



ANNUAL REPORT 2010





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Infoscitex Corporation
303 Bear Hill Road
Waltham, Massachusetts, 02451-1016
P: 781-890-1338
F: 781-890-1330
www.infoscitex.com
www.istenergy.com



President's Message

Dear Fellow Stockholders & Employees,

Over the years, I've had the distinct pleasure of reporting IST's incredible success - and with this year's report, I find myself in a similar situation. While we had some disappointments in 2010, our overall performance was outstanding!

In November, we celebrated our 10th Anniversary and during the past year, we secured major contract awards and funding and increased sales and profit by double digits once again. We also launched a revolutionary industrial product into the commercial marketplace. All in all, it was quite a successful year!

As 2011 is underway, our expectations are again high as we strive for 25% sales and profit growth and a successful inaugural year for IST Energy GEM sales. I look forward to achieving great things together and congratulations to each of you on another tremendous period in IST's 10-year history.

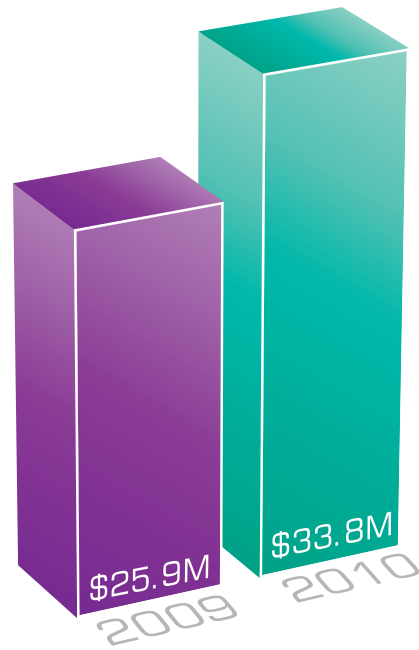
Best regards,



A handwritten signature in black ink, appearing to read "Stuart S. Haber", is written over a light blue circular graphic element.

Stuart S. Haber
President & CEO

Financial Performance



Sales



Net Income



Stock Price

Services



Aerospace Technology Evaluation and Assessment (ATEA)

Under this \$85M, 5-year contract, IST provides research and engineering services to the Air Force Research Laboratory (AFRL) and Aeronautical Systems Center. By employing and generating state-of-the-art modeling, simulation, and analysis tools and techniques, IST provides research, development, demonstration, integration and transition of new air vehicle technologies and modeling and analysis & evaluation of current and future war fighter capabilities. The program encompasses a broad spectrum of R&D activities and includes the development, maturation, assessment, and integration of aerospace vehicle technologies including vehicle flight management systems; control theory; cooperative control; autonomous control; integrated guidance/navigation control; operator vehicle interfaces; vehicle configuration and aerodynamic performance; multidisciplinary design; multifunctional structures and systems; adaptive structures and systems; thermal management; sensor and effector systems; conventional and non-conventional weapon systems; observability; affordability; and system engineering.



Warfighter Performance Enhancement and Adaptation Research (WarPEAR)

Under this \$25M, 7-year contract, IST provides research and engineering services to AFRL by creating physical and cognitive sanctuaries to enhance combat survivability, ensuring human performance, and protecting the force. IST applies a unifying approach for planning, managing, and executing research focused on understanding human performance in extreme operational environments and developing interventions, technologies, and equipment that can sustain, enhance, and optimize human effectiveness. IST has also entered into a Cooperative Research and Development Agreement with AFRL to generate revenue for AFRL and IST by performing related commercial efforts.

Services



Immersive Multi-Aircraft Control Environment (iMACE)

Under this \$5M, 5-year contract, IST provides research and engineering services to AFRL to allow researchers to design, develop, and evaluate concepts, methodologies and strategies for flexible application of automation that maximizes human performance and mission effectiveness across many different situations involving multiple Remotely Piloted Aircraft (RPA) controls. The program's objectives are to 1) improve the human-automation interactions associated with the control of multiple RPAs by a single operator, 2) develop new methods of integrating, displaying, and managing information from multiple sources to support the decision making of future RPA operators, and 3) develop and refine techniques for enabling tele-presence of complex environments along with more natural ways for the users to interact with these environments.



Information Dissemination and Administrative Support (IDAS)

Under this \$4M, 4-year contract, IST provides AFRL with a support staff of graphic designers, multimedia experts, and production managers who work in conjunction with AFRL staff to produce high-impact marketing materials for dissemination to other agencies in support of internal and external needs and for conveying AFRL's message to senior leadership through a variety of special publications and media outlets.

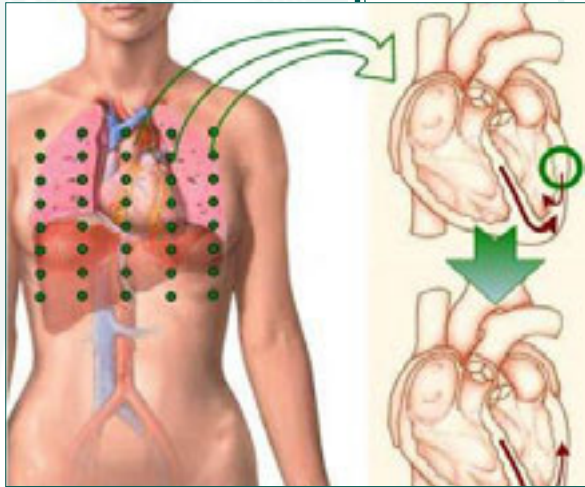


Products

Guidance System for RF Ablation of Ventricular Arrhythmias

Under this \$3M 3-year contract, IST, in collaboration with researchers at the Harvard-MIT Division of Health Sciences and Technology at MIT, is developing a system to help physicians guide a catheter within the heart to the exact origin of ventricular arrhythmia. Once at the proper location, therapeutic RF energy can be delivered via electrodes on the catheter to burn a small area of tissue and interrupt the aberrant electrical pathway in the heart that was the source of the arrhythmia. RF ablation procedures are common to treat atria arrhythmias where the catheter is guided by monitoring intra-cardiac signals while the arrhythmia is present. However, for ventricular arrhythmias, it is too dangerous to allow the arrhythmia to persist long enough for traditional guidance mechanisms to find the proper location without harming the patient. Using algorithms developed at MIT, the system under development monitors a large number of body surface ECG electrodes and mathematically localizes the source of the arrhythmia, which is mathematically modeled as a single equivalent moving dipole.

IST assembled a prototype system that has been employed in animal trials on small pigs. Additional experiments are being conducted while we develop a next generation prototype system that is closer to a full commercial product. Animal tests with the next generation system are planned for later in 2011.



DNA Aptamers

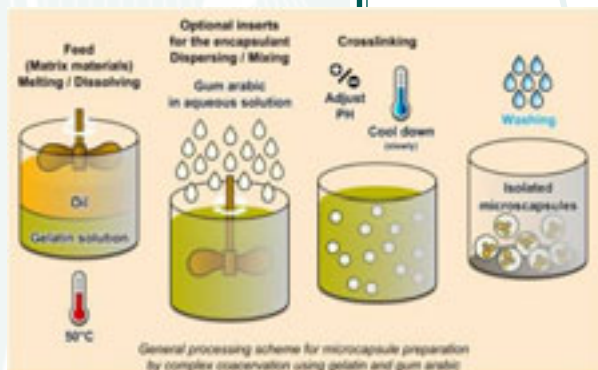
IST has developed a strong DNA Aptamers business area which in 2010 comprised of seven contracts totaling \$2.3M. DNA Aptamers are highly-specific, robust, threat and disease detecting molecules and are rapidly replacing antibodies in the areas of diagnostic assays, threat detection, and targeted therapeutics. The current method for generating aptamers yields a product fraught with high concentration of ballast materials. The process of isolating the desired molecules from this ballast is a laborious one thereby precluding widespread aptamer use. During the past two years, IST has developed a rapid, cost-effective process to isolate high affinity and selective aptamers, surpassing the existing process as measured by multiple metrics including elapsed time, total labor required, and specificity. While current competing methods can take up to several months in elapsed time, IST's methodology can provide highly specific aptamers in a few weeks. In addition to the time and cost savings, we have demonstrated greater affinity and specificity of aptamers each capable of detecting target molecules in concentrations of nanograms.



Products

Shelf Stable Epoxy Adhesive Repair

Under this \$1.5M, 4-year contract, IST provides shelf stable epoxy adhesive repair services to the Strategic Environmental Research & Development Program. Conventional repair of composites used in military applications results in the release of significant amounts of volatile organic compounds (VOC) and hazardous air pollutants (HAP). Significant amounts of solid waste are generated both as a result of repair processes and due to the poor shelf stability of the currently used adhesives. Improvement of composite repair technologies will have major benefits on the associated environmental burden and hazardous waste abatement costs. To address this need, IST is developing an innovative non-VOC, non-HAP composite repair adhesive technology to dramatically reduce the amount of waste generated during composite repair operations. IST's technology uses encapsulation techniques to prolong adhesive shelf life without degrading mechanical properties. These technologies promise to revolutionize repair processes with respect to performance, waste minimization, cost savings, and protection of the environment.



IST Energy Corporation

IST Energy's flagship product, the GEM, is a waste-to-energy conversion system enabling organizations to generate energy from municipal solid waste (food, paper, plastics, wood & agricultural materials) at the waste-generation site. This facilitates highly-efficient clean energy production and reduced greenhouse gas emissions and pollution. IST Energy markets, manufactures, and sells the GEM to those organizations generating at least 2 tons of waste daily. Industries include, but are not limited to, universities, hospitals, malls, arenas, stadiums, industrial plants, prisons, military installations, and resorts. By diverting trash from landfills, one GEM system is able to reduce greenhouse gas emissions by 1,090 tons annually – a huge benefit for our environment and our world! The GEM is 48 feet long, 8.5 feet wide and 9.5 feet high. It is a self contained system, readily configurable for either portable or fixed applications. The company, a majority-owned subsidiary of Infoscitex, received its first order for a unit to be delivered to Edwards Air Force Base in California in early 2011.

2010 Audited Financial Statements

Infocitex Corporation

Balance Sheets
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash	\$ 3,498,931	\$ 3,231,243
Accounts receivable	4,585,844	4,212,989
Unbilled receivables	707,904	608,767
Due from subsidiary	37,133	26,551
Prepaid expenses and other current assets	103,669	56,972
Deferred income taxes	217,000	254,000
Total current assets	<u>9,150,481</u>	<u>8,390,522</u>
Property and equipment:		
Engineering equipment	854,534	763,367
Leasehold improvements	921,183	373,290
Office equipment	721,165	545,543
Furniture and fixtures	589,623	370,825
	<u>3,086,505</u>	<u>2,053,025</u>
Accumulated depreciation	<u>(1,693,913)</u>	<u>(1,287,279)</u>
Property and equipment, net	<u>1,392,592</u>	<u>765,746</u>
Other assets:		
Deposits	-	140,361
Goodwill	405,924	405,924
Total other assets	<u>405,924</u>	<u>546,285</u>
Total assets	<u>\$ 10,948,997</u>	<u>\$ 9,702,553</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,215,243	\$ 1,385,879
Due to subsidiary	516	39,098
Accrued payroll and payroll taxes	1,408,329	1,918,558
Accrued retirement costs	600,856	464,597
Other accrued expenses	271,778	365,737
Deferred revenue	236,230	365,948
Income taxes payable	381,061	850,449
Total current liabilities	<u>5,114,013</u>	<u>5,390,266</u>
Other liabilities:		
Other long term liability	70,255	-
Deferred income taxes	304,000	118,000
Total long term liabilities	<u>374,255</u>	<u>118,000</u>
Stockholders' equity:		
Common stock, no par value authorized: 62,653 shares; 50,988 shares issued and outstanding in 2010 and 2009	1,177,083	1,176,015
Additional paid in capital	60,225	17,417
Retained earnings	4,312,891	3,007,485
	<u>5,550,199</u>	<u>4,200,917</u>
Less - treasury stock, at cost	<u>(89,470)</u>	<u>(6,630)</u>
Total stockholders' equity	<u>5,460,729</u>	<u>4,194,287</u>
Total liabilities and stockholders' equity	<u>\$ 10,948,997</u>	<u>\$ 9,702,553</u>



2010 Audited Financial Statements

Infocitex Corporation

Statements of Income

Years Ended December 31, 2010 and 2009

	2010	2009
Contract revenue	\$ 33,820,248	\$ 25,889,611
Cost of contract revenue	22,729,267	15,437,388
Gross profit	11,090,981	10,452,223
General and administrative expenses	9,007,202	8,552,863
Operating income	2,083,779	1,899,360
Other income (expense):		
Interest income (expense), net	16,844	10,810
Other (expense), net	(76,002)	(77,678)
Total other income (expense)	(59,158)	(66,868)
Income before provision for income taxes	2,024,621	1,832,492
Income tax provision	725,844	658,569
	\$ 1,298,777	\$ 1,173,923

