officers and other employees of the Company upon whose judgement, initiative and efforts the Company depends to acquire a proprietary interest in the Company s long-term performance. The Company anticipates that providing these persons with a direct stake in the Company will ensure a closer identification of the interests of the participants in the plan with those of the Company, thereby stimulating the efforts of these participants to promote our future success and strengthen their desire to remain with the Company. The Company believes that the proposed increase in the

number of shares issuable under the option plan and the increase in the maximum number of shares that can be granted to an employee will help the Company accomplish these goals and will keep the Company s equity incentive compensation in line with that of other companies comparable to the Company.

In accordance with the requirements of Section 162(m), the Plan currently limits the number of stock options that may be granted to any individual employee during any calendar year to 500,000. At its February 5, 2001 meeting, the board of directors reviewed this limit and how the limit affects the Company s ability to create incentives for its current and future employees. The board of directors determined that the Plan s current limit on options hinders the Plan s goals of attracting and retaining the highest quality employees. In particular, the board of directors determined that the Plan s current maximum grant amount will be insufficient to permit the grant of the number of options expected to be granted by the Company to Dr. Calhoun, the Company s Chief Executive Officer and Dr. Abdelmonem, the Company s Chief Technology Officer, as part of its annual grant program.

Vote Required. The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the meeting and entitled to vote on the matter is required to approve the amendments to the Illinois Superconductor Corporation 1993 Stock Option Plan.

Recommendation of the Board of Directors. **The board of directors recommends that the stockholders vote FOR the amendments to the Illinois Superconductor Corporation 1993 Stock Option Plan and believes that the amendments are appropriate to compensate employees, consultants and Non-Employee Directors of the Company.**

The summary of the Plan provided below is qualified in its entirety by the provisions contained in the Plan, a copy of which is attached to this Proxy Statement as Appendix D. The essential features of the Plan, as amended to date, are outlined below:

Purpose. The purpose of the Plan is to offer certain of the Company s employees, consultants and Non-Employee Directors options to acquire equity interests in the Company, thereby providing them with an opportunity to share in the potential capital appreciation of the Common Stock.

General. Pursuant to the Plan, the administrator may grant incentive stock options, non-qualified stock options and DSUs to employees, consultants and Non-Employee Directors. The Plan is administered by the Compensation Committee of the board of directors which is authorized in its discretion, subject to the provisions of the Plan, to allocate options to such employees (including officers), consultants and Non-Employee Directors of the Company as the Compensation Committee may select and to determine the number of shares covered by, and terms of, each option. Currently, up to 79 employees (including six executive officers) and five Non-Employee Directors are eligible. The Compensation Committee is comprised of Non-Employee Directors. During any calendar year, options for no more than 500,000 shares of Common Stock shall be granted to any consultant or Non-Employee Director, DSUs for no more than 150,000 shares of Common Stock shall be granted to any individual Employee and subject to stockholder approval of Proposal 3, no more than 1,500,000 shares of Common Stock shall be granted to any individual employee. An employee who has been granted an option may be granted additional options and/or DSUs. Assuming stockholder approval of Proposal 3, an aggregate of 14,011,468 shares of Common Stock, which may be authorized and unissued or treasury shares, will be reserved for issuance under the Plan. If any option granted under the Plan shall expire or terminate for any reason without having been exercised in full, or if any DSUs granted under the Plan are forfeited, options or DSUs for the unpurchased or forfeited shares subject thereto may again be granted under the Plan.

Upon the occurrence of certain circumstances, such as a stock dividend, split, recapitalization, merger, consolidation, combination, exchange of shares or other similar corporate change, the Company will appropriately adjust the number of shares available under the Plan, the number of shares covered by outstanding DSUs and options, the exercise price of such outstanding options and the maximum number of shares for which options or DSUs may be granted to any individual during any calendar year.

The Compensation Committee is authorized to construe the provisions of the Plan and to adopt rules and regulations for administering the Plan. The board of directors or the Compensation Committee may amend or

terminate the Plan from time to time in such respects as it shall deem advisable; provided that, to the extent necessary to comply with the applicable rules and regulations of the stock exchange or market on which the Common Stock is then listed for trading or with Section 422 of the Internal Revenue Code, the Company shall obtain stockholder approval of any such amendment. Any such amendment or termination of the Plan shall not affect any options already granted and such options shall remain in full force and effect as if the plan had not been amended or terminated, unless mutually agreed otherwise between the option holder and the Compensation Committee, which agreement must be in writing and signed by the option holder and the Company. No options may be granted under the Plan on or after August 31, 2003.

In the event of the dissolution or liquidation of the Company, each option will terminate, and each nonvested DSU will be forfeited, immediately prior to the consummation of the dissolution or liquidation, unless otherwise provided by the Compensation Committee. Deferred shares of Common Stock payable with respect to vested DSUs shall be issued to the employee immediately prior to the consummation of the liquidation or dissolution. The Compensation Committee may, in the exercise of its sole discretion, declare that any option shall terminate as of a date fixed by the Compensation Committee and give the option holder the right to exercise his or her option, including any portion of the option which is not then exercisable.

Stock Options. The plan provides for the grant of either incentive stock options or NQSOs, except that consultants and Non-employee Directors of the Company who are not also employees are not entitled to receive incentive stock options under the Plan. Exercise prices for incentive stock options may not be less than the fair market value per share of Common Stock on the date of grant, or 110% of the fair market value in the case of incentive stock options granted to any person who owns the Company s stock possessing 10% or more of the total voting power of all of the Company s capital stock. Exercise prices for NQSOs may be less than the fair market value per share, but must be at least $0.01 per share. Unless otherwise specified by the terms of an option agreement, options granted under the Plan vest at a rate of 25% upon the first anniversary of the date of grant and the balance vests monthly over a three year period, and expire 10 years after the date of the grant, or 5 years after the date of the grant with respect to incentive stock options granted to any person who owns the Company s stock possessing 10% or more of the total voting power of all of its capital stock. On May 3, 2001, the closing price of a share of the Common Stock on the OTC Bulletin Board was $1.41 per share.

Any options may be exercised in whole or in part at such times and upon such terms and conditions as the Compensation Committee shall determine, in accordance with the Plan. If approved by the Compensation Committee, payment may be made by (i) delivering Common Stock already owned by the option holder; (ii) executing and delivering a note satisfactory to the Compensation Committee; (iii) authorizing the Company to retain shares of Common Stock which would otherwise be issuable upon exercise of the option having a total fair market value on the date of delivery equal to the exercise price of such option; (iv) delivery of cash by a broker-dealer to whom the option holder has submitted an irrevocable notice of exercise; and (v) any combination of the foregoing.

Options granted under the Plan may be assigned or transferred by will or laws of descent or distribution, or otherwise, only if the option agreement entered into by the option grantee and the Company in connection with the option grant so provides. If an option holder s employment by the Company, or term as director, ends, the option, to the extent exercisable at such time, may be exercised until the earlier of the expiration date of the option or the time specified in the option agreement. To the extent such option is not exercisable at the date of such termination, the option shall terminate.

Options and DSUs granted to employees and consultants on or after February 15, 2000 and prior to a change of control of the Company will not automatically vest upon a change of control but, except as otherwise provided in an award agreement, such options and DSUs will vest upon the employee s or consultant s termination of employment after the change of control if the employee s or consultant s employment is terminated by the Company without cause

(as defined in the Amendment and Restatement) or by the employee for good reason (as defined in the Amendment and Restatement). Options granted to employees or consultants prior to February 15, 2000 and options granted to Non-Employee Directors will become fully vested upon a change of control of the Company.

Deferred Stock Units. An employee may be granted DSUs, entitling the employee, without any payment in cash or property, to receive shares of Common Stock in one or more installments at a future date or dates. DSUs shall be non-transferable and may be conditioned on such matters as the Compensation Committee may determine, including continued employment or attainment of performance goals. No shares of Common Stock will be issued at the time an award of DSUs is made and the Company is not required to set aside a fund for the payment of any such award. The Company will establish a separate recordkeeping account for the employee and will record in such account the number of DSUs awarded to the employee. The Compensation Committee may permit employees to further defer receipt of shares of Common Stock payable with respect to DSUs.

An employee has no right to vote as a stockholder in respect of DSUs awarded pursuant to the Plan until the shares of Common Stock attributable to such DSUs have been issued to the employee. The Compensation Committee may determine whether and to what extent to pay dividend equivalents to grantees of DSUs.

An employee will receive one share of Common Stock for each vested DSU on such date or dates and/or upon the occurrence of such event as the Compensation Committee may specify in the award agreement or on such later date as may be elected by the grantee in a deferral election made accordance with the rules and procedures established by the Compensation Committee. Upon an employee s termination of employment for any reason, the employee will immediately forfeit all rights with respect to any nonvested DSUs credited to his or her account.

Director Option Grants. The Plan provides that each Non-Employee Director will receive, beginning with the 2001 Annual Meeting, an the automatic grant of NQSOs to purchase 40,000 shares of Common Stock at the reported closing price of the Common Stock on the date of each Non-Employee Director s initial election to the board of directors. On the date of each annual meeting of the stockholders of the Company, each Non-Employee Director who is re-elected or continues to serve as a director because his or her term has not expired shall be automatically granted NQSOs to purchase 40,000 shares of Common Stock in consideration of the Non-Employee Director s service on the board, provided that no such automatic grant shall be made to a Non-Employee Director who is first elected to the board of directors at the first such meeting or was first elected to the board of directors within three months prior to such annual meeting. These stock options vest monthly over a two year period from the date of grant and expire ten years from the date of grant. The board of directors amended the Plan in February 2001 to increase this amount from 10,000 shares to 40,000 shares.

In addition, in May 2001, the board of directors amended the Plan to provide that each Non-Employee Director will receive an the automatic grant of NQSOs to purchase 5,000 shares of Common Stock at the reported closing price of the Common Stock on the date of each Non-Employee Director s initial appointment to a committee of the board of directors. On the date of each annual meeting of the stockholders of the Company, each Non-Employee Director who continues on such committee shall be automatically granted NQSOs to purchase 5,000 shares of Common Stock in consideration of the Non-Employee Director s service on the committee, provided that no such automatic grant shall be made to a Non-Employee Director who was first appointed to the committee within three months prior to such annual meeting. These stock options vest monthly over a two year period from the date of grant and expire ten years from the date of grant.

The Plan also provides that each Non-Employee Director may also be granted additional stock options at the discretion of the board of directors; provided, however, that during any calendar year, stock options for no more than 500,000 shares of Common Stock may be granted to any individual Non-Employee Director. The terms of such

discretionary stock option grants shall be determined by the board of directors.

The following table furnishes information on grants of options outstanding since December 31, 2000 under the Plan. The grants to Dr. Calhoun and Dr. Abdelmonem are contingent on stockholder approval of Proposal 3. If the stockholders do not approve Proposal 3, the grants to Dr. Calhoun and Dr. Abdelmonem will lapse. If the stockholders do approve Proposal 3, the persons listed in the table below will also be eligible for additional grants of stock options and/or DSUs, but the amounts and terms of such grants are not presently known.

New Plan Benefits

Illinois Superconductor Corporation 1993 Stock Option Plan

Name And Position	No. of Stock Options
Amr Abdelmonem, Chief Technology Officer	800,000
All Current Executive Officers as a Group	2,450,000(1)
All Current Directors Who Are Not Executive Officers as a Group	370,000(2)
All Employees Excluding Executive Officers as a Group	744,000

(1) An aggregate of 1,650,000 shares may be allocated to certain Named Executive Officers.

(2) An aggregate of 200,000 shares may be allocated to a director of the Company.

Effect of Federal Income Taxation. Stock options granted under the Plan may be either incentive stock options intended to qualify under Section 422 of the Code (ISOs) or NQSOs. The following summary of tax consequences with respect to the DSUs and stock options that may be granted under the Plan is not comprehensive and is based upon laws and regulations in effect on April 1, 2001. Such laws and regulations are subject to change.

There are generally no federal income tax consequences either to the option holder or to the Company upon the grant of a stock option. On exercise of an ISO, the option holder will not recognize any income, and the Company will not be entitled to a deduction for tax purposes, although such exercise may give rise to liability for the option holder under the alternative minimum tax provisions of the Code. Generally, if the option holder disposes of shares acquired upon exercise of an ISO within two years of the date of grant or one year of the date of exercise, the option holder will recognize compensation income and the Company will then be entitled to a deduction for tax purposes in the amount of the excess of the fair market value of the shares on the date of exercise over the option exercise price (or the gain on sale, if less). Otherwise, the Company will not be entitled to any deduction for tax purposes upon disposition of such shares, and the entire gain for the option holder will be treated as a capital gain. On exercise of a NQSO, the amount by which the fair market value of the shares on the date of exercise exceeds the option exercise price will generally be taxable to the option holder as compensation income and will generally be deductible for tax purposes by the Company. The dispositions of shares acquired upon exercise of a NQSO will generally result in a capital gain or loss for the option holder, but will have no tax consequences for the Company. See Report of Compensation Committee for the description of the implications of Section 162(m) of the Code.

Under Federal tax law, there are generally no Federal income tax consequences to employees of the Company due to the grant of DSUs. In the absence of a deferral election, the employee will generally recognize compensation income when the employee s right to the shares of Common Stock to which the DSUs relate are no longer subject to a substantial risk of forfeiture. The amount of compensation income the officer recognizes is equal to the fair market value of the shares that cease to be subject to a substantial risk of forfeiture as of the date the risk of forfeiture lapses. If, however, the employee elects to defer receipt of all or any portion of such shares subject to DSUs in accordance with the provisions of the Plan, the employee will not recognize compensation income until the employee receives the shares. The amount of compensation income recognized with respect to any shares subject to DSUs deferred under the Plan will equal the fair

market value of the shares at the time the employee receives the shares. Subject to limitations under Code Section 162(m) of the Code (discussed below), the Company will be entitled to a tax deduction at the time and in the amount that the employee recognizes compensation income. The employee s basis in any shares of Common Stock received with respect to DSUs granted under the Plan will equal the amount of compensation income recognized by the employee and the employee s holding period on any shares received will begin when the employee receives the shares.

Social Security and Medicare taxes with respect to the DSUs are payable at the time the DSUs are no longer subject to a substantial risk of forfeiture even if the employee elects to defer receipt of the shares. The amount of compensation taken into account for purposes of Social Security and Medicare taxes will equal the fair market value of the shares of Common Stock as of the date on which the risk of forfeiture with respect to such shares lapses. The amount of annual compensation that is subject to Social Security taxes is limited to $80,400 in 2001 (subject to cost of living increases in later years). There is no limit on the amount of compensation subject to Medicare taxes. Neither DSUs nor the delivery of Common Stock with respect to DSUs will be subject to Social Security or Medicare taxes attributable to any period after the DSUs vest.

Section 162(m) the Internal Revenue Code limits the deductibility of compensation in excess of $1,000,000 paid to the chief executive officer of the Company or to one of the next-four highest paid executive officers of the Company, unless the excess compensation is considered to be performance-based. Among other requirements contained in Section 162(m), the material terms of a compensation plan in which such officers participate, including the number of shares available for grant and the number of shares that may be issued to one person, must be approved by stockholders for awards or compensation provided under the plan to be considered performance based. The Company believes that its deductions for amounts paid pursuant to ISOs and NQSOs granted under the Plan will not be limited by Section 162(m) because such awards qualify as performance-based compensation. However, the shares issued in respect of DSUs will not qualify as performance-based compensation for purposes of 162(m) and will be subject to the limits of Section 162(m). If a disqualified individual (i.e., an officer, stockholder or highly compensated individual) receives any payments or rights (including payments under a DSU Agreement) which are contingent upon a change of control , such payments may constitute excess parachute payments under Section 2080G of the Code. A disqualified individual will be subject to an excise tax (in addition to ordinary income tax liability) on the amount of such excess parachute payments and the Company will not be allowed to deduct such excess parachute payments. Payments under the DSU Agreements will be considered contingent on a change of control to the extent that the change of control accelerates the vesting of DSUs.

PROPOSAL 4

RATIFICATION OF APPOINTMENT OF AUDITORS

The board of directors, upon the recommendation of the Audit Committee, has appointed Grant Thornton LLP (Grant Thornton), independent certified public accountants, as auditors of the Company s financial statements for 2001. Grant Thornton has acted as auditors for the Company since December 2000.

The board of directors has determined to afford stockholders the opportunity to express their opinions on the matter of auditors, and, accordingly, is submitting to the stockholders at the Annual Meeting a proposal to ratify the board of directors appointment of Grant Thornton. If a majority of the shares voted at the Annual Meeting, in person or by proxy, are not voted in favor of the ratification of the appointment of Grant Thornton, the board of directors will interpret this as an instruction to seek other auditors.

Change in Accountants. On December 7, 2000, the Company informed its independent accountants, Ernst & Young LLP (E&Y), that the Company intended to retain a different firm of independent auditors for the audit of its financial statements for the fiscal year ended December 31, 2000. E&Y previously audited the financial statements of the Company for the years ended December 31, 1998 and 1999.

E&Y s report on the Company s financial statements for the periods ended December 31, 1998 and December 31, 1999 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the reports had an explanatory paragraph which stated that, because of the Company s history of operating losses and because of its need to obtain additional financing, the financial statements of the Company had been prepared assuming that the Company would continue as a going concern. In addition, during its audits for the fiscal years ended December 31, 1998 and 1999, (i) there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to E&Y s satisfaction, would have caused E&Y to make reference to the subject matter of such disagreements in their reports, and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K under the Exchange Act.

The Company s Audit Committee and board of directors authorized the dismissal of E&Y and retention of Grant Thornton to audit the Company s financial statements for the fiscal year ended December 31, 2000. The Company retained Grant Thornton as its independent accountants effective December 7, 2000.

Grant Thornton has examined the financial statements of the Company for the year 2000. No change in independent public accountants is contemplated for 2001. The Company expects representatives of Grant Thornton to be present at the Annual Meeting and to be available to respond to appropriate questions from stockholders. The representatives of Grant Thornton will have the opportunity to make a statement at the meeting if they desire to do so.

Fees Paid to Independent Accountants

Audit Fees(1)	$96,923
Financial Information Systems Design and Implementation Fees	$0
All Other Fees(2)	$38,065
Total	$134,988

(1) Audit fees billed by Grant Thornton LLP consisted of the examination of the Company s annual report on Form 10-K and totaled $66,500. Audit fees billed by Ernst & Young LLP, the Company s former accountants,

consisted of the examination of the Company s quarterly reports on Form 10-Q and other SEC filings and totaled $30,423.

(2) All Other Fees by Grant Thornton LLP for non-audit services, including tax related services, totaled $20,000 and by Ernst &Young LLP for all other non-audit services rendered to the Company, including tax related services, totaled $18,065.

Vote Required. The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the meeting and entitled to vote on the matter is required to ratify the appointment of Grant Thornton LLP as the Company s independent auditors.

Recommendation of the Board of Directors **The board of directors recommends that the stockholders vote FOR the ratification of the appointment of Grant Thornton LLP as independent auditors of the Company s financial statements for the fiscal year ending December 31, 2001.**

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of Common Sock as of April 30, 2001, except as otherwise indicated in the relevant footnote, by (1) each person or group that the Company knows beneficially owns more than 5% of Common Stock, (2) each of the Company s directors and director nominees, (3) the Named Executive Officers, and (4) all current executive officers and directors as a group. Unless otherwise indicated, the address of each person identified below is c/o the Company at its principal executive offices.

The percentages of beneficial ownership shown below are based on 107,751,614 shares of Common Stock outstanding as of April 30, 2001, unless otherwise stated. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes those securities over which a person may exercise voting or investment power. In addition, shares of Common Stock which a person has the right to acquire upon the exercise of stock options and/or warrants within 60 days of the date of this table are deemed outstanding for the purpose of computing the percentage ownership of that person, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated in the footnotes to this table or as affected by applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.

Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class
5% Stockholders		
Alexander Finance, L.P.	31,032,780(1)	28.8%
Elliott Associates, L.P.	19,900,979(2)	18.5%
Elliott International, L.P.	19,900,974(2)	18.5%
Directors and Named Executive Officers		
George M. Calhoun		

	360,000(3)	*
Dennis M. Craig	225,290(4)	*
Amr Abdelmonem	165,775(5)	*
Tom L. Powers	122,400(6)	*
Howard S. Hoffmann	110,666(7)	*
Mark D. Brodsky	55,000(7)(8)	*
Cynthia Quigley	30,000(7)	*
Daniel Spoor	15,000(7)(9)	*
Charles F. Willes	8,000	*
Norbert Lou	5,000(7)(8)	
All directors and executive officers as a group (13 persons)	1,192,567(10)	1.1%

* Less than 1%.

(1) The address for Alexander Finance, L.P. is 1560 Sherman Avenue Evanston, IL 60201.

(2) As reflected in a Schedule 13D/A dated January 18, 2001. The address of Elliott Associates L.P. and Elliott International, L.P. is c/o Elliot International Capital Advisors, Inc. 712 Fifth Avenue New York, New York 10019.

(3) Includes outstanding options to purchase 150,000 shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

(4) Includes 13,000 shares of Common Stock of which Mr. Craig shares investment and voting power and outstanding options to purchase 200,290 shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

(5) Includes outstanding options to purchase 125,775 shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

(6) Includes outstanding options to purchase 120,000 shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

(7) Represents the total number of outstanding options to purchase shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

(8) Messrs. Brodsky and Lou provide management services to Elliott Associates, L.P. and Elliott International, L.P., each of whom beneficially own 19,900,979 and 19,900,974, respectively. See note 2 above.

(9) Does not include 2,500,000 shares of Common Stock held by Mr. Spoor s employer, Lockheed Martin Canada

Inc.. Mr. Spoor does not having voting and or dispositive control over such shares held by Lockheed Martin Canada Inc. and Mr. Spoor disclaims beneficial ownership of such shares.

(10) Includes outstanding options to purchase 814,598 shares, which were exercisable as of April 30, 2001, or within 60 days from such date.

MISCELLANEOUS AND OTHER MATTERS

Solicitation. The cost of this proxy solicitation will be borne by the Company. The regular employees of the Company may solicit proxies in person or by telephone or facsimile. The Company may request banks, brokers, fiduciaries, custodians, nominees and certain other record holders to send proxies, proxy statements and other materials to their principals at the Company s expense. Such banks, brokers, fiduciaries, custodians, nominees and other record holders will be reimbursed by the Company for their reasonable out-of-pocket expenses of solicitation.

Stockholder Proposals for 2002 Annual Meeting. The Company intends to mail next year s proxy statement to our stockholders on or about May 15, 2002. Applicable law requires any stockholder proposal intended to be presented at our 2002 Annual Meeting of Stockholders to be received by us at our executive offices in Mt. Prospect, Illinois on or before December 15, 2001 in order to be considered for inclusion in our proxy statement and form of proxy for that annual meeting.

On May 21, 1998, the Securities and Exchange Commission adopted an amendment to Rule 14a-4, issued under the Securities Exchange Act of 1934. The amendment to Rule 14a-4(c)(1) governs a company s use of discretionary proxy voting authority for a stockholder proposal which the stockholder has not sought to include in our proxy statement. The amendment provides that if a proponent of a proposal fails to notify a company at least 45 days prior to the month and day of mailing of the prior year s proxy statement (or any date specified in an advance notice provision), then the management proxies will be allowed to use their discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement.

With respect to the Company s 2002 Annual Meeting of Stockholders, if the Company is not provided notice of a stockholder proposal, which the stockholder has not previously sought to include in the Company s proxy statement, by April 7, 2002, the management proxies will be allowed to use their discretionary authority.

Other Business. The board of directors is not aware of any other matters to be presented at the Annual Meeting other than those mentioned in the Company s Notice of Annual Meeting of Stockholders enclosed herewith. If any other matters are properly brought before the Annual Meeting, however, it is intended that the persons named in the proxy will vote as the board of directors directs.

By Order of the Board of Directors,

/s/ Charles F. Willes
By: Charles F. Willes
Secretary

Mt. Prospect, Illinois
May 21, 2001

ILLINOIS SUPERCONDUCTOR CORPORATION

AUDIT COMMITTEE

(Reaffirmed March 15, 1999)

Committee Composition

The Audit Committee shall consist of at least two directors who are not employees of the Company. Board Directors are assigned to the Audit Committee from time to time by resolution of the full Board.

Committee Responsibilities

The Audit Committee has the following responsibilities:

Recommending the selection of independent auditors to the Board.

Reviewing with the independent auditors, prior to the commencement of or during the audit for each fiscal year, the scope of the examination to be made.

Reviewing with the independent auditors the certified financial reports, any changes in accounting policies, the services rendered by such auditors (including management consulting services) and the effect of such services on the independence of such auditors.

Reviewing the Company s audit and control functions.

Considering such other matters relating to the audits for each fiscal year and to the accounting procedures employed by the Company as the Audit Committee may deem appropriate.

Oversight of the Company s Insider Trading Policy.

Reporting to the full Board regarding all of the foregoing.

APPENDIX B

CERTIFICATE OF AMENDMENT

TO
CERTIFICATE OF INCORPORATION
OF
ILLINOIS SUPERCONDUCTOR CORPORATION

ILLINOIS SUPERCONDUCTOR CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the Corporation), **DOES HEREBY CERTIFY**:

FIRST: That, at a meeting held on May 2, 2001 in accordance with Section 141(b) of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted a resolution setting forth the proposed Amendment to Certificate of Incorporation set forth below (the Amendment), declaring its advisability, and submitting it to the stockholders entitled to vote in respect thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that Article 1 of the Certificate of Incorporation, as amended, of the Corporation is hereby amended in its entirety to read as follows:

The name of the Corporation is ISCO International, Inc. (the Corporation).

SECOND: That, an annual meeting of stockholders was duly called and held on June 22, 2001, upon written notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the holders of a majority of the outstanding stock entitled to vote thereon, and a majority of the outstanding stock of each class entitled to vote thereon as a class, voted in favor of the adoption of the Amendment.

THIRD: That the Amendment has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to Certificate of Incorporation to be signed by its Chief Executive Officer and attested by its Secretary, all on , 2001.

Illinois Superconductor Corporation

By: _____

George C. Calhoun
Chief Executive Officer

ATTEST:

_____

APPENDIX C

Amendments to the

Illinois Superconductor Corporation
1993 Stock Option Plan

Section 3 of the Illinois Superconductor Corporation 1993 Stock Option Plan is hereby amended in its entirety to read as follows:

3. Scope of Plan. Subject to the provisions of Section 11 of this Plan, and unless otherwise amended by the Board and approved by the stockholders of the Corporation as required by law, the maximum aggregate number of Shares issuable under this Plan is 14,011,468, and such Shares are hereby made available and shall be reserved for issuance under this Plan.

If an Option shall expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares subject thereto shall (unless this Plan shall have terminated) become available for grants of Options and DSUs under this Plan. If any DSUs granted under this Plan are forfeited, the Shares subject to such forfeited DSUs shall (unless the Plan shall have terminated) become available for grants of Options and DSUs under this Plan.

Section 5(a) of the Illinois Superconductor Corporation 1993 Stock Option Plan is hereby amended in its entirety to read as follows:

(a) DSUs may be granted to any Employee and Options may be granted to any Employee, Consultant or Outside Director as the Committee may from time to time designate, provided that (i) Incentive Stock Options may be granted only to Employees, and (ii) Options may be granted to Outside Directors only in accordance with the provisions of Section 5(b) below. In selecting the individuals to whom Options and DSUs shall be granted, as well as in determining the number of Options and DSUs granted, the Committee shall take into consideration such factors as it deems relevant in connection with accomplishing the purpose of this Plan. Subject to the provisions of Section 3 above a Grantee may, if he or she is otherwise eligible, be granted additional Options and/or DSUs if the Committee shall so determine. Subject to adjustment as provided in Section 11 below, during any calendar year, Options for no more than (i) 1,500,000 Shares of Common Stock shall be granted to any individual Employee, (ii) 500,000 Shares of Common Stock Shall be granted to any individual Consultant or Outside Director, and (iii) DSUs for no more than 150,000 Shares of Common Stock shall be granted to any individual Employee.

APPENDIX D

ILLINOIS SUPERCONDUCTOR CORPORATION

a Delaware corporation

1993 Stock Option Plan

(as amended through May 2, 2001)

1. Purpose. The purposes of this Amended and Restated Plan are to attract and retain the best available personnel, to provide additional incentive to the Employees, Consultants and Outside Directors of Illinois Superconductor Corporation, a Delaware corporation (the Company), and to promote the success of the Company s business.

Options granted hereunder may, consistent with the terms of this Plan, be either Incentive Stock Options or Nonstatutory Stock Options, at the discretion of the Committee and as reflected in the terms of the written option agreement.

2. Definitions. As used in this Plan, the following definitions shall apply:

(a) Board means the Board of Directors of the Company.

(b) Cause means any of the following: (i) willful malfeasance or willful misconduct by the Employee or Consultant in connection with his or her employment; (ii) gross negligence in performing any of the Employee s or Consultant s duties to the Company; (iii) conviction of, or entry of a plea of guilty to, or entry of a plea of nolo contendere with respect to, any crime other than a traffic violation or infraction which is a misdemeanor; or (iv) willful and continuing breach of any written policy applicable to all employees adopted by the Company concerning conflicts of interest, political contributions, standards of business conduct or fair employment practices, procedures with respect to compliance with securities laws or any similar matters, or adopted by the Company pursuant to the requirements of any government contract or regulation.

(c) Code means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder.

(d) Committee means the Committee appointed by the Board or otherwise determined in accordance with Section 4(a) of this Plan.

(e) Common Stock means the common stock of the Company, par value $.001 per share.

(f) Consultant means any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services; provided that the term Consultant shall not include directors who are not compensated for their services or are paid only a director s fee by the Company.

(g) Continuous Status as an Employee, Consultant or Outside Director means the absence of any interruption or termination of service as an Employee, Consultant or Outside Director, as applicable. Continuous Status as an Employee, Consultant or Outside Director shall not be considered interrupted in the case of sick leave or military leave, any other leave provided pursuant to a written policy of the Company in effect at the time of determination, or any other leave of absence approved by the Board or the Committee; provided that such leave is for a period of not more than the greatest of (i) 90 days, (ii) the date of the resumption of such service upon the expiration of such leave which is guaranteed by contract or statute or is provided in a written policy of the Company which was in effect upon the commencement of such leave, or (iii) such period of leave as may be determined by the Board or the Committee in its sole discretion.

(h) Disinterested Person shall have the meaning set forth in Rule 16b-3(d)(3), or any successor definition adopted by the Commission, provided the person is also an outside director under Section 162(m) of the Code.

(i) DSU means a deferred stock unit granted pursuant to this Plan.

(j) Employee means any person employed by the Company or any Parent or Subsidiary of the Company, including employees who are also officers or directors or both of the Company or any Parent or Subsidiary of the Company. The payment of a director s fee by the Company shall not be sufficient to constitute employment by the Company.

(k) Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations promulgated thereunder.

(l) Good Reason means any of the following: (i) any change in, or diminution of, the Employee s or Consultant s duties or responsibilities that is inconsistent in any material and adverse respect with such person s duties and responsibilities with the Company immediately prior to the Change of Control; (ii) any reduction in the Employee s or Consultant s base salary or annual target bonus opportunity as in effect immediately prior to the Change of Control; or (iii) any requirement that the Employee or Consultant relocate his or her principal office to a location that is more than 35 miles from such person s principal office immediately prior to the Change of Control. No action taken by the Company in good-faith shall constitute Good Reason unless the Employee or Consultant provides the Chief Executive Officer of the Company and the Committee with a written notice describing the action(s) that the Employee or Consultant believes to constitute Good Reason and the Company fails to remedy such action(s) within 30 days after the Chief Executive Officer of the Company and the Committee receive such written notice.

(m) Grantee means an Employee, Consultant or Outside Director who receives an Option or an Employee who receives a Deferred Stock Unit (a DSU).

(n) Incentive Stock Option means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, and the rules and regulations promulgated thereunder.

(o) Nonstatutory Stock Option means an Option not intended to qualify as an Incentive Stock Option.

(p) Option means a stock option granted pursuant to this Plan.

(q) Optioned Stock means the Common Stock subject to an Option.

(r) Outside Director means any member of the Board of Directors of the Company who is not an Employee or Consultant.

(s) Parent means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) Plan means this Illinois Superconductor Corporation Plan, as amended from time to time.

(u) Rule 16b-3 means Rule 16b-3, as promulgated by the Securities and Exchange Commission under Section 16(b) of the Exchange Act, as such rule is amended from time to time and as interpreted by the Securities and Exchange Commission.

(v) Share means a share of the Common Stock, as adjusted in accordance with Section of this Plan.

(w) Subsidiary means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Scope of Plan. Subject to the provisions of Section 11 of this Plan, and unless otherwise amended by the Board and approved by the stockholders of the Company as required by law, the maximum aggregate number of Shares issuable under this Plan is 6,011,468, and such Shares are hereby made available and shall be reserved for issuance under this Plan.

If an Option shall expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares subject thereto shall (unless this Plan shall have terminated) become available for grants of Options and DSUs under this Plan. If any DSUs granted under this Plan are forfeited, the Shares

subject to such forfeited DSUs shall (unless the Plan shall have terminated) become available for grants of Options and DSUs under this Plan.

4. Administration of Plan.

(a) Procedure. This Plan shall be administered by the Committee appointed pursuant to this Section 4(a). The Committee shall consist of two or more Outside Directors appointed by the Board, but all Committee members must be Disinterested Persons. If the Board fails to appoint such persons, the Committee shall consist of all Outside Directors who are Disinterested Persons.

(b) Powers of Committee. Subject to Section 5(b) below and otherwise subject to the provisions of this Plan, the Committee shall have full and final authority in its discretion to: (i) grant Incentive Stock Options, Nonstatutory Stock Options and DSUs, (ii) determine, upon review of relevant information and in accordance with Section 8 below, the Fair Market Value of the Common Stock; (iii) determine the exercise price per share of Options to be granted, in accordance with this Plan, (iv) determine the Employees and Consultants to whom, and the time or times at which, Options and DSUs shall be granted, and the number of shares to be represented by each Option or DSU; (v) cancel, with the consent of the Grantee, outstanding Options and grant new Options in substitution therefor; (vi) interpret this Plan; (vii) accelerate or defer (with the consent of the Grantee) the exercise date of any Option or the vesting date of any DSU; (viii) prescribe, amend and rescind rules and regulations relating to this Plan; (ix) determine the terms and provisions of each Option and DSU granted (which need not be

identical) by which Options and DSUs shall be evidenced and, with the consent of the holder thereof, modify or amend any provisions (including without limitation provisions relating to the exercise price of any Option and the obligation of any Grantee to sell purchased or granted Shares to the Company upon specified terms and conditions) of any Option or DSU; (x) require withholding from or payment by a Grantee of any federal, state or local taxes; (xi) appoint and compensate agents, counsel, auditors or other specialists as the Committee deems necessary or advisable; (xii) correct any defect or supply any omission or reconcile any inconsistency in this Plan and any agreement relating to any Option or DSU, in such manner and to such extent the Committee determines to carry out the purposes of this Plan, and; (xiii) construe and interpret this Plan, any agreement relating to any Option or DSU, and make all other determinations deemed by the Committee to be necessary or advisable for the administration of this Plan.

A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present, or acts unanimously approved in writing by the entire Committee without a meeting, shall be the acts of the committee. Except as provided in Section 5(b), a member of the Committee shall not participate in any decisions with respect to himself under this Plan.

(c) Effect of Committee s Decision. All decisions, determinations and interpretations of the Committee shall be final and binding on all Grantees and any other holders of any Options or DSUs granted under this Plan.

5. Eligibility.

(a) DSUs may be granted to any Employee and Options may be granted to any Employee, Consultant or Outside Director as the Committee may from time to time designate, provided that (i) Incentive Stock Options may be granted only to Employees, and (ii) Options may be granted to Outside Directors only in accordance with the provisions of Section 5(b) below. In selecting the individuals to whom Options and DSUs shall be granted, as well as in determining the number of Options and DSUs granted, the Committee shall take into consideration such factors as it deems relevant in connection with accomplishing the purpose of this Plan. Subject to the provisions of Section 3 above a Grantee may, if he or she is otherwise eligible, be granted additional Options and/or DSUs if the Committee shall so determine. Subject to adjustment as provided in Section 11 below, during any calendar year, Options for no more than 500,000 Shares of Common Stock shall be granted to any individual Employee, Consultant or Outside Director, and DSUs for no more than 150,000 Shares of Common Stock shall be granted to any individual Employee.

(b) All grants of Options to Outside Directors under this Plan shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted options; provided, that nothing in this Plan shall be construed to prevent an Outside Director from declining to receive an Option under this Plan.

(ii) Each Outside Director who is first elected to the Board after the adoption of this Plan shall be automatically granted on the date of such election (whether by the stockholders or by the Board of Directors) an Option to purchase 40,000 Shares (subject to adjustment as provided in Section 11 below) and each Outside Director who is first elected to a committee of the Board after the adoption of this Plan shall be automatically granted on the date of such election an Option to purchase 5,000 Shares per committee (subject to adjustment as provided in Section 11 below). On the date of the Annual Meeting of Stockholders of the Corporation in each calendar year (i) each Outside Director who is reelected at that meeting, or whose term of office does not expire at that meeting, shall be automatically granted an option to purchase 40,000 Shares (subject to adjustment as provided in Section 11 below) and (ii) each Outside Director who is serving on a committee shall be automatically granted an option to purchase 5,000 Shares

per committee (subject to adjustment as provided in Section 11 below); provided that no such automatic annual grant shall be made to an Outside Director (i) who is first elected to the Board or a committee at or immediately following such Annual Meeting or was first elected to the Board or a committee within three months prior to such Annual Meeting, or (ii) if there are not sufficient Shares remaining and available to all Outside Directors eligible for an automatic grant at the time at which an automatic annual grant would otherwise be made under this Section 5(b)(ii).

(iii) The terms of each Option granted under this Section 5(b)(ii) above shall be as follows:

(A) the term of the option shall be ten (10) years;

(B) the Option shall become exercisable cumulatively with respect to one-third of the Shares on each of the first, second and third anniversaries of the date of grant; provided, however, that in no event shall any option be exercisable prior to obtaining stockholder approval of this Plan; and

(C) the exercise price per share of Common Stock shall be 100% of the Fair Market Value (as defined in Section 7(b) below) on the date of grant of the Option.

(iv) Subject to the limitation set forth in Section 5(a) above, each Outside Director may be granted additional Options at the discretion of the Board. Subject to the provisions of this Plan, the terms of such discretionary Options shall be set forth in the Option agreement.

Notwithstanding anything to the contrary herein, no automatic grants of options shall be made under the Plan during the period commencing on November 5, 1999 and ending on the date of effectiveness, if any, of an amendment to the Corporation s Certificate of Incorporation providing for at least 120 million authorized shares of Common Stock, provided, however, that, in the event of adoption of such an amendment, any such automatic grants that would otherwise have been made during such period shall be made on the first business day following the effective date of the aforementioned amendment.

(c) Each Option granted under Section 5(b) above shall be a Nonstatutory Stock Option. Each other Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. Notwithstanding such designations, if and to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Grantee during any calendar year (under all plans of the Company) exceeds $100,000, such options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(c), Options shall be taken into account in the order in which they are granted, and the Fair

Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(d) This Plan shall not confer upon any Grantee any right with respect to continuation of employment by or the rendition of services to the Company or any Parent or Subsidiary, nor shall it interfere in any way with his or her right or the right of the Company or any Parent or Subsidiary to terminate his or her employment or services at any time, with or without cause. The terms of this Plan or any Options or DSUs granted hereunder shall not be construed to give any Grantee the right to any benefits not specifically provided by this Plan or in any manner modify the Company s right to modify, amend or terminate any of its pension or retirement plans.

6. Term of Plan. This Plan shall become effective upon the later to occur of its adoption by the Board of Directors of the Company (such adoption to include the approval of at least two Outside Directors) or its approval by vote of the holders of a majority of the outstanding shares of the Company entitled to vote on the adoption of this Plan, and shall terminate no later than August 31, 2003. No grants shall be made under this Plan after the date of termination of this

Plan. Any termination, either partially or wholly, shall not affect any Options then outstanding under this Plan.

7. Exercise Price; Consideration and Tax Withholding.

(a) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Committee as follows:

(i) In the case of an Incentive Stock Option granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant, but if granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(ii) In the case of an Incentive Stock Option granted to any person other than an Outside Director, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant, but if granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant. The exercise price of Options granted pursuant to Section 5(b) above shall be 100% of the Fair Market Value on the date of grant of the Option.

For purposes of this Section 7(a), if an Option is amended to reduce the exercise price, the date of grant of such option shall thereafter be considered to be the date of such amendment.

(iii) With respect to (i) or (ii) above, the per Share exercise price is subject to adjustment as provided in Section 11 below.

(b) Fair Market Value. The Fair Market Value of the Common Stock shall be determined by the Committee in its discretion; provided, that if the Common Stock is listed on a stock exchange, the Fair Market Value per Share shall be the closing price on such exchange on the date of grant of the Option as reported in the Wall Street Journal (or, (i) if not so reported, as otherwise reported by the exchange, and (ii) if not reported on the date of grant, then on the last prior date on which a sale of the Common Stock was reported); or if not listed on an exchange but traded on the National Association of Securities Dealers Automated Quotation National Market System (NASDAQ), the Fair Market Value per Share shall be the closing price per share of the Common Stock for the date of grant, as reported in the Wall Street Journal (or, (i) if not so reported, as otherwise reported by NASDAQ, and (ii) if not reported on the date of grant, then on the last prior date on which a sale of the Common Stock was reported); or, if the Common Stock is otherwise publicly traded, the mean of the closing bid price and asked price for the last known sale.

(c) Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Committee (and in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (i) cash; (ii) check; (iii) the Grantee s personal interest bearing full recourse promissory note with such terms and provisions as the Committee may authorize (provided that no person who is not an Employee of the Company may purchase Shares with a promissory note); (iv) other Shares of Common Stock which (X) either have been owned by the Grantee for more than six (6) months on the date of surrender or were not acquired directly or indirectly from the Company, and (Y) have a Fair Market Value on the date of surrender (determined without regard to any limitations on transferability imposed by securities laws) equal to the aggregate exercise price of the Shares as to which said

Option shall be exercised; (v) any combination of such methods of payment; or (vi) such other consideration and method of payment for the issuance of Shares to the extent permitted under applicable laws.

(d) Withholding. No later than the date as of which an amount first becomes includable in the gross income of the Grantee for Federal income tax purposes with respect to an option, the Grantee shall pay to the Company (or other entity identified by the Committee), or make arrangements satisfactory to the Company or other entity identified by the Committee regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount required in order for the Company to obtain a current deduction. Unless otherwise determined by the Committee, withholding obligations may be settled with Common Stock, including Common Stock underlying the subject option, provided that any applicable requirements under Section 16 of the Exchange Act are satisfied so as to avoid liability thereunder. The obligations of the Company under this Plan shall be conditional upon such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Grantee.

8. Options.

(a) Term of Option. The term of each Option granted (other than an Option granted under Section 5(b) above) shall be for a period of no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option agreement. However, in the case of an Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter time as may be provided in the Option Agreement.

(b) Exercise of Options.

(i) Procedure for Exercise; Rights as a Shareholder. Any Option granted under this Plan (other than an Option granted pursuant to Section 5(b) above) shall be exercisable at such times and under such conditions as determined by the Committee, including performance criteria with respect to the Company and/or the Grantee, and as shall otherwise be permissible under the terms of this Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Committee, consist of any consideration and method of payment allowable under Section 7 of this Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option If the exercise of an Option is treated in part as the exercise of an

Incentive Stock Option and in part as the exercise of a Nonstatutory Stock Option pursuant to Section 5(b) above, the Company shall issue a separate stock certificate evidencing the Shares treated as acquired upon exercise of an Incentive Stock Option and a separate stock certificate evidencing the Shares treated as acquired upon exercise of a Nonstatutory Stock Option and shall identify each such certificate accordingly in its stock transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section of this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Method of Exercise. A Grantee may exercise an Option, in whole or in part, at any time during the option period by the Grantee s giving written notice of exercise on a form provided by the Committee (if available) to the Company specifying the number of shares of Common Stock subject to the Option to be purchased. Such notice shall be accompanied by payment in full of the purchase price by cash or check or such other form of payment as the Company may accept. If approved by the Committee, payment in full or in part may also be made (A) by delivering Common Stock already owned by the Grantee having a total Fair Market Value on the date of such delivery equal to the exercise price of the subject Option; (B) by the execution and delivery of a note or other evidence of indebtedness (and any security agreement thereunder) satisfactory to the Committee; (C) by authorizing the Company to retain shares of Common Stock which would otherwise be issuable upon exercise of the Option having a total Fair Market Value on the date of delivery equal to the exercise price of the subject Option; (D) by the delivery of cash by a broker-dealer to whom the Grantee has submitted an irrevocable notice of exercise (in accordance with Part 220, Chapter II, Title 12 of the Code of Federal Regulations, so-called cashless exercise); or (E) by any combination of the foregoing. In the case of an Incentive Stock Option, the right to make a payment in the form of already owned shares of Common Stock of the same class as the Common Stock subject to the Option may be authorized only at the time the Option is granted. No shares of Common Stock shall be issued until full payment therefor has been made. A Grantee shall have all of the rights of a shareholder of the Company holding the class of Common Stock that is subject to such Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the Grantee has given written notice of exercise, has paid in full for such shares and such shares have been recorded on the Company s official shareholder records as having been issued or transferred.

(iii) Termination of Status as an Employee, Consultant or Outside Director. If a Grantee s Continuous Status as an Employee, Consultant or Outside Director (as the case may be) is terminated for any reason whatever, such Grantee may, but only within such period of time as provided in the Option agreement, after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option agreement), exercise the Option to the extent that such Employee, Consultant or Outside Director was entitled to exercise it at the date of such termination pursuant to the terms of the Option agreement. To the extent that such Employee, Consultant or Outside Director was not entitled to exercise the Option at the date of such termination, or if such Employee, Consultant or Outside Director does not exercise such Option (which such Employee, Consultant or Outside Director was entitled to exercise) within the time specified in the Option agreement, the Option shall terminate.

(iv) Company Loan or Guarantee. Upon the exercise of any Option and subject to the pertinent Option agreement and the discretion of the Committee, the Company may at the request of the Grantee; (A) lend to the Grantee, with recourse, an amount equal to such portion of the option exercise price as the Committee may determine; or (B) guarantee a loan obtained by the Grantee from a third-party for the purpose of tendering the option exercise price.

9. Deferred Stock Units.

(a) Grant of Deferred Stock Units. Subject to such terms and conditions as the Committee shall determine, an Employee may be granted Deferred Stock Units (DSUs), entitling the Employee to receive Shares of Common Stock without any payment in cash or property in one or more installments at a future date or dates. DSUs shall be non-transferable and may be conditioned on such matters as the Committee shall determine, including continued

employment or attainment of performance goals. No Shares of Common Stock will be issued at the time an award of DSUs is made and the Company shall not be required to set aside a fund for the payment of any such award. The Company will establish a separate recordkeeping account for the Employee and will record in such account the number of DSUs awarded to the Grantee. The Committee may permit Grantees to further defer receipt of Shares of Common Stock payable with respect to DSUs.

(b) Rights as a Stockholder; Dividend Equivalents. A Grantee shall not have any right in respect of DSUs awarded pursuant to the Plan to vote on any matter submitted to the Company s stockholders until such time as the Shares of Common Stock attributable to such DSUs have been issued to such Grantee or his beneficiary. The Committee will determine whether and to what extent to pay dividend equivalents to Grantees of DSUs.

(c) Settlement of Deferred Stock. An Employee shall receive one share of Common Stock for each vested DSU on such date or dates and/or upon the occurrence of such event as the Committee may specify in the award agreement or on such later date as may be elected by the Grantee in a deferral election made accordance with the rules and procedures established by the Committee. If a Grantee s Continuous Status as an Employee is terminated for any reason, the Grantee shall immediately forfeit all rights with respect to any nonvested DSUs credited to his or her account.

10. Non-transferability of Options and DSUs. Except as otherwise provided in an Option Agreement, Options and DSUs granted hereunder shall by their terms not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution. Except as otherwise provided in an Option Agreement, an Option may be exercised during the Grantee s lifetime only by the Grantee.

11. Adjustments Upon Changes in Capitalization or Merger.

(a) Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock which have been authorized for issuance under this Plan but as to which no Options or DSUs have yet been granted or which have been returned to this Plan upon cancellation or expiration of an Option, or forfeiture of a DSU, the maximum number of Shares for which Options or DSUs may be granted to any Employee, Consultant or Outside Director during any calendar year (as provided in Section 5(a) above), and the number of shares of Common Stock subject to each outstanding Option and DSU, as well as the exercise price per share of Common Stock covered by each outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of shares of Common Stock issued as a result of a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock of the Company or the payment of a stock dividend with respect to the Common Stock. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of shares of Common Stock subject to an Option or DSU.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, each Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. The Committee may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Committee and give each Grantee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of a proposed dissolution or liquidation of the Company, each nonvested DSU shall be forfeited, unless otherwise provided by the

Committee, and the deferred Shares of Common Stock payable with respect to each vested DSU shall be issued to the Grantee immediately prior to the consummation of the proposed action notwithstanding any deferral election made by the Grantee.

(c) Change of Control. For purposes of this Plan, a Change of Control shall be deemed to have occurred if (i) if any corporation, person or other entity (other than the Company, a majority-owned subsidiary of the Company or any of its subsidiaries, or an employee benefit plan (or related trust) sponsored or maintained by the Company), including a group as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner of stock (other than as a result of a purchase of such stock from the Company) representing more than 25% of the combined voting power of the Company s then outstanding securities; (ii) (A) the stockholders of the Company approve a definitive agreement to merge or consolidate the Company with or into another corporation other than a majority-owned subsidiary of the Company, or to sell or otherwise dispose of all or substantially all of the Company s assets, and (B) the persons who were the members of the Board prior to such approval do not represent a majority of the directors of the surviving, resulting or acquiring entity or the parent thereof; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board. With respect to Options granted to any Employee or Consultant prior to February 15, 2000 and with respect to any Options granted to any Outside Director (whether granted before or after February 15, 2000), each such Option that is outstanding immediately prior to a Change of Control shall become exercisable in full regardless of any vesting conditions otherwise expressed in the award agreement. Except as otherwise provided in an award agreement with respect to Options or DSUs granted to an Employee or Consultant on or after February 15, 2000 and prior to a Change of Control, each such outstanding DSU shall vest, and each such outstanding Option shall become exercisable in full, regardless of any vesting conditions otherwise expressed in the award agreement, upon the Employee s or Consultant s termination of employment with the Company following the Change of Control of the Company if the Employee s or Consultant s employment is terminated by the Company without Cause or by the Employee or Consultant for Good Reason.

(d) Purchased Shares. No adjustment under this Section 11 shall apply to any purchased Shares already deemed issued at the time any adjustment would occur.

(e) Notice of Adjustments. Whenever the purchase price or the number or kind of securities issuable upon the exercise of the Option shall be adjusted pursuant to Section 11, the Company shall give each Grantee written notice setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, and the method by which such adjustment was calculated.

(f) Certain Cash Payments. If a Grantee would not be permitted to exercise an Option or any portion thereof (for purposes of this subsection (f) only, each such Option being referred to as a Subject Option) or dispose of the Shares received upon the exercise thereof without loss or liability (other than a loss or liability for the exercise price, applicable withholding or any associated transactional cost), or if the Board determines that the Grantee may not be permitted to exercise the same rights or receive the same consideration with respect to the sale of the Company as a shareholder of the Company with respect to any Subject Options or portion thereof or the Shares received upon the exercise thereof, then notwithstanding any other provision of this Plan and unless the Committee shall provide otherwise in an agreement with such Grantee with respect to any Subject Options, such Grantee shall have the right, whether or not the Subject Option is fully exercisable or may be otherwise realized by the Grantee, by giving notice during the 60-day period from and after a Sale to the Company, to elect to surrender all or part of any Subject Options to the Company and to receive cash, within 30 days of such notice, in an amount equal to the amount by which the Sale Price (as defined herein) per share of Common Stock on the date of such election shall exceed the amount which the Grantee must pay to exercise the Subject Options per share of Common Stock under such Subject Options (the Spread) multiplied by the

number of shares of Common Stock granted under the Subject Options as to which the right granted hereunder shall be applicable and shall have been exercised; provided, however, that if the end of such 60-day period from and after a sale of the Company is within six months of the date of grant of a Subject Option held by a Grantee (except a Grantee who has deceased during such six month period) who is an officer or director of the Company (within the meaning of Section 16(b) of the Exchange Act), such Subject Option shall be canceled in exchange for a payment to the Grantee, effective on the day which is six months and one day after the date of grant of such Subject Option, equal to the Spread multiplied by the number of shares of Common Stock granted under the Subject Option. With respect to any Grantee who is an officer or director of the Company (within the meaning of Section 16(b) of the Exchange Act), the 60-day period shall be extended, if necessary, to include the window period of Rule 16(b)-3 which first commences on or after the date of the sale of the Company, and the Committee shall have sole discretion, if necessary, to approve the Grantee s exercise hereunder and the date on which the Spread is calculated may be adjusted, if necessary, to a later date if necessary to avoid liability to such Grantee under Section 16(b). For purposes of the Plan, Sale Price means the higher of (a) the highest reported sales price of a share of Common Stock in any transaction reported on the principal exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a sale of the Company or (b) if the sale of the Company is the result of a tender or exchange offer or a corporate transaction, the highest price per share of Common Stock paid in such tender or exchange offer or a corporate transaction, except that, in the case of Incentive Stock Options, such price shall be based only on the Fair Market Value of the Common Stock on the date such Incentive Stock Option is exercised. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in the sole discretion of the Committee.

(g) Mitigation of Excise Tax. If any payment or right accruing to a Grantee under this Plan (without the application of this Section), either alone or together with other payments or rights accruing to the Grantee from the Company or an affiliate (Total Payments) would constitute a parachute payment (as defined in Section 280G of the Code and regulations thereunder), the Committee may in each particular instance determine to (a) reduce such payment or right to the largest amount or greatest right that will result in no portion of the amount payable or right accruing under the Plan being subject to an excise tax under Section 4999 of the Code or being disallowed as a deduction under Section 280G of the Code, or (b) take such other actions, or make such other arrangements or payments with respect to any such payment or right as the Committee may determine in the circumstances. Any such determination shall be made by the Committee in the exercise of its sole discretion, and such determination shall be conclusive and binding on the Grantee. The Grantee shall cooperate as may be requested by the Committee in connection with the Committee s determination, including providing the Committee with such information concerning such Grantee as the Committee may deem relevant to its determination.

12. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Committee makes the determination granting such Option. Notice of the determination shall be given to each Employee, Consultant or Outside Director to whom an Option is so granted within a reasonable time after the date of such grant. If the Committee cancels, with the consent of Grantee, any Option granted under this Plan, and a new Option is substituted therefor, the date that the canceled Option was originally granted shall be the date used to determine the earliest date for exercising the new substituted Option under Section 7 so that the Grantee may exercise the substituted Option at the same time as if the Grantee had held the substituted Option since the date the canceled Option was granted.

13. Amendment and Termination of Plan.

(a) Amendment and Termination. The Board or the Committee may amend, waive or terminate this Plan from time to time in such respects as it shall deem advisable; provided that, to the extent necessary to comply with the applicable rules and regulations of the stock exchange or market on which the Common Stock is then listed for trading or with Section 422 of the Code (or any successor or

applicable law or regulation), the Company shall obtain stockholder approval of any Plan amendment in such manner and to such a degree as is required by the rule, regulation or law.

(b) Effect of Amendment or Termination. Any such amendment or termination of this Plan shall not affect Options or DSUs already granted and such Options and DSUs shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Grantee and the Committee, which agreement must be in writing and signed by the Grantee and the Company.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to a DSU or to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant to a DSU or upon exercise of an Option hereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15. Restrictions on Shares. Shares of Common Stock issued in respect of DSUs or upon exercise of an Option shall be subject to the terms and conditions specified herein and to such other terms, conditions and restrictions as the Committee in its discretion may determine or provide in the grant. The Company shall not be required to issue or deliver any certificates for shares of Common Stock, cash or other property prior to (i) the listing of such shares on any stock exchange (or other public market) on which the Common Stock may then be listed (or regularly traded), (ii) the completion of any registration or qualification of such shares under federal or state law, or any ruling or regulation of any government body which the Committee determines to be necessary or advisable, and (iii) the satisfaction of any applicable withholding obligation in order for the Company or an affiliate to obtain a deduction with respect to the exercise of an Option. The Company may cause any certificate for any share of Common Stock to be delivered to be properly marked with a legend or other notation reflecting the limitations on transfer of such Common Stock as provided in this Plan or as the Committee may otherwise require. The Committee may require any person exercising an Option or receiving shares in respect of DSUs to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares of Common Stock in compliance with applicable law or otherwise. Fractional shares shall not be delivered, but shall be rounded to the next lower whole number of shares.

16. Shareholder Rights. No person shall have any rights of a shareholder as to shares of Common Stock subject to an Option or DSU until, after proper exercise of the Option or other action required or, in the case of DSUs, after the conditions for delivery of Shares subject to DSUs have been satisfied and such shares shall have been recorded on the Company s official shareholder records as having been issued or transferred. Subject to the preceding Section and upon exercise of the Option or any portion thereof or satisfaction of the conditions for delivery of Shares subject to DSUs, the Company will have thirty (30) days in which to issue the shares, and the Grantee will not be treated as a shareholder for any purpose whatsoever prior to such issuance. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date such shares are recorded as issued or transferred in the Company s official shareholder records, except as provided herein or in an agreement.

17. Best Efforts To Register. If there has been a public offering, the Company may register under the Securities Act the Common Stock delivered or deliverable pursuant to Options on Commission Form S-8 if available to the Company for this purpose (or any successor or alternate form that is substantially similar to that form to the extent available to effect such registration), in accordance with the rules and regulations governing such forms, as soon as such forms are available for registration to the Company for this purpose. The Company will, if it so determines, use its good faith efforts to cause the registration statement to become

effective as soon as possible and will file such supplements and amendments to the registration statement as may be necessary to keep the registration statement in effect until the earliest of (a) one year following the expiration of the option period of the last Option outstanding (or issuance of the last Share subject to an outstanding DSU), (b) the date the Company is no longer a reporting company under the Exchange Act and (c) the date all Grantees have disposed of all shares delivered pursuant to any Option or DSU. The Company may delay the foregoing actions at any time and from time to time if the Committee determines in its discretion that any such registration would materially and adversely affect the Company s interests or if there is no material benefit to Grantees.

18. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to permit the exercise of all Options outstanding under this Plan and the issuance of Shares subject to all outstanding DSUs. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained for any reason.

19. Option and DSU Agreements. Options and DSUs shall be evidenced by written agreements in such form as the Committee shall approve.

20. Information to Grantees. To the extent required by applicable law, the Company shall provide to each Grantee, during the period for which such Grantee has one or more Options or DSUs outstanding, copies of all annual reports and other information which are provided to all stockholders of the Company. Except as otherwise noted in the foregoing sentence, the Company shall have no obligation or duty to affirmatively disclose to any Grantee, and no Grantee shall have any right to be advised of, any material information regarding the Company or any Parent or Subsidiary at any time prior to, upon or otherwise in connection with, the exercise of an Option.

21. Funding. Benefits payable under this Plan to any person shall be paid directly by the Company. The Company shall not be required to fund or otherwise segregate assets to be used for payment of benefits under this Plan.

22. Controlling Law. This Plan shall be governed by the laws of the State of Delaware applicable to contracts made and performed wholly in Delaware between Delaware residents.

ILLINOIS SUPERCONDUCTOR CORPORATION

[X] Please mark your votes as in this example.

1. Election of Directors:**For** **NomineeWithhold** **Authority** Howard S. Hoffmann Tom L. Powers[ ] [ ][ ] [ ]**FORAGAINSTABSTAIN**2. Approval of an amendment to the

Company s Certificate of Incorporation to change the name of the Company to ISCO International, Inc. [ ][ ][ ]3. Approval of the amendments to the Illinois Superconductor Corporation 1993 Stock Option Plan, as amended, as described in the proxy statement.[ ][ ][ ]4. Ratify the Appointment of Grant Thornton LLP as the Company s Independent Auditors.[ ][ ][ ]

In their discretion, the proxies are authorized to vote on such other business as may properly come before the meeting or any adjournments thereof.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL NOS. 1, 2, 3, AND 4 IN THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS SPECIFIED ABOVE. THIS PROXY WILL BE VOTED FOR PROPOSAL NOS. 1, 2 , 3 AND 4 IF NO SPECIFICATION IS MADE AND WILL BE VOTED AT THE DISCRETION OF THE PROXY HOLDERS ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

Attendance of the undersigned at the meeting, or at any adjournment or postponement thereof, will not be deemed to revoke this proxy unless the undersigned shall affirmatively indicate at such meeting or session the intention of the undersigned to vote said share(s) in person. If the undersigned hold(s) any of the shares of the Company in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by the undersigned in every such capacity, as well as individually.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

SIGNATURE _____ DATE:_____

SIGNATURE _____ DATE:_____
(if jointly owned)

Note: Please sign name(s) exactly as appearing hereon. When signing as attorney, executor, administrator or other fiduciary, please give your full title as such. Joint owners should each sign personally. When signing as a corporation or a partnership, please sign in the name of the entity by an authorized person.

[ ] Please check this box if you plan to attend the meeting.

PROXY **PROXY**

ILLINOIS SUPERCONDUCTOR CORPORATION
451 KINGSTON COURT MT. PROSPECT, ILLINOIS 60056

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY FOR THE JUNE 22, 2001 ANNUAL MEETING OF STOCKHOLDERS

The undersigned hereby appoints Dr. George Calhoun and Mr. Charles F. Willes and either of them as proxies, each with power of substitution, and hereby authorizes them to represent the undersigned and to vote, as designated below, all the shares of Common Stock held of record by the undersigned on April 27, 2001 at the Annual Meeting of Stockholders of Illinois Superconductor Corporation, to be held on June 22, 2001, at the Doubletree Guest Suites, 1400 Milwaukee Avenue, Glenview, IL 60025, beginning at 1:00 p.m. local time, or at any adjournment or postponement thereof, upon the matters set forth in the Notice of Annual Meeting of Stockholders and Proxy Statement, receipt of which is hereby acknowledged.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE AS TO ANY PARTICULAR ITEM, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED ON THIS PROXY, FOR THE PROPOSAL TO APPROVE THE AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO CHANGE THE NAME OF THE COMPANY TO ISCO INTERNATIONAL INC., FOR THE PROPOSAL TO APPROVE THE AMENDMENT TO THE COMPANY S 1993 STOCK OPTION PLAN, AND FOR THE RATIFICATION OF APPOINTMENT OF GRANT THORNTON LLP AS THE INDEPENDENT AUDITORS OF THE COMPANY S FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2001.

PLEASE SIGN, DATE AND RETURN THIS PROXY IMMEDIATELY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

(Continued and to be signed on reverse side.)