No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. ***These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States and may not be offered or sold within the United States except in compliance with the registration requirements of the U.S. Securities Act and applicable state securities laws or pursuant to an exemption therefrom. See "Plan of Distribution."***

PROSPECTUS

Initial Public Offering and Secondary Offering February 11, 2010

ISE LIMITED

C$20,700,000
3,450,000 Common Shares

This prospectus qualifies the distribution to the public (the "Offering") of 3,450,000 common shares ("Common Shares") at a price of C$6.00 per Common Share of ISE Limited (the "Company"), a corporation incorporated under the laws of the Cayman Islands. Prior to, and in connection with, the Offering, the Company will become the sole owner of ISE Corporation ("ISE"), a leading developer, manufacturer and distributor of hybrid-electric drive systems and energy storage systems for the heavy duty vehicle market.

The offering price of the Common Shares was determined by negotiation between the Company, Raymond James Ltd., RBC Dominion Securities Inc., Cormark Securities Inc. and Jacob Securities Inc. (collectively, the "Underwriters"). In connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Any such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution."

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. See "Risk Factors."

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Common Shares under the ticker symbol "ISE." Listing is subject to the Company fulfilling all of the requirements of the TSX on or before April 20, 2010, including distribution of the Common Shares to a minimum number of public shareholders.

An investment in the Common Shares is highly speculative and is subject to a number of risks that should be carefully considered by prospective investors. See "Risk Factors."

Price: C$6.00 per Common Share

	Price to the Public	Underwriters' Fee[(1)]	Net Proceeds to the Company[(2)]
Per Common Share	C$ 6.00	C$ 0.42	C$ 5.58
Total[(3)]	C$20,700,000	C$996,745	C$19,703,255

Notes:

(1) The Underwriters' fee does not apply to the 1,076,797 Common Shares to be issued and sold pursuant to the Offering to holders of our secured convertible promissory notes issued in July 2009 for which no fee shall be paid to the Underwriters.

(2) Before deducting expenses of the Offering, estimated to be approximately C$2,000,000, which will be paid from the proceeds of the Offering.

(3) The Selling Shareholders identified in "Principal and Selling Shareholders" have granted the Underwriters an over-allotment option (the "Over-Allotment Option"), exercisable in whole or in part for a period of 30 days from the closing date of the Offering, to purchase from the Selling Shareholders up to that number of additional Common Shares as is equal to 15% of the aggregate number of Common Shares sold pursuant to the Offering. The Selling Shareholders will not bear any of the expenses of the distribution. The Company has agreed to pay all expenses, as the additional selling expenses relating to the participation of the Selling Shareholders in the Offering are *de minimus*. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters' fee, net proceeds to the Company and the net proceeds to the Selling Shareholders will be C$23,805,000, C$1,214,095, C$19,703,255 and C$2,887,650, respectively. The Selling Shareholders will only sell Common Shares pursuant to an exercise of the Over-Allotment Option. This prospectus qualifies the issuance of the Over-Allotment Option and the distribution of the Common Shares to be sold by the Selling Shareholders upon exercise thereof. A purchaser who acquires Common Shares forming part of the Over-Allotment Option acquires those Common Shares under this prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution."

The following table sets forth the number of Common Shares issuable under the Over-Allotment Option to the Underwriters:

Underwriters' Position	Number of Common Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	517,500 Common Shares	30 days following the closing of the Offering	C$6.00 per Common Share

The Underwriters, as principals, conditionally offer the Common Shares qualified under this prospectus, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company in Canada by Fasken Martineau DuMoulin LLP and in the United States by Goodwin Procter LLP and on behalf of the Underwriters by Wildeboer Dellelce LLP. **The Underwriters may offer the Common Shares at a lower price than stated above. See "Plan of Distribution."**

In connection with the Offering, Raymond James Ltd., one of the Underwriters, has agreed to lend an aggregate of C$6,460,782 to the holders of our secured convertible promissory notes issued in July 2009 who are also Selling Shareholders (See "Interest of Management and Others in Material Transactions—Bridge Financing (2009)") to enable such Selling Shareholders to acquire an aggregate of 1,076,797 Common Shares pursuant to the Offering. Consequently, such Selling Shareholders may be considered "connected issuers" with Raymond James Ltd. under applicable Canadian securities laws. See ''Relationship Between Selling Shareholders who are also Convertible Promissory Note Holders and Certain of the Underwriters''.

This prospectus also qualifies the aggregate of 11,902,651 Common Shares and Restricted Voting Shares issuable to the Existing Shareholders in connection with the Reorganization. See "Corporate Structure—The Reorganization" and "Plan of Distribution".

Certain of the directors and officers of the Company and the Selling Shareholders reside outside of Canada. Certain of the assets of these persons and the Company may be located outside Canada. The Company and certain of the Selling Shareholders are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or reside outside of Canada. Although the Company and the Selling Shareholders have appointed Fasken Martineau DuMoulin LLP as their agent for service of process in each of the provinces of Canada, it may not be possible for investors to enforce judgments obtained in Canada against the Company.

Subscriptions for Common Shares will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about February 23, 2010 or such other date as the Company and the Underwriters may agree, but in any event no later than March 25, 2010. It is expected that one or more global certificates for the Common Shares distributed by this prospectus in Canada will be issued in registered form to CDS Clearing and Depository Services Inc. ("CDS") and will be deposited with CDS on the date of the closing of the Offering, which is expected to occur on or about February 23, 2010 or such other date as the Company and the Underwriters may agree, but in any event on or before a date not later than 42 days after the date of receipt for the final prospectus. No certificate evidencing the Common Shares will be issued to Canadian resident purchasers, except in certain limited circumstances, and registration will be made in the depository service of CDS. Canadian resident purchasers of the Common Shares will receive only a customer confirmation from the Underwriters or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is purchased.

TABLE OF CONTENTS

GLOSSARY

In this prospectus, the following terms will have the meanings set forth below, unless otherwise indicated. Words importing the singular include the plural and vice versa and words importing any gender include all genders.

"**Act**" means the *Securities Act* (Ontario), as amended.

"**affiliate**" has the meaning given to it in Section 1.2 of National Instrument 45-106 – *Prospectus and Registration Exemptions* promulgated under the Act.

"**Altoona Testing**" means independent testing performed by The Altoona Bus Research and Testing Center, which is responsible for testing new model buses as required by U.S. federal law to be eligible for U.S. federal funding.

"**APTA**" means the American Public Transportation Association.

"**associate**" has the meaning ascribed thereto in the Act.

"**auxiliary power unit**" means an internal combustion engine combined with an electric generator, fuel cell or other power generation source that provides electrical power to a hybrid-electric drive system.

"**Board**" means the board of directors of the Company.

"**CAGR**" means compound annual growth rate.

"**CARB**" means the California Air Resources Board.

"**CNG**" means compressed natural gas.

"**Company**" means ISE Limited, a corporation incorporated under the laws of the Cayman Islands.

"**CTA**" means the Chicago Transit Authority.

"**drive system**" means the drivetrain system that propels a vehicle.

"**energy density**" means the amount of energy that can be stored in a particular unit of volume or mass.

"**energy equivalent basis**" means on the basis of adjusting for the differing energy content of various fuels. For example, a gallon of diesel has approximately 10% more energy than a gallon of gasoline.

"**EPA**" means the United States Environmental Protection Agency.

"**ES Systems**" means our advanced ultracapacitor and lithium-ion based energy storage systems specifically designed for high duty cycle, heavy duty applications, incorporating our proprietary electronics and battery management technology in a modular, scalable and ruggedized design.

"**Existing Shareholders**" means those persons who are shareholders of ISE and who will, pursuant to the terms of the Merger Agreement, transfer all of their shares of ISE to the Company in exchange for Common Shares and Restricted Voting Shares.

"**firm backlog**" consists of executed contracts with us or signed purchase orders issued to us as of a particular date.

"**Foreign Private Issuer**" means an issuer incorporated or organized outside of the United States except for an issuer meeting both of the following conditions as of the last business day of its most recently completed second fiscal quarter: (i) more than 50 percent of the issuer's outstanding voting securities are directly or indirectly held of record by residents of the United States; and (ii) any one of the following: (A) the majority of the executive officers or directors are United States citizens or residents, (B) more than 50 percent of the assets of the issuer are located in the United States or (C) the business of the issuer is administered principally in the United States.

"**Frost & Sullivan Report**" means market analysis prepared for us by Frost & Sullivan Limited, an independent third party.

"**FTA**" means the United States Federal Transportation Administration.

"**gross margin percentage**" means gross margin as a percentage of revenue.

"**GVWR**" means gross vehicle weight rating (the maximum allowable total mass of a vehicle when loaded), which includes the weight of the vehicle itself, plus fuel, passengers, cargo and trailer tongue weight.

"**Heavy Commercial Trucks**" means Class 6 (GVWR between 19,501 and 26,000 pounds), Class 7 (GVWR between 26,001 and 33,000 pounds) and Class 8 (GVWR above 33,000 pounds) commercial trucks as defined in U.S. Department of Transportation Federal Highway Administration guidelines.

"**heavy duty commercial vehicles**" means transit buses and Heavy Short-Haul Trucks.

"**Heavy Short-Haul Trucks**" means Heavy Commercial Trucks that have a high duty cycle, such as refuse trucks.

"**high duty cycle**" means frequent starts and stops.

"**Hybrid System**" means our complete hybrid-electric drive system designed for use in heavy duty commercial vehicles, which includes our proprietary ES Systems, controls software and power electronics subsystems, as well as other third party components, such as internal combustion engines, fuel cells, electric motors and electric generators.

"**Independent**" has the meaning ascribed to such term in National Policy 58-201 – *Corporate Governance Guidelines*.

"**Internal Revenue Code**" means the U.S. Internal Revenue Code of 1986, as amended.

"**ISE**" means ISE Corporation, a corporation incorporated under the laws of the State of California, United States.

"**Merger Agreement**" means the Agreement and Plan of Merger dated December 16, 2009, by and among the Company, ISE Acquisition Corp., a California corporation, and ISE, pursuant to which ISE will become a wholly-owned subsidiary of the Company, and the Existing Shareholders will receive an aggregate of 11,902,651 Common Shares and Restricted Voting Shares in exchange for their shares in ISE. The exact number of Common Shares and Restricted Voting Shares to be issued to the Existing Shareholders will be determined by a formula contained in the Merger Agreement.

"**North America**" means Canada and the United States.

"**NOx**" means nitrogen oxide.

"**NRE**" means non-recurring engineering.

"**OEM**" means original equipment manufacturer.

"**option backlog**" consists of (i) executed contracts between OEMs and fleet operators for heavy duty vehicles incorporating our products but for which we have not received an executed contract or signed purchase order as of a particular date and (ii) options for the purchase of our products contained within previously executed contracts between us (as prime contractor) and fleet operators.

"**payback period**" means the period of time necessary for the incremental additional cost of a hybrid drive system installed in a vehicle to be fully offset by the reduction in costs of operating the hybrid vehicle when compared to a vehicle with a conventional drive system.

"**power density**" means the rate of energy transfer into and out of a device relative to its size.

"**RDU**" means our Remote Diagnostic Unit, an electronic device that enables us to obtain detailed vehicle operating information remotely for advanced vehicle diagnostics and operational analysis.

"**Reorganization**" means the series of transactions pursuant to the terms of the Merger Agreement whereby the Company will acquire all of the issued and outstanding shares of capital stock of ISE, in exchange for the issuance to the Existing Shareholders of Common Shares and Restricted Voting Shares of the Company. See "Corporate Structure – Reorganization."

"**Restricted Voting Shares**" means the class of restricted voting shares of the Company to be issued to certain of the Existing Shareholders in connection with the Reorganization. The Restricted Voting Shares have the same rights as Common Shares, except they cannot be voted for either the election or removal of directors. See "Corporate Structure" and "Description of Share Capital."

"**RFPs**" mean requests for proposals, each an "**RFP**."

"**Selling Shareholders**" means the selling shareholders as identified under "Principal and Selling Shareholders."

"**subsidiary**" has the meaning set out in the Act.

"**TEA**" means the United States Transportation Equity Act.

"**total backlog**" means the sum of (i) our firm backlog and (ii) our option backlog.

"**ultracapacitor**" means a capacitor (an electronic unit that releases an electric charge to provide power) that is characterized by high power density and long operational life. Compared to a traditional battery configuration, an ultracapacitor generally has lower energy density, but significantly higher power density.

"**U.S.**" or "**United States**" means the United States of America.

GENERAL MATTERS

Unless otherwise noted or the context otherwise indicates, we use the terms "we," "us" and "our" in this prospectus to refer collectively to (i) ISE Limited (the "Company"), our holding company following completion of the Reorganization, (ii) ISE Corporation ("ISE"), our operating company, which will become a wholly-owned subsidiary of the Company following completion of the Reorganization and (iii) any direct or indirect subsidiaries of ISE.

Unless otherwise noted, the information in this prospectus does not give effect to the Reorganization, including the six-for-one share consolidation to be effected pursuant to the Reorganization discussed under "Corporate Structure – The Reorganization" and does not give any effect to an exercise of the Over-Allotment Option described under "Plan of Distribution." The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share).

ISE Corporation, the ISE logo and all other ISE product names, including Ultra-E™ 500 and ThunderVolt™, are trademarks of ISE. This prospectus also includes references to trade names and trademarks of companies other than ISE, which trade names and trademarks are the properties of their respective owners.

CURRENCY AND EXCHANGE RATE INFORMATION

Our business is conducted principally in the United States, and our revenue and expenses are denominated, earned and incurred in United States dollars. In this prospectus, unless otherwise indicated, all "dollar" amounts or references to "$" refer to United States dollars. References to "C$" are to Canadian dollars.

The following table sets forth, for each period as indicated, the high, low, average and end of period exchange rates for United States dollars expressed in Canadian dollars. These rates are based on the inverse noon nominal rate of exchange published by the Bank of Canada.

	C$ / $			
	High	**Low**	**Average**	**End of Period**
Nine months ended September 30				
2009	$1.3066	$1.0591	$1.1700	$1.0707
2008	$1.0821	$0.9711	$1.0186	$1.0599
Years ended December 31				
2008	$1.3008	$0.9711	$1.0660	$1.2246
2007	$1.1878	$0.9066	$1.0748	$0.9881
2006	$1.1794	$1.0948	$1.1341	$1.1653

On February 11, 2010, based upon the inverse noon nominal rate of exchange published by the Bank of Canada, the exchange rate for one United States dollar expressed in Canadian dollars was $1.00 = C$1.0523.

RELIANCE

Prospective investors should rely only on information contained in this prospectus. Neither we nor the Underwriters have authorized any other person to provide prospective investors with different information. If a prospective investor is provided with different or inconsistent information, the prospective investor should not rely on such information. The information contained on our corporate website is not intended to be included in or incorporated by reference into this prospectus and prospective investors should not rely on such information when deciding whether or not to invest in the Common Shares. Neither we nor the Underwriters are making an offer to sell in any jurisdiction where an offer or sale is not permitted.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical fact contained in this prospectus are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "project," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements. Some of these factors are described in greater detail in the "Risk Factors" section of this prospectus and elsewhere in this prospectus. These risks and uncertainties include, among others, risks associated with our long and unpredictable sales cycle; risks associated with variations in the size, type and timing of customer orders for our products; risks associated with product liability and warranty claims and the safety of our products; risks associated with market acceptance and reliability of our products; risks associated with entering into long-term contracts and contracts with governmental agencies; risks associated with the availability, level and terms of government subsidies and incentives; risks associated with customer concentration and our dependence on a small number of suppliers and OEMs; risks associated with our strategic relationships; risks associated with executing our growth strategy in the United States and internationally and scaling up our manufacturing capacity; risks relating to the retention and recruitment of qualified personnel; risks resulting from competition with larger businesses with greater resources; risks associated with technological advancements in our industry; risks relating to our need for additional capital; and risks relating to the protection of our intellectual property.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we do not intend to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus.

ACCOUNTING PRINCIPLES

Throughout this prospectus, all financial statement data has been prepared using generally accepted accounting principles ("GAAP") in the United States, which we refer to as United States GAAP. Our audited financial statements contained in this prospectus have been prepared in accordance with United States GAAP. We provide certain information reconciling our financial information with GAAP in Canada, which we refer to as Canadian GAAP.

MARKET DATA AND INDUSTRY FORECASTS

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market share, is based on information from independent industry analysts and third party sources (including the Frost & Sullivan Report, other industry publications, surveys and forecasts and our internal research) and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of our industry and markets, which we believe to be reasonable. Other than Frost & Sullivan Limited, none of the sources cited in this prospectus has consented to the inclusion of any data from its reports, nor have we sought their consent. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information. While we believe the market position, market opportunity and market share information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of our industry and the markets in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the "Risk Factors" section of this prospectus and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties or by us.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Company, and Wildeboer Dellelce LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder ("Tax Act"), the Common Shares would, if issued on the date hereof and listed on the TSX, be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts, each as defined in the Tax Act.

Notwithstanding that Common Shares may be qualified investments for a trust governed by a tax-free savings account ("TFSA"), the holder of a TFSA will be subject to a penalty tax on the Common Shares if the Common Shares are a "prohibited investment" for the TFSA. Common Shares will generally be a "prohibited investment" if the holder of a TFSA does not deal at arm's length with us for purposes of the Tax Act or the holder of the TFSA has a "significant interest" (as defined in the Tax Act) in us or a corporation, partnership or trust with which we do not deal at arm's length for purposes of the Tax Act.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in the Common Shares. Before deciding to invest in the Common Shares, you should read the entire prospectus carefully, including our financial statements and the related notes and the information set forth under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors." All dollar amounts in this prospectus are in United States dollars unless otherwise indicated.

In this prospectus, unless the context otherwise requires, references to the "Company" mean ISE Limited and its subsidiaries, after giving effect to the Reorganization, and references to "ISE" means ISE Corporation, prior to giving effect to the Reorganization. Unless otherwise noted, the information in this prospectus does not give effect to the Reorganization, including the six-for-one share consolidation to be effected pursuant to the Reorganization discussed under "Corporate Structure – The Reorganization" and does not give any effect to an exercise of the Over-Allotment Option described under "Plan of Distribution." The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share).

Our Company

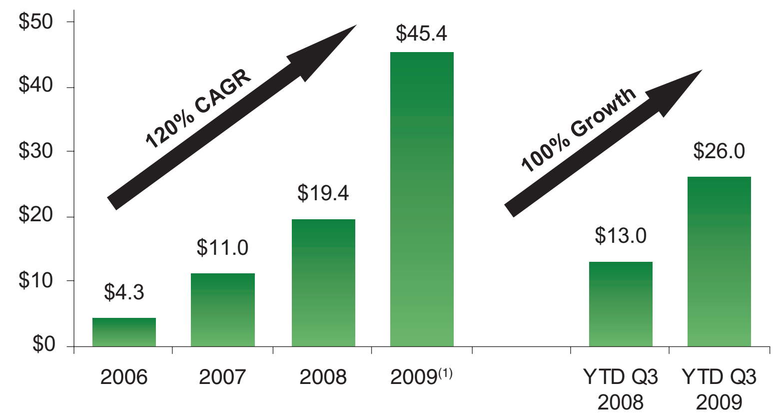
We are a leading developer, manufacturer and distributor of heavy duty hybrid-electric drive systems based on our core proprietary technology, which is focused on three critical subsystems: energy storage, controls software and power electronics. These core technologies and subsystems are critical for any hybrid or all-electric vehicle to achieve the most efficient management of energy.

We specialize in complete hybrid-electric drive systems designed for use in heavy duty commercial vehicles, which include our proprietary subsystems as well as other third party components ("Hybrid Systems"). Our Hybrid Systems are based on a "series" configuration, where the engine is completely decoupled from the driveline and used only to generate electrical power, thereby providing the option of battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles. Our Hybrid Systems have demonstrated reliability and performance in over 12 million miles of transit bus fleet operation.

We have also developed advanced ultracapacitor and lithium-ion based energy storage systems specifically designed for high duty cycle, heavy duty vehicle applications, incorporating our proprietary electronics and battery management technology in a modular, scalable and ruggedized design ("ES Systems"). Over the course of our 15 year history, we have developed significant expertise designing robust, high power systems capable of operating in extreme environments that require unique design approaches and intellectual property. Presently, we are on our fourth generation of our ultracapacitor system and have begun shipping production samples of our lithium-ion systems to major international OEMs. Our value proposition is that our ES Systems have been designed to be cell agnostic, scalable, highly configurable and designed for the lowest total cost of ownership for a given application. We plan to leverage our core proprietary technology to sell high-volume, high margin ES Systems to OEMs and partners in evolving energy storage markets.

Our revenue has grown from approximately $4.25 million in fiscal 2006 to $19 million in fiscal 2008, representing a compound annual growth rate of over 100%. Our revenue in the first nine months of 2009 has grown to $26 million, representing growth of approximately 100% relative to the same period in 2008. We have strong revenue visibility, with total backlog of $19.4 million for the fourth quarter of fiscal 2009, total backlog of $40.3 million for fiscal 2010 and total backlog of $16.6 million for fiscal 2011, in each case, as of September 30, 2009. We have also seen significant improvements in our gross margin since fiscal 2006, with a gross margin percentage of 12% in the third fiscal quarter of 2009, as we have moved from prototype development to commercial production. We expect that this trend of gross margin improvement will continue through fiscal 2010, due to lower operating costs and changes in our product mix.

Revenue Growth

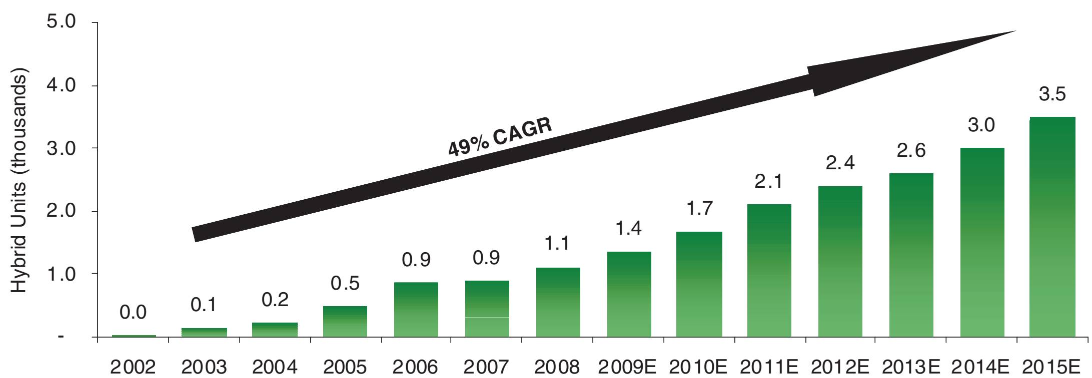


Notes:

(1) 2009 represents the sum of actual year-to-date revenue as of September 30, 2009 and backlog for the fourth quarter of 2009.

To date, the applications for our core proprietary technology have included hybrid-electric drive systems for transit buses and Heavy Short-Haul Trucks, vehicles that make frequent starts and stops (known as "high duty cycle"). Our customers are some of the largest North American transit bus OEMs, including New Flyer Industries Inc. ("New Flyer") and ElDorado National. One of our current customers in the Heavy Short-Haul Truck market is Crane Carrier Company, one of the leading suppliers of refuse trucks in the U.S. market. In North America, the highest adoption rate of hybrid heavy duty commercial vehicles has been in the transit bus market. From 2002 to 2008, the compound annual growth rate of hybrid units in the North American transit bus market was 80%. We believe that this growth will continue to be strong for at least the next six years, as the annual adoption rate of hybrid units is expected to grow from 28% in 2009 to 50% in 2015.

Expected Growth Rate of Hybrid Units in the North American Transit Bus Market



Source: Frost & Sullivan Report

In the North American transit bus market, we are (i) the only commercial provider of gasoline hybrid systems, (ii) a leading provider of zero-emission hybrid systems and (iii) a significant provider of diesel hybrid systems. In the gasoline hybrid system market, we have a first mover advantage; as a result of barriers to entry created by product development times, long procurement cycles, emissions certification processes and federal Altoona Testing requirements, we believe we are at least two years ahead of the competition. In the diesel hybrid system market, our diesel Hybrid Systems have been shown in direct comparison testing conducted by the Chicago Transit Authority (the "CTA") to improve miles per gallon by approximately 41% over conventional diesels and as much as 22% over competing diesel hybrid systems.

As the only commercial supplier of gasoline hybrid systems in the North American transit bus market, we believe that we have a strategic advantage because the 2010 EPA emissions standards will require expensive and complex exhaust after-treatment systems to be installed on new diesel-based drive systems (both conventional and hybrid) in order to meet these emission standards. These exhaust after-treatment systems are not required for our gasoline-based Hybrid Systems to meet these emission standards.

Our Growth Strategy

We have a focused growth strategy aimed at the heavy duty vehicle market for hybrid systems and critical subsystems:

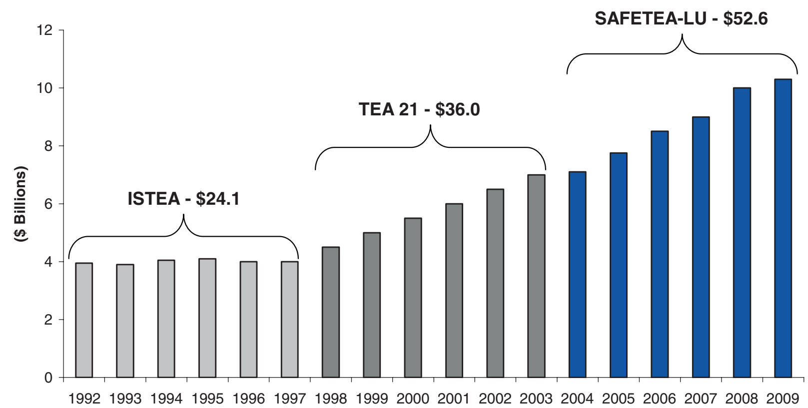
- **Expand Addressable Gasoline Hybrid Market** — We intend to further extend our leadership in gasoline hybrid systems primarily by gaining market share from conventional diesel and diesel hybrid systems in North America.
- **Leverage Our Core Technology by Selling Energy Storage Systems to Third Parties** — We plan to leverage the core proprietary technology we have developed to sell high-volume, high margin ES Systems to OEMs and partners in evolving energy storage markets.
- **Aggressively Target Battery Dominant and All-Electric Vehicle Opportunities** — We believe that the current political and investment focus on the development of battery technologies will accelerate the commercial viability of battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles and that our series based architecture, ES Systems and hybrid expertise position us to become a leader in this rapidly emerging market.
- **Leverage Existing Strategic Relationships** — We intend to enhance our existing strategic relationships with OEMs and component suppliers and leverage their worldwide presence to expand our addressable markets.
- **Increase Investment in Core Proprietary Technology** — We will make additional investments in the development of our core proprietary technology, which we believe will enable higher margins, provide greater strategic control and add to our intellectual property portfolio.
- **Target CNG Hybrid System Opportunities** — We have manufactured a CNG Hybrid System that we plan to offer as customer demand for these systems develops. We believe that transit agencies with existing CNG fueling infrastructure, particularly in Southern California, could realize significant benefits by migrating to hybrid CNG vehicles.

Our Markets

Hybrid Heavy Duty Commercial Vehicle Market

Our current primary addressable market is the transit bus market in North America. The transit bus market was the first heavy duty commercial vehicle market to adopt hybrid-electric drive system technology. Fleet operators have purchased an aggregate total of approximately 4,000 hybrid-electric transit buses in North America over the past four years, with a combined purchase value in excess of $2 billion. The current total transit bus market in North America is approximately 5,000 units per year, with an expected annual growth rate of approximately 6%, of which approximately 28% of new purchases were hybrids in 2009, up from almost zero in 2002. We expect that hybrids will represent roughly 50% of new purchases by 2015. New Flyer has publicly stated that 50% of its current transit bus backlog is for hybrids. Sales of hybrids in the transit bus market in the United States are supported by U.S. federal subsidy programs, under which transit agencies can use federal funding to cover up to 80% of the sales price of standard transit buses, plus up to 90% of the incremental cost of the hybrid system. These subsidies, combined with lower fuel and maintenance costs for hybrid vehicles, make the payback period for hybrid transit buses as low as 1.3 years.

Transportation Equity Act Funding 1992-2009



Source: APTA

Our initial market for gasoline hybrids was focused in Southern California, where the California Air Resources Board ("CARB") and the South Coast Air Quality Management District historically imposed stricter emission regulations than federal standards. We expect to receive approval from the EPA to sell our 2010 gasoline hybrid systems outside of California in early 2010, which will significantly expand our addressable transit bus market. We expect that potential adjacent truck markets will expand over time as system costs decline and return on investment improves.

We expect that growth for heavy duty hybrid systems will continue to be driven by a number of factors:

- **Greater Fuel Economy** — Hybrid drive systems have been shown to reduce fuel use by as much as 41% in extended direct comparison testing with conventional diesel systems. For a municipality such as Chicago where the annual fuel bill is greater than $60 million, such savings are driving rapid adoption. Higher fuel prices shorten payback periods for hybrid vehicles.

- **Tightening Emissions Standards** — 2010 EPA and CARB emission requirements will impose increasingly stringent standards and limit permissible emissions from new vehicle engines. We believe this will reduce the demand for diesel-fueled vehicles. To meet these more stringent standards, traditional diesel and diesel hybrid heavy duty vehicles sold after January 1, 2010 will require increasingly complicated engine after-treatment systems, such as diesel particulate filters, NOx traps and diesel emission fluid systems. We believe these additional emissions components will increase capital costs for diesel buses (both conventional and hybrid) and increase ongoing operating costs, and we expect that this will spur growth in the market for gasoline hybrid systems where we have a dominant position.

- **U.S. Federal and State Subsidies** — For over 18 years, the upfront capital cost to acquire transit buses in the U.S. has been primarily funded by the TEA. In the most recent enactment of the TEA, Congress included up to 90% funding for the incremental cost of hybrid systems.

- **Green Movement** — Increasing awareness of climate change issues and other environmental concerns are driving political and public support for green initiatives, including city air quality improvements and increased fuel efficiency for vehicles. For example, New York City has recently made a decision to promote a move to hybrid transit buses and taxis, and is in the initial stages of deploying hybrid refuse trucks.

Energy Storage Systems Market

The global market for energy storage systems is growing rapidly, driven primarily by innovation in response to the historical limitations of energy storage technology, lower prices for these systems, environmental concerns, increasing energy costs and growing demand for renewable energy alternatives. We believe these trends are contributing to a growing demand for advanced energy storage systems in various end markets.

Frost & Sullivan estimates that the hybrid adoption rate in the North American transit bus market will be 50% by 2015, representing hybrid bus sales of 3,500 units annually. Each of these hybrid transit buses will require an energy storage system and we plan to aggressively pursue this energy storage market. In addition, we project that other markets for heavy duty energy storage systems will grow, including industrial machinery, stationary power applications and electrical grid services.

We expect that growth for heavy duty energy storage systems will be driven by a number of factors:

- **Increasing Adoption of Hybrid and All-Electric Vehicles** — Advanced energy storage systems are essential to the operation of hybrid and all-electric heavy-duty vehicles. We believe that the demand for energy storage systems will increase as the adoption of hybrid heavy-duty vehicles accelerates and hybrid heavy-duty vehicles transition to battery-dominant, plug-in compatible and all-electric configurations.
- **Stability of Electrical Supply** — Certain large, all-electric industrial machinery (such as electrically-driven mining and construction equipment) is connected directly to the electrical grid and requires a stable supply of electricity, which the grid is not always able to provide. Advanced energy storage provides a load-balancing capability to enable a consistent and stable supply of electricity that increases the productivity and reliability of such industrial machinery.
- **Need for Reduced Operating Costs for Heavy Duty Vehicles** — When used in hybrid vehicles, energy storage systems allow the efficient recapture, storage and redeployment of energy produced through regenerative braking. The more advanced and efficient the energy storage system, the more fuel efficient the vehicle, leading to reduced energy use and lower operating costs.
- **Ability to Purchase Energy From the Electrical Grid** — Energy storage systems enable greater use of less expensive grid-based energy in a wide range of applications. On a cost per unit of energy basis, electricity is on average a more economical source of energy than diesel and gasoline. For example, purchased energy from the electrical grid is approximately 40% to 60% less expensive than an equivalent amount of usable energy from diesel and gasoline.
- **Emission Standards** — The U.S. federal government and various states have enacted increasingly stringent standards for emissions including the 2010 CARB and EPA emission requirements. Reduced emission requirements are increasing demand for energy storage solutions to power less polluting and more environmentally friendly hybrid and all-electric vehicles.

Our Products

Our current product offering includes our complete hybrid-electric drive systems and our proprietary energy storage systems.

Hybrid-Electric Drive Systems

Our primary product offering is a complete hybrid-electric drive system based on our core proprietary technology. We typically sell our Hybrid Systems to OEMs, which in turn sell heavy duty commercial vehicles to end customers, such as municipalities and transit authorities.

We deploy our Hybrid System in three primary fuel type configurations:

- Gasoline hybrid-electric drive system;
- Zero Emission hybrid-electric drive system; and
- Diesel hybrid-electric drive system.

Energy Storage Systems

Our advanced ES Systems are designed to meet the demanding requirements of heavy duty hybrid applications. For each specific application, we complete a proprietary energy storage cell evaluation and combine energy storage cells from third parties with our proprietary electronics, battery management technology and ruggedized design to produce fully-integrated energy storage systems that are designed to be modular, scalable and optimized for the strenuous demands of heavy duty applications. Our modular components may be configured to meet the requirements of virtually any hybrid or all-electric heavy duty vehicle drive system. The modules of our ES Systems share common electronics, cooling components and packaging that reduce development costs, improve time to market and enable rapid new product development as new cells become available.

Our current energy storage product offerings include the following:

- **Ultracapacitor ES System** — Our fourth generation ultracapacitor ES System is designed for very high power/high duty cycle applications, such as urban conditions where stop-and-go traffic is most prevalent. We have over 200 of our previous generation ultracapacitor ES Systems presently in use.
- **Lithium-Ion ES System** — We have begun to sell production samples of our lithium-ion ES Systems. We are leveraging the core control and interface technologies and proprietary cooling systems developed for our ultracapacitor ES System for use with higher energy density storage systems based upon lithium-ion cell chemistries. Our lithium-ion ES Systems are designed to enable battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles.

We have also begun development of our blended ES System that combines these two technologies to enable a system that has the benefits of both high power ultracapacitors and high energy lithium-ion cells.

Our Competitive Advantages

We believe that we have the following competitive advantages in our markets:

- **Superior Performance** — Our gasoline Hybrid Systems deliver up to 53% greater fuel efficiency, up to 54% lower NOx emissions and up to 99% lower particulate matter emissions than conventional diesel drive systems, and provide greater fuel efficiency and lower emissions than competing diesel hybrid drive systems.
- **Valuable Experience, Know-How and Intellectual Property** — We have been developing, manufacturing and distributing hybrid systems for heavy duty commercial vehicles since 1995, with over 12 million miles of operational experience. We have developed energy storage systems, controls software and power electronics and, as of February 11, 2010, hold 25 issued patents and have 38 patents pending in the U.S. (seven of which have received notices of allowance) and six patents pending in Europe covering these core proprietary technologies and other hybrid technologies.
- **Energy Storage Expertise** — We are experts in advanced energy storage systems for heavy duty, high duty cycle applications, developing technologies that optimize energy storage cycle life, performance, stability and reliability. Presently, we have over 200 of our ES Systems in use. This expertise enables our Hybrid Systems to exhibit superior fuel efficiency performance and provides us with the opportunity to sell our ES Systems to third parties as stand-alone products.
- **Our Series Hybrid System Enables Battery Dominant and Electric Plug-In Vehicles** — Parallel hybrid technology inherently relies on the engine to provide the dominant torque and power source of the system. The relatively small electric motor and energy storage in a parallel system limits the amount of electric propulsion assistance and regenerative braking recovery, which results in smaller fuel economy improvements. In a series hybrid system, the vehicle's wheels are driven by a high torque electrical motor, not the traditional internal combustion engine. Accordingly, the internal combustion engine is simply used as an auxiliary power source and therefore can be reduced in size as energy storage capabilities continue to increase, leading to the opportunity for battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles.

- **Strong Strategic Relationships** — We have established a number of strategic relationships with component suppliers and OEMs.
  - *Siemens* — Siemens A.G. ("Siemens") has been a core supplier of components for our Hybrid Systems since 2002, and we are in negotiations to expand our relationship to include the sale by Siemens of our ES Systems worldwide through its sales channels.
  - *ZF* — We have a relationship with ZF Friedrichshafen AG ("ZF"), one of the 15 largest transportation OEMs in the world, which contemplates the future sale of ZF products incorporating our ES Systems in North America.
  - *Maxwell* — We have a relationship with Maxwell Technologies Inc. ("Maxwell") and are in discussions to jointly supply our ES Systems with Maxwell ultracapacitors through its sales force.

These relationships enable us to leverage the resources of our strategic partners which we believe will increase the sales of our products.

THE OFFERING

Issuer:	ISE Limited
Offering:	3,450,000 Common Shares (3,967,500 Common Shares, if the Over-Allotment Option is exercised in full)
Offering Price:	C$6.00 per Common Share
Offering Size:	C$20,700,000 (C$23,805,000 if the Over-Allotment Option is exercised in full)
Over-Allotment Option:	The Selling Shareholders have granted the Underwriters an Over-Allotment Option, exercisable in whole or in part for a period of 30 days from the date of the closing of the Offering, to purchase up to that number of Common Shares as is equal to 15% of the aggregate number of Common Shares sold pursuant to the Offering at a price of C$6.00 per Common Share. See "Plan of Distribution" and "Principal and Selling Shareholders."
Common Shares Outstanding:	Prior to the Offering: 11,902,651 Common Shares After the Offering: 15,352,651 Common Shares The number of Common Shares outstanding in both instances gives effect to the Reorganization including the six-for-one share consolidation to be effected pursuant to the Reorganization, and assumes the conversion of all Restricted Voting Shares into Common Shares. See "Corporate Structure — The Reorganization." The number of Common Shares outstanding immediately following the closing of the Offering will not be affected by the exercise of the Over-Allotment Option.
TSX Listing:	The TSX has conditionally approved the listing of the Common Shares under the ticker symbol "ISE." Listing is subject to the Company fulfilling all of the requirements of the TSX on or before April 20, 2010, including distribution of the Common Shares to a minimum number of public shareholders.
Use of Proceeds:	The Company expects to receive approximately C$17.7 million in net proceeds from the Offering, after deducting the Underwriters' fees and the expenses of the Offering. If the Over-Allotment Option is exercised, the Company will not receive any proceeds from the sale of the Common Shares by the Selling Shareholders with respect to the Over-Allotment Option. The Company intends to use the net proceeds of the Offering as follows: ● approximately C$3.0 million to continue research and development of our energy storage system technology, including both high energy and high power lithium-ion solutions and blended ultracapacitor and lithium-ion configurations; ● approximately C$6.2 million for research and development of our software controls and power electronics technology; ● approximately C$1.0 million to purchase additional capital equipment relating to the manufacturing and testing of our products; ● approximately C$6.5 million to repay outstanding indebtedness under our secured convertible promissory notes held by certain of the Existing Shareholders, and described under "Interest of Management and Others in Material Transactions – Bridge Financing (2009);" and ● approximately C$1.0 million to expand our sales and marketing capabilities in North America and internationally.

Lock-Up Agreements:	Each securityholder of the Company holding, directly or indirectly, (together with that securityholder's associates and affiliates) in excess of 1% of the Common Shares outstanding prior to the closing of the Offering (on an as-if converted basis), representing approximately 95% of the issued and outstanding Common Shares (on an as-if converted basis), and each of the directors and officers of the Company have agreed that they will not, directly or indirectly, without the prior written consent of the Underwriters, issue, sell, grant any option for the sale of, or otherwise dispose or monetize, or offer to announce any intention to do so, in a public offering or by way of private placement or otherwise, any Common Shares or any securities convertible or exchangeable into Common Shares for the period from the closing date of the Offering to the day that is 180 days immediately following closing of the Offering; at the end of such period, approximately one-third of the Common Shares held by such persons will be released from such restrictions on each of the 180th, 270th and 360th day after the closing of the Offering. In addition, the Company has agreed in the Underwriting Agreement that it will not issue any Common Shares or any securities convertible into, or exchangeable for, or exercisable to acquire Common Shares for the 180 day period immediately following the closing of the Offering; notwithstanding the foregoing, the Company may (a) grant stock options in the normal course pursuant to any stock option plan of the Company existing on the closing date of the Offering, and (b) issue securities of the Company upon the conversion, exercise or exchange of convertible, exercisable or exchangeable securities existing on the closing date of the Offering or upon the exercise of stock options subsequently granted as permitted by the Underwriting Agreement. See "Plan of Distribution."
Risk Factors:	An investment in the Common Shares is speculative and involves a high degree of risk. Prospective purchasers should carefully consider the information set out under "Risk Factors" and the other information in this prospectus before purchasing Common Shares. These risks and uncertainties include, among others, risks associated with our long and unpredictable sales cycle; risks associated with variations in the size, type and timing of customer orders for our products; risks associated with product liability and warranty claims and the safety of our products; risks associated with market acceptance and reliability of our products; risks associated with entering into long-term contracts and contracts with governmental agencies; risks associated with the availability, level and terms of government subsidies and incentives; risks associated with customer concentration and our dependence on a small number of suppliers and OEMs; risks associated with our strategic relationships; risks associated with executing our growth strategy in the United States and internationally and scaling up our manufacturing capacity; risks relating to the retention and recruitment of qualified personnel; risks resulting from competition with larger businesses with greater resources; risks associated with technological advancements in our industry; risks relating to our need for additional capital; and risks relating to the protection of our intellectual property. See "Risk Factors."

SUMMARY FINANCIAL DATA

The following tables present summary financial data for the periods presented for ISE and with respect to share information, without giving effect to the Reorganization, including the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share). The summary statements of operations data for the years ended December 31, 2008, 2007 and 2006, and the summary balance sheet data as of December 31, 2008 and 2007 have been derived from ISE's audited financial statements, which are included elsewhere in this prospectus. The summary balance sheet data at December 31, 2006 has been derived from ISE's audited financial statements not included in this prospectus. The summary balance sheet data as of September 30, 2009 and the summary statements of operations data for the nine months ended September 30, 2009 and 2008 are derived from ISE's unaudited financial statements appearing elsewhere in this prospectus. The unaudited financial statements have been prepared on the same basis as ISE's audited financial statements and include, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of the financial information set forth in those statements. The interim results for the nine months ended September 30, 2009 are not necessarily indicative of the operating results for 2009. Historical results are not necessarily indicative of the results to be expected in future periods. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes to the financial statements appearing elsewhere in this prospectus.

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(unaudited)	
	(in thousands, except share data)				
Statement of Operations Data:					
Revenue	$ 19,445	11,044	4,251	26,008	12,988
Cost of revenue	30,390	23,843	7,236	25,013	23,309
Gross income (loss)	(10,945)	(12,799)	(2,985)	995	(10,321)
Operating expenses:					
Product engineering, research, and development	2,338	2,035	1,115	3,828	1,390
Sales and marketing	2,293	2,235	1,368	1,866	1,645
General and administrative	9,165	9,086	3,856	4,809	7,268
Total operating expenses	13,796	13,356	6,339	10,503	10,303
Loss from operations	(24,741)	(26,155)	(9,324)	(9,508)	(20,624)
Other income (expense):					
Interest expense	(529)	(209)	(9)	(1,393)	(594)
Interest income	61	238	631	5	48
Other income (loss), net	(234)	(140)	(33)	65	146
Warrant modification expense	(177)	—	—	—	(177)
Other income (expense)	(879)	(111)	589	(1,323)	(577)
Loss before income tax provision	(25,620)	(26,266)	(8,735)	(10,831)	(21,201)
Income tax provision	1	1	1	1	1
Net loss	(25,621)	(26,267)	(8,736)	(10,832)	(21,202)
Returns to preferred shareholders	(7,153)	(4,376)	(10,395)	(6,843)	(5,108)
Net loss attributable to common stockholders	$ (32,774)	(30,643)	(19,131)	(17,675)	(26,310)
Net loss per common share attributable to common stockholders – basic and diluted	$ (8.71)	(12.49)	(7.79)	(4.16)	(7.31)
Weighted average number of shares to compute basic and diluted net loss per share attributable to common stockholders	3,764,724	2,452,939	2,457,377	4,252,939	3,600,192

	As of December 31,			As of September 30,
	2008	2007	2006	2009
				(unaudited)
	(in thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$ 638	$ 1,469	$ 920	$ 2,251
Short-term investments	5,400	1,122	13,492	—
Total assets	31,994	21,368	24,137	29,231
Long-term debt and capital leases	60	5,007	47	40
Total liabilities	32,257	27,594	5,334	39,412
Redeemable convertible Series B preferred stock	35,122	30,584	26,208	38,161
Redeemable convertible Series C preferred stock	14,772	—	—	15,974
Redeemable convertible Series D preferred stock	17,482	—	—	20,084
Accumulated deficit	(67,145)	(41,028)	(14,761)	(77,977)
Total stockholders' deficit	(67,639)	(36,810)	(7,405)	(84,400)

CORPORATE STRUCTURE

The Company

The Company was incorporated under the Cayman Islands' *Companies Law* (2009 Revision) on December 9, 2009 as "ISE Limited" and other than as described in this prospectus, has not carried on any business to date. The registered office of the Company is located at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office of the Company is located at 12302 Kerran Street, Poway, California, USA 92064. The Company was formed to carry out this Offering and to acquire all of the capital stock of ISE. See "— The Reorganization."

ISE

ISE was incorporated under the laws of the State of California, United States, as "ISE Research Corporation" in January 1995. In July 2003, ISE's name was changed to "ISE Corporation." The registered and head office of ISE is located at 12302 Kerran Street, Poway, California, USA 92064. ISE's website address is www.isecorp.com. The information on or that can be accessed through ISE's website is not part of this prospectus.

The Reorganization

The Company, its wholly-owned subsidiary, ISE Acquisition Corp., and ISE have entered into the Merger Agreement which sets forth the terms and conditions pursuant to which the Company will acquire all of the issued and outstanding shares of capital stock of ISE in exchange for the issuance to the Existing Shareholders of an aggregate of 11,902,651 Common Shares and Restricted Voting Shares. The exact number of Common Shares and Restricted Voting Shares to be issued to the Existing Shareholders will be determined by a formula contained in the Merger Agreement. Pursuant to the terms of the Merger Agreement, ISE and ISE Acquisition Corp. will merge under the laws of the State of California with ISE being the surviving entity. The Reorganization will close immediately prior to the closing of the Offering and is intended to be treated as an integrated transaction with the Offering for U.S. federal income tax purposes. The Existing Shareholders have approved the Merger Agreement and the terms of the Reorganization.

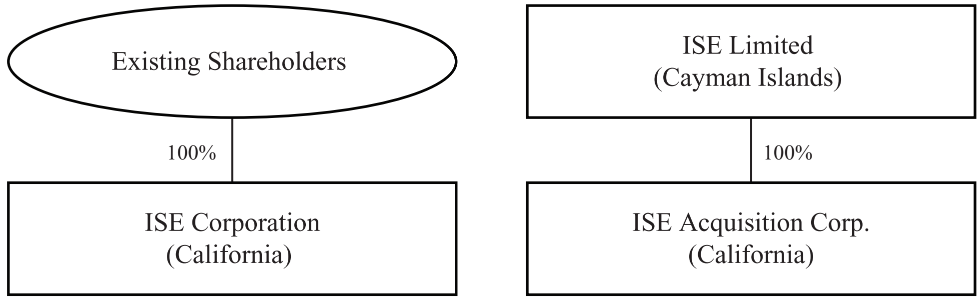
In connection with the Reorganization, all of the outstanding warrants to purchase shares of preferred stock of ISE will be exercised by the holders thereof. All of the outstanding shares of preferred stock of ISE (including the shares of preferred stock issuable upon exercise of the warrants) will be converted into shares of common stock of ISE and then exchanged for Common Shares and Restricted Voting Shares in accordance with the terms of the Merger Agreement. See "Interest of Management and Others in Material Transactions—Bridge Financing (2009)" for a description of outstanding warrants to purchase shares of preferred stock of ISE. Subject to any required regulatory approvals, all options to acquire shares of common stock of ISE will be assumed by the Company. See "Statement of Executive Compensation—Stock Option Plans—2001 Stock Option Plan." In connection with the Reorganization and the six-for-one share consolidation to be effected pursuant to the Reorganization, all outstanding stock options will be proportionally adjusted so that the exercise price will equal $2.40 per share and the option will become exercisable for one-sixth of the number of shares of common stock currently issuable upon exercise of the award.

In addition to closing conditions typically included for transactions of this nature, it is a condition precedent to closing of the Reorganization that the Company concurrently complete the Offering and, upon completion of the Reorganization and the Offering, that the Company will meet the TSX's minimum original listing requirements. The Merger Agreement may be terminated by mutual consent of the parties thereto if the Reorganization has not been consummated by April 30, 2010.

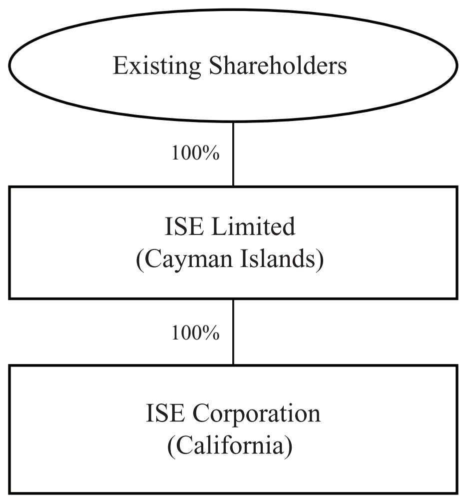
Immediately following the Reorganization and prior to giving effect to the Offering, 11,902,651 Common Shares will be issued and outstanding, assuming the conversion of all Restricted Voting Shares into Common Shares.

Corporate Chart

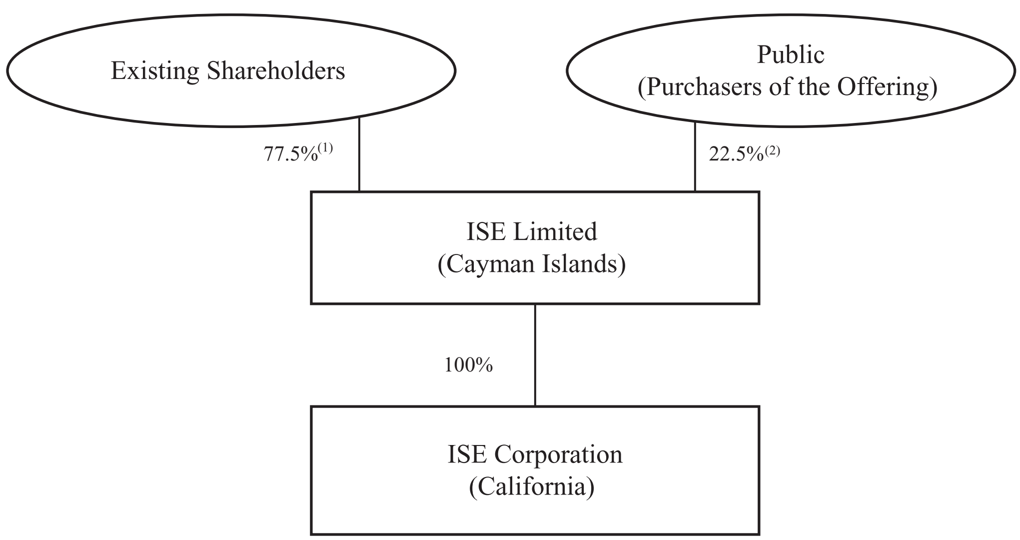
Set out below is the current corporate chart of ISE and the Company:



Immediately following the completion of the Reorganization, but prior to the completion of the Offering, the corporate chart of ISE and the Company will be as follows:



Immediately following the completion of the Offering, the corporate chart of the Company will be as follows:



Note:

(1) Certain of the Existing Shareholders will receive a combination of Common Shares and Restricted Voting Shares in connection with the Reorganization. See "Description of Share Capital."

(2) Includes 1,076,797 Common Shares purchased by certain Existing Shareholders pursuant to the Offering.

BUSINESS

Overview

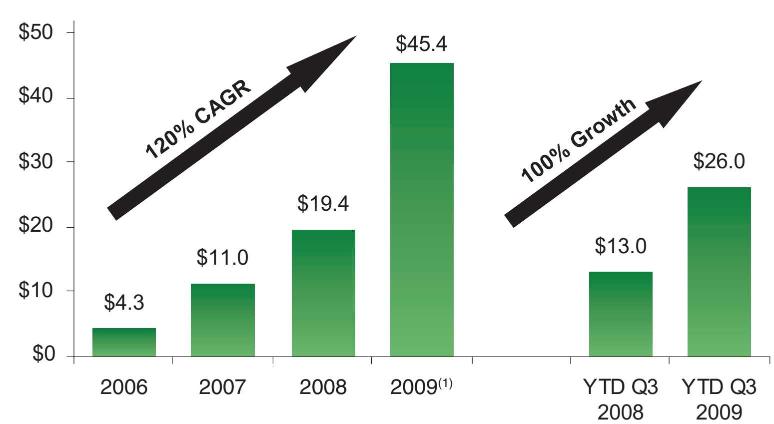
We are a leading developer, manufacturer and distributor of heavy duty hybrid-electric drive systems based on our core proprietary technology, which is focused on three critical subsystems: energy storage, controls software and power electronics. These core technologies and subsystems are critical for any hybrid or all-electric vehicle to achieve the most efficient management of energy.

We specialize in complete hybrid-electric drive systems designed for use in heavy duty commercial vehicles, which include our proprietary subsystems as well as other third party components. Our Hybrid Systems are based on a "series" configuration, where the engine is completely decoupled from the driveline and used only to generate electrical power, thereby providing the option of battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles. Our Hybrid Systems have demonstrated reliability and performance in over 12 million miles of transit bus fleet operation.

We have also developed advanced ultracapacitor and lithium-ion based energy storage systems specifically designed for high duty cycle, heavy duty vehicle applications, incorporating our proprietary electronics and battery management technology in a modular, scalable and ruggedized design ("ES Systems"). Over the course of our 15 year history, we have developed significant expertise designing robust, high power systems capable of operating in extreme environments that require unique design approaches and intellectual property. Presently, we are on our fourth generation of our ultracapacitor system and have begun shipping production samples of our lithium-ion systems to major international OEMs. Our value proposition is that our ES Systems have been designed to be cell agnostic, scalable, highly configurable and designed for the lowest total cost of ownership for a given application. We plan to leverage our core proprietary technology to sell high-volume, high margin ES Systems to OEMs and partners in evolving energy storage markets.

Our revenue has grown from approximately $4.25 million in fiscal 2006 to $19 million in fiscal 2008, representing a compound annual growth rate of over 100%. Our revenue in the first nine months of 2009 has grown to $26 million, representing growth of approximately 100% relative to the same period in 2008. We have strong revenue visibility, with total backlog of $19.4 million for the fourth quarter of fiscal 2009, total backlog of $40.3 million for fiscal 2010 and total backlog of $16.6 million for fiscal 2011, in each case, as of September 30, 2009. We have also seen significant improvements in our gross margin since fiscal 2006, with a gross margin percentage of 12% in the third fiscal quarter of 2009, as we have moved from prototype development to commercial production. We expect that this trend of gross margin improvement will continue through fiscal 2010, due to lower operating costs and changes in our product mix.

Revenue Growth



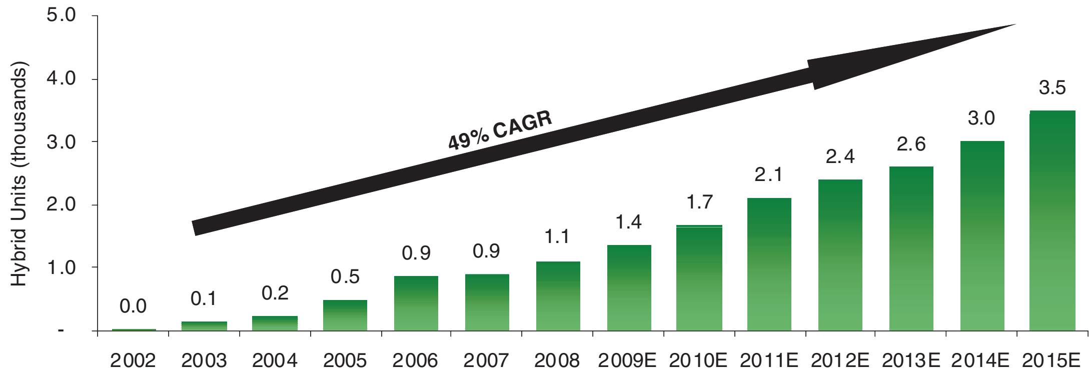
Notes:

(1) 2009 represents the sum of actual year-to-date revenue as of September 30, 2009 and backlog for the fourth quarter of 2009.

To date, the applications for our core proprietary technology have included hybrid-electric drive systems for transit buses and Heavy Short-Haul Trucks, vehicles that make frequent starts and stops (known as "high duty cycle"). Our customers are some of the largest North American transit bus OEMs, including New Flyer Industries Inc. ("New Flyer") and ElDorado National. One of our current customers in the Heavy Short-Haul Truck market is Crane Carrier

Company, one of the leading suppliers of refuse trucks in the U.S. market. In North America, the highest adoption rate of hybrid heavy duty commercial vehicles has been in the transit bus market. From 2002 to 2008, the compound annual growth rate of hybrid units in the North American transit bus market was 80%. We believe that this growth will continue to be strong for at least the next six years, as the annual adoption rate of hybrid units is expected to grow from 28% in 2009 to 50% in 2015.

Expected Growth Rate of Hybrid Units in the North American Transit Bus Market



Source: Frost & Sullivan Report

In the North American transit bus market, we are (i) the only commercial provider of gasoline hybrid systems, (ii) a leading provider of zero-emission hybrid systems, and (iii) a significant provider of diesel hybrid systems. In the gasoline hybrid system market, we have a first mover advantage; as a result of barriers to entry created by product development times, long procurement cycles, emissions certification processes and federal Altoona Testing requirements, we believe we are at least two years ahead of the competition. In the diesel hybrid system market, our diesel Hybrid Systems have been shown in direct comparison testing conducted by the Chicago Transit Authority (the "CTA") to improve miles per gallon by approximately 41% over conventional diesels and as much as 22% over competing diesel hybrid systems.

As the only commercial supplier of gasoline hybrid systems in the North American transit bus market, we believe that we have a strategic advantage because the 2010 EPA emissions standards will require expensive and complex exhaust after-treatment systems to be installed on new diesel-based drive systems (both conventional and hybrid) in order to meet these emission standards. These exhaust after-treatment systems are not required for our gasoline-based Hybrid Systems to meet these emission standards.

Company History

Since 1995, we have been at the forefront of developing hybrid-electric drive systems for heavy duty commercial vehicles. We have sold over 300 Hybrid Systems that have demonstrated reliability and performance in over 12 million miles of fleet operation. During our history, we have also been a leader in developing advanced ultracapacitor and lithium-ion based energy storage systems specifically designed for high duty cycle, heavy duty vehicle applications.

In 2004 and 2005, we delivered our initial volume order of 64 gasoline Hybrid Systems for installation into 40' transit buses sold to Long Beach Transit. This initial 64 unit order was the first installment of a 150 unit hybrid transit bus procurement award granted to New Flyer by a consortium of municipalities led by the City of Long Beach (the "Long Beach Consortium"). Our second generation Ultracapacitor ES Systems were incorporated into these gasoline Hybrid Systems.

In 2006, we secured a contract to supply 52 units of our diesel Hybrid System for installation into 62' transit buses sold to the Las Vegas Regional Transit Authority. This contract also contains options to purchase an additional 100 units of our diesel Hybrid System.

In 2007, we completed delivery of 10 units of our diesel Hybrid System for installation into 40’ transit buses sold to the Chicago Transit Authority. Our third generation Ultracapacitor ES Systems were incorporated into these diesel Hybrid Systems.

In 2008, we began deliveries of our gasoline Hybrid Systems under a 150 unit hybrid transit bus procurement award granted to New Flyer by a consortium of municipalities led by the City of Montebello (the “Montebello Consortium”). Our third generation Ultracapacitor ES Systems were incorporated into these gasoline Hybrid Systems.

In 2009, we completed delivery of 20 units of our zero emission Hybrid System (fuel cell based) for installation into 40’ transit buses sold to BC Transit for operation during the 2010 Winter Games. In addition, we began delivery of 5 transit buses containing our zero emission Hybrid System (fuel cell based) to Transport for London. Furthermore, we completed delivery of 12 units of our gasoline Hybrid System for installation into 40’ transit buses sold to San Diego MTS. Our third generation Ultracapacitor ES Systems were incorporated into the Hybrid Systems delivered for the Transport for London and San Diego MTS orders.

Also in 2009, we began offering for sale our fourth generation Ultracapacitor ES Systems and began shipping production samples of our Lithium-Ion ES Systems to major international OEMs.

Our Technology

Our core proprietary technology can be divided into three main categories:

- Energy Storage Systems;
- Controls Software; and
- Power Electronics.

This core proprietary technology is incorporated into our Hybrid Systems and critical subsystems that we sell, including our ES Systems. As of February 11, 2010, we hold 25 issued patents and have 38 patents pending in the U.S. (seven of which have received notices of allowance) and six patents pending in Europe and significant industry know-how that protects our leading position and provides us with a competitive advantage.

Energy Storage Systems

Our advanced ES Systems are designed to meet the demanding requirements of heavy duty hybrid applications. For each specific application, we complete a proprietary energy storage cell evaluation and combine energy storage cells from third parties with our proprietary electronics, battery management technology and ruggedized design to produce fully-integrated energy storage systems that are designed to be modular, scalable and optimized for the strenuous demands of heavy duty applications. Key technological features of our ES Systems include:

- **Electronics —** Our proprietary 32-bit microcontroller-based management system provides advanced diagnostic, prognostic and stability monitoring functions at the individual cell level. By monitoring the voltage of every cell and incorporating individual balancing, our system has been designed to maintain cells within their optimal operating range, eliminating harmful over-voltage conditions that can lead to internal gassing and shortened cell life.
- **Battery Management Technology —** Our battery management system constantly monitors individual cell temperature and adjusts individual cell usage in an effort to ensure that internal cell operating temperatures do not exceed specified tolerances. The result is extended cell life and lower total cost of ownership.
- **Ruggedized Design —** Unlike most energy storage systems used in bus and truck applications that are adapted from automotive designs, our energy storage systems are designed and tested specifically to meet the demanding requirements of the heavy duty vehicle industry, which we believe has resulted in superior electrical and mechanical performance, reducing maintenance requirements and extending the life of the system.
- **Modular and Scalable —** We believe our modular and scalable energy storage system architecture, based on lightweight 125V modules, provides a competitive advantage in packaging flexibility, accessibility and maintenance, and offers a broad range of platform solutions for integrators and OEMs. We are leveraging the

monitoring, voltage balancing and battery management technology used in our ultracapacitor ES Systems to develop our higher energy lithium-ion ES Systems and blended ultracapacitor/lithium-ion ES Systems. We believe that the modular design of our ES Systems will enable the transition to battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles.

Controls Software

We have developed controls software and algorithms for heavy duty hybrid-electric drive systems based on extensive vehicle systems know-how and applications knowledge. Our controls software and algorithms have been designed to enable the different systems and components within the hybrid system to work together, and to optimize the performance of each component and of the system as a whole. Our controls software technology and know-how allows us to offer systems with superior performance versus those offered by our competitors. We continually evolve and make improvements to our controls software based on operational data collected by our Remote Diagnostic Unit ("RDU"), which we include with each deployed vehicle, and which has collected over 280 gigabytes of real-world duty cycle data in transit buses that have collectively traveled over 12 million miles. The RDU provides valuable and detailed feedback to our engineering and service groups for vehicles in operation. This data is used for future hybrid component specification development and for the continued improvement of system diagnostics and troubleshooting.

Power Electronics

We have developed a number of power electronics and other complementary electric components that contribute to higher overall vehicle efficiency and performance:

- **High Voltage Inductor/Capacitor Module —** We have developed a rugged, liquid cooled, high voltage, high power inductor and capacitor which, when combined with an inverter, acts as a high voltage/high current DC to DC converter on our Hybrid Systems. This module allows us to boost the voltage of the energy storage system up to the higher operating voltage required by the vehicle's motors and other power electronics for high performance operation.
- **Voltage Protection Module —** We have collaborated with Siemens to develop a voltage protection module that is required when integrating Siemens' 400 kW permanent magnet drive motor into a hybrid vehicle application. The voltage protection module has been designed to protect the vehicle's power inverters against permanent damage caused by high voltage generated by the Siemens 400kW permanent magnet drive motor in the event of a system fault or loss of controller power.
- **High Voltage DC to DC Converter for use with Blended ES Systems** — We are currently developing a new high power DC to DC converter for use with blended ultracapacitor/lithium-ion energy storage systems. The DC to DC converter is being designed to operate in a four-quadrant mode that will enable the converter to perform forward-boost and reverse-buck power flow in real-time and upon demand.

Other Complementary Electronic Components

In addition to our ES Systems, controls software and power electronics, we have also developed a number of complementary electronic components that we believe contribute to higher overall vehicle efficiency and performance:

- **Advanced Electrically-Driven Accessory System** — Our electrically-driven accessory system allows a hybrid vehicle to turn off the internal combustion engine when the vehicle is idling, significantly increasing fuel efficiency, particularly for transit buses, which can idle for approximately 50% of operating time. In addition, we continue to work with two of the largest transit air conditioning suppliers to develop compatible, all-electric vehicle air conditioning solutions. Electrifying accessories provides the opportunity to shut down the engine and further improve efficiency not previously possible with conventional engine driven systems.
- **High Efficiency Rooftop Cooling System** — We have developed an all-electric rooftop cooling system which has been designed to reduce cooling system power requirements by a factor of 10, further improving vehicle operating efficiency, reducing noise and decreasing typical maintenance requirements. This provides significant overall energy savings, as conventional engine compartment vehicle cooling systems consume up to 10-20% of the engine's available power.

Our Products

Our current product offering includes our complete Hybrid Systems and our proprietary ES Systems.

Hybrid Systems

Our primary product offering is a complete hybrid-electric drive system based on our core proprietary technology. We typically sell our Hybrid Systems to OEMs, which in turn sell heavy duty commercial vehicles to end customers, such as municipalities and transit authorities.

We deploy our Hybrid System in three primary fuel type configurations:

- **Gasoline Hybrid-Electric Drive System** — We offer the only commercially available hybrid-electric drive system for buses using gasoline fuel. We believe our gasoline Hybrid System for the heavy duty vehicle market offers a number of advantages over traditional diesel and diesel hybrid systems:
    - — *Lower Emissions*. Our gasoline Hybrid System emits 54% fewer NOx compared to diesel hybrids and will meet 2010 U.S. federal emission standards without complicated and expensive emissions control systems required for conventional diesel and diesel hybrid drive systems sold after January 1, 2010. We believe these diesel emissions control systems will significantly increase ongoing operation and maintenance costs, and may also pose safety risks, in the form of high heat exhaust regeneration and the handling of ammonia used in exhaust after-treatment.
    - — *Higher Fuel Efficiency*. Based on independent testing reported by The Altoona Bus Research and Testing Center from 2000 to 2009, our gasoline Hybrid Systems provide greater fuel efficiency than diesel hybrid systems offered by BAE Systems PLC (“BAE”) and Allison Transmission, Inc. (“Allison”), our two main competitors in the transit bus market, by as much as 20% on an energy equivalent basis.
    - — *Operating Cost Savings*. Our gasoline Hybrid Systems have been shown in Altoona Testing and testing conducted by the CTA to have lower fuel costs per mile versus competing diesel hybrid systems, by as much as $0.34/mile based on the Energy Information Administration’s average fuel costs from 2007 to 2009. As 2010 U.S. federal emission standards come into force, we believe our operating cost advantage compared to diesel vehicles will increase.

— *Lower System Weight*. Our gasoline Hybrid System's lower weight compared to diesel hybrid systems allows it to achieve better fuel economy, higher driving performance and reduced maintenance costs. By lowering overall vehicle weight, our gasoline hybrid system has been designed to reduce the stress and increase the life of other vehicle components, such as suspension and axles, and allows for more of the vehicle's load-bearing capacity to be utilized for useful work, such as increased passenger loads.

To date, more than 200 transit buses have been delivered or ordered using our gasoline Hybrid System. More than 180 of these buses are already in fleet operation and have accumulated more than 12 million miles of total use. In 2009, gasoline hybrids will represent 5% of the overall hybrid transit bus market in the United States. We believe the inherent advantages of our gasoline Hybrid System coupled with stringent emissions regulations set to go into effect in 2010 will contribute to significant growth for gasoline hybrids in the North American transit bus market. We are well positioned to take advantage of this growth as the only commercial supplier of gasoline hybrid systems in the North American transit bus market.

ISE Gasoline Hybrid System in New Flyer 40' Bus – Long Beach Transit

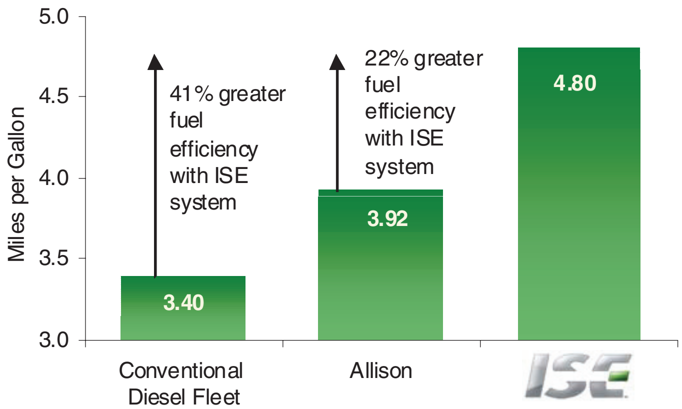
- **Zero Emission Hybrid-Electric Drive System** — We offer a Hybrid System for customers who want zero emissions, very low noise and are willing to invest in a highly efficient drive system technology. Our zero emission Hybrid System has been designed to offer the high power and efficiency required by 40-foot urban transit buses, while completely eliminating harmful emissions. We believe that over the past decade we have become the North American leader in providing zero emission hybrid systems for transit buses. We are currently delivering 20 zero emission Hybrid Systems to BC Transit for use in transit buses that will be featured at the 2010 Winter Games to be held in Vancouver, British Columbia. In addition, we are delivering five hybrid transit buses utilizing our zero emission Hybrid Systems to Transport for London that will be operated in downtown London, England. Going forward, we intend to pursue opportunities to provide zero emission systems in situations where we can leverage our previously developed platforms and technologies.

ISE Zero Emission Hybrid System in New Flyer 40' Bus – BC Transit

We also plan to offer a lithium-ion battery all-electric drive system, as customer demand for these systems increases. As advances are made in energy storage and recharging technologies, we believe our series hybrid technology provides us with a pathway to continually reduce the size of the auxiliary power unit, and to rely more heavily on battery power. We believe our proprietary advanced ES Systems and our extensive experience with energy storage requirements for heavy duty applications will enable us to be among the first to completely eliminate the auxiliary power unit and develop all battery electric drive systems for the heavy duty market, and to be a leader in this market as it grows.

- **Diesel Hybrid-Electric Drive System** — We offer a system for customers who want substantially increased fuel economy, but who prefer to use diesel fuel to leverage their existing fueling infrastructure. Our diesel hybrid system significantly reduces fuel consumption and lowers emissions compared to conventional diesel and competing diesel hybrid systems. The following table represents independent data received from the CTA which shows actual operating performance for buses in their fleet, including conventional diesel, diesel hybrid systems by Allison and our diesel hybrid system, operating over similar routes and conditions between January 2009 and October 2009.

Chicago Transit Authority Test Results



We currently have 10 of our diesel Hybrid Systems operating in Chicago. We have fulfilled an order for 50 diesel Hybrid Systems for the Las Vegas Regional Transit Authority, with Las Vegas holding an option to order an additional 100 diesel Hybrid Systems.

ISE Diesel Hybrid System in The Wright Group 62' Articulated Bus – Las Vegas RTA

We have recently applied our diesel hybrid technology to the refuse vehicle segment of the Heavy Short-Haul Truck market. Using our diesel Hybrid Systems, Crane Carrier Company, one of the leading suppliers of refuse vehicles in the U.S. market, is in the process of delivering three hybrid refuse vehicles to the New York City Department of Sanitation.

ISE Diesel Hybrid System in Refuse Truck – New York

We have manufactured a CNG Hybrid System that we plan to offer as customer demand for these systems develops. We believe that transit agencies with existing CNG fueling infrastructure, particularly in Southern California, could realize significant benefits from switching to hybrid CNG vehicles.

Each of our Hybrid Systems comes with a standard two-year limited warranty covering parts and labour, and we also offer an extended three-year limited warranty for sale. Our warranty support incorporates our proprietary RDU, which enables us to obtain vehicle diagnostic information remotely and provide timely and comprehensive support and maintenance services to our customers. Our RDU allows remote access to a variety of information on the status and performance of individual drive system components and the drive system as a whole, improving the efficiency of our service and warranty support.

Energy Storage Systems

We have leveraged 15 years of application knowledge to develop a new line of ES Systems specifically designed for the heavy duty vehicle industry. Our modular components have been designed to be configured to meet the requirements of virtually any hybrid or all-electric heavy duty vehicle drive system. The modules of our ES Systems share common electronics, cooling components and packaging in an effort to reduce development costs, improve time to market and enable rapid new product development as new cells become available. Our systems have integrated cell monitoring and balancing, active thermal management and vibration-dampening mechanical design.

Our current energy storage product offerings include the following:

- **Ultracapacitor ES Systems** — Our fourth generation ultracapacitor ES System is designed for very high power/high duty cycle applications, such as urban conditions where stop-and-go traffic is most prevalent. Our system incorporates advanced low impedance ultracapacitor technology resulting in a lifetime of over 1 million cycles. Production of these fourth generation systems began in 2009, and we have over 200 of our previous generation ultracapacitor ES Systems presently in use.

- **Lithium-Ion ES Systems** — We have begun to sell production samples of our lithium-ion ES Systems. We are leveraging the core control and interface technologies and proprietary cooling systems developed for our ultracapacitor ES System for use with higher energy density storage systems based upon lithium-ion cell chemistries. Our lithium-ion ES Systems are designed to enable battery-dominant, plug-in compatible and all-electric heavy duty vehicles.

    - **Lithium-Ion (Power) ES System** — Our Lithium-Ion (Power) ES System is designed for high power, battery-dominant hybrid systems, using high power lithium-titanate batteries. Commercial production is planned for April 2010.

    - **Lithium-Ion (Energy) ES System** — Our Lithium-Ion (Energy) ES System is designed for high energy, battery-dominant or all-electric systems, using lithium polymer cells with excellent energy and power capacity. Commercial production is planned for early 2011.

We have also begun development of our blended ES System that combines these two technologies to enable a system that has the benefits of both high power ultracapacitors and high energy lithium-ion cells.

Competitive Advantages

We believe that we have the following competitive advantages in our markets:

- *Superior Performance*. Our gasoline Hybrid Systems deliver up to 53% greater fuel efficiency, up to 54% lower NOx emissions and up to 99% lower particulate matter emissions than conventional diesel drive systems, and provide greater fuel efficiency and lower emissions than competing diesel hybrid drive systems.

The CTA has provided us with a review of fuel economy performance for buses in their fleet, including conventional diesel, diesel hybrid systems from Allison and our diesel Hybrid System. CTA's analysis shows that, operating over similar routes and conditions, our diesel Hybrid System provides a 41% improvement in fuel economy over conventional diesel vehicles, and a 22% improvement in fuel economy over Allison's diesel hybrid system. In addition, our CARB-certified gasoline Hybrid System has the lowest NOx and particulate matter emissions of any heavy duty hybrid transit bus system certified to date.

- *Valuable Experience, Know-How and Intellectual Property*. We have been developing, manufacturing and distributing Hybrid Systems for heavy duty commercial vehicles since 1995, with over 12 million miles of operational experience. We have developed energy storage systems, controls software and power electronics and, as of February 11, 2010, hold 25 issued patents and have 38 patents pending in the U.S. (seven of which have received notices of allowance) and six patents pending in Europe covering these core proprietary technologies and other hybrid technologies. Our history in the hybrid industry also provides us with a substantial track record.

- *Energy Storage Expertise*. We are experts in advanced energy storage systems for heavy duty, high duty cycle applications, developing technologies that are designed to optimize energy storage cycle life, performance, stability and reliability. We have over 200 of our ES Systems presently in use. We have developed technologies and know-how that add intelligence to individual cells, provided by traditional and next generation cell developers, in an effort to optimize energy storage cycle life, performance, stability and reliability and to do so in a standardized, repeatable way. We believe this expertise enables our Hybrid Systems to exhibit superior fuel efficiency performance and provides us with the opportunity to sell our ES Systems to third parties as stand-alone products.

- *Our Series Hybrid System Enables Battery Dominant and Electric Plug-In Vehicles.* Parallel hybrid technology inherently relies on the engine to provide the dominant torque and power source of the system. The relatively small electric motor and energy storage in a parallel system limits the amount of electric propulsion assistance and regenerative braking recovery, which results in smaller fuel economy improvements. In a series hybrid system, the vehicle's wheels are driven by a high torque electrical motor, not the traditional internal combustion engine. Accordingly, the internal combustion engine is simply used as an auxiliary power source and therefore can be reduced in size as energy storage capabilities continue to increase, leading to the opportunity for battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles.

- *Strong Strategic Relationships*. We have established a number of strategic relationships with component suppliers and OEMs.

    - *Siemens* — We have a strategic relationship with Siemens, one of the world's leading suppliers of electric motors, generators and electronic controllers for heavy duty vehicles. Siemens has been a core supplier of components for our Hybrid Systems since 2002 and we are in negotiations to expand our relationship to include the sale by Siemens of our ES Systems worldwide through its sales channels. Since 2002, we have been the only authorized distributor and integrator of Siemens components for U.S. transit bus applications.

    - *ZF* — We have a relationship with ZF, one of the 15 largest transportation OEMs in the world, which contemplates the future sale of ZF products incorporating our ES Systems in North America. ZF is approximately 100 years old with 61,156 employees at 125 production companies in 26 countries as of April 2009, and is a recognized leader in driveline and chassis technology.

    - *Maxwell* — We have a relationship with Maxwell and are in discussions to jointly supply our ES Systems with Maxwell ultracapacitors through its sales force.

  These relationships enable us to leverage the resources of our strategic partners which we believe will increase the sales of our products.

  We have also successfully developed relationships with four major bus OEMs to include our product in their deliveries to transit agencies: New Flyer, Wright & Sons, Ltd., Thor Industries, Inc. (including its subsidiary ElDorado National) and Gillig Corporation. We have also developed a similar relationship with Crane Carrier Company for hybrid refuse trucks.

Our Growth Strategy

We have a focused growth strategy aimed at the heavy duty vehicle market for hybrid systems and critical subsystems:

- *Expand Addressable Gasoline Hybrid Market*. We intend to further extend our leadership in gasoline hybrid systems primarily by gaining market share from conventional diesel and diesel hybrid systems in North America. Unlike conventional diesel and diesel hybrid systems, our gasoline Hybrid Systems do not need expensive and complex emission filters to meet the stringent 2010 CARB and EPA standards. We believe competitors face significant barriers to entry given the time to market for new platforms and certification requirements. In addition, gasoline engines are ideally suited to series hybrid configurations for heavy duty commercial vehicles, as they are not compatible with conventional diesel or diesel hybrid transmissions in this application.

- *Leverage Our Core Technology by Selling Energy Storage Systems to Third Parties*. We plan to leverage the core proprietary technology we have developed to sell high-volume, high margin ES Systems to OEMs and partners in evolving energy storage markets. We believe there are opportunities to sell these systems to OEMs, particularly in the European and Asian markets, which are dominated by large companies that typically do not use third party hybrid integrators. As hybrid systems become more battery dominant and energy management becomes more complex, we believe these OEMs will need reliable partners who have the experience and expertise to design and deliver energy storage systems built specifically for heavy duty, high duty cycle applications.

- *Aggressively Target Battery Dominant and All-Electric Vehicle Opportunities*. We believe that the current political and investment focus on the development of battery technologies will accelerate the commercial viability of battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles, and that our series based architecture, ES Systems and hybrid expertise position us to become a leader in this rapidly emerging market. The recently passed American Recovery and Reinvestment Plan allots $2.0 billion in grants to support U.S. manufacturers of hybrid electrical systems, components, software designers and advanced vehicle batteries. In addition, regulations in Southern California, implemented by CARB, require that starting in 2012, any municipal fleet operating more than 200 buses must allocate at least 15% of new vehicle purchases for zero emissions vehicles, representing a market in excess of 50 vehicles per year. We believe our series architecture and energy storage expertise position us to become a leader in this rapidly emerging market. Conversely, hybrid systems based on parallel configurations will not have a logical migration path to all-electric configurations as the industry moves toward more efficient battery dominant vehicles.

- *Leverage Existing Strategic Relationships.* We intend to enhance our existing strategic relationships with OEMs and component suppliers and to leverage their worldwide presence to expand our addressable markets. We will strive to partner with established OEMs with complementary technologies and business models to offer our core technology in international vehicle markets. We also intend to selectively establish strategic cross-selling relationships with other technology providers to enhance our intellectual property within our core components, and to expand the reach of our product offering into adjacent markets. We are in active discussions and negotiations with a variety of companies, including Asian bus and truck manufacturers, an energy storage cell manufacturer and a parallel hybrid system component supplier for the truck market.

- *Increase Investment in Core Proprietary Technology*. We will make additional investments in the development of our core proprietary technology, which we believe will enable higher margins, provide greater strategic control and add to our intellectual property portfolio. We plan to extend our technology in these core areas through a combination of internal development and strategic partnerships. We have a defined technology development strategy to build on our current offering and enhance our competitive value proposition.

- *Target CNG Hybrid System Opportunities*. We have manufactured a CNG Hybrid System that we plan to offer as customer demand for these systems develops. We believe that transit agencies with existing CNG fueling infrastructure, particularly in Southern California, could realize significant benefits from migrating to hybrid CNG vehicles.

Customers

Hybrid-Electric Drive Systems

We sell most of our Hybrid Systems to OEMs who in turn sell vehicles incorporating our Hybrid Systems to fleet operators, including municipal and local transit agencies. Our six largest customer orders as of September 30, 2009 by individual contract value include:

Fleet Operator	System Variant	Systems Delivered	Remaining Systems on Firm Order	Options for Additional Systems	Vehicle OEM
Long Beach Consortium	Gasoline Hybrid	106	19	25	New Flyer
Las Vegas Regional Transit Authority	Diesel Hybrid	52	—	100	Wright
Montebello Consortium	Gasoline Hybrid	51	42	57	New Flyer
BC Transit	Zero Emission Hybrid	16	4	—[(1)]	New Flyer
San Diego Metropolitan Transit System	Gasoline Hybrid	12	18	232[(2)]	New Flyer
Transport for London	Zero Emission Hybrid	—	5	3	ISE

Notes:

(1) In this order, there is an unspecified number of options that may be exercised by BC Transit, subject to predetermined delivery limitations.

(2) In this order, the customer has the option to purchase some or all of these additional systems as our gasoline Hybrid Systems or traditional CNG systems offered by a third party.

The 20 zero emission hybrid systems ordered by BC Transit will be used in transit buses at the 2010 Winter Games to be held in Vancouver, British Columbia. The five zero emission hybrid systems ordered by Transport for London will be used in transit buses in London, England.

Energy Storage Systems

We sell most of our ES Systems to third party OEMs which have been designed specifically for the heavy duty commercial vehicle industry. We intend to sell our ES Systems into international vehicle markets where OEMs tend to design and integrate their own hybrid systems, as well as adjacent non-vehicle markets. We are currently shipping production samples of our lithium-ion ES Systems to major international OEMs.

Total Backlog

We define total backlog to mean the sum of (i) our firm backlog and (ii) our option backlog. Firm backlog consists of executed contracts with us or signed purchase orders issued to us as of a particular date. Option backlog consists of (A) executed contracts between OEMs and fleet operators for heavy duty vehicles incorporating our products but for which we have not received an executed contract or signed purchase order as of a particular date and (B) options for the purchase of our products contained within previously executed contracts between us (as prime contractor) and fleet operators. Option backlog is adjusted for management's estimates of Hybrid System deliveries by December 31, 2011. Set forth below is our backlog as of September 30, 2009:

Period	Firm Backlog	Option Backlog	Total Backlog
Fourth Quarter 2009	$19.4 million	—	$19.4 million
Fiscal Year 2010	$20.9 million	$19.4 million	$40.3 million
Fiscal Year 2011	—	$16.6 million	$16.6 million
Total	$40.3 million	$36.0 million	$76.3 million

Our contracts and purchase orders may include provisions that allow the customer to defer, modify, curtail or terminate our arrangements with them and, accordingly, we may not realize the amounts included in our backlog. Furthermore, we can provide no assurance that any of the option backlog will become firm backlog, or the timing thereof. See "Risk Factors – We may not realize as revenue the full amounts reflected in our backlog, which could materially and adversely affect us."

Backlog provides an estimate of potential future demand for our products and is used by our management to evaluate the impact of future production units on operating performance. Backlog is a non-GAAP measure, does not have a standardized meaning and is unlikely to be comparable to similar measures used by other companies. Our methods for calculating backlog may differ from other issuers. Our backlog is presented on a consistent basis from period to period. Backlog should not be considered in isolation or as a substitute for analysis of our financial information reported under United States GAAP. While we believe that backlog is a useful measure in understanding current and future revenue, our backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

Sales and Marketing

We have built a dedicated sales and marketing team headed by a Senior Vice President of Sales and Marketing, who reports directly to our President and Chief Executive Officer, and staffed by a team of sales representatives and marketing, communications and other support personnel. Additionally, we use outside marketing consultants to assist in the development of our marketing presence. Many of our sales representatives have 15 to 25 years of experience in the transit bus or heavy duty truck industries and combine strong industry relationships with technical expertise. We also have support personnel specializing in proposal development, operations manual development and other dedicated marketing areas. We are seeking to expand our U.S. and international sales team, the expansion of which will be primarily focused on ES Systems and Europe.

In our Hybrid System business, the demand for our products is primarily driven by fleet operators, including municipal transit agencies, that purchase transit buses through a competitive bid process involving RFPs. See "Industry Overview – Hybrid Heavy Duty Commercial Vehicle Market – Industry Sales and Procurement Process." In order to grow our Hybrid System business, we need to effectively market our products to fleet operators so that they are familiar with our advanced technology and request such technology in the specifications contained in their RFPs. In support of this effort, our dedicated sales and marketing team focuses on branding, advertising and our participation at industry trade shows, exhibitions and conferences, where we have the opportunity to educate fleet operators about our products. We have also engaged third party lobbyists to represent our interests in Washington, including with the FTA.

Competition

We do not believe that we have any competitors in the gasoline hybrid market for transit buses. Our competitors in the zero emission hybrid market include Daimler AG, Van Hool n.v., Mobile Energy Solutions, LLC and DesignLine International Holdings, LLC. In the diesel hybrid market, we have two main competitors: Allison and BAE Systems PLC, a division of aerospace contractor British Aerospace ("BAE Systems") both of whom have current product offerings focused exclusively on the diesel hybrid market. Other competitors in the diesel hybrid market include Daimler AG, MAN Group PLC, Volvo Group, The Wright Group and Alexander Dennis Limited.

In the Heavy Short-Haul Truck market, our main competitors include Eaton Corporation and The Bosch Group.

In the market for energy storage for heavy duty applications, our competitors include Magna Steyr AG, Hitachi, Ltd., Continental AG, Ener1 Inc., A123 Systems, Inc. and Johnson Controls-Saft Advanced Power Solutions LLC.

Many of our competitors have greater market presence, longer operating histories, stronger name recognition, larger customer bases and significantly greater financial, technical, sales and marketing, manufacturing and other resources than we have. Moreover, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our customer relationships and competitive position or otherwise affect our ability to compete effectively.

Intellectual Property

We utilize a combination of intellectual property safeguards, including patents, copyrights, trademarks and trade secrets, as well as employee and third-party confidentiality agreements, to protect our intellectual property. As of February 11, 2010, we had 25 issued patents and 38 patents pending in the U.S. (seven of which have received notices of allowance) and six patents pending in Europe. These issued patents and pending patents cover energy storage systems, controls software, power electronics and other hybrid technologies.

Research and Development

In order to remain competitive, we believe it is important to make continuing investments in research and development. Our research and development efforts are headed by our Vice President of Engineering, who reports directly to our President and Chief Executive Officer, and we have a team of product engineers and support personnel. We spent approximately $2.3 million, $2.0 million and $1.1 million on research and development during 2008, 2007 and 2006, respectively, and approximately $3.8 million on research and development in the nine month period ended September 30, 2009.

Regulation

In the United States, government regulation has had a significant impact upon the transit bus industry. These legislative and regulatory requirements continue to affect the structure of the industry, the location of manufacturing facilities, the sourcing of parts and materials and the source of funding for bus purchases. We believe regulation represents a significant barrier to entry in the industry.

We are subject to extensive statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA and CARB. The EPA mandates compliance with United States emissions standards for vehicles. On January 1, 2007, the EPA implemented stringent emissions standards for heavy duty vehicles. In 2010, the EPA's emissions standards will become even more stringent, requiring expensive and complex exhaust after-treatment systems to be installed on new diesel-based drive systems (both conventional and hybrid).

Transit bus operators are subject to state and provincial motor vehicle road use regulations. Although it is the responsibility of the transit bus operator to comply with such regulations, we are required to comply with applicable state and provincial regulatory requirements under our customer contracts.

In the ordinary course of our business, we sometimes use, store, handle or dispose of certain materials and wastes that are classified as hazardous materials under various environmental laws and regulations. Although we expect to continue to incur ongoing capital and operating costs in the ordinary course of business to maintain compliance with existing and future applicable environmental laws and requirements, we do not anticipate that continuing compliance with such laws and requirements will have a material adverse effect upon our competitive or financial position.

Facilities

Our corporate headquarters and our production facilities are located at 12302 Kerran Street in Poway, California, where we occupy approximately 46,000 square feet under a lease agreement that expires at the end of 2011. We also occupy 11,000 square feet of warehouse space located adjacent to our production facility under a sublease agreement that has an initial term ending in June 2010 and thereafter converts to a month-to-month lease. In addition, we occasionally lease space in various locations throughout the United States for local sales, marketing and field operations personnel.

Employees

As of September 30, 2009, we had 138 employees, including 11 in sales and marketing, 108 in manufacturing and engineering, and 19 in general and administrative. Of these employees, 132 were located in California and six were located in other areas across the United States. None of our employees is represented by a collective bargaining agreement and we have never experienced any work stoppage. We consider our relations with our employees to be good.

INDUSTRY OVERVIEW

Overview

Our markets include (i) the hybrid heavy duty commercial vehicle market and (ii) the energy storage systems market for heavy duty applications. Within the hybrid heavy duty commercial vehicle market, our current primary addressable market is the transit bus market in North America. We believe that over time our addressable markets for our Hybrid Systems will expand into other applications and geographies, including Heavy Short-Haul Trucks and sales of Hybrid System components and subsystems to Europe and Asia. Within the market for energy storage systems for heavy duty applications, our current primary addressable market is the heavy duty vehicle market, both domestically and internationally, including transit buses and all classes of Heavy Commercial Trucks. We believe that over time our addressable markets for our ES Systems will expand into other heavy duty applications, including industrial machinery (such as electrically-driven excavation equipment and cranes), stationary power applications and electrical grid services.

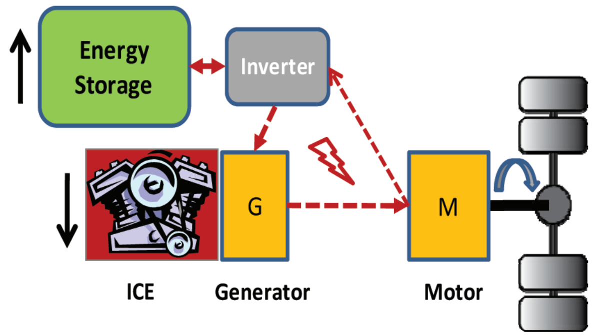
Hybrid Heavy Duty Commercial Vehicle Market

Series Systems Versus Parallel Systems

We have developed our technology platform based on a “series” hybrid configuration rather than a “parallel” configuration. In a series system, the internal combustion engine is completely mechanically decoupled from the driveline and is only used to generate electrical power. Generated power is then used to propel the vehicle electrically with high efficiency electric drive motors, or to recharge energy storage. In a parallel system, the engine is coupled to the driveline through a transmission similar to a conventional vehicle, with a smaller inline electric motor providing assistance. Our series hybrid architecture enables the use of smaller engines operating at constant speed and power output levels, as well as the use of lower torque engines, including standard V10 gasoline engines used in consumer vehicles. The ability to operate the engine at a constant speed enables increased power generation efficiency, reduced emissions and lower noise. When vehicle power requirements temporarily increase, such as during acceleration or hill-climbing, the driveline draws additional power from an onboard energy storage system comprised of batteries or ultracapacitors. This energy storage is later recharged either by the engine or through regenerative braking, where the hybrid drive motors act as electric generators to slow the vehicle and recapture energy that would otherwise be wasted in the vehicle’s conventional brake system. Because series hybrids utilize larger electric drive motors than parallel architectures, they are able to benefit from regenerative braking to a significantly greater extent, increasing the overall efficiency of the vehicle and reducing wear on the conventional brake systems.

All of these characteristics make series hybrid architectures better suited than parallel systems for high duty cycle, heavy duty applications with large amounts of stop-and-go driving and high energy requirements, which are the applications we focus on. By contrast, parallel systems are better suited to applications with higher average speeds and less stop-and-go driving. In addition to its efficiency advantages, we believe that our series hybrid system provides system packaging advantages over parallel hybrid systems because the engine does not need to be attached to the electric drive motor as required with parallel hybrids. This flexibility is demonstrated in our recent hybrid 62 foot articulated buses, where the engine/generator is mounted at the rear of the vehicle with the high power electric drive motor powering the vehicle’s center axle (instead of rear axle) making the vehicle more stable and easier to drive. Most importantly, we believe that a series configuration provides a clear pathway to battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles.

SERIES



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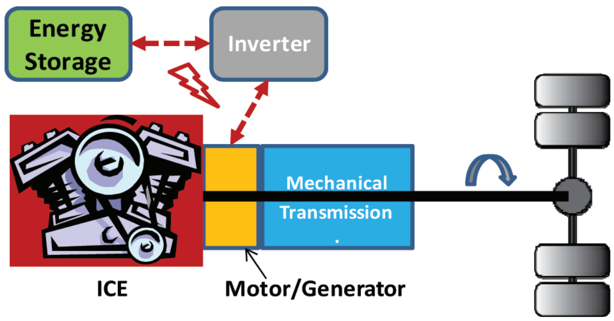

Transit Bus Market

The transit bus market was the first heavy duty vehicle market to significantly adopt hybrid-electric drive system technology. There are approximately 250 municipal and local transit agencies in North America, with over 50,000 registered transit buses in service. According to APTA, these transit agencies take average delivery of approximately 5,000 new transit buses each year. The Frost & Sullivan Report indicates that this market will grow 6% per year over the next six years to approximately 7,000 units by 2015. According to the FTA, at least 50 U.S. transit agencies have begun buying hybrid buses, including the three largest transit agencies: New York City Transit, New Jersey Transit and the Los Angeles County Metropolitan Transportation Authority, which together operate approximately 20% of the U.S. transit bus fleet.

Fleet operators have purchased approximately 4,000 hybrid-electric transit buses in North America over the past four years, with a combined purchase value in excess of $2 billion. Approximately 28% of new transit buses ordered in North America in 2009 contained hybrid-electric drive systems, up from almost zero in 2002. We expect that the annual adoption rate for hybrid systems in North America will increase to 50% by 2015. New Flyer has publicly stated that 50% of its current transit bus backlog is for hybrids. In Europe, where the transit bus market is approximately four times larger than the North American market, we expect the adoption rate to increase rapidly as major European countries and cities adopt increasingly stringent environmental standards.

We sell most of our Hybrid Systems to North American bus OEMs who in turn sell vehicles incorporating our systems to fleet operators, such as municipal and local transit agencies. These OEMs tend to be vehicle assemblers, without specific expertise in drivetrains or hybrid systems, and as a result tend to outsource the supply of these components to third parties such as us. Currently, there are seven major OEMs supplying transit buses in North America: New Flyer, North American Bus Industries, Inc. (including Optima Bus Corp.), Gillig Corporation, Orion Bus Industries Ltd., Thor Industries, Inc. (including its subsidiaries ElDorado National and Champion Bus, Inc.), Motor Coach Industries and Wright & Sons, Ltd. These OEMs account for approximately 90% of transit bus sales to municipal and local transit agencies in North America.

Key Market Drivers

We expect that growth for heavy duty hybrid systems will continue to be driven by a number of factors:

- **Greater Fuel Economy** — Hybrid drive systems have been shown to reduce fuel use by as much as 41% in extended direct comparison testing with conventional diesel systems. For a municipality such as Chicago where the annual fuel bill is greater than $60 million, such savings are driving rapid adoption. Higher fuel prices shorten payback periods for hybrid vehicles.
- **Tightening Emissions Standards** — 2010 EPA and CARB emission requirements will impose increasingly stringent standards and limit permissible emissions from new vehicle engines. We believe this will reduce the demand for diesel-fueled vehicles. To meet these more stringent standards, traditional diesel and diesel hybrid heavy duty vehicles sold after January 1, 2010 will require increasingly complicated engine after-treatment systems, such as diesel particulate filters, NOx traps and diesel emission fluid systems. We believe these additional emissions components will increase capital costs for diesel buses (both conventional and hybrid) and increase ongoing operating costs, and we expect that this will spur growth in the market for gasoline hybrid systems where we have a dominant position.
- **U.S. Federal and State Subsidies** — For over 18 years, the upfront capital cost to acquire transit buses in the U.S. has been primarily funded by the TEA. In the most recent enactment of the TEA, Congress included up to 90% funding for the incremental cost of hybrid systems.
- **Green Movement** — Increasing awareness of climate change issues and other environmental concerns are driving political and public support for green initiatives, including city air quality improvements and increased fuel efficiency for vehicles. For example, New York City has recently made a decision to promote a move to hybrid transit buses and taxis, and is in the initial stages of deploying hybrid refuse trucks.

Sample Payback Periods

The following table compares the costs of various types of 40-foot buses and shows the estimated payback period for buses powered by our Hybrid System, as compared with conventional diesel buses based on 40,000 miles per year of operation and an average fuel cost of $2.77 per gasoline gallon and $3.09 per diesel gallon.

Type of Drive System	Fuel Efficiency	Fuel Cost / Gallon	Fuel Cost / Mile	Incremental Vehicle Cost net of 90% FTA Subsidy	Estimated Fuel Cost (Annual)	Estimated Fuel Savings (Annual)	Payback Period (Years)
Conventional Diesel Bus	Baseline (3.24 MPG)	$3.09	$0.95	Baseline	$38,275	Base	Base
ISE/New Flyer Gasoline Hybrid	38% (4.47 MPG)	$2.77	$0.62	$20,650	$24,772	$13,953	1.5 years
ISE/New Flyer Diesel Hybrid	53% (4.98 MPG)	$3.09	$0.62	$18,100	$25,194	$13,530	1.3 years

Notes:

Fuel economy numbers based on independent and public Altoona Testing. Lower fuel efficiency for ISE's gasoline hybrid versus ISE's diesel hybrid is solely related to lower energy content of gasoline as compared to diesel. Fuel cost/gallon numbers based on average U.S. diesel and gasoline costs for 2007-2009 according to Energy Information Administration.

These payback period estimates are significantly less than the average operational life of a transit bus, which is typically 12 years.

Heavy Short-Haul Trucks

The Heavy Commercial Truck market in North America is projected to average 390,000 new units per year over the next six years, with a 76% compound annual growth rate for hybrids over this period. The Heavy Short-Haul Truck market in North America represents a substantial market and includes, on an annual basis, approximately 6,500 refuse trucks, 27,000 services trucks (such as package delivery trucks), 1,900 beverage distribution trucks, 5,900 food processing and distribution trucks and 4,000 utility trucks. Heavy Short-Haul Trucks are some of the heaviest, most-polluting diesel trucks in the heavy duty commercial vehicle industry and therefore stand to gain significantly from hybrid technology. We expect that refuse trucks will be the next type of Heavy Commercial Truck to adopt hybrid system technology. Because these vehicles perform the most stop-and-go driving of any vehicle type, travel relatively short distances and require large amounts of onboard power to operate accessories such as lifting mechanisms and compactors, they would benefit from hybrid systems that operate at a more consistent and efficient rate and recapture electrical energy during braking. Because hybrid drive systems for refuse trucks have a similar design and use the same components as those for vehicles in the transit bus market, this market represents a logical and natural extension of the hybrid heavy duty commercial vehicle market. The refuse truck market in the U.S. is approximately two times larger than the transit bus market and represents a substantial opportunity for our product offerings.

Industry Sales and Procurement Cycles

A transit bus purchased using FTA subsidies must be operated for 12 years or 500,000 miles. Fleet operators typically initiate a competitive bid process to purchase replacement transit buses and often work with an OEM and systems supplier, like us, to write a specification for a desired product. In connection with the bid process, the fleet operator will develop the desired business terms, obtain internal approval for the procurement and release a RFP. Teams of OEMs and hybrid system suppliers will then submit responsive proposals, which the fleet operator will evaluate. The fleet operator ultimately selects the winning bid and, following selection, will negotiate a contract with the OEM. Depending on the size of the order and an OEM’s preferences, the OEM will then either enter into a subcontract relationship with hybrid system suppliers, like us, by entering into a formal supply contract or by simply issuing purchase orders. This procurement process for transit buses generally takes six months to a year and can cost the fleet operator over $250,000 to manage. In order to reduce costs, and because fleet operators are typically purchasing a series of buses over a multi-year period, fleet operators often structure procurement contracts to include both a firm contract for a number of units in a particular timeframe and options to purchase additional units over a longer period of time. The options are typically exercisable at the sole discretion of the fleet operator at fixed prices (which may or may not exceed the firm contract/purchase order price and may or may not include price adjustments for inflation) and may be transferred between operators. Smaller transit authorities tend to use options of other fleet operators, thereby saving the expense of running their own procurement and RFP process.

The procurement process for Heavy Short-Haul Trucks is similar to that of transit buses, but is typically driven by the OEM rather than a fleet operator. The OEM will determine when and what type of truck it wants to produce and will write an RFP for various systems suppliers. Much like a fleet operator in the transit bus market, the OEM will typically conduct an evaluation process and select winning bids. The procurement process for Heavy Short-Haul Trucks typically takes from three to six months and may include single contracts or purchaser orders with options in later years.

Energy Storage Systems Markets for Heavy Duty Applications

The global market for energy storage systems is growing rapidly, driven primarily by innovation in response to the historical limitations of energy storage technology, lower prices for these systems, environmental concerns, increasing energy costs and growing demand for renewable energy alternatives. We believe these trends are contributing to a growing demand for advanced energy storage systems in various end markets.

Heavy Commercial Truck Markets

On a cost per unit of energy basis, electricity is on average a more economical source of energy than diesel and gasoline. For example, purchased energy from the electrical grid is approximately 40% to 60% less expensive than an equivalent amount of usable energy from diesel and gasoline. However, electricity has not historically been the most efficient or practical source of power for vehicle powertrains due to the energy storage limitations of conventional battery technologies used to deliver the electric power. With the advancement of energy storage technologies, the use of energy storage systems to deliver energy to hybrid powertrains is becoming more economically viable. These industry dynamics are especially evident and creating a demand for new battery technology applications in the transit bus market and the Heavy Commercial Truck market. The higher fuel consumption rate of these large vehicles makes the potential fuel cost savings derived from the use of energy storage systems even greater.

Frost & Sullivan estimates that the hybrid adoption rate in the North American transit bus market will be 50% by 2015, representing hybrid transit bus sales of 3,500 units annually. Each of these hybrid transit buses will require an energy storage system and we plan to aggressively pursue this energy storage market.

Other Heavy Duty Applications

Other markets for heavy duty energy storage systems include: (i) industrial machinery, (ii) stationary power applications and (iii) electric grid services.

Industrial Machinery. The industrial machinery market includes applications where the majority of the energy storage system's energy is not used in propelling the machine, but rather lifting, powering or handling goods or materials. The primary applications include electrically-driven mining and construction equipment, and other large industrial machinery. For example, energy storage systems can be incorporated into power shovels in the mining industry, and container movement cranes in the shipping industry, to recapture and store energy created by regenerative braking and provide electrical load balancing.

Stationary Power Applications. Energy storage systems for stationary power applications are designed to provide electrical power to large systems during periods of power outages. They are used in equipment dedicated to stabilizing voltages by eliminating irregularities in systems that generate electrical power. Theses applications require systems that can hold large loads temporarily as utility power switches from one generation source to another. Applications such as uninterruptible power supplies, DC power systems, frequency regulation, community storage, emergency lighting, starter systems, security alarms, and switchgear primarily drive the market for stationary energy storage systems.

Electric Grid Services. Energy storage systems for electric grid applications are designed to preserve electric grid integrity. Grid operators often need to call on resources to provide critical ancillary services such as standby reserve capacity and frequency regulation services. Resources required for standby reserve capacity services must ramp up and down quickly to offset sudden, short-term generator or transmission line outages. Resources for frequency regulation services are called upon to smooth temporary frequency fluctuations in the grid due to changes in demand and supply. Heavy duty energy storage systems capable of providing rapid charge and discharge cycles, as well as high power over a long period, may cost effectively provide standby reserve capacity and frequency regulation services. Wind and solar energy generation are expected to be increasingly important sources of electricity in the future. However, wind and solar are intermittent power sources that are often not well suited to support the grid and put additional demands on grid stabilization. Heavy duty energy storage systems can be used to supplement these new generation technologies by providing regulation services and excess energy storage during periods of high transmission line usage or low customer demand.

We expect that growth for heavy duty energy storage systems will be driven by a number of factors:

- **Increasing Adoption of Hybrid and All-Electric Vehicles** — Advanced energy storage systems are essential to the operation of hybrid and all-electric heavy duty vehicles. We believe that the demand for energy storage systems will increase as the adoption of hybrid heavy duty vehicles accelerates and hybrid heavy duty vehicles transition to battery-dominant, plug-in compatible and all-electric configurations.
- **Stability of Electrical Supply** — Certain large, all-electric industrial machinery (such as electrically-driven mining and construction equipment) is connected directly to the electrical grid and requires a stable supply of electricity, which the grid is not always able to provide. Advanced energy storage provides a load-balancing capability to enable a consistent and stable supply of electricity that increases the productivity and reliability of such industrial machinery.
- **Need for Reduced Operating Costs for Heavy Duty Vehicles** — When used in hybrid vehicles, energy storage systems allow the efficient recapture, storage and redeployment of energy produced through regenerative braking. The more advanced and efficient the energy storage system, the more fuel efficient the vehicle, leading to reduced energy use and lower operating costs.
- **Ability to Purchase Energy From the Electrical Grid** — Energy storage systems enable greater use of less expensive grid-based energy in a wide range of applications. On a cost per unit of energy basis, electricity is on average a more economical source of energy than diesel or gasoline. For example, purchased energy from the electrical grid is approximately 40% to 60% less expensive than an equivalent amount of usable energy from diesel and gasoline.

- **Emission Standards** — The U.S. federal government and various states have enacted increasingly stringent standards for emissions including the 2010 CARB and EPA emission requirements. Reduced emission requirements are increasing demand for energy storage solutions to power less polluting and more environmentally friendly hybrid and all-electric vehicles.

U.S. Federal and State Subsidies

Purchases of transit buses are largely funded through FTA funding under the TEA. Under these programs, municipal and local transit authorities in the United States receive 80% of the funding for new bus purchases from the federal government for (i) the replacement of buses that have operated for at least 12 years or 500,000 miles, and (ii) new buses to support fleet growth based on population and ridership trends. In order to receive federal funding for new bus purchases, a minimum 20% contribution commitment from local transit authorities must be in place and the new bus purchase must comply with "Buy-America" legislation which requires that buses meet the following fundamental requirements to be eligible for FTA funding: (i) final bus assembly/manufacture must occur within the United States and (ii) the bus must contain a minimum 60% United States content by cost. In addition, all applicants for United States federal funding must certify to the FTA that any bus acquired with such funding has been tested in accordance with Altoona Testing.

Federal funding for public transit in the United States is provided under the TEA legislation covering highway, air, rail and marine transport which is passed in six-year cycles. Most recently, on August 10, 2005, the latest enactment of the TEA, entitled the "Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users" ("SAFETEA-LU") was passed, authorizing $52.6 billion in transit funding for fiscal year 2005 through fiscal year 2009. Under these programs, transit agencies can use federal funds to cover up to 80% of the sales price of standard diesel buses, plus up to 90% of the incremental cost of alternative fuel buses. SAFETEA-LU expired on September 30, 2009 and has continued to operate through short-term extensions and continuing resolutions. We expect a full six-year authorization bill relating to TEA to be enacted sometime in 2010.

In February 2009, the American Recovery and Reinvestment Act was passed, which allots $2.0 billion in grants to support U.S. manufacturers of advanced vehicle batteries, hybrid electrical systems, components and software designs. In addition, $300 million was allotted for the Clean Cities-based Alternative Fuel and Advanced Technology Vehicles Pilot Program meant to expand the fleet of clean, sustainable vehicles in the United States and to enhance the infrastructure to support them. Transit systems across the United States are taking advantage of the stimulus funds to order hybrid buses, including smaller cities that could not previously afford to migrate over to hybrid systems.

Various states, including California and Texas, also have programs to help heavy duty vehicle fleet operators, including transit agencies, finance the purchase of alternative fuel vehicles. For instance, CARB administers its "Carl Moyer Program," which offers grants to fleet operators in proportion to the NOx emission reductions they achieve by buying alternative fuel vehicles. For a large transit bus purchase, a Carl Moyer grant can be as large as $13,600 per ton of NOx reduction. By combining state funding from these types of programs with the FTA subsidy, transit agencies are often able to buy hybrid buses for a lower cost than conventional diesel buses.

Additional International Market Considerations

There are currently fewer hybrid heavy duty commercial vehicles in operation in Europe than in North America, but we expect the adoption rate to increase rapidly as major European countries and cities adopt increasingly stringent environmental standards. The European market represents a significant opportunity, as the transit bus market in Europe is approximately four times larger than the North American market, with approximately 20,000 new vehicles purchased each year. The European hybrid heavy duty market is dominated by five large OEMs, representing 75% of the total addressable transit bus market. Unlike OEMs in the North American market, these OEMs have extensive proprietary engineering and do not typically purchase complete drive systems from third party suppliers. We believe that there is an opportunity for us to supply our ES Systems and other hybrid subsystems to these OEMs, who we believe do not tend to have the same experience and expertise as ISE in energy storage systems or other core hybrid subsystems. We believe a similar situation exists in Asia and South America and that we can take advantage of our expertise in advanced energy storage systems to expand into these markets.

USE OF PROCEEDS

The net proceeds of the Offering to be received by the Company, after deducting the Underwriters' fees, and prior to the expenses of the Offering, is expected to be approximately C$17.7 million. If the Over-Allotment Option is exercised, the Company will not receive any proceeds from the sale of the Common Shares by the Selling Shareholders.

We intend to use the net proceeds of the Offering as follows:

- approximately C$3.0 million in the 24 months following the Offering to continue research and development of our energy storage system technology, including both high energy and high power lithium-ion solutions and blended ultracapacitor and lithium-ion configurations;
- approximately C$6.2 million in the 24 months following the Offering for research and development of our controls software and power electronics technology;
- approximately C$1.0 million to purchase additional capital equipment relating to the manufacturing and testing of our products;
- approximately C$6.5 million to repay outstanding indebtedness under our secured convertible promissory notes held by certain of the Existing Shareholders, which are described in further detail in "Interest of Management and Others in Material Transactions – Bridge Financing (2009);" and
- approximately C$1.0 million to expand our sales and marketing capabilities in North America and internationally.

We expect that our use of proceeds on research and development in energy storage system technology and controls software and power electronics technology will, in each case, be spread roughly equally between 2010 and 2011. We anticipate that approximately 50% of the costs will be related to internal labour, and less than 10% of the costs will be related to outside contractors. We currently expect that this use of proceeds will be sufficient to begin commercial production of the energy storage products in our energy storage strategy and complete the introduction of new controls software and power electronics.

The secured convertible promissory notes to be repaid with a portion of the proceeds from the Offering were issued by ISE in a bridge loan financing transaction in July 2009. See "Interest of Management and Others in Material Transactions – Bridge Financing (2009)." The aggregate principal amount of the notes at issuance was approximately $5.6 million. The proceeds of the notes were used to fund the ongoing operations of ISE and for working capital. The notes are held by certain of the Existing Shareholders, including among others, four investors – NGP Energy Technology Partners, L.P., Rockport Capital Partners II, L.P., Siemens Venture Capital GmbH and David R. Goodman – who either will hold more than 10% of the Company's outstanding Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares) and are affiliated with members of the Company's board of directors (the "Board"), or are members of the Board themselves. The notes accrue interest at a rate of 15% per annum and were originally scheduled to mature on December 31, 2009 unless earlier converted or prepaid. On December 16, 2009, the maturity date of the notes was extended to March 31, 2010.

The amounts and timing of our actual expenditures will depend on numerous factors. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the net proceeds. Pending our use of the net proceeds from our sale of the Common Shares, we intend to invest the net proceeds of this Offering in short-term, interest-bearing, investment-grade securities.

SELECTED FINANCIAL INFORMATION

The following tables summarize selected financial data for the periods presented for ISE and, with respect to share information, without giving effect to the Reorganization, including the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share). You should read the following financial information together with the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and ISE’s financial statements and the related notes to the financial statements appearing elsewhere in this prospectus. The selected statements of operations data for the years ended December 31, 2008, 2007 and 2006, and the selected balance sheet data as of December 31, 2008 and 2007 have been derived from ISE’s audited financial statements, which are included elsewhere in this prospectus. The balance sheet data at December 31, 2006 has been derived from ISE’s audited financial statements not included in this prospectus. The selected balance sheet data as of September 30, 2009 and the selected statements of operations data for the nine months ended September 30, 2009 and 2008 are derived from our unaudited financial statements appearing elsewhere in this prospectus. The unaudited financial statements have been prepared on the same basis as our audited financial statements and include, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of the financial information set forth in those statements. The interim results for the nine months ended September 30, 2009 are not necessarily indicative of the operating results for 2009. Historical results are not necessarily indicative of the results to be expected in future periods.

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(unaudited)	
	(in thousands, except share data)				
Statement of Operations Data:					
Revenue	$ 19,445	11,044	4,251	26,008	12,988
Cost of revenue	30,390	23,843	7,236	25,013	23,309
Gross income (loss)	(10,945)	(12,799)	(2,985)	995	(10,321)
Operating expenses:					
Product engineering, research, and development	2,338	2,035	1,115	3,828	1,390
Marketing and selling expense	2,293	2,235	1,368	1,866	1,645
General and administrative expense	9,165	9,086	3,856	4,809	7,268
Total operating expenses	13,796	13,356	6,339	10,503	10,303
Loss from operations	(24,741)	(26,155)	(9,324)	(9,508)	(20,624)
Other income (expense):					
Interest expense	(529)	(209)	(9)	(1,393)	(594)
Interest income	61	238	631	5	48
Other income (loss), net	(234)	(140)	(33)	65	146
Warrant modification expense	(177)	—	—	—	(177)
Other income (expense)	(879)	(111)	589	(1,323)	(577)
Loss before income tax provision	(25,620)	(26,266)	(8,735)	(10,831)	(21,201)
Income tax provision	1	1	1	1	1
Net loss	(25,621)	(26,267)	(8,736)	(10,832)	(21,202)
Returns to preferred shareholders	(7,153)	(4,376)	(10,395)	(6,843)	(5,108)
Net loss attributable to common stockholders	$ (32,774)	(30,643)	(19,131)	(17,675)	(26,310)
Net loss per common share attributable to common stockholders – basic and diluted	$ (8.71)	(12.49)	(7.79)	(4.16)	(7.31)
Weighted average number of shares to compute basic and diluted net loss per share attributable to common stockholders	3,764,724	2,452,939	2,457,377	4,252,939	3,600,192

	As of December 31,			As of September 30,
	2008	2007	2006	2009
		(audited)		(unaudited)
		(in thousands)		
Balance Sheet Data:				
Cash and cash equivalents	$ 638	$ 1,469	$ 920	$ 2,251
Short-term investments	5,400	1,122	13,492	—
Total assets	31,994	21,368	24,137	29,231
Long-term debt and capital leases	60	5,007	47	40
Total liabilities	32,257	27,594	5,334	39,412
Redeemable convertible Series B preferred stock	35,122	30,584	26,208	38,161
Redeemable convertible Series C preferred stock	14,772	—	—	15,974
Redeemable convertible Series D preferred stock	17,482	—	—	20,084
Accumulated deficit	(67,145)	(41,028)	(14,761)	(77,977)
Total stockholders' deficit	(67,639)	(36,810)	(7,405)	(84,400)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the financial statements of ISE and the related notes appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Unless the context otherwise requires, in this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," references to "we," "us," "our" and "ISE" mean "ISE Corporation" without giving effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share). Actual results could differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this prospectus. The financial statement data has been prepared in accordance with United States GAAP and is presented in United States dollars unless otherwise noted herein. Information contained herein includes any material developments to December 16, 2009.

Overview

We are a leading developer, manufacturer and distributor of heavy duty hybrid-electric drive systems based on our core proprietary technology, which is focused on three critical subsystems: energy storage, controls software and power electronics. These core technologies and subsystems are critical for any hybrid or all-electric vehicle to achieve the most efficient management of energy.

We specialize in complete hybrid-electric drive systems designed for use in heavy duty commercial vehicles, which include our proprietary subsystems as well as other third party components. Our Hybrid Systems are based on a "series" configuration, where the engine is completely decoupled from the driveline and used only to generate electrical power, thereby providing the option of battery-dominant, plug-in compatible and all-electric heavy duty commercial vehicles. Our Hybrid Systems have demonstrated reliability and performance in over 12 million miles of transit bus fleet operation.

We have also developed advanced ultracapacitor and lithium-ion based energy storage systems specifically designed for high duty cycle, heavy duty vehicle applications, incorporating our proprietary electronics and battery management technology in a modular, scalable and ruggedized design. Over the course of our 15 year history, we have developed significant expertise designing robust, high power systems capable of operating in extreme environments that require unique design approaches and intellectual property. Presently, we are on our fourth generation of our ultracapacitor system and have begun shipping production samples of our lithium-ion systems to major international OEMs. Our value proposition is that our ES Systems have been designed to be cell agnostic, scalable, highly configurable and designed for the lowest total cost of ownership for a given application. We plan to leverage our core proprietary technology to sell high-volume, high margin ES Systems to OEMs and partners in evolving energy storage markets.

We sell most of our Hybrid Systems to OEMs, who in turn sell vehicles incorporating our systems to fleet operators, including municipal and local transit agencies. We also sell most of our ES Systems, which have been designed specifically for the heavy duty bus and truck industry, to OEMs. We intend to sell our ES Systems into international vehicle markets where OEMs tend to design and integrate their own hybrid systems, as well as adjacent non-vehicle markets. We are currently shipping production samples of our lithium-ion ES Systems to major international OEMs. Each of our Hybrid Systems comes with a standard two-year limited warranty covering parts and labour, and we also offer an extended three-year limited warranty for sale. Our warranty support incorporates our proprietary RDU, which enables us to obtain vehicle diagnostic information remotely and provide timely and comprehensive support and maintenance services to our customers. Our RDU allows remote access to a variety of information on the status and performance of individual drive system components and the drive system as a whole, improving the efficiency of our service and warranty support.

Our Hybrid System business is characterized by a long and unpredictable sales cycle, where we typically enter into a limited number of long-term contracts for orders of our Hybrid Systems. Our revenue in any quarter is substantially dependent on orders delivered in that quarter, and our quarterly revenue would be adversely affected if we are unable to complete one or more large transactions or if contract terms were to prevent us from recognizing revenue during that quarter. Variations in the size, type and timing of customer orders for our products could expose us to substantial fluctuations in our revenue and results of operations. In addition, we incur or commit to operating expenses based on anticipated revenue and generally do not know whether revenue in any period will meet our expectations until the end of that period. Accordingly, our liquidity is also impacted by the size and timing of our customer orders and deliveries.

Sources of Revenue

We derive our revenue from the sale of Hybrid Systems and ES Systems. Our revenue also includes certain funded activities developing prototype Hybrid Systems for our customers pursuant to contracts or other arrangements. For any given year, we may derive a higher percentage of our revenue from production Hybrid Systems or prototype Hybrid Systems. We generally defer a portion of our revenue from the sale of extended warranty contracts, and recognize this revenue ratably over the extended warranty period.

Costs of Revenue

Cost of revenue consists primarily of materials for components from suppliers, which we assemble into completed Hybrid Systems. Labour consists of indirect engineering and direct shop floor labour. Overhead is allocated based upon direct labour charged to projects. In the future, we expect that the production of our backlog will lead to an increase in our aggregate component and labour costs, but that associated increases in revenue will lead to greater absorption of our fixed costs, reducing the cost of revenue as a percentage of revenue.

Operating Expenses

Product Engineering, Research and Development. Product engineering, research and development expense consists primarily of expenses related to engineering employees (including, without limitation, salaries, benefits, stock-based compensation, non-billable travel, lodging and other out-of-pocket employee-related expense). Additionally, some of our projects require the use of outside consultants to augment our present staff. Typically, for projects that vary from those previously produced, we find it necessary to incur non-recurring engineering ("NRE") on the development of new or partially new products primarily for engineering work to design the new components. Additionally, from time to time we initiate projects without any contractual arrangements to advance hybrid technology in order to maintain a competitive leadership position. We expect to continue to fund such projects in the future. We expect that in the future research, engineering and development expense will increase in absolute terms but not as a percentage of revenue as we produce our backlog of more mature products requiring incrementally less new research and development investment.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel-related expense for employees (including, without limitation, salaries, benefits, stock-based compensation commissions, non-billable travel, lodging and other out-of-pocket employee-related expense). In order for us to meet the increasing demands required to produce our backlog, we will be expanding our employee base in marketing and selling functions. We also expect to further expand into Europe, which will also increase our selling expenses. We expect that in the future marketing and selling expenses will increase in absolute terms but decline over time as a percentage of revenue.

General and Administrative. General and administrative expenses consist primarily of personnel-related expenses for administrative employees (including, without limitation, salaries, benefits, stock-based compensation, non-billable travel, lodging and other out-of-pocket employee-related expense), occupancy and other indirect costs (including, without limitation, building maintenance and utilities) and insurance, as well as software license fees and outside professional fees for accountants, lawyers and consultants and temporary employees. In order for us to meet the increasing demands required to produce our backlog, we will be expanding our employee base and related occupancy expense. We also expect to further expand into Europe, which will also increase our general and administrative expenses. As a public company, we expect to incur increased expenses for professional services, insurance and expansion of service and control functions to meet our regulatory reporting requirements. We expect that general and administrative expense will increase in the future in absolute terms but decline over time as a percentage of revenue.

Other Income (Expense). Interest expense consists primarily of interest expense related to our outstanding secured convertible promissory notes and the financing of our Oracle system and copiers. Interest income represents earnings from our cash, cash equivalents and short-term investments. Other income, net consists primarily of realized and unrealized gains and losses on investments and foreign exchange gains and losses.

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with United States GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment:

- *Revenue recognition*
- *Allowance for doubtful accounts*
- *Inventory valuation*
- *Warranty obligations*
- *Share-based compensation*
- *Income taxes*

Revenue Recognition. We recognize revenue from sales of production Hybrid Systems in accordance with the applicable revenue recognition authoritative guidance, specifically the percentage of completion method utilizing either the units-of-delivery or the cost-to-cost method, depending on the terms of the sale. If the Hybrid Systems sale requires us to produce multiple Hybrid Systems in a continuous production process as well as design or modify our technology to manufacture such Hybrid Systems to meet customer specifications, the sale is accounted for using the units-of-delivery method. The units-of-delivery method recognizes as revenue the contract price of the Hybrid Systems delivered during the period and as the cost of earned revenue the costs allocable to the delivered Hybrid Systems; costs allocable to undelivered Hybrid Systems are reported in the balance sheet as inventory.

We recognize prototype project revenue using the percentage-of-completion method of accounting. Revenue and fees on these contracts are recognized using the percentage-of-completion method of accounting using the cost-to-cost method.

Adjustments to estimates for a contract's revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. The impact of revisions in profit (loss) estimates for all types of contact subject to percentage-of-completion accounting is recognized on a prospective basis in the period in which the revisions are made. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and their realization is reasonably assured. The revisions in contract estimates, if significant, can materially affect our results of operations and cash flows, as well as reduce the valuations of receivables and inventories, and in some cases result in liabilities to complete contracts in a loss position.

Revenue from spare parts and Hybrid Systems orders that require us to produce multiple Hybrid Systems in a continuous production process but do not require design or development efforts are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. These criteria are usually met at the time of product shipment. However, certain sales require customer acceptance and revenue is deferred until all customer acceptance requirements have been met.

Our Hybrid Systems sales generally also include training and support services. Therefore, we also apply authoritative guidance for revenue arrangements with multiple deliverables to these arrangements. As we have established fair value for the training and support services, based on stand-alone sales, revenue is allocated to the separate elements based on the residual method. The training and support services are generally provided within a few weeks after shipment of the Hybrid Systems.

We recognize revenue from the sale of extended warranties in accordance with the authoritative guidance for separately priced extended warranty and product maintenance contracts. We offer separately priced three year warranties for sale to customers of our Hybrid Systems. Revenue from extended contracts is deferred and recognized ratably over the extended warranty period.

Allowance for Doubtful Accounts. We record an allowance for estimated credit losses resulting from collection risks, including the inability of customers to make required payments. The adequacy of the allowance is determined by evaluating historical delinquency and write-off trends, the financial condition and credit risk of individual customer receivables, and current economic conditions. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. We estimate our allowance for doubtful accounts on a regular basis, by reviewing all amounts owed to us and focusing on those amounts that are greater than 60 days past due. We review the customers that have amounts greater than 60 days past due and where appropriate, establish a reserve for the receivable amount that we deem to be at risk in collecting. As of September 30, 2009, we estimated this amount to be approximately $74,000.

Inventory Valuation. We record inventories at the lower of cost or market. We assess the value of our inventories periodically based upon numerous factors, including expected product or material demand, current market conditions, technological obsolescence, current cost and net realizable value. If necessary, we adjust our inventory for obsolete or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value. If actual market conditions are less favourable than what we projected, we may need to record additional inventory adjustments. Our inventory write-downs are related to estimated allowances for inventory determined to be in excess based on our most recent sales forecast and for inventory items whose carrying value is in excess of net realizable value. We evaluate inventory levels quarterly against sales forecasts on a significant part-by-part basis, in addition to determining our overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory.

For the years ended December 31, 2008, 2007 and 2006 and for the nine months ended September 30, 2009 and 2008, respectively, we recorded charges of $3.6 million, $1.4 million, $0.3 million, $0.6 million and $3.4 million to cost of goods sold for estimated excess and obsolete inventory. The charge in 2008 included a $2.3 million reserve for inventory items on hand for a specific contract with an overall estimated loss.

Warranty Obligations. We generally provide a warranty of two years from the date of initial operation of our Hybrid Systems. We record a provision for estimated future warranty costs at the time of shipment. If future actual costs to repair were to differ significantly from our estimates, we would record the impact of these unforeseen costs or cost reductions in subsequent periods. The majority of our suppliers also warrant their products sold to us for a minimum of two years. We estimate the costs of our warranty obligations based on our historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product issues. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than we need, we may reverse a portion of such provisions in future periods.

Share-Based Compensation. Share-based compensation expense can be significant to our results of operations, even though no cash is used for such expense. In determining period expense associated with unvested options, we use an option pricing model to estimate the fair value of each option at the date of grant. In an option pricing model, common stock is considered to be a call option with a claim on the equity at an exercise price equal to the remaining value immediately after any preferred stock is liquidated. We use the Black-Scholes option pricing model to determine the fair value of awards. This model requires the input of highly subjective assumptions, including the expected volatility of our stock and the expected term that the average employee will hold the option prior to the date of exercise. In addition, we estimate pre-vesting forfeitures for share-based awards that are not expected to vest. We primarily use historical data to determine the inputs and assumptions to be used in the Black-Scholes pricing model. Changes in these inputs and assumptions could occur and could materially affect the measure of estimated fair value and make it difficult to compare the results in future periods to our current results.

The fair value of stock options and warrants issued and all pro forma disclosures have been determined using the Black-Scholes option-pricing model with the following assumptions:

	Years Ended December 31,			Nine Months ended September 30,	
	2008	2007	2006	2009	2008
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	63.80%	62.54%	70.85%	68.38%	63.8%
Average risk-free interest rate	2.99%	4.54%	4.34%	3.27%	2.99%
Expected option holding period	6.5	6.2	6.5	6.5	6.5

The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our restricted stock awards. The expected term of option grants is based on the midpoint between the vesting date and the contractual expiration date. We do not have a history of market prices for shares of our common stock, and as such we estimate volatility using historical volatilities of similar public entities. The dividend yield assumption is based on our history and expectation of paying no dividends. For grants to employees, stock-based compensation expense is based on shares expected to vest over the service period and has been reduced for estimated forfeitures. Authoritative guidance for stock based compensation requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

Because our shares of common stock are not publicly traded, we have periodically evaluated the assumptions used to value the fair value of our common stock, often in connection with significant equity awards. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. Higher volatility and longer expected lives result in an increase in stock-based compensation expense determined at the date of grant. In addition, quarterly changes in the estimated forfeiture rates can have a significant effect on reported stock-based compensation expense for employees, as the cumulative effect of adjusting the rate for all expense amortizations for prior periods is recognized in the period the forfeiture estimate is changed. For example, if a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will increase stock-based compensation expense in the period in which we make the change in estimate. These adjustments can have a significant impact on our operating expenses. In addition, future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees.

Income Taxes. Income taxes are accounted for under the asset and liability method of accounting. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when a judgment is made.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained in accordance with the provisions of authoritative guidance for income taxes. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Nine months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2008 (unaudited)
	(in thousands, except share and per share data)				
Statement of Operations Data:					
Revenue	$ 19,445	$ 11,044	$ 4,251	$ 26,008	$ 12,988
Cost of revenue	30,390	23,843	7,236	25,013	23,309
Gross income (loss)	(10,945)	(12,799)	(2,985)	995	(10,321)
Operating expenses:					
Product engineering, research and development	2,338	2,035	1,115	3,828	1,390
Sales and marketing	2,293	2,235	1,368	1,866	1,645
General and administrative	9,165	9,086	3,856	4,809	7,268
Total operating expenses	13,796	13,356	6,339	10,503	10,303
Loss from operations	(24,741)	(26,155)	(9,324)	(9,508)	(20,624)
Other income (expense):					
Interest expense	(529)	(209)	(9)	(1,393)	(594)
Interest income	61	238	631	5	48
Other income (loss), net	(234)	(140)	(33)	65	146
Warrant modification expense	(177)	—	—	—	(177)
Other incomes (expense)	(879)	(111)	589	(1,323)	(577)
Loss before income taxes	(25,620)	(26,266)	(8,735)	(10,831)	(21,201)
Income taxes	1	1	1	1	1
Net loss	(25,621)	(26,267)	(8,736)	(10,832)	(21,202)
Returns to preferred stockholders	(7,153)	(4,376)	(10,395)	(6,843)	(5,108)
Net loss applicable to common stockholders	(32,774)	(30,643)	(19,131)	(17,675)	(26,310)
Net loss per common share; basic and diluted	(8.71)	(12.49)	(7.79)	(4.16)	(7.31)
Basic and diluted weighted average common shares outstanding	3,764,724	2,452,939	2,457,377	4,252,939	3,600,192

Comparison of Nine Months Ended September 30, 2009 and 2008

Revenue and Costs of Revenue

	Nine months ended September 30, 2009	Nine months ended September 30, 2008	Increase (Decrease)	Percent change
	(unaudited) (in thousands)			
Revenue	$26,008	$12,988	$13,020	100%
Cost of revenue	25,013	23,309	1,704	7

Revenue. Revenue for the nine months ended September 30, 2009 was $26.0 million, an increase of $13.0 million, or approximately 100%, over revenue for the comparable period in 2008 of $13.0 million. The increase in revenue in the nine months ended September 30, 2009 was the result of revenue from zero emission Hybrid Systems (an increase of 16 equivalent units) and gasoline Hybrid Systems (an increase of 23 actual units) partially offset by the delivery of 48 fewer diesel-related systems, including backup generator systems, diesel Hybrid Systems and refuse trucks, compared to the nine months ended September 30, 2008. Zero emission Hybrid Systems have a substantially greater per unit sales value than gasoline and diesel Hybrid Systems due to the significant technological complexity of a hydrogen fuel cell compared to a gasoline or diesel engine.

Cost of Revenue. Cost of revenue for the nine months ended September 30, 2009 was $25.0 million, an increase of $1.7 million, or approximately 7%, over cost of revenue of $23.3 million for the nine months ended September 30, 2008. Gross margin as a percentage of revenue improved to 4% in the nine months ended September 30, 2009 compared to a negative 79% for the nine months ended September 30, 2008. The cost of revenue and resulting gross margin in 2009 reflects a more favourable product mix and improved fixed cost absorption from higher revenues. In addition, the cost of revenue included charges for estimated losses on certain contracts of $0.1 million and $4.0 million for the nine months ended September 30, 2009 and 2008, respectively. Cost of revenue also includes $0.6 million for inventory related charges for the nine months ended September 30, 2009 compared to $3.4 million in the nine months ended September 30, 2008. We have implemented actions (including reduced scope of supply, improvements in our supply chain and outsourcing of non-core functions) to reduce costs that have enhanced gross margins on the gasoline Hybrid Systems sold in the nine months ended September 30, 2009.

Operating Expenses and Other

	Nine months ended September 30,		Increase	Percent
	2009	2008	(Decrease)	change
	(unaudited) (in thousands)			
Operating expenses:				
Product engineering, research and development	$ 3,828	$1,390	$ 2,438	175%
Sales and marketing	1,866	1,645	221	13
General and administrative	4,809	7,268	(2,459)	(34)
Other income (expense):				
Interest expense	(1,393)	(594)	799	135
Interest income	5	48	(43)	(90)
Other income, net	65	146	(81)	(55)
Warrant modification expense	—	(177)	(177)	N/A

Product Engineering, Research and Development. Product engineering, research and development for the nine months ended September 30, 2009 was $3.8 million, an increase of $2.4 million, or approximately 175%, over the $1.4 million in the nine months ended September 30, 2008. This increase was primarily the result of $1.5 million of outside consulting fees incurred to develop our new ES System for both ultracapacitor and lithium-ion batteries in the nine months ended September 30, 2009. In addition, we had fewer development programs in 2009 than in the nine months ended September 30, 2008, and thus $0.5 million more labour was directed toward non-customer specific development programs.

Sales and Marketing. Marketing and selling expense for the nine months ended September 30, 2009 were $1.9 million, an increase of $221,000, or 13%, over $1.6 million in the nine months ended September 30, 2008. This increase primarily reflects an increased level of marketing and sales activity in 2009 to support the new refuse truck product line, and expand the marketing of our gasoline Hybrid Systems and ES Systems.

General and Administrative. General and administrative expense for the nine months ended September 30, 2009 was $4.8 million, a decrease of $2.5 million, or approximately 34%, compared to $7.2 million in the nine months ended September 30, 2008. Audit and consulting fees in the nine months ended September 30, 2009 decreased by $1.5 million compared to the nine months ended September 30, 2008. The higher level of 2008 audit and consulting expenses were in support of an uncompleted public financing and update to our strategic plan. Employee-related expenses (including salaries, temporary labour, severance etc.) decreased by $894,000 in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 period as the prior year included $0.8 million of severance costs associated with the termination of our founders' employment with ISE. In addition, 2008 expenses included a charge of $526,000 due to the abandonment of a demonstration bus project. This was offset by a 2009 increase in legal fees related to litigation matters ($0.3 million) and insurance expense ($0.2 million) to support our increased level of operations.

Interest Expense. Interest expense for the nine months ended September 30, 2009 was $1.4 million, an increase of $799,000, or approximately 135%, compared to interest expense of $594,000 for the nine months ended September 30, 2008. This increase was primarily due to non-cash amortization of debt discount costs associated with our bridge loan financing in July 2009.

Interest Income. Interest income for the nine months ended September 30, 2009 was $5,000 and $48,000 for the nine months ended September 30, 2008. The decrease resulted from the lower level of investable cash in the 2009 period.

Other Income. Other income, net, for the nine months ended September 30, 2009 was $65,000, a decrease of $81,000, or approximately 56%, over other income, net, of $146,000 for the nine months ended September 30, 2008. This decrease was primarily due to a decrease in foreign exchange gains.

Warrant Modification Expense. In the nine months ended September 30, 2008, we entered into a Warrant Exchange Agreement with all warrantholders that modified the conversion ratios of the then outstanding warrants. As a result of this modification to the conversion price of the warrants, we recorded a charge of $177,000 representing the difference between the fair value of the warrants and the fair value of the common stock issued. No similar expense was recorded in the nine months ended September 30, 2009 as there was no similar transaction in the current year.

Comparison of Years Ended December 31, 2008 and 2007

Revenue and Costs of Revenue

	Year Ended December 31,		Increase	Percent
	2008	2007	(Decrease)	change
	(in thousands)			
Revenue	$19,445	$11,044	$8,401	76%
Cost of revenue	30,390	23,843	6,547	27

Revenue. Revenue for the year ended December 31, 2008 was $19.4 million, an increase of $8.4 million, or approximately 76%, over revenue of $11.0 million for the year ended December 31, 2007. This increase reflects the delivery of more equivalent Hybrid Systems in 2008 compared to 2007. The 2008 Hybrid Systems included 44 gasoline Hybrid Systems and 66 diesel-related systems (including backup generator systems, diesel Hybrid Systems and refuse trucks) compared to 16 gasoline Hybrid Systems and 33 diesel Hybrid Systems in 2007.

Cost of Revenue. Cost of revenue for the year ended December 31, 2008 was $30.4 million, an increase of $6.5 million, or approximately 27%, over cost of revenue of $23.8 million for the year ended December 31, 2007. The gross loss percentage improved from a negative 116% to a negative 56% for 2007 and 2008, respectively. This change was due to increased revenue in 2008 offset by the variable cost of additional units produced and costs incurred to develop the infrastructure for a repetitive manufacturing company including increased utilization of our resource planning systems and a 10% increase in the number of employees in our logistics, quality control and manufacturing support functions. The 2008 cost of revenue included $6.4 million of loss contract related charges compared to $4.8 million in 2007. Cost of revenue also includes $3.6 million for inventory related charges for 2008 compared to $1.4 million in 2007. The cost of revenues in 2007 included a $2.6 million charge for the retrofit of systems delivered in prior years subsequently found to have technical issues and a $1.1 million charge to retrofit certain buses. There was no rework or retrofit charge in 2008.

Operating Expenses and Other

	Year Ended December 31,		Increase	Percent
	2008	2007	(Decrease)	change
	(in thousands)			
Operating expenses:				
Product engineering, research and development	$2,338	$2,035	$ 303	15%
Marketing and selling	2,293	2,235	58	3
General and administrative	9,165	9,086	79	1
Other income (expense):				
Interest expense	(529)	(209)	320	153
Interest income	61	238	(177)	(74)
Other income (loss), net	(234)	(140)	94	67
Warrant modification expense	(177)	—	(177)	N/A

Product Engineering, Research and Development. Product engineering, research and development for the year ended December 31, 2008 was $2.3 million, an increase of $303,000, or approximately 15%, over research, engineering and development expense of $2.0 million for the year ended December 31, 2007. This change was primarily due to increased employee and outside contractor costs as we commenced development of a new ultracapacitor ES System in 2008.

Marketing and Selling. Marketing and selling expense for the year ended December 31, 2008 was $2.3 million, an increase of $58,000, or approximately 3%, over marketing and selling expense of $2.2 million for the year ended December 31, 2007. This reflects an increase of $0.2 million for employee related costs, offset by a $0.2 million net decrease in marketing and lobbying costs.

General and Administrative. General and administrative expense for the year ended December 31, 2008 was $9.2 million, an increase of $79,000, or approximately 1%, compared to $9.1 million in the year ended December 31, 2007. Costs in 2008 included increased compensation expense of $2.4 million (including $0.8 million associated with the termination of our founders' employment with us), plus $0.5 million for consulting fees related to an update of our strategic plan. In addition, 2008 expenses included a charge of $526,000 due to the abandonment of a demonstration bus project. Expenses for the year ended December 31, 2007 included a higher level of audit and legal fees ($1.6 million) incurred in preparation for a public financing that was not completed and increased depreciation expense resulting from the acceleration of depreciation for certain corporate assets that had become obsolete.

Interest Expense. Interest expense for the year ended December 31, 2008 was $529,000, an increase of $320,000 over the year ended December 31, 2007. Interest expense in 2008 was primarily for a charge to interest expense for the unamortized discount on outstanding bridge loan indebtedness upon the conversion of such indebtedness to shares of Series C preferred stock.

Interest Income. Interest income for the year ended December 31, 2008 of $61,000 was $177,000 less than for the year ended December 31, 2007. The decrease resulted from the lower level of investable cash in the 2008 period.

Other Income (loss), net. Other loss net, for the year ended December 31, 2008 was $235,000 compared to other loss net of $140,000 for the year ended December 31, 2007. This increase was primarily due to realized losses on transactions denominated in a foreign currency and a decrease in income from the sale of investment securities in 2008.

Warrant Modification Expense. In the year ended December 31, 2008 we entered into a Warrant Exchange Agreement with all warrant holders that modified the conversion ratios of the then outstanding warrants. As a result of this modification to the conversion price of the warrants, we recorded a charge of $177,000 representing the difference between the adjusted fair value of the warrants and the fair value of the common stock issued. No similar expense was recorded in 2007 as there was no such transaction in that year.

Comparison of Years Ended December 31, 2007 and 2006

Revenue and Costs of Revenue

	Year Ended December 31,		Increase	Percent
	2007	2006	(Decrease)	change
	(in thousands)			
Revenue	$11,044	$4,251	$ 6,793	160%
Cost of revenue	23,843	7,236	16,607	230

Revenue. Revenue for the year ended December 31, 2007 was $11.0 million, an increase of $6.8 million, or approximately 160%, over revenue of $4.3 million in the year ended December 31, 2006. This increase was primarily due to the delivery of 49 Hybrid Systems in 2007 compared to only 12 Hybrid Systems in 2006. Hybrid Systems delivered in 2007 included 16 gasoline Hybrid Systems and 33 diesel Hybrid Systems. In 2006, we delivered 10 gasoline Hybrid Systems, one prototype diesel Hybrid System and one zero emission Hybrid System.

Cost of Revenue. Cost of revenue for 2007 was $23.8 million, an increase of $16.6 million, or approximately 230%, over cost of revenue of $7.2 million in 2006. Cost of revenue increased in 2007 primarily due to additional sales volume and the ramp up of production related expenses to support our increased volume and backlog for both 2007 and future years. Cost of revenue also includes $1.4 million for inventory related charges for 2007 compared to

$0.3 million in 2006. In 2007 we became aware of technical issues related to units delivered to customers in prior years and recorded a charge of $2.6 million for the estimated costs to rework these systems. The 2007 costs also included $1.1 million for the estimated cost to retrofit certain buses delivered in a prior year. Employee related costs in 2007 were substantially greater than 2006 due to a 70% increase in operations employees required to support the increased level of revenue and backlog. Due to the ramp up of production related expenses and rework and retrofit charges in 2007, the gross loss percentage increased to 116% of revenue in 2007 compared to 70% in 2006.

Operating Expenses and Other

	Year Ended December 31, 2007	Year Ended December 31, 2006	Increase (Decrease)	Percent change
	(in thousands)			
Operating expenses:				
Product engineering, research and development	$2,035	$1,115	$ 920	83%
Marketing and selling	2,235	1,368	867	63
General and administrative	9,086	3,856	5,230	136
Other income (expense):				
Interest expense	(209)	(9)	200	2,222
Interest income	238	631	(393)	(62)
Other income (loss), net	(140)	(33)	(107)	(324)

Product Engineering, Research and Development. Product engineering, research and development for the year ended December 31, 2007 was $2.0 million, an increase of $920,000, or approximately 83%, over $1.1 million in the year ended December 31, 2006. This increase was for employee related costs as we increased our engineering staff from 18 to 25 during the year.

Marketing and Selling. Marketing and selling expense for the year ended December 31, 2007 was $2.2 million, an increase of $867,000, or approximately 63%, over the $1.4 million in the year ended December 31, 2006. This included an increase of $0.6 million for salary and related expenses as the number of employees in this area increased by 22% over the prior year. In addition, in 2007 we incurred $0.3 million of increased marketing and lobbying expenses.

General and Administrative. General and administrative expense for the year ended December 31, 2007 was $9.1 million, an increase of $5.2 million, or approximately 136%, compared to $3.9 million in the year ended December 31, 2006. The 2007 expenses included legal, audit and outside service fees $4.0 million greater than the prior year related to preparation for a public financing that was not completed. There was also an increase in salary and related expenses of $0.7 million due to the addition of seven employees in the administrative area.

Interest Expense. Interest expense for the year ended December 31, 2007 was $209,000, an increase of $200,000 over the interest expense of $9,000 for the year ended December 31, 2006. This increase was primarily due to interest expense related to our bridge loan financing in August 2007.

Interest Income. Interest income for the year ended December 31, 2007 was $238,000, a decrease of $393,000 from the year ended December 31, 2006. In the year ended December 31, 2006, we had significantly larger cash investments which generated a greater amount of interest income.

Other Income (loss), Net. Other income, net, for the year ended December 31, 2007 was a loss of $140,000, an increase of $107,000, or approximately 324%, over other loss, of $33,000 for the year ended December 31, 2006. The increase in other expenses was primarily due to realized and unrealized losses on foreign currency related transactions.

Seasonality

Our business is driven by the award of contracts, the delivery schedule called for under those contracts and the production schedule of OEM vehicle manufacturers. While our revenue recognized in a given period may vary significantly from quarter to quarter, we do not believe that there is seasonality to the business based upon such external factors as government funding or demand for buses or other heavy duty vehicles.

Effects of Inflation

Our customer contracts generally provide for delivery of a firm number of Hybrid Systems within a year, with customer options for additional drive systems in subsequent years. Our contracts typically include sufficient provisions for labour and other cost escalations to cover increases over the period of performance. As a result, our results of operations have not been significantly impacted by inflation.

Liquidity and Capital Resources

Resources

We have incurred losses in recent periods and negative cash flows during the current fiscal year. As of and for the nine months ended September 30, 2009, we have an accumulated deficit of $77,977,000 and have incurred a net loss before returns to preferred shareholders of $10,832,000. Additionally, we have used cash in operating activities of $20,959,000, $14,760,000, $9,618,000, $10,064,000 and $14,126,000 during the years ended December 31, 2008, 2007 and 2006, and for the nine months ended September 30, 2009 and 2008, respectively. To date, these operating losses have been funded primarily through the issuance of equity instruments for cash consideration and bridge note financing arrangements. We need to generate additional revenue, improve gross profit margins, and manage operating expenses to be profitable in future periods. Our history of net losses could cause current or potential customers to defer new orders or select other vendors, and may cause suppliers to require terms that are unfavorable. Although we raised approximately $24.8 million in cash through private equity offerings and a bridge note, net of issuance costs, during fiscal year 2008, and borrowed $5.6 million in connection with a short term bridge financing arrangement in July 2009 to meet short term working capital requirements. Our ability to continue as a going concern is dependent upon receiving funds from this Offering or other issuances of debt or equity and the success of management in generating additional revenue, improving gross profit margins and managing operating expenses.

We do not currently generate sufficient cash flow to fund our operations and meet current obligations. In the event this Offering or other financing is not obtained, we plan to reduce discretionary overhead costs including research and development and general administrative expenses until we achieve positive cash flow from operations.

Until such time as we obtain sufficient financing we expect to make minimal capital expenditures. Once a financing is completed, we expect to invest in additional capital equipment relating to the manufacturing and testing of our products.

In the short term, although we require financing, our gross margins have been improving and we expect our gross margins to continue to increase. With the expected growth in demand for Hybrid System and ES System revenue and increased gross margins, we expect to start generating positive cash flows from operations in 2010.

Since our inception, we have funded our operations primarily with the private sale of equity and debt securities, totalling approximately $70 million. We believe that our existing cash and cash equivalents, together with the net proceeds of the Offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future working capital requirements will depend on many factors, including, without limitation, the operations of our existing business (including our core products and ancillary services), our potential expansion internationally, the development of new products, the level of prototype production, competition, and market conditions generally and in the hybrid-electric drive system industry specifically. To the extent that our cash and cash equivalents are insufficient to fund our future requirements, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses for cash. In the event additional funding is required, we may not be able to obtain bank credit arrangements or consummate an equity or debt financing on terms acceptable to us, or at all.

	As of December 31,			As of September 30,
	2008	2007	2006	2009
				(unaudited)
		(in thousands)		
Cash, cash equivalents and short-term investments	$ 6,038	$ 2,591	$ 14,412	$ 2,251
Accounts receivable, net	8,887	6,553	1,263	5,778
Cash used in operating activities	(20,959)	(14,760)	(9,618)	(10,064)
Cash provided by (used in) investing activities	(4,585)	10,375	(14,470)	6,132
Cash provided by financing activities	24,713	4,934	23,023	5,545

Cash, Cash Equivalents and Short-Term Investments

Our cash, cash equivalents and short term-investments at September 30, 2009 were held for working capital purposes and were invested primarily in money market funds and government debt securities. We do not enter into investments for trading or speculative purposes. The increase in cash, cash equivalents and short term investments in 2008 reflects $7.2 million of net proceeds from the issuance of our Series C preferred stock and $16.6 million of net proceeds from the issuance of our Series D preferred stock, partially offset by operating losses and working capital requirements.

Operating Activities

Cash used in operating activities primarily consists of net income (loss) adjusted for certain non-cash items, including depreciation and amortization, change in fair value of securities, accretion of interest on convertible notes and provision for warranty costs. Cash used in operating activities for the nine months ended September 30, 2009 was $10.1 million and reflects the operating losses and increases in working capital (including unbilled accounts receivable) offset by a decrease in accounts receivable.

Cash used in operating activities for the year ended December 31, 2008 was $21.0 million and consisted of net loss of $25.6 million, a $5.9 million increase in inventories partially offset by $3.4 million in non-cash charges and a $6.3 million increase in billings in excess of costs.

Cash used in operating activities for the year ended December 31, 2007 was $14.8 million and consisted of net loss of $26.3 million and an increase in accounts receivable and inventories of $5.3 million and $1.9 million, respectively. This was partially offset by non-cash charges and increases in, accounts payable ($5.3 million), accrued liabilities ($5.1 million), accrued warranty and retrofit costs ($3.2 million) and billings in excess of costs ($3.8 million).

Cash used in operating activities for the year ended December 31, 2006 was $9.6 million and consisted of net loss of $8.7 million and an increase in inventories, unbilled receivables and realized gains on sales of short term investments.

Investing Activities

Cash provided by (used in) investing activities primarily consists of purchases of property and equipment, purchases of intangible assets, purchases of short-term investments and sales of short-term investments. Cash provided by investing activities in the nine months ended September 30, 2009 was $6.1 million and consisted of $5.4 million from the maturities of short term investments and receipt of $1.2 million of restricted cash (upon our completion of contractual obligations), offset by $0.3 million of purchases of property and equipment and intangibles.

Cash used in investing activities for the year ended December 31, 2008 was $4.6 million and consisted of the purchases of $9.2 million of investment securities and $0.6 million of property and equipment, partially offset by the sale and maturities of $4.9 million of investment securities.

Cash provided by investing activities for the year ended December 31, 2007 was $10.4 million and consisted of $12.7 million in proceeds from the sale and maturities of investment securities partially offset by the $1.5 million in purchases of property and equipment.

Cash used in investing activities for the year ended December 31, 2006 was $14.5 million and consisted of the purchases of $38.8 million of investment securities and $1.1 million of property and equipment, partially offset by the maturities of $25.9 million of investment securities.

Financing Activities

Cash provided by (used in) financing activities primarily consists of proceeds from long-term debt and equity sales. Cash provided by financing activities in the nine months ended September 30, 2009 was $5.5 million and consisted of the issuance of secured convertible promissory notes, partially offset by $0.1 million payments on capital lease obligations.

Cash provided by financing activities for the year ended December 31, 2008 was $24.7 million and consisted of the net proceeds from the issuance of Series C preferred stock and Series D preferred stock of $23.8 million, as well as proceeds of $1.0 million from the issuance of long-term debt.

Cash provided by financing activities for the year ended December 31, 2007 was $4.9 million and consisted primarily of the $5.0 million net proceeds from the issuance of long-term debt.

Cash provided by financing activities for the year ended December 31, 2006 was $23.0 million and consisted of the net proceeds from the issuance of Series B preferred stock.

Capital Expenditures

Capital expenditures totalled $1.1 million in the year ended December 31, 2006, $1.5 million in the year ended December 31, 2007, $561,000 in the year ended December 31, 2008 and $340,000 in the nine months ended September 30, 2009. We have made capital expenditures primarily for improvements to the manufacturing facility, leasehold improvements, our Oracle ERP system and demonstration vehicles. We are not currently party to any purchase contracts related to future capital expenditures. We intend to use approximately C$1.0 million of the net proceeds of the Offering to purchase additional capital equipment relating to the manufacturing and testing of our products.

We are not required to make any material research and development expenditures to maintain agreements in good standing. We also intend to use approximately C$3.0 million in the 24 months following the Offering to continue research and development of our energy storage system technology, including both high energy and high power lithium-ion solutions and blended ultracapacitor and lithium-ion configurations, and approximately C$6.2 million in the 24 months following the Offering for research and development of our controls software and power electronics technology. See “Use of Proceeds.”

Contractual Obligations and Commitments

As of December 31, 2008, our principal commitments consist of obligations under a lease for our corporate headquarters and production facilities and payments for our Oracle ERP system. Our corporate headquarters and production facilities are leased under a non-cancelable lease agreement that expires on December 31, 2011. The following table sets forth our commitments to settle contractual obligations in cash as of December 31, 2008:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands of dollars)				
Capital lease obligations	$ 135	$ 70	$ 65	—	—
Operating lease obligations	1,212	390	822	—	—
Product Warranties and retrofit costs	5,190	3,161	2,029	—	—
Total Contractual Obligations and Commitments	$6,537	$3,621	$2,916	—	—

In July 2009, we completed a bridge loan financing transaction in which we issued secured convertible promissory notes in an aggregate principal amount of $5.6 million. The notes bear interest at a rate of 15% per annum and mature on March 31, 2010, unless earlier converted into shares of capital stock upon the occurrence of certain qualifying financing events resulting in proceeds to us of at least $15 million. See “Interests of Management and Others in Material Transactions—Bridge Financing (2009).”

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Transactions with Related Parties

We entered into a consulting agreement with a Series A preferred stock shareholder, effective March 4, 2006, to provide certain advisory services to us. The agreement terminated in March 2007. Under the terms of the agreement, we paid quarterly consulting fees of $38,000. We paid consulting fees of $0 and $38,000 for the years ended December 31, 2008 and 2007, respectively.

During the years ended December 31, 2008, 2007, and 2006, and for the nine months ended September 30, 2009 and 2008, we made severance payments of $115,000, $168,000, $168,000, $0, and $115,000, respectively, to our former Co-Chief Executive Officer and former director, in accordance with an employment agreement. We have recorded an accrued liability for the estimated severance payments of $0 and $115,000 at December 31, 2008 and 2007, respectively. The agreement terminated on August 31, 2008.

During the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 30, 2009 and 2008, respectively, we paid board fees of $8,500, $12,000, $12,000, $0, and $8,500, respectively, to our former Co-Chief Executive Officer.

During the year ended December 31, 2008 and for the nine months ended September 30, 2009 and 2008, we made severance payments of $90,000, $181,000, and $27,000, respectively, to our former Chief Executive Officer and current director, in accordance with an employment agreement. We recorded an accrued liability for the estimated severance payments of $654,000 and $473,000 at December 31, 2008 and September 30, 2009, respectively. The agreement terminates in August 2011. We made $400 in health benefit payments during the year ended December 31, 2008 and for the nine months ended September 30, 2008. There were no health benefit payments made in 2009.

In October 2008, Siemens Venture Capital GmbH made an initial investment in our Series D preferred stock, and currently has two representatives on our board of directors. In August 2002, we signed a five-year supply agreement with Siemens Transportation Systems, Inc., which has subsequently been renewed on annual basis and is currently scheduled to terminate on March 31, 2010. Under the terms of the agreement we have paid Siemens $500,000 annually for nonexclusive sales rights for contractual products in the United States, a prescribed level of engineering services by Siemens to adapt certain products to our applications and receipt of reduced pricing on certain contractual Siemens products. These payments have been allocated on a pro rata basis between cost of sales, selling, general, and administrative and research and development expense.

The costs recognized from transactions with Siemens reflect the prices and terms which are in accordance with normal trade practices. At December 31, 2008 and 2007 and for the nine months ended September 30, 2009, we had $436,000, $810,000 and $203,000 in accounts payable to Siemens. We made payments of $5,439,000, $2,237,000, $1,466,000, $4,067,000, and $4,235,000 during the years ended December 31, 2008, 2007 and 2006 and for the nine months ended September 30, 2009 and 2008, respectively.

Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial markets and rates. Our market risk exposure is primarily a result of fluctuations in foreign exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. We have certain purchases and sales denominated in the British pound (GBP) and the euro, and we are therefore exposed to risk as a result of foreign exchange changes associated with these contracts. We had no forward exchange rate contracts in place as at or during September 30, 2009.

	December 31, 2008		September 30, 2009	
	Euro	GB P	Euro	GB P
Cash	€ —	£ 71,512	€ —	£ —
Accounts receivable	—	327,750	—	—
Unbilled receivables	—	2,369,225	—	1,064,225
Accounts payable	(41,815)	(159,500)	(31,865)	(159,500)
Accrued liabilities	—	(63,041)	—	(56,350)
	€(41,815)	£2,545,946	€(31,865)	£ 848,375

A 10% weakening of the following currencies against the U.S. dollar would have changed the net loss by the amounts shown below. A strengthening of the following currencies would have the opposite effect.

	Year ended December 31, 2008	Nine months ended September 30, 2009
EURO	$368,628	$135,078
British Pound	(5,895)	(4,650)

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2008 and for the nine months ended September 30, 2009:

	December 31, 2008		September 30, 2009	
	Euro	GB P	Euro	GB P
Opening exchange rate	€1.4704	£1.9973	€1.4043	£1.4501
Closing exchange rate	1.4097	1.4479	1.4592	1.5922
Average exchange rate	1.4713	1.8552	1.3669	1.5430

Interest Rate Risk

As of September 30, 2009, we had cash, cash equivalents and short-term investments totalling $2.3 million. These amounts were invested primarily in money market accounts. The cash and cash equivalents were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Financial Instruments

Our financial instruments include cash, accounts receivables, accounts payable, accrued liabilities, the liability associated with the warrants to purchase Series D preferred stock issued in July 2009 (the "2009 Bridge Warrants") and our redeemable preferred shares. The carrying value of cash, accounts receivables, accounts payable and accrued liabilities is approximate to their fair values due to the short-term nature of these financial assets and liabilities.

The redeemable preferred shares are not readily susceptible to valuation because there are no similar instruments generally available in the marketplace. We accrete the carrying value of the preferred stock to the aggregate redemption value (less issuance costs) through the redemption dates using the effective-interest rate method.

The 2009 Bridge Warrants were issued in July 2009 in connection with the issuance of secured convertible promissory notes (the "2009 Bridge Notes"). We evaluated the terms and conditions of the 2009 Bridge Warrants under authoritative guidance for debt with conversion and other options and recorded the fair value of the warrants as a warrant liability as they are warrants on redeemable shares. The fair value of the warrants was estimated to be $1,542,000 at the issuance date and revalued to $1,908,000 at September 30, 2009. Fair value of the warrants was measured using the Black-Scholes-Merton valuation technique in accordance with authoritative guidance and in applying this technique, we were required to develop certain subjective assumptions. We have valued the underlying shares of Series D preferred stock at $0.60 and $0.74 on the inception and September 30, 2009, respectively, being representative of our best estimates of our enterprise value, applying the discounted cash flow method and guideline company method consistent with approaches outlined by the American Institute of Certified Public Accountants. We have developed volatility assumptions of 114% and 111% on the inception date and September 30, 2009, respectively, using a peer group of companies whose common shares have traded in public markets for periods of at least the expected term, which we have concluded is the contractual term. Finally, we have used the publicly available rates of 0.51% and 0.36% on the inception date and September 30, 2009, respectively, related to zero coupon U.S. Treasury Securities, with remaining terms consistent with the remaining warrant term. During the nine months ended September 30, 2009, approximately $760,000 was amortized to interest expense. The change in the fair value of the warrants of $366,000 was recorded as other income (expense) for the nine months ended September 30, 2009.

We are exposed to foreign currency exchange risk as a result of components of cost and accounts receivable being denominated in currencies other than the United States dollar. We have not entered into any derivative agreements to mitigate this risk.

Recent Accounting Pronouncements

In November 2007, the Financial Accounting Standards Board ("FASB") ratified the authoritative guidance for collaborative arrangements, which defines collaborative arrangements and requires that revenue and costs incurred with third parties that do not participate in the collaborative arrangements be reported in the statement of operations gross or net pursuant to the guidance for revenue recognition relating to principal agent considerations. Classification of payments made between participants of a collaborative arrangement is to be based on other applicable authoritative accounting literature or, in the absence of other applicable authoritative accounting literature, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. The guidance relating to principal agent considerations will be effective for fiscal years beginning after December 15, 2008. The adoption of the guidance did not have a material impact on our financial statements.

In March 2008, FASB issued authoritative guidance for derivatives and hedging which requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under the guidance, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash. This guidance is effective for fiscal years and interim periods beginning after November 15, 2008. We adopted this guidance as of January 1, 2009.

In May 2008, FASB issued authoritative guidance for debt which applies to all convertible debt instruments that have a "net settlement feature," which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. The guidance requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers' nonconvertible debt borrowing rate. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We adopted this guidance on January 1, 2009 and applied it to the secured convertible promissory notes issued in July 2009, as explained in Note 6, "Long-Term Debt" in the Notes to Financial Statements included elsewhere in this prospectus.

In April 2008, FASB issued authoritative guidance for intangibles – goodwill and other which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the guidance. This guidance also requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. We adopted this guidance on January 1, 2009, but it did not have an impact on our unaudited condensed financial statements as we did not renew or extend any of the useful lives of our intangible assets during the nine month period ended September 30, 2009.

In June 2008, FASB issued authoritative guidance for earnings per share. The guidance addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share pursuant to the two-class method of the guidance for earnings per share. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted this guidance on January 1, 2009, but it did not have an impact on our financial statements as our unvested stock awards are not participating securities as defined by this guidance.

In April 2009, FASB issued authoritative guidance for interim disclosures for financial instruments. This guidance amends prior authoritative guidance by requiring disclosures of the fair value of financial instruments included within the scope of the prior guidance whenever a public company issues summarized financial information for interim reporting periods. This guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 under certain circumstances. We adopted this guidance for the nine months ended September 30, 2009, but it did not have an impact on our financial statements.

In April 2009, FASB issued authoritative guidance for fair value measurements and disclosures. This guidance provides companies with guidelines on how to determine fair value measurements when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this guidance for the nine months ended September 30, 2009, but it did not have an impact on our financial statements.

In April 2009, FASB issued authoritative guidance for interim disclosures about the fair value of financial instruments, which requires disclosures about the fair value of financial instruments for interim and annual reporting periods of publicly traded companies. We adopted the standards in the first quarter of 2009 and additional disclosure about financial instruments is included in Note 1 in the Notes to Financial Statements included elsewhere in this prospectus.

In May 2009, FASB issued authoritative guidance for subsequent events which provides rules on recognition and disclosure for events and transactions occurring after the balance sheet date but before the financial statements are issued or available to be issued. In addition, the guidance requires a reporting entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements are issued or the date the financial statements are available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009. We adopted this guidance for the nine months ended September 30, 2009 and have included the required additional disclosures in Note 14, "Subsequent Events," in the Notes to Financial Statements included elsewhere in this prospectus.

In June 2009, FASB issued authoritative guidance on the Accounting Standards Codification ("Codification") and the Hierarchy of Generally Accepted Accounting Principles, which establishes the Codification as the single source for non-governmental financial statements prepared in accordance with United States GAAP, except for Securities and Exchange Commission rules and interpretive releases, which is also authoritative guidance for Securities and Exchange Commission registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and will supersede all then existing non-Securities and Exchange Commission accounting and reporting standards. The guidance is not intended to change or alter existing United States GAAP and will only impact references to accounting guidance.

Outstanding Share Data

As of December 31, 2009, the following equity securities of ISE were issued and outstanding: (i) 27,227,480 shares of Series D preferred stock, par value $.001 per share; (ii) 12,693,230 shares of Series C preferred stock, par value $.001 per share; (iii) 3,799,332 shares of Series B preferred stock, par value $.001 per share; (iv) 2,077,724 shares of Series A preferred stock, par value $.001 per share; and (v) 4,252,939 shares of common stock, par value $.003 per share. In addition, warrants to purchase 2,613,832 shares of Series D preferred stock were outstanding and options to purchase 8,379,325 shares of common stock were outstanding. All of the issued and outstanding shares of capital stock of ISE will be exchanged for an aggregate of 11,902,651 Common Shares and Restricted Voting Shares pursuant to the terms of the Merger Agreement in connection with the Reorganization. Subject to any required regulatory approvals, all options to purchase shares of common stock of ISE will be assumed by the Company, subject to appropriate adjustments in number and price to reflect the Reorganization. See "Corporate Structure—The Reorganization."

DESCRIPTION OF SHARE CAPITAL

The authorized share capital of the Company will, immediately following the Reorganization and prior to the closing of the Offering, consist of (i) 375,000,000 Common Shares with a par value of $0.001 each, (ii) 50,000,000 Restricted Voting Shares with a par value of $0.001 each, and (iii) 25,000,000 shares of undesignated preferred shares with a par value of $0.001 each. Upon completion of the Offering, there will be an aggregate of 15,352,651 Common Shares and Restricted Voting Shares issued and outstanding, and no shares of undesignated preferred shares outstanding. See "Consolidated Capitalization."

Common Shares

Holders of Common Shares will be entitled to receive notice of and to attend and vote at all meetings of shareholders, except meetings of holders of another class of shares. Each Common Share will entitle the holder thereof to one vote.

Subject to the preferences accorded to holders of any other shares ranking senior to the Common Shares from time to time with respect to the payment of dividends, holders of Common Shares will be entitled to receive, if, as and when declared by the Board, ratably with the holders of the Restricted Voting Shares, such dividends as may be declared thereon by the Board from time to time in equal amounts per share on the Common Shares at the time outstanding, without preference or priority.

In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Company, or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs (each a "Distribution"), holders of Common Shares will be entitled, ratably with the holders of the Restricted Voting Shares, after payment of debts and other liabilities, in each case subject to the preferences accorded to the holders of any other shares ranking senior to the Common Shares from time to time with respect to payment on a Distribution, to share equally, share for share, in the remaining property of the Company.

Restricted Voting Shares

Holders of Restricted Voting Shares will be entitled to receive notice of and to attend all meetings of shareholders except meetings for holders of another class of shares. The Restricted Voting Shares will be entitled to vote at all meetings of shareholders except meetings of holders of another class of shares and further that the holders of Restricted Voting Shares shall not be entitled to vote for either the election or the removal of directors. Each Restricted Voting Share will entitle the holder thereof to one vote.

Subject to the preferences accorded to holders of any other shares ranking senior to the Restricted Voting Shares from time to time with respect to the payment of dividends, holders of Restricted Voting Shares will be entitled to receive, if, as and when declared by the Board, ratably with the holders of the Common Shares, such dividends as may be declared thereon by the Board from time to time in equal amounts per share on the Restricted Voting Shares at the time outstanding, without preference or priority.

In the event of a Distribution, holders of Restricted Voting Shares will be entitled, ratably with the holders of the Common Shares, after payment of debts and other liabilities, in each case subject to the preferences accorded to the holders of any other shares ranking senior to the Common Shares from time to time with respect to payment on a Distribution, to share equally, share for share, in the remaining property of the Company.

The Restricted Voting Shares will automatically convert, on a one-for-one basis, into Common Shares on the earlier of the 180th day following the closing of the Offering and the date the Company ceases to be a "Foreign Private Issuer" (the "Trigger Date").

Prior to the Trigger Date, if an offer to purchase Common Shares is made to all or substantially all, of the holders of Common Shares (other than an offer to purchase both the Restricted Voting Shares and Common Shares at the same price per share and on the same terms and conditions) and the majority of the Common Shares then issued and outstanding are tendered and taken up pursuant to such offer, the Restricted Voting Shares will be entitled to convert their Restricted Voting Shares into Common Shares and have the Common Shares received so converted, tendered and taken up under the offer. In addition, if the Underwriters consent under the Lock-Up Agreements to a sale of shares subject to the Lock-Up Agreements, and provided that the trade or sale is not made to a U.S. Person as defined in the U.S. Securities Act, the holder of Restricted Voting Shares may convert his Restricted Voting Shares into Common Shares in order to effect such trade or sale.

Undesignated Preferred Shares

Upon completion of the Offering, the Board will be authorized, without action by the shareholders, to designate and issue up to 25,000,000 shares of preferred shares in one or more series. The Board may fix the rights, powers, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. The Board may authorize the issuance of preferred shares with voting or conversion rights that could adversely affect the voting power or other rights of the holders of Common Shares. The issuance of preferred shares, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control and could harm the market price of our Common Shares.

We have no current plans to issue any preferred shares.

Registration Rights

In connection with the Reorganization and upon the completion of the Offering, we will assume all of ISE's obligations under its existing Amended and Restated Registration Rights Agreement, as amended (the "Registration Rights Agreement"), pursuant to which certain of the Existing Shareholders will have rights to demand that we file a registration statement with the U.S. Securities and Exchange Commission registering their Common Shares and the Common Shares issuable upon conversion of their Restricted Voting Shares (collectively, the "Registrable Securities") or to request that their Registrable Securities be covered by a registration statement that we are otherwise filing.

Demand Registration Rights

At any time after August 1, 2010, but subject to certain exceptions, the holders of at least 50% of the then outstanding Registrable Securities ("Initiating Holders") have the right to demand that we file a registration statement on Form S-1 under the U.S. Securities Act constituting our initial public offering in the U.S. ("U.S. IPO") and covering the offering and sale of their Registrable Securities, provided that at least 20% of the then outstanding Registrable Securities are proposed to be registered and the proposed public offering price of such registration for the account of the Company is in excess of $35 million.

At any time after the date that is 180 days following the completion of our U.S. IPO, if we are not then eligible to register securities on Form S-3 under the U.S. Securities Act, the Initiating Holders have the right to demand that we file a registration statement on Form S-1 under the U.S. Securities Act covering the offering and sale of their Registrable Securities, provided that at least 10% of the then outstanding Registrable Securities are proposed to be registered and the proposed public offering price of such registration is in excess of $15 million.

If we are eligible to file a registration statement on Form S-3, the holders of at least 20% of the then outstanding Registrable Securities have the right to demand, on one or more occasions, that we file registration statements on Form S-3 under the U.S. Securities Act, to cover the offer and sale of their Registrable Securities, provided that the aggregate amount of securities to be sold pursuant to such request exceeds $2 million. We are not obligated to file a registration statement on Form S-3 on more than one occasion within a six-month period pursuant to such demand registration rights.

We have the ability to delay the filing of a registration statement under specified conditions, such as if we give timely notice of our bona fide intention to file a registration statement within 60 days of receipt of any demand registration request, or if the Board deems it in the best interests of us and our shareholders to delay such filing. Such postponements cannot exceed 90 days and we may not utilize this right more than once in any 12 month period.

Piggyback Registration Rights

All parties to the Registration Rights Agreement have piggyback registration rights. Under these provisions, if we register any securities for public sale, including pursuant to any shareholder-initiated demand registration, these shareholders will have the right to include their Registrable Securities in the registration statement, subject to customary exceptions. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement.

Expenses of Registration

Subject to limited exceptions, we will pay all registration expenses, other than underwriting discounts and commissions, related to any demand or piggyback registration.

Indemnification

The Registration Rights Agreement contains customary cross indemnification provisions, pursuant to which we are obligated to indemnify the selling shareholders in the event of material misstatements, omissions or violation of securities law in the registration statement or prospectus attributable to us, and they are obligated to indemnify us for material misstatements or omissions in the registration statement or prospectus attributable to them.

Termination

The registration rights provided in the Registration Rights Agreement terminate with respect to each holder on the earlier of: (i) the date that is five years after the closing of the U.S. IPO; and (ii) such time as the holder is eligible to sell all of the holder's Registrable Securities under Rule 144 under the U.S. Securities Act, within any three-month period without volume limitations, provided that in no event will the rights terminate before the date that is two years after the closing of the U.S. IPO.

Comparison of the Corporate Laws of the Cayman Islands and Canada

While the rights and privileges of shareholders of a Cayman Islands company are in many instances comparable to those of shareholders of a corporation incorporated under the *Canada Business Corporations Act* (the "CBCA"), there are differences, the principal ones of which are summarized below. The Company believes that the following summary comparison of the corporate laws of the Cayman Islands and the CBCA is accurate.

For a further description of the rights of holders of Common Shares, see "Description of Share Capital—Common Shares." For a summary of the principal Canadian federal income tax considerations to purchasers of Common Shares, see "Certain Canadian Federal Income Tax Considerations."

Overview

The Company was incorporated under the *Companies Law* (2009 Revision) Cayman Islands (the "Companies Law") and will be governed by the Company's amended and restated memorandum of association (the "Memorandum") and the amended and restated articles of association (the "Articles of Association," and together with the Memorandum, the "Articles"), as well as by the applicable laws of the Cayman Islands (principally, the Companies Law) ("Cayman Law").

Director Citizenship and Residency

The CBCA requires that at least 25% of a corporation's directors must be resident Canadians. There are no residency requirements for corporate directors under the Companies Law.

Duties of Directors and Officers

The CBCA requires that directors and officers, in exercising their powers and discharging their duties, act honestly and in good faith with a view to the best interests of the corporation, while exercising the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. No provision in the corporation's articles, by-laws, resolutions or contracts may relieve a director or officer of these duties.

As a matter of Cayman Law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company. Fiduciary obligations and duties of directors under Cayman Law are substantially the same as under the CBCA. The Companies Law does not directly address the issue of the limitation of a director's liability, however, Cayman public policy will not allow the limitation of a director's liability for his or her own fraud, wilful neglect or wilful default.

Indemnification of Directors and Officers

Under the CBCA, a corporation may indemnify a director or officer of the corporation (or its affiliates) a former director or officer of the corporation (or its affiliates) or an individual who served at the corporation's request as directors or officers of an outside entity. The corporation has the discretion to indemnify the director or officer against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal or administrative, investigation action or proceeding in which the individual is involved because of that association with the corporation (or its affiliates) or other entity, if he or she acted honestly and in good faith with a view to the best interests of the corporation, or the outside entity, as the case may be. In the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the director or officer must have had reasonable grounds for believing that his or her conduct was lawful. A corporation may advance money to a director, officer or other individual for the costs, charges and expenses of a proceeding referred to above but the money must be repaid if the above conditions are not met.

Under Cayman Law a company's articles of association may provide for the indemnification of its directors, officers, employees and agents except to the extent that such provision may be held by the Cayman Islands courts to be contrary to public policy. For instance, a provision purporting to provide indemnification against the consequences of committing a crime may be deemed contrary to public policy. In addition, a director or officer may not be indemnified for his or her own fraud, wilful neglect or wilful default. Our Articles will provide for the indemnification of directors and officers to the full extent permitted by Cayman Law. Our Articles will also provide that the Company will advance to the director or officer the costs, charges and expenses in respect of a proceeding referred to above, provided that the amount of such advancement must be repaid if it is ultimately determined that the director or officer was not entitled to be indemnified against such costs, charges and expenses.

Amendment to Governing Documents

Under the CBCA, any amendment to the articles of a corporation generally requires the approval of shareholders by way of special resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution at a duly constituted meeting or a resolution signed by all of the shareholders entitled to vote on that resolution. The directors may, by resolution, make, amend or repeal any by-laws that regulate the business or affairs of a corporation and they must submit the by-law, amendment or repeal to the shareholders at the next meeting of shareholders, and the shareholders may, by ordinary resolution, confirm, reject or amend the by-law, amendment or repeal.

The procedures for the amendment of the governing documents of the Company under Cayman Law would be substantially similar to the procedures for the amendment of the Company's governing documents under the CBCA. Our Articles will also provide that the Company (i) may increase its capital or effect a consolidation or share split by ordinary resolution passed at a general meeting by a majority of votes cast at the meeting; and (ii) may vary the rights attaching to a class of shares by a resolution passed by a majority of the outstanding shares of such class. In addition, there are various matters contained in our Articles, the amendment of which will require the approval at a meeting of the shareholders passed by holders representing at least 75% of the outstanding shares. These matters include: (i) the right of the Board to authorize the issuance of shares; (ii) the provisions dealing with the holding of annual general meetings; (iii) the conversion rights attaching to the Restricted Voting Shares; and (iv) the provisions dealing with the election and removal of directors.

Under the CBCA, a corporation may vary the rights of a class of shares by way of a special resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution at a duly constituted meeting or by a resolution signed by all of the shareholders entitled to vote on that resolution. Under Cayman Law and under our Articles, the rights attached to any class of shares may be varied only with the vote of holders of a majority of the shares of such class entitled to vote at a shareholders meeting or by a resolution signed by all of the shareholders entitled to vote on that resolution.

Inspection of Books and Records

Under the CBCA, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under Cayman Law, shareholders have no general right to obtain copies of shareholder lists or corporate records. However, our Articles will provide our shareholders with the right to inspect or obtain copies of our list of shareholders, provided certain specified procedures are followed and the shareholder who seeks the right of inspection has a "proper purpose," being a purpose reasonably related to such person's interest as a shareholder. There is no general right to inspect our books and records but under our Articles, the Board has the discretion to permit any shareholder to inspect the books and records for any proper purpose.

Shareholder Action by Written Resolution

Under the CBCA, the shareholders have the right to act by written consent by a resolution signed by all the shareholders. As permitted under Cayman Law, our Articles provide for the right of shareholders to approve corporate matters by way of a written resolution signed by each shareholder who would have been entitled to vote on such matters at a meeting without a meeting being held.

Shareholder Proposals

Under the CBCA, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or may be requisitioned by shareholders in certain circumstances. Under our Articles, shareholders will not be permitted to requisition a meeting. Our Articles will provide, however, that shareholders will be entitled to bring forth nominations for election to the Board and to put any proposal before the annual meeting of shareholders provided, in each case, that proper notice is given as specified in our Articles.

Removal of Directors

Under the CBCA, a director of a corporation may be removed, with or without cause, by a majority vote at a special meeting of shareholders. Our Articles will provide that directors may be removed, with or without cause, at a meeting of shareholders passed by not less than 75% of the outstanding shares entitled to vote on the matter at such meeting or by written resolution consented to in writing by all shareholders entitled to vote.

Vote Required for Certain Transactions

Under the CBCA, certain extraordinary corporate actions, such as certain amalgamations, continuances and sales, leases or exchanges of all or substantially all the property of a corporation other than in the ordinary course of business, and other extraordinary corporate actions such as liquidations, dissolutions and (if ordered by a court) arrangements, are required to be approved by way of special resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution or signed by all of the shareholders entitled to vote on that resolution. Our Articles will provide that the Company may enter into a sale, lease or exchange of all or substantially all of its assets by the approval of the majority of votes cast at a general meeting of shareholders.

Pursuant to the Companies Law a merger or consolidation may occur between any of the following: (a) one or more companies incorporated under the Companies Law and one or more companies incorporated under the laws of a jurisdiction outside the Cayman Islands where the Cayman Islands company is the surviving entity; or (b) two or more companies incorporated under the Companies Law. For these purposes a "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company.

The plan of merger or consolidation must be authorized by either (a) a special resolution (usually a majority of 66⅔% in value) of the shareholders of each constituent company voting together as one class if the shares to be issued to each shareholder in the consolidated or surviving company will have the same rights and economic value as the shares held in the relevant constituent company or (b) a shareholder resolution of each constituent company passed by a majority in number representing 75% in value of the shareholders voting together as one class. No shareholder resolution is required for a merger between a parent company (i.e., a company that owns at least 90% of the issued shares of each class in a subsidiary company) and its subsidiary company. A shareholder has the right to vote on a merger or consolidation regardless of whether the shares that he holds otherwise give him voting rights. The consent of each holder of a fixed or floating security interest of a constituent company must be obtained, unless the court waives such requirement.

In addition, the Companies Law provides for a procedure known as a "scheme of arrangement" which would generally be used for complex mergers. Under a scheme of arrangement, a Cayman court may, on the application of a company, a creditor of the company or a shareholder of the company, order a meeting of the creditors of the company or of any class of creditors affected by the scheme, and/or a meeting of all shareholders of the company or of any class of shareholders affected by the scheme, and if a majority in number of the creditors or shareholders, as the case may be, present at the meeting held to consider the arrangement, representing at least 75% in value of the creditors or class of creditors, or members or class of members, as the case may be, agree to the scheme, the scheme, if sanctioned by the court, shall bind the company, all relevant creditors, and all relevant shareholders. It is possible that the effect of such a scheme may be that the Company would be dissolved, its assets transferred to the acquiring company and shares of the acquiring company be issued to the holders of Common Shares.

While a dissenting shareholder would have the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such as a business person would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If the arrangement and reconstruction were thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which might otherwise ordinarily be available to dissenting shareholders of CBCA corporations and which allow such dissenting shareholders to receive payment in cash for the judicially determined value of the shares.

Compulsory Acquisition of Shares Held by Minority Holders

Similar to the CBCA, there are certain circumstances under Cayman Law where an acquiring party may be able to compulsorily acquire the shares of minority holders. Under Cayman Law, an acquiring party may be able to compulsorily acquire the ordinary shares of minority holders in one of two ways:

(a) By a procedure under Cayman Law known as a "scheme of arrangement," a Cayman court may, on the application of a company, a creditor of the company or a shareholder of the company, order a meeting of the creditors of the company or of any class of creditors affected by the scheme, and/or a meeting of all shareholders of the company or of any class of shareholders affected by the scheme, and if a majority in number of the creditors or shareholders, as the case may be, present at the meeting held to consider the arrangement, representing at least 75% in value of the creditors or class of creditors, or members or class of members, as the case may be, agree to the scheme, the scheme, if sanctioned by the court, shall bind the company, all relevant creditors, and all relevant shareholders. It is possible that the effect of such a scheme may be that the Company would be dissolved, its assets transferred to the acquiring company and shares of the acquiring company be issued to the holders of Common Shares of the Company.

(b) By acquiring pursuant to a tender offer 90% of the shares not already owned by the acquiring party (the "offeror"). If an offeror has, within four months after the making of an offer for all the shares not owned by the offeror, obtained the approval of not less than 90% of all the shares to which the offer relates, the offeror may, at any time within two months after the end of that four month period, require any nontendering shareholder to transfer its shares on the same terms as the original offer. In those circumstances, nontendering shareholders will be compelled to sell their shares, unless within one month from the date on which the notice to compulsorily acquire was given to the nontendering shareholder, the nontendering shareholder is able to convince the court to order otherwise.

Dissent Rights

The CBCA provides that shareholders of a corporation entitled to vote on certain matters are entitled to exercise dissent rights and demand payment of the fair value of their shares. Dissent rights exist when there is a vote upon matters such as: (i) altering class rights, (ii) changing the corporation's authorized business, (iii) amalgamating, (iv) continuing under the laws of another jurisdiction, and (v) disposing of substantially all of the corporation's property.

The Companies Law provides for a right of dissenting shareholders to be paid a payment of the fair value of his shares upon their dissenting to the merger or consolidation if they follow the following procedure:

(a) The shareholder must give his written objection to the merger or consolidation to the constituent company before the vote on the merger or consolidation. Such objection must include a statement that the shareholder proposes to demand payment for his shares if the merger or consolidation is authorized by the vote.

(b) Within 20 days following the date on which the merger or consolidation is approved by the shareholders, the constituent company must give written notice to each shareholder who made a written objection.

(c) A shareholder must within 20 days following receipt of such notice from the constituent company, give the constituent company a written notice of his intention to dissent stating (i) his name and address; (ii) the number and classes of shares in respect of which he dissents (this must be all the shares that he holds in the constituent company); and (iii) the complainant is a demand for payment of the fair value of his shares. The shareholder will cease to have any rights of a shareholder upon the giving of such notice of dissent except the right to be paid the fair value of his shares (and the right to participate in court proceedings to determine the fair value or the right to institute proceedings on the grounds that the merger or consolidation is void or unlawful).

(d) Within seven days following the date of the expiration of the period set out in paragraph (b) above or seven days following the date on which the plan of merger or consolidation is filed, whichever is later, the constituent company, the surviving company or the consolidated company must make a written offer to each dissenting shareholder to purchase his shares at a price that the company determines is the fair value and if the company and the shareholder agree the price within 30 days following the date on which the offer was made, the company must pay the shareholder such amount.

If the company and the shareholder fail to agree a price within such 30 day period, within 20 days following the date on which such 30 day period expires, the company (and any dissenting shareholder) must file a petition with the court to determine the fair value and such petition must be accompanied by a list of the names and addresses of the dissenting shareholders with whom agreements as to the fair value of their shares have not been reached by the company. The company must serve a copy of such petition on the other parties.

At the hearing, the court has the power to determine the fair value of the shares together with a fair rate of interest, if any, to be paid by the company upon the amount determined to be the fair value. Any dissenting shareholder whose name appears on the list filed by the company may participate fully in all proceedings until the determination of fair value is reached.

The costs of the proceeding may be determined by the court and the court may order all or a portion of the expenses incurred by any shareholder in connection with the proceedings, including reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares which are the subject of the proceeding.

These rights of a dissenting shareholder will not be available in certain circumstances, for example, to dissenters holding shares of any class in respect of which an open market exists on a recognized stock exchange or recognized interdealer quotation system at the relevant date or where the consideration for such shares to be contributed are shares of any company listed on a national securities exchange or shares of the surviving or consolidated company.

Derivative Actions

Under the CBCA, a complainant may bring an action in the name of a corporation to enforce a corporate cause or action or intervene to defend an action against the corporation, when the corporation cannot or does not take up or defend the action. No action may be brought and no intervention in an action may be made unless the court is satisfied that: (i) the complainant has first applied for leave to the court, (ii) the complainant is acting in good faith, and (iii) bringing the action is in the interests of the corporation. A complainant is generally defined to include the same persons who can apply for relief under the oppression remedy.

Under the CBCA, the court may make any order it thinks fit including: (i) an order authorizing the complainant or any other person to control the conduct of the action, (ii) an order giving directions for the conduct of the action, and (iii) an order directing that any amount adjudged payable in the action be paid, in whole or in part, directly to present or former securityholders of the corporation.

The Cayman Islands courts have recognized derivative suits by shareholders. The Cayman Islands courts ordinarily would be expected to follow English precedent, which would permit a minority shareholder to commence an action against or a derivative action in the name of the company only:

(a) where the act complained of is alleged to be beyond the corporate power of the company or illegal;

(b) where the act complained of is alleged to constitute a fraud against the minority perpetrated by those in control of the company;

(c) where the act requires approval by a greater percentage of the company's shareholders than actually approved it; or

(d) where there is an absolute necessity to waive the general rule that a shareholder may not bring such an action in order that there not be a denial of justice or a violation of the company's memorandum of association.

Oppression Remedy

The CBCA provides an oppression remedy that enables a court to make an order, both interim and final, to rectify the matters complained of, if the court is satisfied upon application by a complainant that: (i) any act or omission of the corporation or any of its affiliates effects a result, (ii) the business or affairs of the corporation or any of its affiliates are or have been carried on or conducted in a manner, or (iii) the powers of the directors of the corporation or any of its affiliates are or have been exercised in a manner, that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of any security holder, creditor, director or officer of the corporation.

Generally, a complainant includes a present or former securityholder (registered or beneficial) of the corporation or any of its affiliates, a present or former officer or director of the corporation or any of its affiliates, the Director under the CBCA, or any other person who, in the discretion of the court is a proper person to make an application for an order.

Because of the breadth of the conduct which can be complained of and the scope of the court's remedial powers, the oppression remedy is very flexible and is sometimes relied upon to safeguard the interests of shareholders and other complainants with a substantial interest in the corporation. Furthermore, the court may order a corporation to pay the interim costs of a complainant seeking an oppression remedy, but the complainant may be held accountable for such interim costs on final disposition of the complaint. The oppression remedy provides the court with an extremely broad and flexible jurisdiction to intervene in corporate affairs to protect all reasonable expectations of shareholders and other complainants. While conduct which is in breach of fiduciary duties of directors or that is contrary to the legal right of a complainant will normally trigger the court's jurisdiction under the oppression remedy, the exercise of that jurisdiction does not depend on a finding of a breach of such legal and equitable rights. Furthermore, the court may order a corporation to pay the interim expenses of a complainant seeking an oppression remedy, but the complainant may be held accountable for such interim costs on final disposition of the complaint (as in the case of a derivative action).

The laws of the Cayman Islands do not provide for a similar remedy, however, a shareholder does have the right to petition the court to wind-up a company on just and equitable grounds.

Enforcement of Judgments and other Matters

We have been advised by Conyers Dill & Pearman, our Cayman Islands counsel, that there is doubt as to whether the courts of the Cayman Islands would (1) enforce judgments of Canadian or United States courts obtained in actions against us or our affiliates, directors, or officers, as well as the experts named in this prospectus, who reside outside

Canada or the United States predicated upon the civil liability provisions of Canada or the United States federal securities laws or would (2) permit original actions brought in the Cayman Islands against us or our affiliates, directors or officers, as well as the experts named in this prospectus, who reside outside Canada or the United States predicated solely upon Canadian or United States federal securities laws.

There is no treaty in effect between Canada or the United States and the Cayman Islands providing for the enforcement of Canadian or United States judgments in the Cayman Islands, and there are grounds upon which the Cayman Islands courts may decline to enforce the judgments of Canadian or United States courts. The question whether a Canadian or United States judgment would be enforceable in the Cayman Islands against us or our affiliates, directors, officers or experts depends upon whether the Canadian or United States court that entered such judgment is recognized by the Cayman Islands Court as having jurisdiction over the judgment debtor, as determined by reference to the Cayman Islands conflict of law rules. In addition, certain remedies available under the laws of Canadian or United States jurisdictions, including certain remedies available under the Canadian or United States federal securities laws, may not be allowed or enforceable in the Cayman Islands courts to the extent that they are penal or contrary to Cayman Islands's public policy.

No original claim may be brought in the Cayman Islands against us, or our affiliates, directors, officers or experts for violation of the Canadian or United States federal securities laws because these laws have no extraterritorial jurisdiction under Cayman Islands law and do not have force of law in the Cayman Islands. A Cayman Islands court may, however, impose civil liability on us, or our affiliates, directors, officers or experts if the facts alleged in a complaint constitute or give rise to a cause of action under Cayman Islands law.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at September 30, 2009, both before and after giving effect to the Offering and the transactions contemplated by the Merger Agreement. This table should be read in conjunction with the financial statements and the notes thereto included elsewhere in this prospectus.

	As of September 30, 2009 (unaudited)	
	Actual(1)	As adjusted, after giving effect to the Offering and the transactions contemplated by the Merger Agreement(2) (in thousands)
Cash, cash equivalents and short-term investments	$—	14,835
Long-term debt	—	40
Stockholders' equity (deficit)		
Preferred shares, $0.001 par value; no shares authorized, issued and outstanding, actual; 25,000,000 shares authorized, no shares issued and outstanding, as adjusted	—	—
Common shares, $0.001 par value; no shares authorized, issued and outstanding, actual; 375,000,000 shares authorized, 9,579,535 shares issued and outstanding, as adjusted(3)	—	21
Restricted voting shares, $0.001 par value; no shares authorized, issued and outstanding, actual; 50,000,000 shares authorized, 5,773,116 shares issued and outstanding, as adjusted(3)	—	6
Additional paid-in capital	—	88,392
Accumulated deficit	—	(77,977)
Total stockholders' equity (deficit)	$—	10,442
Total capitalization	$—	10,482

Notes:

(1) The Company was incorporated on December 9, 2009 and issued one ordinary share for consideration of $0.01. Upon completion of the Reorganization this share will be repurchased for cancellation by the Company.

(2) Immediately following the Reorganization and prior to giving effect to the Offering, an aggregate of 11,902,651 Common Shares and Restricted Voting Shares will be issued to the Existing Shareholders pursuant to the Merger Agreement in exchange for their shares of ISE. The one Common Share issued upon incorporation will be cancelled. See "Corporate Structure—The Reorganization."

(3) Assumes all of the Common Shares purchased pursuant to the Offering are purchased by non-United States resident purchasers.

Dividend Policy

There are no restrictions in the Company's constating documents that would restrict or prevent the Company from paying dividends. However, currently there is no intention for the Company to pay dividends in the foreseeable future. The current policy of the Company is to reinvest future earnings in order to finance the growth and development of its business. Any future determination to pay cash dividends is at the discretion of the Board and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board deems relevant.

Options to Purchase Securities

ISE has previously granted options to purchase shares of common stock of ISE to directors, officers, employees and consultants under ISE's 2001 Stock Option Plan. In connection with the Reorganization, all outstanding awards under the 2001 Stock Option Plan will be assumed by the Company. See "Statement of Executive Compensation—Stock Option Plans—2001 Stock Option Plan." The exercise of options is typically subject to vesting conditions that were established by the board of directors of ISE at the time of grant.

The following table shows the aggregate number of options to purchase shares of common stock of ISE outstanding as of December 31, 2009:

Category	Number of shares of common stock of ISE(1)	Exercise Price(1)(2)	Expiration Date Range
All non-employee directors and past non-employee directors, as a group (6 persons in total)	81,693	$0.40	December 2011 – October 2018
All executive officers and past executive officers, as a group (6 persons in total)	5,256,414	$0.40	August 2010 – November 2019
All other employees and past employees, as a group (71 persons in total)	3,033,926	$0.40	February 2010 – November 2019
Total	8,372,033	$0.40	February 2010 – November 2019

Notes:

(1) The number of shares listed does not give effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share). The exercise price of outstanding options will also be adjusted proportionately in connection with the Reorganization.

(2) Represents the weighted average exercise price of all outstanding options to purchase shares of common stock of ISE, whether vested or unvested.

In April 2008 and November 2009, the board of directors of ISE authorized the repricing of the exercise price of outstanding stock options to $1.089 per share and $0.40 per share, respectively. Following the November 2009 repricing, all outstanding stock options have an exercise price equal to $0.40 per share. The outstanding stock options were repriced in order to retain employees with a better prospect of exercising options at a profit. In April 2008, the $1.089 exercise price equaled the price per share at which investors had agreed to purchase shares of ISE's Series C preferred stock in a contemporaneous financing. See "Interest of Management and Others in Material Transactions – Series C Preferred Stock Financing (2008)." The Series C preferred stock had greater rights, preferences and privileges than ISE's common stock, including a liquidation preference, anti-dilution protection and various protective covenants, among other things. As such, the board of directors of ISE determined that the fair market value of the shares of ISE's common stock underlying outstanding stock options was not in excess of $1.089 per share at the time of the repricing. In November 2009, the board of directors of ISE approved the repricing of all outstanding stock options to a price per share equal to the greater of (i) $0.40 per share or (ii) the fair market value as of such date of shares of ISE's common stock as determined by an independent third party valuation. The independent third party valuation provided for a fair market value of ISE's common stock below $0.40 per share as of the date of repricing, and as such, the board of directors of ISE selected the higher price per share of $0.40 in repricing outstanding stock options, consistent with the agreed formula. In connection with the Reorganization and the six-for-one share consolidation to be effected pursuant to the Reorganization, all outstanding stock options will be proportionally adjusted so that the exercise price will equal $2.40 per share and the option will become exercisable for one-sixth of the number of shares of common stock currently issuable upon exercise of the award.

PRIOR SALES

Other than the issuance of one common share at incorporation for consideration of $0.01, no common shares have been issued since incorporation, or are to be issued prior to the closing of the Offering other than the Common Shares and Restricted Voting Shares to be issued by the Company in connection with the Reorganization immediately prior to the closing of the Offering. Other than as described below, during the 12 month period preceding the date of this prospectus, ISE has not issued any shares of its common stock, or any securities convertible into or exchangeable for shares of its common stock:

- ISE issued an aggregate of 4,484,331 options to purchase shares of its common stock pursuant to its 2001 Stock Option Plan, which options each have an exercise price equal to $0.40 per share.
- In July 2009, ISE issued (i) secured convertible promissory notes in an aggregate principal amount of $5.6 million that are convertible into shares of ISE's capital stock upon the occurrence of certain events, and (ii) warrants to purchase an aggregate of 2,613,832 shares of its Series D preferred stock. See "Interest of Management and Others in Material Transactions – Bridge Financing (2009)." The secured convertible promissory notes will be repaid in connection with the consummation of the Offering. See "Use of Proceeds". The holders of the warrants have agreed to exercise the warrants in connection with the Reorganization.

ESCROWED SECURITIES

In connection with the Offering and as required pursuant to National Policy 46-201 – *Escrow for Initial Public Offerings*, the following individuals have agreed to the escrow of all securities of the Company (including all Common Shares, Restricted Voting Shares and options) held by each such person pursuant to an escrow agreement for a period of 18 months following the closing date of the Offering. Such escrowed securities shall be released from the terms of the escrow agreement, and the restrictions contained therein, in accordance with the following schedule: (a) ¼ of all escrowed securities held by such persons shall be released on the closing date of the Offering; (b) ⅓ of all remaining escrowed securities held by such persons shall be released after six months; (c) ½ of all remaining escrowed securities held by such persons shall be released after 12 months; and (d) the remaining escrowed securities held by such persons shall be released after 18 months. See "Plan of Distribution".

The table below sets forth the class of securities of the Company held in escrow and the percentage that number represents of the outstanding securities of that class of securities.

Name of Beneficial Owner	Designation of Class(1)	Number of Securities Held in Escrow or that are Subject to a Contractual Restriction on Transfer(2)	Percentage of Class(3)
NGP Energy Technology Partners, L.P.	Common Shares	2,902,115	17.33%
Rockport Capital Partners II, L.P.	Common Shares	2,834,120	16.92%
Rockport Capital Partners, L.P.	Common Shares	50,996	0.30%
RP Co-Investment Fund I, L.P.	Common Shares	16,998	0.10%
Siemens Venture Capital GmbH	Common Shares	2,294,857	13.70%
Richard J. Sander	Common Shares	301,998	1.80%
David M. Mazaika	Common Shares	255,419	1.53%
Philip J. Deutch	Common Shares	1,332	0.01%
Alexander Ellis III	Common Shares	1,332	0.01%
David R. Goodman	Common Shares	354,708	2.12%
Mark E. Quallen	Common Shares	82,398	0.49%
David L. Morash	Common Shares	202,998	1.21%
Justin M. Spragg	Common Shares	154,830	0.92%
Alex G. Bernasconi	Common Shares	100,749	0.60%
Total		9,554,849	57.05%

Notes:

(1) Assumes the conversion of all Restricted Voting Shares into Common Shares and the exercise of all outstanding stock options.

(2) Pursuant to the terms of the escrow agreement, CIBC Mellon Trust Company will act as escrow agent for the escrowed securities. See "Plan of Distribution" for details on the release provisions of the escrowed securities.

(3) On a fully diluted basis upon completion of the Offering and assuming no exercise of the Over-Allotment Option.

In addition to escrow as described above, each securityholder of the Company holding, directly or indirectly, (together with that securityholder's associates and affiliates) in excess of 1% of the Common Shares outstanding prior to the closing of the Offering (on an as-if converted basis), representing approximately 95% of the issued and outstanding Common Shares (on an as-if converted basis), and each of the directors and officers of the Company have agreed that they will not, directly or indirectly, without the prior written consent of the Underwriters, issue, sell, grant any option for the sale of, or otherwise dispose or monetize, or offer to announce any intention to do so, in a public offering or by way of private placement or otherwise, any Common Shares or any securities convertible or exchangeable into Common Shares for the period from the closing date of the Offering to the day that is 180 days immediately following closing of the Offering; at the end of such period, approximately one-third of the Common Shares held by such persons will be released from such restrictions on each of the 180th, 270th and 360th day after the closing of the Offering.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table lists (i) the persons who own or will own, beneficially and of record, directly or indirectly or exercise control or direction over, 10% or more of the issued and outstanding Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares) and (ii) each selling shareholder (collectively, the "Selling Shareholders"). The Selling Shareholders have granted the Underwriters the Over-Allotment Option, exercisable in whole or in part for a period of 30 days from the date of the closing of the Offering, to purchase from the Selling Shareholders up to that number of additional Common Shares as is equal to 15% of the aggregate number of Common Shares sold pursuant to the Offering. The Selling Shareholders will only sell Common Shares pursuant to an exercise of the Over-Allotment Option.

The following table (i) gives effect to the Reorganization, including the six-for-one share consolidation to be effected pursuant to the Reorganization, (ii) assumes the conversion of all Restricted Voting Shares into Common Shares and (iii) gives effect to the purchase by the Selling Shareholders of an aggregate of 1,076,797 Common Shares pursuant to the Offering.

Name	Number of Common Shares Owned, Controlled or Directed After Giving Effect to the Reorganization[1]	Number of Common Shares Being Distributed for the Account of the Shareholder[1][2]	Number and Percentage of Common Shares Owned After Giving Effect to the Offering and Assumes Full Exercise of the Over-Allotment Option[1]	Number and Percentage of Common Shares Owned After Giving Effect to the Offering and Assumes No Exercise of the Over-Allotment Option[1]
NGP Energy Technology Partners, L.P.[3] 1700 K Street NW, Suite 750 Washington, D.C. 20006 USA	2,594,458	147,857	2,754,258(17.9%)	2,902,115(18.9%)
Entities affiliated with: Rockport Capital Partners[4] 160 Federal Street, 18th Floor Boston, MA 02110 USA	2,594,457	147,857	2,754,257(17.9%)	2,902,114(18.9%)
Siemens Venture Capital GmbH[5] Otto-Hahn-Ring 6, 81739 Munich, Germany	2,044,886	120,134	2,174,723(14.2%)	2,294,857(14.9%)
DTE Energy Ventures, Inc.[6] 414 South Main Street, Suite 600 Ann Arbor, MI 48104 USA	816,415	46,205	866,353(5.6%)	912,558(5.9%)
Entities affiliated with: Macquarie Funds Group[7] 135 King Street Level 17 Sydney, NSW 2000 Australia	816,412	46,205	866,350(5.6%)	912,555(5.9%)
A. Daniel Jesselson 5/6/94 Trust[8] Jesselson Capital Corp. 450 Park Avenue, Suite 2603 New York, NY 10022 USA	401,307	4,621	406,300(2.6%)	410,921(2.7%)
David R. Goodman[9] c/o North Arrows, LLC 10 Mountainview Road Upper Saddle River, NJ 07458 USA	1,010,405	4,621	1,015,398(6.6%)	1,020,019(6.6%)

Notes:

(1) Beneficial ownership of record. Assumes the net exercise of outstanding warrants to purchase Series D preferred stock of ISE.

(2) Assumes full exercise of the Over-Allotment Option.

(3) NGP ETP, L.L.C. may be deemed to be the beneficial owner of the shares held by NGP Energy Technology Partners, L.P. by virtue of being its sole general partner. Mr. Deutch, a member of the Board, is a member of the investment committee of NGP ETP, L.L.C., and as such may be deemed to share the power to vote, or to direct the vote, and dispose of, or to direct the disposition of, the shares held by NGP Energy Technology Partners, L.P. Mr. Deutch disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(4) Comprised of 50,996 Common Shares beneficially owned by Rockport Capital Partners, L.P., 16,998 Common Shares beneficially owned by RP Co-Investment Fund I, L.P. and 2,526,463 Common Shares beneficially owned by Rockport Capital Partners II, L.P. The voting and disposition of the shares held by Rockport Capital Partners, L.P. is determined by Rockport Capital I, LLC, its general partner. The voting and disposition of the shares held by RP Co-Investment Fund I, L.P. is determined by RP Co-Investment Fund I GP, LLC, its general partner. The voting and disposition of the shares held by Rockport Capital Partners II, L.P. is determined by Rockport Capital II, LLC, its general partner. Mr. Ellis, a member of the Board, is a Managing Member of each of Rockport Capital I, LLC, RP Co-Investment Fund I GP, LLC and Rockport

Capital II, LLC, and as such may be deemed to share the power to vote, or to direct the vote, and dispose of, or to direct the disposition of, the shares held by each of Rockport Capital Partners, L.P., RP Co-Investment Fund I, L.P. and Rockport Capital Partners II, L.P. Mr. Ellis disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(5) Siemens Venture Capital GmbH, a company with limited liability organized under the laws of the Federal Republic of Germany, is a wholly-owned subsidiary of Siemens Aktiengesellschaft, a public reporting stock corporation organized under the laws of the Federal Republic of Germany. As such, Siemens Aktiengesellschaft may be deemed to be the beneficial owner of the shares held by Siemens Venture Capital GmbH by virtue of being its sole shareholder and having the power to appoint the company's managing directors and investment committee members and thereby direct the vote associated with the shares (or any disposition or transfer thereof) held by Siemens Venture Capital GmbH.

(6) DTE Energy Ventures, Inc. is a wholly-owned subsidiary of DTE Energy Company, a Michigan corporation. DTE Energy Company may be deemed to be the beneficial owner of, and may be deemed to have the power to vote, or to direct to the vote, and to dispose of, or to direct the disposition of, the shares held by DTE Energy Ventures, Inc.

(7) Comprised of 451,503 Common Shares beneficially owned by Macquarie Clean Technology Fund, 257,305 Common Shares beneficially owned by Macquarie Clean Technology Offshore Fund, L.P. and 107,604 Common Shares beneficially owned by Macquarie Clean Technology Fund, L.P. The voting and disposition of the shares held by Macquarie Clean Technology Fund is determined by Macquarie Investment Management Limited, its trustee and manager. The voting and disposition of the shares held by Macquarie Clean Technology Offshore Fund, L.P. is determined by MCTF GP Limited, which delegates management and administration responsibilities to the manager, Macquarie Investment Services Limited. The voting and disposition of the shares held by Macquarie Clean Technology Fund, L.P. is determined by MCTF GP Limited, which delegates management and administration responsibilities to the Manager.

(8) Comprised of 107,571 Common Shares held by the A. Daniel Jesselson 5/6/94 Trust and 293,736 Common Shares held by other trusts of related parties. The voting or disposition of the shares held by the A. Daniel Jesselson 5/6/94 Trust (the "Trust") is determined by Benjamin J. Jesselson, Claire Susan Strauss and Steven P. Rosenberg, as Trustees of the Trust.

(9) Mr. Goodman is a member of the Board. Includes 655,697 Common Shares held by North Arrows-ISE Investment LLC and 41,650 Common Shares held by CDJ Family Holdings, LLC. The voting and disposition of the shares held by North Arrows-ISE Investment LLC is determined by North Arrows-ISE Capital LLC, its managing member. Mr. Goodman is a principal of North Arrows-ISE Capital LLC, and as such may be deemed to share the power to vote, or to direct the vote, and dispose of, or to direct the disposition of, the shares held by North Arrows-ISE Investment LLC. Mr. Goodman is a managing director of CDJ Family Holdings, LLC, and as such may be deemed to share the power to vote, or to direct the vote, and dispose of, or to direct the disposition of, the shares held by CDJ Family Holdings, LLC. Mr. Goodman disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

DIRECTORS AND EXECUTIVE OFFICERS

The authorized size of the Board is nine members. Currently, the Board consists of eight directors, each elected in December 2009. An additional director, Gordon R. Barefoot, will be appointed to the Board immediately prior to the closing of the Offering. The term of office for each of the directors will expire at the time of the next annual meeting of the shareholders.

As a group, our directors and executive officers will beneficially own or exercise control or direction, directly or indirectly, over 8,933,526 Common Shares (if the Over-Allotment Option is exercised in full) and 9,353,995 Common Shares (if the Over-Allotment Option is not exercised) immediately following the completion of the Reorganization and the Offering (representing 58% of the Common Shares outstanding at that time (if the Over-Allotment Option is exercised in full) and 61% of the Common Shares (if the Over-Allotment Option is not exercised)), assuming the conversion of all Restricted Voting Shares into Common Shares.

The following table sets forth the names, municipalities of residence, positions held, principal occupations, and other information for our directors, executive officers and other key employees.

Name, State and Country of Residence	Position with the Company	Principal Occupation if Different from Position Held
Directors		
Richard J. Sander California, USA	Director, Chief Executive Officer and President	—
David M. Mazaika California, USA	Chairman of the Board of Directors	Chief Operating Officer, Quantum Technologies, Inc.
Gordon R. Barefoot(1)(2)(3) Surrey, British Columbia	Director	President, Cabgor Management Inc.
Philip J. Deutch(2)(5) Washington, D.C., USA	Director	Managing Partner, NGP Energy Technology Partners
Alexander Ellis III(2)(4) Massachusetts, USA	Director	General Partner, Rockport Capital Partners
Gerd-Dieter A. Goette(4) California, USA	Director	Vice President and Investment Partner, Siemens Venture Capital, Inc.
David R. Goodman(2)(3)(4)(5) New Jersey, USA	Director	Principal, North Arrows LLC
Mark E. Quallen(2)(3)(4)(5) Connecticut, USA	Director	Managing Director, EnTec Works LLC
Michael E. Sears California, USA	Director	Vice President and Investment Partner, Siemens Venture Capital, Inc.
Executive Officers		
David L. Morash California, USA	Chief Financial Officer and Treasurer	—
Justin M. Spragg California, USA	Vice President, General Counsel and Corporate Secretary	—
Alex G. Bernasconi California, USA	Senior Vice President of Sales and Marketing	—
Key Employees		
Paul B. Scott, Ph.D. California, USA	Chief Science Officer	—
Parthiv S. Patel California, USA	Vice President of Operations	—
Frederick P. Flett California, USA	Vice President of Engineering	—
Dennis D. Klahn California, USA	Controller	—

Notes:
(1) Mr. Barefoot will be appointed to the Board immediately prior to the closing of the Offering.
(2) Independent members of the Board.
(3) Members of the Audit Committee.
(4) Members of the Compensation Committee.
(5) Members of the Nominating and Corporate Governance Committee.

The following is a brief description of the business and experience and educational background of each of our directors and executive officers, including capacities in which each has served during the past five years.

Directors

Richard J. Sander has served as our Chief Executive Officer and President since December 2009, and as ISE's Chief Executive Officer since August of 2008 and President since January 2008. Prior to joining ISE, Mr. Sander served as President of Linear Logic Group, LLC, a consulting company, from November 2005 to April 2007. From September 2004 to October 2005, he served as Vice Present of Worldwide Operations for SMT Corporation, a global supplier of electronic components and service company. From September 2001 to September 2004, he served as General Manager, Vice President of Operations and Engineering for JNI Corporation, a storage infrastructure company. From 1982 to 2001, Mr. Sander served in various roles at each of Maxwell Technologies, Cymer, Bombardier, PACCAR – Kenworth, and Hewlett Packard. Mr. Sander holds a Bachelor of Science degree in Engineering from Oregon State University and an M.B.A. degree from San Diego State University.

David M. Mazaika has served on the Board since December 2009, and as Chairman of ISE's board of directors since August 2008, and as a member of ISE's board of directors since January 1995. Mr. Mazaika also served as Chief Executive Officer of ISE from January 1995 to August 2008. Mr. Mazaika co-founded ISE in 1994. He has served as Chief Operating Officer of Quantum Technologies, Inc., a supplier of clean vehicle technologies to automotive OEMs, since January 2009. Prior to founding ISE, Mr. Mazaika served as Vice President of Business Development for International Space Enterprises, a commercial space exploration company, from September 1993 to January 1995. From June 1985 to September 1993, Mr. Mazaika served in various positions for the Convair and Space Systems Divisions of General Dynamics, where he played a key role in strategic planning for General Dynamics' space and energy systems products, including those supporting the Atlas rocket, magnetic levitation trains and other energy-related technologies. Mr. Mazaika holds a Bachelor of Science degree in Electrical Engineering from Cornell University.

Gordon R. Barefoot has served as the President of Cabgor Management Inc., a management consulting company, since November 2005. Previously, Mr. Barefoot served as Senior Vice President Finance and Chief Financial Officer of Terasen Inc., a natural gas distribution company, and held other senior vice president roles from July 1998 to November 2005. Prior to that, he worked for Ernst & Young LLP, an international accounting firm, from December 1979 to June 1998 and became a partner of that firm in 1985. Mr. Barefoot is a director and trustee of AutoCanada Income Fund, a franchise automobile dealership group. Mr. Barefoot received a Bachelor of Commerce with Honours from the University of Manitoba, is a Chartered Accountant and is a Certified Director and a member of the Institute of Corporate Directors. Mr. Barefoot was formerly a director of EarthFirst Canada Ltd. ("EarthFirst"), a wind power developer based in Calgary. In November 2008 EarthFirst sought creditor protection under the *Companies' Creditors Arrangement Act*.

Philip J. Deutch has served as a member of the Board since December 2009, and as a member of ISE's board of directors since March 2006. He has served as Managing Partner of NGP Energy Technology Partners, L.P., or NGP ETP, a private equity fund that invests in energy technology companies, since September 2005. Prior to forming NGP ETP, Mr. Deutch was a Managing Director at Perseus, L.L.C., a private equity fund, from October 1997 to June 2005. He is also a member of the board of directors of Satcon Technology Corporation, TPI Composites and American Wind Capital Corp. and is a director of the International Center for Research on Women. Mr. Deutch holds a Bachelor of Arts degree from Amherst College and a J.D. degree (with distinction) from Stanford Law School.

Alexander "Hap" Ellis III has served as a member of the Board since December 2009, and as a member of ISE's board of directors since March 2006. He has served as a general partner of Rockport Capital Partners, L.P., a venture capital firm, since its inception in 1998. Mr. Ellis has primarily focused on renewables, electric grid technologies, advanced materials, transportation and emission control technologies. Prior to the formation of Rockport Capital Partners, he was a partner in RockPort Partners, LLC, a merchant bank specializing in energy and environmental projects. Prior to that, Mr. Ellis was a partner in several electric power development companies, developing over 1100MW of combined-cycle gas-fired electric generating capacity. From 1991 to 1995, Mr. Ellis was a member of the management team at Kenetech Corporation, an early leader in wind turbine manufacturing and development. Mr. Ellis is also a member of the board of directors of Catalytic Solutions, Inc., Powerspan Corp., Southwest Windpower, Deerpath Energy, Eka Systems, Second Rotation and Northern Power Systems. He previously served on the board of directors of Comverge Inc. Mr. Ellis holds a Bachelor of Arts degree from Colorado College and an M.B.A. degree from the Yale School of Management.

Gerd-Dieter A. Goette has served as a member of the Board since December 2009, and as a member of ISE's board of directors since August 2008. Mr. Goette has served as Vice President and Investment Partner at Siemens Venture Capital, Inc. (merged with Siemens Financial Services, Inc. effective July 1, 2009) since October 2005, and as Investment Partner at Siemens Venture Capital, GmbH from September 2000 to September 2005. Prior to that, Mr. Goette served as Vice President and Head of CableTV Solutions at Siemens Information and Communication Networks from October 1995 to August 2000. Mr. Goette holds a master's degree in electrical engineering (Dipl. Ing.) from Technical University Darmstadt, Germany.

David R. Goodman has served as a member of the Board since December 2009, and as a member of ISE's board of directors since June 2001. He has served as a Principal of North Arrows LLC, an energy technology and alternative energy investment firm, since December 2003. Prior to forming North Arrows, Mr. Goodman was the founder, Chairman and Chief Executive Officer of United American Energy Corp. ("UAE"), a company that develops, builds and acquires electric power generating plants, from December 1980 to December 2003. Prior to forming UAE, Mr. Goodman served in various roles with Grow Tunneling Corp., a company that constructs large municipal underground public works projects, from December 1973 to December 1980, starting as a Project Engineer and later as the Business Manager on the New York City Water Tunnel No. 3 construction. Mr. Goodman is also a Manager, Member and Owning Partner of e-Solar Properties LLC, a privately-owned company constructing and owning environmentally designed and advanced green buildings. Mr. Goodman is a member of the American Society of Civil Engineers, member of the Moles, former president of the New York Alliance for Hydroelectric Energy, former director of the National Hydropower Association, former member and director of the Electric Power Supply Association, former member of the New York Independent Power Producers Association (IPPNY), a member of Natural Resources Defense Council's Global Leadership Council and a member of the U.S. Green Building Council. Mr. Goodman holds a Bachelor of Science degree in Civil Engineering from Antioch College and an M.B.A. degree from the Stanford Business School.

Mark E. Quallen has served as a member of the Board since December 2009. Mr. Quallen previously served as a member of ISE's board of directors from June 2001 to August 2008. He has served as the Managing Director of EnTec Works, LLC, a developer of alternative energy projects in the Northeast, since September 2006. Prior to that, Mr. Quallen was employed as an independent consultant from April 2001 to August 2006. From July 1995 to March 2001, Mr. Quallen served as a principal of Court Street Investments, a company that purchases and restructures under-performing hydroelectric assets. In August 1979, he co-founded Hydro Development Group Inc., an independent power producer, and served as President and Chief Executive Officer until February 1995. Mr. Quallen holds a Bachelor of Business Administration degree from the University of Massachusetts.

Michael E. Sears has served as a member of the Board since December 2009, and as a member of ISE's board of directors since July 2009. He has served as a Vice President and Investment Partner for Siemens Venture Capital, Inc. since September 2008. Prior to that, Mr. Sears was a Managing Partner at Atrium Capital from November 2006 to August 2008. From January 2002 to November 2006, Mr. Sears was a Principal of The Reticle Group, and from September 2000 to January 2002 he was a Vice President of Digeo, Inc. Mr. Sears holds a Bachelor of Science degree from the U.S. Naval Academy, and an M.B.A. degree and a J.D. degree from Stanford University.

Executive Officers

David L. Morash has served as our Chief Financial Officer since December 2009, and served as ISE's Chief Financial Officer since April 2007 and Treasurer since February 2008. Prior to joining ISE, Mr. Morash served as San Diego practice director for Cerius Consulting, which provides executive-level consulting services to small and mid-sized companies throughout Southern California, from June 2006 to April 2007. From January 2004 to December 2005, he served as Chief Operating Officer, Chief Financial Officer and a member of the board of directors of Axesstel, Inc., a fixed wireless voice and broadband data product company. From January 2001 to September 2003, Mr. Morash served as Executive Vice President and Chief Financial Officer of REMEC, Inc., a manufacturer of wireless infrastructure for defence and commercial use. Mr. Morash holds a Bachelor of Arts degree from Columbia College and an M.B.A. degree from the Columbia Graduate School of Business.

Justin M. Spragg has served as Vice President, General Counsel and Corporate Secretary since December 2009, and as ISE's General Counsel since June 2004 and was promoted to Vice President and General Counsel in January 2008. He was also elected Corporate Secretary in August 2005. Prior to joining ISE, Mr. Spragg was an associate at Heller Ehrman LLP, a national law firm, where he worked as a corporate transactional attorney from 1999 to 2004, representing both public and private companies in the technology industry, including ISE. Mr. Spragg holds a Bachelor of Arts degree in Economics from the University of California, Irvine and a J.D. degree from the University of San Diego School of Law.

Alex G. Bernasconi has served as Senior Vice President of Sales and Marketing since December 2009, and as ISE's Senior Vice President of Sales and Marketing since May 2009. Prior to joining ISE, Mr. Bernasconi served as Vice President of Sales at Freightliner Trucks, a division of Daimler AG, a leading producer of heavy/medium trucks, from November 1997 to April 2009. Prior to that, Mr. Bernasconi held a variety of positions at Kenworth Truck

Company, a division of PACCAR Inc. Mr. Bernasconi holds a Bachelor of Science degree in Mechanical Engineering from the University of Washington in Seattle.

Key Employees

Paul B. Scott, Ph.D. has served as our Chief Science Officer since December 2009, and as ISE's Chief Science Officer since June 2001. From 1997 to 2001, he served as a consultant to ISE, while also serving as Director of U.S. Operations for Stuart Energy Ltd., a Canadian-based electrolyser company. From 1979 to 1997, he served as a consultant for several companies and the University of California. Dr. Scott has also previously served on the professorial staff of the Massachusetts Institute of Technology and the University of Southern California. Dr. Scott holds a Bachelor of Science degree, a Master of Science degree and a Doctor of Science degree from the Massachusetts Institute of Technology.

Parthiv S. Patel has served as our Vice President of Operations since December 2009, and as ISE's Vice President of Operations since December 2007. Prior to joining ISE, Mr. Patel served as Core Business Unit Manager for DotHill Systems, a data storage systems provider, from June 2006 to December 2007. From March 2005 to June 2006, he served as Supply Chain Programs Director for Remec Wireless/Powerwave Technologies, a wireless communications network equipment maker. From November 2004 to February 2005, he served as Senior Business Consultant for Tech-Synergy plc, a business process outsourcing company. From 1997 to 2004, he held variety of Operations and Business Development positions at Cymer, Inc., a manufacturer of semiconductor capital equipment. Mr. Patel holds a Bachelor of Engineering degree from Birla Vishwakarama Mahavidyalaya and a Master of Industrial and Systems Engineering degree from the University of Southern California.

Frederick P. Flett has served as our Vice President of Engineering since December 2009, and as ISE's Vice President of Engineering since May 2009. Prior to joining ISE, Mr. Flett served as Chief Engineer of Continental Auto Systems, an automotive technology company, from October 2008 to May 2009. From January 2007 to October 2008, Mr. Flett served as Vice President and Chief Engineer of Siemens VDO, an international supplier of automotive electronics and mechatronics, and from October 2001 and January 2007, he served as Vice President and Chief Engineer of Ballard Power Systems Inc., a clean energy fuel cell provider. From January 1999 to October 2001, Mr. Flett served as Vice President and Chief Engineer of Ford Ecostar, a division of Ford Motor Company. Mr. Flett holds a doctorate degree and M.B.A. from Hull University and International Management centers in the United Kingdom.

Dennis D. Klahn has served as our Controller since December 2009, and as ISE's Controller since July 2007. Prior to joining ISE, Mr. Klahn served as Controller of Overland Storage, Inc., a data storage and data protection company, from June 2006 to July 2007. From March 2006 to May 2006, he served as Senior Vice President of Administration and Controller for NTN Buzztime, Inc., an interactive entertainment company. From November 2005 to February 2006, he served as Chief Financial Officer for Anacomp, Inc., an information management solutions company and as Controller of Anacomp from July 2000 to October 2005. Mr. Klahn holds a Bachelor of Arts degree in Accounting from St. Ambrose College.

Corporate Governance

The Board believes that good corporate governance improves corporate performance and benefits all shareholders. Additionally, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* prescribes certain disclosure by us of our corporate governance practices. This disclosure is presented below.

Board of Directors

The Board facilitates its exercise of independent supervision over management through frequent meetings of the Board. Messrs. Goodman, Quallen, Deutch and Ellis are Independent directors. Mr. Barefoot will be appointed to the Board immediately prior to the closing of the Offering and will be an Independent director.

The responsibilities of the Chairman of the Board are to preside over meetings of the Board, interface between the Board and senior management, including regular consultations with the President and CEO on a variety of matters of importance to the Company's business, its relationships with shareholders and other stakeholders and the relationship between the Board and management, including all matters which properly come within the scope of the duties and responsibilities of a non-executive chairman to ensure that the Company fulfils its commitment of adherence to corporate governance best practices.

Board Mandate

The Board's responsibility is to supervise the executive managers of the business and affairs of the Company and to act with a view to the best interests of the Company and its shareholders. In the discharge of this responsibility, the Board oversees and reviews directly or through its various committees, the Company's results of operations, significant corporate plans and business initiatives, including the development and implementation of the annual business plan, strategic plans, major acquisitions and divestitures, public communications policies, the Company's senior management recruitment, assessment and succession processes and the Company's internal control and management information systems to identify and manage principal business risks. The Board is also responsible for reviewing its size and the compensation paid to its members, to ensure that the Board can fulfill its duties effectively and that its members are adequately compensated for assuming the risks and carrying out the responsibilities of their positions. The Board considers, as a general rule, that management should speak for the Company in its communications with shareholders and the investment community, in the context of shareholder and investor relations programs reviewed and approved periodically by the Board.

Position Descriptions

The Board has not developed a written position description for the committee chairs beyond what is stated in each committee's charter. The committee chairs are expected to supervise the activities of their respective committee and to ensure that such committees are taking all steps necessary to fulfil their respective mandates.

Directorships

None of the directors are currently directors of other issuers that are also reporting issuers (or the equivalent) in a territory of Canada or in a foreign territory, except for Mr. Barefoot, who is currently a director of AutoCanada Income Fund.

Orientation and Continuing Education

The Board will encourage the directors to take relevant training programs offered by different regulatory bodies and will give them the opportunity to expand their knowledge about the nature and operations of our business.

Ethical Business Conduct

A director, in the exercise of his or her functions and responsibilities, must act with complete honesty and good faith in the best interests of the corporation. He or she must also act in accordance with the applicable laws, regulations and policies. In the event of a conflict of interest, a director is required to declare the nature and extent of any material interest he or she has in any important contract or proposed contract of ours, as soon as he or she has knowledge of the agreement or of our intention to consider or enter into the proposed contract. In such circumstances, the director in question shall abstain from voting on the subject.

Nomination of Directors

The Nominating and Corporate Governance Committee (See "Committees of the Board of Directors," below) will designate new candidates for the position of director. The Nominating and Corporate Governance Committee will carefully review and assess the professional skills and abilities, the personality and other qualifications of each candidate, including the time and energy that the candidate is able to devote to the task as well as the contribution that he or she can make to the Board.

Compensation

The Compensation Committee (See "Committees of the Board of Directors," below) will determine the compensation of our directors and officers. In order to establish the compensation of our directors and officers, it is intended the committee will review, as appropriate, industry data published by recruitment agencies for comparable executive positions. The committee will review performance annually.

Other Board Committees

Other than the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee, the Board does not have (and does not currently intend to have) any other standing committees.

Assessments

There is no current formal method used to assess the Board. Once we become a reporting issuer, we will, as soon as reasonably practicable, adopt measures to assess the performance of the Board.

Committees of the Board of Directors

Each of the committees of the Board will be guided by a charter to be established by the Board.

Audit Committee

National Instrument 52-110 – *Audit Committees* ("NI 52-110"), National Instrument 41-101 – *General Prospectus Requirements* and Form 52-110F1 require us to disclose certain information relating to our Audit Committee and its relationship with our Independent auditors. The Audit Committee has been structured to comply with NI 52-110. Each member of the Audit Committee is financially literate within the meaning of NI 52-110.

Audit Committee Charter

The text of the Audit Committee's charter is attached.

Composition of Audit Committee

Immediately prior to the closing of the Offering, the members of the Audit Committee will be:

Gordon R. Barefoot (Chair)	Independent(1)	Financially literate(2)
David R. Goodman	Independent(1)	Financially literate(2)
Mark E. Quallen	Independent(1)	Financially literate(2)

Notes:

(1) Pursuant to NI 52-110, a member of an audit committee is Independent if the member has no direct or indirect material relationship with us, which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

(2) An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by our financial statements.

Relevant Education and Experience

Each member of the Audit Committee has adequate education and experience that will be relevant to his performance as an Audit Committee member and, in particular, the requisite education and experience that have provided the member with:

(a) an understanding of the accounting principles used by us to prepare our financial statements;

(b) the ability to assess the general application of the above-noted principles in connection with estimates, accruals and reserves;

(c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising individuals engaged in such activities; and

(d) an understanding of internal controls and procedures for financial reporting.

See "Directors and Executive Officers" for further details regarding the education and experience of the members of the Audit Committee.

Audit Committee Oversight

At no time since the commencement of our most recently completed financial year has the Audit Committee made a recommendation to nominate or compensate an external auditor not adopted by the Board.

Reliance on Certain Exemptions

At no time since the commencement of our most recently completed financial year have we relied on the exemption in Section 2.4 of NI 52-110 (*De Minimis Non-Audit Services*), or an exemption from NI 52-110, in whole or in part, granted under Part 8 thereof.

Pre-Approval Policies and Procedures

The Audit Committee is authorized by the Board to review the performance of our external auditors and approve in advance provision of services other than auditing and to consider the independence of the external auditors, including a review of the range of services provided in the context of all consulting services bought by us. The Audit Committee is authorized to approve in writing any non-audit services or additional work which the Chairman of the Audit Committee deems to be necessary, and the Chairman will notify the other members of the Audit Committee of such non-audit or additional work and the reasons for such non-audit work for the committee's consideration, and if thought fit, approval in writing.

External Auditor Service Fees

The fees billed by ISE's external auditors for our financial period from January 1, 2006 to September 30, 2009 for audit and non-audit related services provided to us or our subsidiaries (if any) are as follows:

	2008	2007	2006
Audit Fees	$300,000	$ 701,000	$125,000
Audit Related Fees(1)	$607,048(2)	$2,508,359(2)	—
Tax Fees(3)	—	—	—
All Other Fees(4)	—	25,500	—

Notes:

(1) Fees charged for assurance and related services that are reasonably related to the performance of an audit, and not included under Audit Fees.

(2) Includes fees relating to a financing that was not completed.

(3) Fees charged for tax compliance, tax advice and tax planning services.

(4) Fees for services other than those disclosed in any other column.

Compensation Committee

The Compensation Committee consists of four directors, initially being Mr. Goodman, as Chairperson, and Messrs. Quallen, Goette and Ellis. The Compensation Committee's responsibilities include:

- annually reviewing and evaluating the performance of our chief executive officer in light of Company performance and individual performance and recommending to the Board for its approval the compensation of our chief executive officer;
- reviewing and recommending to the Board for its approval the compensation of all of our other executive officers;
- reviewing and recommending to the Board for its approval any employment agreements, severance arrangements, change-in-control arrangements or special or supplemental employee benefits, and any material amendments to any of the foregoing, applicable to our executive officers;
- overseeing and administering our incentive and equity-based compensation plans, welfare and benefit plans and any other compensatory plans applicable to our executive officers, and reviewing and recommending to the Board for its approval any grants of incentive or equity-based compensation to our executive officers; and
- reviewing and making recommendations to the Board with respect to director compensation.

The Compensation Committee's role is also to ensure that the total compensation paid to our executive officers (including each of the named executive officers) is fair, reasonable and competitive. In the course of reviewing and recommending to the Board the compensation of executive officers other than our chief executive officer, the Compensation Committee annually reviews the performance of the executive officers with our chief executive officer, and our chief executive officer makes recommendations to the Compensation Committee regarding their compensation.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of three directors, initially being Mr. Quallen, as Chairperson, and Messrs. Deutch and Goodman. The Nominating and Corporate Governance Committee's responsibilities include:

- developing and recommending to the Board criteria for selecting board and committee membership;
- establishing procedures for identifying and evaluating director candidates, including nominees recommended by shareholders;
- identifying individuals qualified to become board members;
- recommending to the Board the persons to be nominated for election as directors and to each of the Board's committees;
- reviewing and making recommendations to the Board regarding the appointment and succession of the Company's directors and officers;
- developing and recommending to the Board a code of business conduct and ethics and a set of corporate governance guidelines; and
- overseeing the evaluation of the Board, its committees and management.

Indebtedness of Directors and Executive Officers

Other than as disclosed in this prospectus, no individual who is, or who at any time since our incorporation has been, a director or executive officer (or an associate of any such individual): (i) is at the date of this prospectus, indebted to us or any subsidiary (other than in respect of routine indebtedness); or (ii) at the date of this prospectus, has indebtedness to another entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by us or any subsidiary.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of our directors or executive officers is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including us) that was subject to one of the following orders, that was in effect for a period of more than 30 consecutive days:

(a) a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation that was issued while the director, chief executive officer or chief financial officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as disclosed below, none of our directors or executive officers, or shareholders holding a sufficient number of our securities to affect materially control of us:

(a) is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or the shareholder; or

(c) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or a regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Mr. Barefoot was formerly a director of EarthFirst, a wind power developer based in Calgary. In November 2008 EarthFirst sought creditor protection under the *Companies' Creditors Arrangement Act*.

Conflicts of Interest

Our directors are required by law to act honestly and in good faith with a view to our best interest and to disclose any interests which they may have in any project or opportunity of ours. However, our directors and officers may serve on the boards and/or as officers of other companies which may compete in the same industry as us, giving rise to potential conflicts of interest. To the extent that such other companies may participate in ventures in which we may participate, they may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that a conflict of interest arises at a meeting of our directors, the conflict of interest must be declared and the declaring parties must recuse themselves from the meeting and abstain from participating and voting for or against the approval of any project or opportunity in which they may have an interest. If these steps are followed, and subject to any limitations in our constating documents, a transaction would not be void or voidable because it was made between us and one or more of our directors or by reason of such director being present at the meeting at which such agreement or transaction was approved. The remaining directors will determine whether or not we will participate in any such project or opportunity.

To the best of our knowledge, there are no known existing or potential conflicts of interest among us, our directors, officers or other members of management as a result of their outside business interests. See "Interest of Management and Others in Material Transactions."

Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest, and we will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of our directors or officers.

STATEMENT OF EXECUTIVE COMPENSATION

Although throughout this prospectus the terms "we," "us" and "our" generally refer collectively to the Company, ISE and all other direct and indirect subsidiaries of the Company, in this section "Statement of Executive Compensation," the terms "we," "us" and "our" refer only to ISE. In addition, all share data refers to shares of common stock of ISE prior to giving effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share).

Named Executive Officers

For the year ended December 31, 2009, ISE's named executive officers were:

- Richard J. Sander, our President and Chief Executive Officer;
- David L. Morash, our Chief Financial Officer and Treasurer;
- Justin M. Spragg, our Vice President, General Counsel and Secretary; and
- Alex G. Bernasconi, our Senior Vice President of Sales and Marketing.

Mr. Sander qualifies as a named executive officer because he served as our Chief Executive Officer for the year ended December 31, 2009. Mr. Morash qualifies as a named executive officer because he served as our Chief Financial Officer during the year ended December 31, 2009. Messrs. Spragg and Bernasconi qualify as named executive officers because they were our only other executive officers, other than the principal executive officer and principal financial officer, during the year ended December 31, 2009.

David M. Mazaika served as ISE's Chief Executive Officer for a portion of the year ended December 31, 2008, with his employment terminating effective August 1, 2008. Although he is not a named executive officer of ISE, he receives certain severance payments and benefits from ISE which are discussed under "Employment Agreements and Severance Arrangements."

Each of ISE's named executive officers will be named executive officers of the Company. Set out below is a discussion of the compensation program for ISE's named executive officers in 2009.

There are currently no commitments to make any changes to the compensation of our executive officers in connection with the consummation of the Offering or to pay any additional compensation to our executive officers in their capacity as employees of the Company. Our executive officers will continue to receive compensation in the manner described in this section following the consummation of this Offering, until such time as the Compensation Committee determines that any changes or modifications to such compensation arrangements are appropriate.

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

Our executive officer compensation program is designed to achieve the following objectives:

- attract and retain talented and experienced executive officers;
- align our executive officers' interests with those of our stockholders by considering our overall performance when making compensation decisions;
- motivate and reward our executive officers by considering individual performance when making compensation decisions; and
- incentivize our executive officers to manage our business to meet both short-term and long-term objectives.

Elements of Executive Officer Compensation

We provide what we believe is a competitive total compensation package to our executive officers through a combination of (i) base salary, (ii) annual cash bonuses, (iii) periodic long-term equity awards and (iv) broad-based benefit programs. Overall, we have designed our executive compensation program to achieve the objectives described above. Within the context of the overall objectives of our compensation program, we determined the specific amounts of compensation to be paid to each of our executive officers in the year ended December 31, 2009 based on a number of factors, including:

- our executive officers' performance during 2007 and 2008, as applicable;
- the roles and responsibilities of our executive officers;
- the individual experience and skills of, and expected contributions from, our executive officers;
- the amounts of compensation being paid to our other executive officers;

- our executive officers' historical compensation at ISE; and
- any contractual commitments we have made to our executive officers regarding compensation.

Since our inception, we have been a privately-held company and most of our directors and members of the Compensation Committee have been appointed by and affiliated with our largest stockholders. As a result, the total amount of compensation that we paid to our executive officers, the types of executive compensation programs we maintained and the amount of compensation paid to our executive officers under each program has been determined by the Compensation Committee and the board of directors based on their experience in making these types of decisions and their judgment regarding the appropriate amounts and types of executive compensation. As a public company, we expect to rely more heavily on independent compensation consultants and other more formal market data regarding comparable companies' executive compensation programs and amounts in determining executive compensation than we have in the past. Specifically, we may ask independent compensation consultants to (i) help identify appropriate comparable companies, (ii) provide analyses of how our executive compensation program compares to the executive compensation programs of these comparable companies and (iii) provide recommendations to the Compensation Committee and the board of directors regarding possible alterations to our executive compensation program.

Each of the primary elements of our executive officer compensation program is discussed in detail below.

Base Salary. We pay our executive officers a base salary to compensate them for services rendered during the fiscal year. Base salaries are determined for each executive officer based on an evaluation of such officer's scope of responsibility and performance. Base salary levels are typically reviewed and considered annually by the Compensation Committee. From time to time, the Compensation Committee and the board of directors may consider adjustments to base salary levels based upon promotions or other changes in job responsibility or merit-based increases based on assessments of individual performance. In most cases, our executive officers' base salaries reflect the initial base salaries that we negotiated with each of our executive officers at the time of his initial employment or promotion and our subsequent adjustments to these amounts to reflect market increases, the growth and stage of development of our company, our executive officers' performance and increased experience, any changes in our executive officers' roles and responsibilities and other factors.

The base salary component of our executive officer compensation program is not designed to incentivize near-term company or individual performance (as our annual cash bonuses are designed to do), but rather to provide a baseline level of compensation to our executive officers. In most cases, the base salary component will represent the largest annual form of compensation to our executive officers, although we have no formal policy regarding the allocation between base salary and other forms of compensation. In making decisions regarding base salary levels, the Compensation Committee and the board of directors will consider and evaluate the total compensation package, including cash bonuses and periodic long-term equity awards, received or to be received by a particular executive officer, and seek to ensure that such total compensation package is fair, reasonable and competitive.

The base salaries actually paid to each of the named executive officers in the year ended December 31, 2009 are set forth below in the Summary Compensation Table.

Annual Cash Bonuses. We also provide our executive officers with discretionary annual cash bonuses that are specifically designed to reward our executive officers for our overall performance, as well as their individual performance in a given fiscal year. In some cases, our executive officers have employment agreements that provide for a target bonus amount that is a percentage of base salary; however, even in such cases, annual cash bonuses are entirely discretionary. The Compensation Committee considers the performance of the executive officer, as well as company performance, for the preceding fiscal year in deciding whether to recommend that the board of directors award an annual cash bonus and, if one is to be awarded, the size of the bonus. All annual cash bonuses are awarded retrospectively. We have no formal policy regarding the payment of annual cash bonuses, and such bonuses are only paid if and when the Compensation Committee and the board of directors deem appropriate based upon the circumstances. Such annual cash bonuses are not tied to the achievement of any specific predetermined performance goals, but are based on an executive officer's overall performance, as well as our performance as a company, during a given period of time.

We believe that these discretionary annual cash bonuses motivate our executive officers to improve both company and individual performance, and promote teamwork and near-term growth in our business. By retaining discretion in awarding annual cash bonuses rather than tying such bonuses to predetermined goals in advance, we believe that we can more effectively adapt our compensation program to changes in our business and our industry and to other events beyond our control. If events occur during the course of a given year that require our executive officers to shift their attention to different or other strategic objectives, the discretionary nature of our bonus program allows us to ensure that our overall compensation program remains fair, reasonable and competitive under those particular circumstances. This is particularly important to our company, given our stage of development and the varying challenges that we face. We have no formal policy regarding the allocation between annual cash bonuses and other forms of compensation, but the Compensation Committee and the Board will consider and evaluate the total compensation package, including base salary and periodic long-term equity awards, received or to be received by a particular executive officer, and seek to ensure that such total compensation package is fair, reasonable and competitive.

At the date hereof, the annual cash bonuses, if any, to be paid to each of the named executive officers for performance during the year ended December 31, 2009 have not yet been determined.

Periodic Long-Term Equity Awards. We periodically grant long-term equity awards in the form of stock options to our executive officers as part of our total executive officer compensation package. We believe that equity-based compensation in the form of stock options links the interests of our executive officers with the long-term interests of our stockholders. Stock option awards to executive officers (including our named executive officers) are typically subject to time-based vesting provisions. We believe that such awards encourage our executive officers to focus on long-term company performance and increasing long-term stockholder value. We also believe that periodic long-term equity awards serve as a useful retention mechanism by encouraging our executive officers to remain employed with our company.

We have no formal policy regarding when periodic long-term equity awards are to be granted, and such grants are not directly tied to any pre-established company or individual goals. We do not have a formal policy regarding the size or amount of periodic long-term equity awards to executive officers. The Compensation Committee and the board of directors will, however, consider and evaluate the total compensation package, including base salary and cash bonuses, received or to be received by a particular executive officer, and seek to ensure that such total compensation package is fair, reasonable and competitive.

Historically, we have granted long-term equity awards to our executive officers on a periodic, but not necessarily annual, basis. In 2009, we considered a number of factors in determining what, if any, stock options to grant to our executive officers, including, but not limited to:

- the number of shares subject to, and the exercise price of, outstanding options, both vested and unvested, held by our executive officers;
- the vesting schedule of the unvested stock options held by our executive officers;
- the amount and percentage of our total equity on a diluted basis held by our executive officers; and
- previous grants of stock options to our executive officers.

The amount of stock option awards granted to each of the named executive officers in the year ended December 31, 2009 is set forth below in the Summary Compensation Table.

Broad-Based Benefits Programs. All full-time employees, including our executive officers, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance, and our 401(k) plan. We do not provide perquisites or personal benefits to our executive officers that are not otherwise available to other employees generally.

Tax Implications

Section 162(m) of the Internal Revenue Code limits the tax deduction to $1 million for compensation paid to certain executive officers of public companies. However, performance-based compensation that has been approved by stockholders is not subject to the $1 million limit under Section 162(m) if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals and the board committee that establishes such goals consists only of "outside directors." Because we have historically been a private company, the limitations under Section 162(m) have not applied to us and, as a result, we have not set pre-established, objective performance goals or had a compensation committee consisting of only "outside directors" under Section 162(m). As a public company, we may in the future seek to mitigate the application of Section 162(m), although we have no current plans to do so.

Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the named executive officers for the year ended December 31, 2009:

					Non-Equity Incentive Plan Compensation ($)				
Name and Principal Position	**Year**	**Salary**	**Share-Based Awards**	**Option-Based Awards[1]**	**Annual Incentive Plans**	**Long-Term Incentive Plans**	**Pension Value**	**All Other Compensation**	**Total Compensation**
		($)	($)	($)			($)	($)	($)
Richard J. Sander .... *President and Chief Executive Officer*	2009	270,000	—	315,277	—	—	—	—	585,277
David L. Morash .... *Chief Financial Officer and Treasurer*	2009	223,846	—	310,607	—	—	—	—	534,453
Justin M. Spragg .... *Vice President, General Counsel and Secretary*	2009	211,346	—	61,600	—	—	—	—	272,946
Alex G. Bernasconi[2] ..... *Senior Vice President of Sales and Marketing*	2009	138,115	—	1,088	—	—	—	—	139,203

Notes:

(1) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2009 for awards granted in 2009 and in prior years. Such amounts are calculated in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (which we refer to as FAS 123(R)), except that any estimate for forfeitures in excluded from, and does not reduce, such amounts. Assumptions used in the calculation of these amounts are included in Note 11 in the Notes to Financial Statements included elsewhere in this prospectus.

(2) Mr. Bernasconi joined ISE in May 2009.

The discussion below describes in further detail the compensation paid to the named executive officers in the year ended December 31, 2009. For a description of the material terms of employment agreements and/or arrangements with each of the named executive officers, see the discussion below under the heading "Employment Agreements and Severance Arrangements."

Base Salary

Richard J. Sander, our President and Chief Executive Officer, received $270,000 in base salary in 2009. This amount represented approximately 46% of Mr. Sander's total compensation for 2009. Mr. Sander receives an annual base salary of $260,000 pursuant to an employment agreement with us; he received $270,000 in 2009 because of the timing of customary pay dates. The employment agreement provides that Mr. Sander's base salary is to be reviewed annually and may be increased at the discretion of the Board. The Compensation Committee recommended and the board of directors of ISE approved the amount of Mr. Sander's 2009 base salary based on our negotiations with Mr. Sander regarding his initial employment.

David L. Morash, our Chief Financial Officer and Treasurer, received $223,846 in base salary in 2009. This amount represented approximately 42% of Mr. Morash's total compensation for 2009. Mr. Morash receives an annual base salary of $220,000 pursuant to an employment agreement with us; he received $223,846 in 2009 because of the timing of customary pay dates. The employment agreement provides that Mr. Morash's base salary is to be reviewed annually and may be increased at the discretion of the Board. The Compensation Committee recommended and the board of directors of ISE approved the amount of Mr. Morash's 2009 base salary based on our negotiations with Mr. Morash regarding his initial employment with us.

Justin M. Spragg, our Vice President, General Counsel and Secretary, received $211,346 in base salary in 2009. This amount represented approximately 77% of Mr. Spragg's total compensation for 2009. The Compensation Committee recommended and the board of directors of ISE approved the amount of Mr. Spragg's 2009 base salary based on, among other factors, our overall performance in 2007 and 2008.

Alex G. Bernasconi, our Senior Vice President of Sales and Marketing, received $138,115 in base salary in 2009. Mr. Bernasconi joined ISE in May 2009. This amount represented approximately 99% of Mr. Bernasconi's total compensation for 2009. The Compensation Committee recommended and the board of directors of ISE approved the amount of Mr. Bernasconi's 2009 base salary based on, among other factors, our overall performance in 2007 and 2008.

For more information regarding the base salaries payable to the named executive officers, please see the discussion above under the heading "Compensation Discussion and Analysis—Elements of Executive Officer Compensation—Base Salary."

Annual Cash Bonuses

The Compensation Committee considers the performance of the executive officer, as well as company performance, for the preceding fiscal year in deciding whether to recommend that the Board award an annual cash bonus and, if one is to be awarded, the size of the bonus. All annual cash bonuses are awarded retrospectively. We have no formal policy regarding the payment of annual cash bonuses, and such bonuses are only paid if and when the Compensation Committee and the board of directors deem appropriate based upon the circumstances. Such annual cash bonuses are not tied to the achievement of any specific predetermined performance goals, but are based on an executive officer's overall performance, as well as our performance as a company, during a given period of time.

As of the date of this prospectus, we have not yet determined whether we will award any cash bonuses to the named executive officers for 2009, however, such bonuses may be determined at a later date.

For more information regarding the annual cash bonuses payable to the named executive officers, please see the discussion above under the heading "Compensation Discussion and Analysis—Elements of Executive Officer Compensation—Annual Cash Bonuses."

Periodic Long-Term Equity Awards

Our long-term stock option awards provide our executive officers with the right to purchase shares of common stock of ISE at a fixed exercise price typically for a period of up to 10 years, subject to continued employment with our company. The stock options granted to our executive officers generally vest and become exercisable over a period of four years from the vesting base date, with 25% of the option vesting each year or over a period of five years from the vesting base date, with 20% of the award vesting each year. Prior to this Offering, all stock option awards were made pursuant to our 2001 Stock Option Plan. Following this Offering, stock option awards will be made by the Company pursuant to our 2010 Stock Option and Incentive Plan. In connection with the Reorganization, all outstanding awards under the 2001 Stock Option Plan will be assumed by the Company.

The exercise price of each stock option granted under our 2001 Stock Option Plan or to be granted under our 2010 Stock Option and Incentive Plan was or will be, as the case may be, based on the fair market value of common stock of ISE on the grant date. Historically, the fair market value of common stock of ISE for purposes of determining the exercise price of stock options has been determined by the board of directors based on its analysis of a number of factors, including, among others, the total company valuation implied by the most recent equity round of financing, the market value of similarly situated public companies, our anticipated risks and opportunities, the rights and preferences of our preferred stockholders existing at the time and the discounts customarily applicable to common stock of privately-held companies. Following this Offering, all stock options will continue to be granted with an exercise price equal to the fair market value of common stock of ISE on the grant date, but fair market value will be defined as the closing market price of a share of common stock of ISE on the grant date. We do not have any program, plan or practice of setting the exercise price based on a date or price other than the fair market value of common stock of ISE on the grant date.

On June 18, 2009, Mr. Sander was granted an option to purchase 923,479 shares of common stock of ISE. On November 13, 2009, Mr. Sander was granted an option to purchase 286,000 shares of common stock of ISE. The exercise price of each of the options is $0.40 per share of common stock of ISE. The options vest and become exercisable on an annual basis over a period of four years from August 14, 2008 and November 13, 2009, respectively, with 25% of the option vesting on the first anniversary of the respective dates and 6.25% of the option vesting quarterly thereafter.

On June 18, 2009, Mr. Morash was granted an option to purchase 541,979 shares of common stock of ISE. On November 13, 2009, Mr. Morash was granted an option to purchase 73,500 shares of common stock of ISE. The exercise price of each of the options is $0.40 per share of common stock. The options vest and become exercisable on an annual basis over a period of four years from August 14, 2008 and November 13, 2009, respectively, with 25% of the option vesting on the first anniversary of the respective grant dates and 6.25% of the option vesting quarterly thereafter.

On June 18, 2009, Mr. Spragg was granted an option to purchase 516,973 shares of common stock of ISE. On November 13, 2009, Mr. Spragg was granted an option to purchase 166,000 shares of common stock of ISE. The exercise price of each of the options is $0.40 per share of common stock. The options vest and become exercisable on an annual basis over a period of four years from August 14, 2008 and November 13, 2009, respectively, with 25% of the option vesting on the first anniversary of the respective grant dates and 6.25% of the option vesting quarterly thereafter.

On September 23, 2009, Mr. Bernasconi was granted an option to purchase 400,000 shares of common stock of ISE. On November 13, 2009, Mr. Bernasconi was granted an option to purchase 204,500 shares of common stock of ISE. The exercise price of each of the options is $0.40 per share of common stock. The options vest and become exercisable on an annual basis over a period of four years from May 1, 2009 and November 13, 2009, respectively, with 25% of the option vesting on the first anniversary of the respective grant dates and 6.25% of the option vesting quarterly thereafter.

In April 2008 and November 2009, the board of directors of ISE authorized the repricing of the exercise price of outstanding stock options to $1.089 per share and $0.40 per share, respectively. Following the November 2009 repricing, all outstanding stock options have an exercise price equal to $0.40 per share. The outstanding stock options were repriced in order to retain employees with a better prospect of exercising options at a profit. In April 2008, the $1.089 exercise price equaled the price per share at which investors had agreed to purchase shares of ISE's Series C preferred stock in a contemporaneous financing. See "Interest of Management and Others in Material Transactions—Series C Preferred Stock Financing (2008)." The Series C preferred stock had greater rights, preferences and privileges than ISE's common stock, including a liquidation preference, anti-dilution protection and various protective covenants, among other things. As such, the board of directors of ISE determined that the fair market value of the shares of ISE's common stock underlying outstanding stock options was not in excess of $1.089 per share at the time of the repricing. In November 2009, the board of directors of ISE approved the repricing of all outstanding stock options to a price per share equal to the greater of (i) $0.40 per share or (ii) the fair market value as of such date of shares of ISE's common stock as determined by an independent third party valuation. The independent third party valuation provided for a fair market value of ISE's common stock below $0.40 per share as of the date of repricing, and as such, the board of directors of ISE selected the higher price per share of $0.40 in repricing outstanding stock options, consistent with the agreed formula. In connection with the Reorganization and the six-for-one share consolidation to be effected pursuant to the Reorganization, all outstanding stock options will be proportionally adjusted so that the exercise price will equal $2.40 per share and the option will become exercisable for one-sixth of the number of shares of common stock currently issuable upon exercise of the award.

For more information regarding periodic long-term equity awards granted to the named executive officers, please see the discussion above under the heading "Compensation Discussion and Analysis—Elements of Executive Officer Compensation—Periodic Long-Term Equity Awards."

Outstanding Equity Awards At Fiscal Year-End

Name	Option-Based Awards				Share-Based Awards	
	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Value of Unexercised In-the-Money Options(1)	Number of Shares That Have Not Vested	Market Value of Share-Based Awards That Have Not Vested(1)
	(#)	($)		($)	(#)	($)
Richard J. Sander	194,706	0.40	May 1, 2017	107,147	116,824	64,288
	27,815	0.40	Aug. 2, 2017	15,307	16,689	9,184
	380,000	0.40	Apr. 25, 2018	209,114	237,500	130,696
	923,479	0.40	June 18, 2019	508,190	634,892	349,381
	286,000	0.40	Nov. 13, 2019	157,386	286,000	157,386
David L. Morash	194,706	0.40	Apr. 30, 2017	107,147	116,824	64,288
	27,815	0.40	Aug. 2, 2017	15,307	16,689	9,184
	380,000	0.40	Apr. 25, 2018	209,114	237,500	130,696
	541,979	0.40	June 16, 2019	298,251	372,611	205,048
	73,500	0.40	Nov. 13, 2019	40,447	73,500	40,447
Justin M. Spragg	5,700	0.40	Mar. 5, 2015	3,137	—	—
	10,000	0.40	Oct. 18, 2015	5,503	2,000	1,101
	5,720	0.40	Feb. 25, 2016	3,148	1,144	630
	5,000	0.40	Jan. 25, 2017	2,751	2,000	1,101
	20,000	0.40	Aug. 2, 2017	11,006	12,000	6,604
	40,000	0.40	Feb. 9, 2018	22,012	24,000	13,207
	150,000	0.40	Apr. 25, 2018	82,545	93,750	51,591
	516,973	0.40	June 18, 2019	284,490	355,419	195,587
	166,000	0.40	Nov. 13, 2019	91,350	166,000	91,350
Alex G. Bernasconi	400,000	0.40	Sep. 23, 2019	220,120	400,000	220,120
	204,500	0.40	Nov. 13, 2019	112,536	204,500	112,536

Note:
(1) Calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six.

Pension Benefits

None of our named executive officers participates in or has account balances in qualified or non-qualified defined benefit plans sponsored by us at December 31, 2009 and, as a result, there is not a pension benefits table included in this prospectus.

Non-Qualified Deferred Compensation

None of our named executive officers participates in or has account balances in non-qualified defined contribution plans maintained by us at December 31, 2009 and, as a result, there is not a non-qualified deferred compensation table included in this prospectus.

Stock Option Plans

The information below for the 2001 Stock Option Plan relates only to ISE and share data does not give effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. In connection with the Reorganization, the 2001 Stock Option Plan will be assumed by the Company. The Company will adopt and implement the 2010 Stock Option and Incentive Plan prior to the closing of the Offering and share data in respect of the 2010 Stock Option and Incentive Plan gives effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share).

2001 Stock Option Plan

Our 2001 Stock Option Plan (the "2001 Plan") was adopted by the board of directors and approved by our stockholders in May 2001. The 2001 Plan was subsequently amended in each of March 2003, September 2004, February 2006, April 2007, August 2007, February 2008, April 2008 and June 2009. We have reserved 8,300,000 shares of common stock of ISE for the issuance of awards under the 2001 Plan. As of December 31, 2009, options to purchase 8,290,340 shares of common stock of ISE had been granted and remain outstanding under the 2001 Plan.

Our 2001 Plan is administered by the board of directors. The board of directors has the authority, if required in order to fully comply with applicable securities laws, to delegate full power and authority to administer the plan to a committee of the board of directors composed of two or more non-employee directors.

Our 2001 Plan permits us to make grants of incentive stock options and non-qualified stock options to officers, employees, non-employee directors and consultants. Stock options granted under the 2001 Plan have a maximum term of ten years from the date of grant and incentive stock options have an exercise price of no less than the fair market value of common stock of ISE on the date of grant.

Under the 2001 Plan, in the event of a merger of ISE with or into another corporation or the sale of substantially all of the assets of ISE, in each case, where all outstanding option awards are not assumed or substituted by the successor entity, all outstanding options will vest and become immediately exercisable. We are required to give notice to optionees of any such merger or sale, and each outstanding option will be exercisable for a period of 15 days following delivery of such notice. If, upon the expiration of such 15-day period, any options remain outstanding and unexercised, such options will immediately terminate. Under the 2001 Plan, options are considered assumed if, following the merger or sale, the option confers the right to purchase or receive, for each share of common stock of ISE subject to the option immediately prior to the merger or sale, the consideration (whether stock, cash or other securities or property) received in the merger or sale by holders of common stock for each share held on the effective date of the transaction, provided that if the consideration received in the merger or sale is not solely common stock of the successor entity (or its parent), we may, with the consent of the successor entity (or its parent), provide for the consideration to be received upon the exercise of the option, for each share of common stock of ISE subject to the option, to be solely common stock of the successor entity (or its parent) equal in fair market value to the per share consideration received by the holders of common stock of ISE in the merger or sale.

In connection with the Reorganization, all outstanding awards under the 2001 Stock Option Plan will be assumed by the Company. Following this Offering, the Board will not grant any further awards under the 2001 Plan. The Company has adopted the 2010 Stock Option and Incentive Plan, under which we expect to make all future awards.

All stock option awards that are granted under the 2001 Plan are covered by a stock option agreement. Under these stock option agreements, options typically vest and become exercisable on an annual basis over a period of five years from the grant date, with 20% of the option vesting each year. In some cases, the stock option agreements provide for vesting on a quarterly basis over a period of four years from the grant date, with 25% of the option vesting each year. The Board has the discretion to determine the vesting schedule of any option, subject to the limitations in the 2001 Plan, and may accelerate the vesting schedule in its discretion.

2010 Stock Option and Incentive Plan

In conjunction with the completion of the Offering, the Company will adopt the 2010 Stock Option and Incentive Plan for eligible officers, employees, members of the Board who are not employees or officers of the Company or any subsidiary ("Non-Employee Directors") and consultants of the Company and its subsidiaries (the "2010 Plan").

Immediately following the closing of the Offering, a total of 1,500,000 Common Shares, representing 9.8% of our issued and outstanding shares immediately following the Offering, will be available for issuance under the 2010 Plan.

The 2010 Plan permits the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock units, restricted stock awards, unrestricted stock awards, cash-based awards, performance share awards and dividend equivalent rights (the "Awards").

The maximum number of Common Shares reserved and available for issuance under the 2010 Plan is subject to any adjustment provided for in the 2010 Plan. The Common Shares underlying any Awards that are forfeited, cancelled, held back upon exercise of a stock option or settlement of an Award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of Common Shares or otherwise terminated (other than by exercise) shall be added back to the Common Shares available for issuance under the 2010 Plan. However, Common Shares that the Company purchases on the open market will not be added to the number of Common Shares available for issuance under the 2010 Plan.

Subject to the limitations described above, the Company is permitted to issue up to the maximum number of Common Shares pursuant to any type of Award, except that: (a) stock options or stock appreciation rights with respect to no more than 1,000,000 Common Shares may be granted to any one grantee during any calendar year and (b) the number of Common Shares issuable to insiders under the 2010 Plan, including all shares to be issued pursuant to the exercise of stock options granted to insiders, at any time, must not exceed 10% of the issued and outstanding Common Shares of the Company.

The 2010 Plan will be administered by the Board or the compensation committee or a similar committee comprised of not less than two Non-Employee Directors who are independent, referred to as the plan administrator. The plan administrator will determine recipients, dates of grant, the numbers and types of Awards to be granted and the terms and conditions of such Awards, including the period of their exercisability and vesting, subject to the requirements of the TSX. The plan administrator may also accelerate the exercisability or vesting of all or any portion of an Award, or extend the period during which an Award may be exercised, all subject to the terms of the 2010 Plan. Subject to the limitations described below and the rules of the TSX, the plan administrator will also determine the exercise price of stock options granted, the consideration to be paid for restricted stock awards and the exercise price of stock appreciation rights.

Stock options. The 2010 Plan permits the granting of (i) stock options intended to qualify as incentive stock options under Section 422 of the United States Internal Revenue Code and (ii) stock options that do not so qualify. Stock options granted under the 2010 Plan will be non-qualified stock options if they fail to qualify as incentive stock options or exceed the annual limit on incentive stock options. Non-qualified stock options may be granted to any persons eligible to receive incentive stock options and to Non-Employee Directors. The exercise price per Common Share covered by a stock option will be determined by the plan administrator at the time of grant but must not be less than 100% of the fair market value on the date of grant. In the case of an incentive stock option that is granted to an employee who owns or is deemed to own more than 10% of the combined voting power of all classes of shares of the Company or any parent or subsidiary ("Ten Percent Owner"), the exercise price cannot be less than 110% of the fair market value on the grant date.

Stock options granted under the 2010 Plan vest at the rate determined by the plan administrator. The plan administrator also determines the term of stock options granted under the 2010 Plan, up to a maximum of 10 years, except in the case of certain incentive stock options, as described below. The plan administrator may provide in the award agreement that vested stock options will remain exercisable for a specified period after termination of the plan participant's employment or service with the Company, or by the plan participant's beneficiary in the event of the plan participant's death. The option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term.

Stock options may be exercised in whole or in part, by written or electronic notice of exercise to the Company. Acceptable consideration for the purchase of Common Shares issued upon the exercise of a stock option may include, to the extent provided in the stock option award certificate: (a) cash, certified check, bank draft or money order; (b) a broker-assisted cashless exercise; (c) the tender of Common Shares previously owned by the optionee; (d) a net exercise of the option (unless the stock option is an incentive stock option); (e) subject to compliance with applicable securities laws, by delivery (or attestation to the ownership) of shares that are beneficially owned by the optionee for at least six months and that are not then subject to restrictions under any Company plan; and (f) other form of legal consideration that may be acceptable to the plan administrator. Unless the plan administrator provides otherwise, stock options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionee may designate a beneficiary, however, who may exercise the stock option following the optionee's death.

Stock Option Grants to Non-Employee Directors. Each Non-Employee Director of the Company: (a) on the effective date of the Company's initial public offering will be granted non-qualified stock options to acquire 20,000 Common Shares, (b) who is first elected to serve as a Director after the effective date of the Company's initial public offering will be granted, on the fifth business day after his election, non-qualified stock options to acquire 20,000 Common Shares and (c) who is serving as Director of the Company on the fifth business day after each annual meeting of shareholders, beginning with the 2011 annual meeting, will be granted non-qualified stock options to acquire 6,000 Common Shares. The exercise price per share for the Common Shares will be equal to the fair market value of the Common Shares on the date the stock option is granted.

U.S. Tax Limitations on Incentive Stock Options. Incentive stock options may be granted only to our employees. The aggregate fair market value, determined at the time of grant, of our Common Shares with respect to incentive stock options that are exercisable for the first time by an optionee during any calendar year under all of our stock plans may not exceed $100,000. No incentive stock option may be granted to any person who, at the time of the grant, owns or is deemed to own stock possessing more than 10% of our total combined voting power or that of any of our affiliates unless (a) the stock option exercise price is at least 110% of the fair market value of the shares subject to the stock option on the date of grant, and (b) the term of the incentive stock option does not exceed five years from the date of grant.

Restricted Stock Awards. The plan administrator may award Common Shares to participants and the plan administrator will specify, at the time of grant, the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the restricted stock and the Company's right of repurchase or forfeiture will lapse. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with us through a specified restricted period. However, in the event these awards granted to employees have a performance-based goal, the restriction period will be at least one year, and in the event these awards granted to employees have a time-based restriction, the restriction period will be at least three years, but vesting can occur incrementally over the three-year period. Restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specified in the award certificate. Upon the grant of the restricted stock award and payment of any applicable purchase price, a grantee has the rights of a shareholder with respect to the voting of the restricted stock, subject to any conditions contained in the award certificate. Except as may otherwise be provided by the plan administrator or in the award certificate, if a grantee's employment (or other service relationship) with the Company and its subsidiaries terminates for any reason, any unvested restricted stock, at the time of such termination, shall automatically and without any requirement of notice to such grantee be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder.

Stock Appreciation Rights. The plan administrator determines the strike price for a stock appreciation right, which generally cannot be less than 100% of the fair market value of a Common Share on the date of grant. The plan administrator may award stock appreciation rights subject to such conditions and restrictions as the plan administrator may determine. Stock appreciation rights entitle the recipient to Common Shares equal to the value of the appreciation in the stock price over the strike price. The plan administrator determines the term of stock appreciation rights granted under the 2010 Plan, up to a maximum of 10 years.

Restricted Stock Units. A restricted stock unit award may be granted by the plan administrator subject to such conditions as it may determine at the time of grant. The conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. If any restricted stock units granted to employees have a performance-based goal, the restriction period with respect to such award cannot be less than one year. If the award has a time-based restriction, the total restriction period with respect to the award cannot be less than three years but vesting can occur incrementally over the three-year period. The plan administrator may permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of restricted stock units, subject to the participant's compliance with the procedures established by the plan administrator. Any such future cash compensation shall be based on the fair market value of the Common Shares on the date the compensation would otherwise have been paid to the grantee. A grantee will only have rights as a shareholder upon settlement of restricted stock units. However, a grantee may be credited with dividend equivalent rights with respect to the phantom stock units underlying the grantee's restricted stock units. Except as provided by the plan administrator, a grantee's right in all restricted stock units that have not vested will automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its subsidiaries.

Unrestricted Stock Awards. The plan administrator may grant (or sell at par value or a higher purchase price determined by the plan administrator) Common Shares which are free from any restrictions under the 2010 Plan. Unrestricted stock awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to the grantee.

Cash-Based Awards. The plan administrator may grant cash-based awards to any grantee in such number or amount and upon such terms, and subject to such conditions including vesting, as the plan administrator may determine at the time of grant. Each cash-based award will specify a cash-denominated payment amount, formula or payment ranges as determined by the plan administrator. Payment with respect to a cash-based award may be made in cash or in Common Shares.

Performance Share Awards. The 2010 Plan permits the grant of performance-based share and cash awards that may qualify as performance-based compensation that is not subject to the $1,000,000 limitation on the U.S. income tax deducibility of compensation paid per covered executive officer imposed by U.S. law. To assure that the compensation attributable to performance-based share awards will qualify for this treatment, the Company's compensation committee can structure performance awards so that the Common Shares will be issued or paid pursuant to the award only upon the achievement of certain pre-established performance goals during a designated performance period. No person may be granted during any calendar year performance-based share awards covering more than 1,000,000 Common Shares or performance-based cash awards with a potential value in excess of $1,000,000 during any calendar year.

Dividend Equivalent Rights. A dividend equivalent right may be granted to any grantee as a component of an award of restricted stock units, a restricted stock award, a performance share award or as a freestanding award. Dividend equivalent rights may be settled in cash or, subject to availability of Common Shares for issuance under the 2010 Plan at the relevant time, Common Shares or a combination thereof, in a single installment or installments. A dividend equivalent right granted as a component of an award of restricted stock units, a restricted stock award or a performance share award may provide that it will be settled upon settlement or payment of, or lapse of restrictions on, such other award, and that the dividend equivalent right will expire or be forfeited or annulled under the same conditions as such other award. Except as otherwise provided by the plan administrator, dividend equivalent rights or interest equivalents granted as a component of an award of restricted stock units or performance share awards that have not vested will automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

Changes to Capital Structure. In the event that there is a specified type of change in the Company's capital structure, such as a stock split, stock dividend, reorganization or similar event, appropriate adjustments will be made to (a) the number of shares reserved under the 2010 Plan, (b) the maximum number of stock options or stock appreciation rights that can be granted to any person and the maximum number of Common Shares that may be granted under a performance-based award, (c) the number of Common Shares or other securities subject to any then outstanding Awards under the plan, (d) the repurchase price, if any, per Common Share subject to each outstanding restricted stock award, and (e) the exercise price for each Common Share subject to any then outstanding stock options and stock appreciation rights under the plan, without changing the aggregate exercise price as to which such stock options and stock appreciation rights remain exercisable. Appropriate adjustments will also be made to the number of Common Shares subject to outstanding awards and the exercise price and the terms of outstanding awards to take into consideration any extraordinary cash dividends.

Corporate Transactions. Awards under the 2010 Plan may be assumed, continued or substituted for by any surviving or acquiring entity or its parent company in the event of (a) a sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity; (b) an amalgamation, merger, arrangement, reorganization or, consolidation or other transaction (other than an initial public offering) pursuant to which the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the resulting or successor entity immediately upon completion of such transaction; or (c) the sale of all of the Common Shares of the Company to an unrelated person or entity. If the surviving or acquiring entity or its parent company does not assume, continue or substitute for such share-based awards, then any such share-based awards will be terminated if not exercised prior to the effective date of the corporate transaction. The Board has the discretion to:

- arrange for the assumption, continuation, or substitution of an award by a surviving or acquiring entity or parent company;

- accelerate the vesting of a share-based award and provide for its termination prior to the effective time of the corporate transaction; or
- provide for the surrender of a share-based award in exchange for a payment equal to the excess of (a) the value of the property that the optionee would have received upon exercise of the award over (b) the exercise price otherwise payable in connection with the award.

Amendments, Suspension or Discontinuance of the 2010 Plan. Subject to certain exceptions described below, the Board may amend, suspend or discontinue the 2010 Plan at any time without shareholder approval, but no amendment, suspension or discontinuance may, without the consent of the grantee, alter or impair any Award previously granted to a grantee under the plan. The following changes to the 2010 Plan can only be made with shareholder approval:

(a) any increase in the number of Common Shares reserved for issuance under the 2010 Plan, except in connection with certain corporate transactions described above;

(b) a reduction in the exercise price of an option held by any grantee except for the purpose of maintaining option value in connection with certain changes to the capital structure of the Company or certain corporate transactions described above;

(c) an extension of the term of an option held by an insider beyond 10 years from the date the option was granted;

(d) an amendment to remove or exceed the 10% limit of Common Shares that may be granted to any one individual during any one calendar year period; and

(e) amendments to the amendment provisions of the 2010 Plan that specify amendments that require shareholder approval.

Employment Agreements and Severance Arrangements

We have employment agreements with Richard J. Sander, our President and Chief Executive Officer and David L. Morash, our Chief Financial Officer and Treasurer. We do not have employment agreements with Justin M. Spragg, our Vice President, General Counsel and Secretary or Alex G. Bernasconi, our Senior Vice President of Sales and Marketing. In addition to our employment agreements with our executive officers, ISE has an employment agreement with David M. Mazaika, ISE's former Chief Executive Officer. Following the termination of Mr. Mazaika's employment with ISE in August 2008, Mr. Mazaika continues to receive severance benefits pursuant to the terms of his employment agreement. Mr. Mazaika is also a member of the Board.

The following is a description of the material terms of our employment agreements with Messrs. Sander, Morash and Mazaika.

Richard J. Sander

In February 2008, we entered into an employment agreement with Richard J. Sander, our President and Chief Executive Officer. The employment agreement was amended effective August 2008 in connection with Mr. Sander's promotion to Chief Executive Officer. The agreement has an initial term of four years from August 2008, during which we may terminate Mr. Sander's employment with or without "cause" (as defined in the agreement). We may terminate Mr. Sander's employment without cause at any time upon written notice and we may terminate Mr. Sander's employment for cause upon 30 days' written notice. Mr. Sander may terminate his employment upon 30 days' written notice if for "good reason" (as defined in the agreement) or upon three months' prior written notice without good reason. The agreement provides for automatic three-year extensions of the term, except upon written notice by either Mr. Sander or us at least three months prior to the end of the preceding term. The agreement provides for an annual base salary of $260,000, to be reviewed annually, and a target annual cash bonus of up to 75% of base salary. Although a bonus target is established, payment of any amount of annual bonus under the agreement is entirely discretionary. Mr. Sander also received an inducement grant in May 2007 of an option to purchase 194,706 shares of common stock of ISE, the principal term of which are described above in the Outstanding Equity Awards at Fiscal Year-End Table. Mr. Sander's employment agreement further provides for certain payments upon termination and upon a change of control, which are described more fully below under "Potential Payments Upon Termination or Change of Control—Richard J. Sander."

David L. Morash

In February 2008, we entered into an employment agreement with David L. Morash, our Chief Financial Officer and Treasurer. The agreement has an initial four-year term, during which we may terminate Mr. Morash's employment with or without "cause" (as defined in the agreement). We may terminate Mr. Morash's employment without cause at any time upon written notice and we may terminate Mr. Morash's employment for cause upon 30 days' written notice. Mr. Morash may terminate his employment upon 30 days' written notice if for "good reason" (as defined in the agreement) or upon three months' prior written notice without good reason. The agreement provides for automatic three-year extensions of the term, except upon written notice by either Mr. Morash or us at least three months prior to the end of the preceding term. The agreement provides for an annual base salary of $200,000, to be reviewed annually, and a target annual cash bonus of up to 50% of base salary. In 2009, Mr. Morash received a base salary of $220,000. Although a bonus target is established, payment of any amount of annual bonus under the agreement is entirely discretionary. Mr. Morash also received an inducement grant in April 2007 of an option to purchase 194,706 shares of common stock of ISE, the principal term of which are described above in the Outstanding Equity Awards at Fiscal Year-End Table. Mr. Morash's employment agreement further provides for certain payments upon termination and upon a change of control, which are described more fully below under "Potential Payments Upon Termination or Change of Control—David L. Morash."

David M. Mazaika

In September 2004, we entered into an employment agreement with David M. Mazaika, its former Chief Executive Officer. Mr. Mazaika's employment terminated as of August 2008. Mr. Mazaika is currently a member of our and the Company's board of directors. Following the termination of Mr. Mazaika's employment and pursuant to the terms of his employment agreement, we paid to Mr. Mazaika, accrued but unpaid vacation pay of $30,803. All of these amounts were paid in full during the year ended December 31, 2008. Mr. Mazaika has also received, and pursuant to the terms of his employment agreement he is entitled to continue to receive, (i) three years' base salary at the same level that was being paid on the date of termination ($235,000 per year, for a total of $705,000) (payable in the same form and at the same time as would have been paid had his employment not terminated), (ii) for each of the three years following his termination, an annual cash bonus equal to two-thirds of the average of the annual cash bonuses earned by him over the two years preceding the date of termination ($3,333 per year, for a total of $10,000), and (iii) health and welfare benefits for three years following his termination, valued at approximately $10,000 based on Mr. Mazaika's health and welfare benefits as of August 2008. The agreement also provided for the full acceleration of the vesting of (i) an option to purchase 6,250 shares of common stock (which represented the unvested portion, as of the effective date of the termination of Mr. Mazaika's employment, of an option to purchase 100,000 shares of common stock granted on September 2, 2004), and (ii) an option to purchase 502,521 shares of common stock (which represented the unvested portion, as of the effective date of the termination of Mr. Mazaika's employment, of an option to purchase 502,521 shares of common stock granted on April 25, 2008). The exercise price of the options exceeded the fair market value of common stock of ISE on the date of the termination of Mr. Mazaika's employment.

Potential Payments upon Termination or Change of Control

Our employment agreements with Messrs. Sander and Morash each contain provisions that provide for benefits to the executive officer upon certain termination events and certain events in the context of change of control transactions. In addition, our 2001 Stock Option Plan provides for the acceleration of unvested stock option awards in certain change of control transactions. These provisions and benefits are described more fully below. We believe that providing termination benefits promotes stability among our executive officer team by assuring reasonable, but not excessive, financial security to our executive officers, so long as they continue to perform the duties that we expect of each of them and they remain committed to our continued success. Similarly, we believe that providing reasonable, but not excessive, change of control benefits reduces potential distraction and loss of key management personnel that could occur in connection with rumoured or actual fundamental corporate changes, without creating a "windfall" to our executive officers in connection with such transactions.

Richard J. Sander

Payments upon Termination. Pursuant to Mr. Sander's employment agreement, if he is terminated by us other than for "cause," death or "disability," or if he terminates his employment for "good reason," he shall be entitled to receive (i) any portion of his unpaid salary through the date of termination that has not yet been paid, (ii) any compensation previously deferred by him (together with any accrued interest or earnings thereon) that has not yet been paid, (iii) any accrued but unpaid vacation pay, (iv) one year of base salary at the same level that was being paid on the date of termination (payable in the same form and at the same time as would have been paid had his employment not terminated), (v) health and welfare benefits for one year following his termination and (vi) all outstanding and unvested incentive compensation awards held by him shall become immediately vested and exercisable. In the event that Mr. Sander is terminated by us for cause, death or disability, or if Mr. Sander terminates his employment without "good reason," he shall be entitled to receive (or in the case of his death, his designated beneficiaries shall be entitled to receive) (i) any portion of his annual base salary through the date of termination that has not yet been paid, (ii) any compensation previously deferred by him (together with any accrued interest or earnings thereon) that has not yet been paid, and (iii) any accrued but unpaid vacation pay. As a condition precedent to the receipt of such severance benefits, Mr. Sander will be required to sign a reasonable and customary general release in a form and manner satisfactory to us within 21 days of Mr. Sander's receipt of such release.

If Mr. Sander's employment were terminated by us other than for cause, death or disability, or if Mr. Sander had resigned for good reason, in either case, on December 31, 2009 (the last business day of 2009), he would be entitled to receive (i) accrued but unpaid vacation pay, as of December 31, 2009, in the amount of $29,661, (ii) one year of base salary payments totalling $260,000, (iii) health and welfare benefits for one year, valued at approximately $10,000 based on Mr. Sander's health and welfare benefits as of December 31, 2009, and (iv) acceleration of the vesting with respect to options to purchase 1,291,905 shares of common stock of ISE. The acceleration of the vesting with respect to these stock options would be valued at approximately $710,934, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

Mr. Sander's employment agreement provides that in the event his employment is terminated for any reason, he will be subject to non-competition and non-solicitation provisions for a period of 12 months following the date of termination, and he will be subject to confidentiality provisions for an indefinite period of time.

Payments upon Change of Control. The employment agreement further provides that in the event that a third party acquires all or substantially all of the business or assets of ISE (whether directly or indirectly, by purchase, merger, consolidation or otherwise) that the successor entity shall be obligated to expressly assume and agree to perform the agreement to the same extent as if no such succession had taken place. In the event that the successor entity does not agree to assume the agreement, Mr. Sander will be entitled to receive the same severance benefits that he would have been entitled to receive had he resigned for good reason immediately prior to the effectiveness of the transaction. If such a succession were to occur on December 31, 2009 and the successor did not agree to assume and perform the agreement, Mr. Sander would be entitled to receive the benefits in the amounts described above.

In addition, pursuant to the terms of our 2001 Stock Option Plan, Mr. Sander's outstanding stock options would immediately vest and become exercisable in the event of a merger of ISE with or into another entity or the sale of substantially all of the assets of ISE, in each case, if such stock options are not assumed or substituted by the successor entity. This acceleration of vesting would occur regardless of whether the successor entity agrees to assume and perform his employment agreement. If such a transaction were to occur on December 31, 2009, the acceleration of the vesting with respect to Mr. Sander's outstanding stock options would be valued at approximately $710,934, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

David L. Morash

Payments upon Termination. Pursuant to Mr. Morash's employment agreement, if he is terminated by us other than for "cause," death or "disability," or if he terminates his employment for "good reason," he shall be entitled to receive (i) any portion of his unpaid salary through the date of termination that has not yet been paid, (ii) any compensation previously deferred by him (together with any accrued interest or earnings thereon) that has not yet been paid, (iii) any accrued but unpaid vacation pay, (iv) one year of base salary at the same level that was being paid on the date of termination (payable in the same form and at the same time as would have been paid had his employment not terminated), (v) health and welfare benefits for one year following his termination, and (vi) all outstanding and unvested incentive compensation awards held by him shall become immediately vested and exercisable. In the event that Mr. Morash is terminated by us for cause, death or disability, or if Mr. Morash terminates his employment without "good reason," he shall be entitled to receive (or in the case of his death, his designated beneficiaries shall be entitled to receive) (i) any portion of his annual base salary through the date of termination that has not yet been paid, (ii) any compensation previously deferred by him (together with any accrued interest or earnings thereon) that has not yet been paid, and (iii) any accrued but unpaid vacation pay. As a condition precedent to the receipt of such severance benefits, Mr. Morash will be required to sign a reasonable and customary general release in a form and manner satisfactory to us within 21 days of Mr. Morash's receipt of such release.

If Mr. Morash's employment were to be terminated by us other than for cause, death or disability, or if Mr. Morash were to resign for good reason, in either case, on December 31, 2009 (the last business day of 2009), he would be entitled to receive (i) accrued but unpaid vacation pay, as of December 31, 2009, in the amount of $13,813, (ii) one year of base salary payments totalling $220,000, (iii) health and welfare benefits for one year, valued at approximately $10,000 based on Mr. Morash's health and welfare benefits as of December 31, 2009, and (iv) acceleration of the vesting with respect to options to purchase 817,124 shares of common stock of ISE. The acceleration of the vesting with respect to these stock options would be valued at approximately $449,663, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

Mr. Morash's employment agreement provides that in the event his employment is terminated for any reason, he will be subject to non-competition and non-solicitation provisions for a period of 12 months following the date of termination, and he will be subject to confidentiality provisions for an indefinite period of time.

Payments upon Change of Control. The employment agreement further provides that in the event that a third party acquires all or substantially all of the business or assets of ISE (whether directly or indirectly, by purchase, merger, consolidation or otherwise) that the successor entity shall be obligated to expressly assume and agree to perform the agreement to the same extent as if no such succession had taken place. In the event that the successor entity does not agree to assume the agreement, Mr. Morash will be entitled to receive the same severance benefits that he would have been entitled to receive had he resigned for good reason immediately prior to the effectiveness of the transaction. If such a succession were to occur on December 31, 2009 and the successor did not agree to assume and perform the agreement, Mr. Morash would be entitled to receive the benefits in the amounts described above.

In addition, pursuant to the terms of our 2001 Stock Option Plan, Mr. Morash's outstanding stock options would immediately vest and become exercisable in the event of a merger of ISE with or into another entity or the sale of substantially all of the assets of ISE, in each case, if such stock options are not assumed or substituted by the successor entity. This acceleration of vesting would occur regardless of whether the successor entity agrees to assume and perform his employment agreement. If such a transaction were to occur on December 31, 2009, the acceleration of the vesting with respect to Mr. Morash's outstanding stock options would be valued at approximately $449,663, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

Justin M. Spragg

We do not have an employment agreement with Mr. Spragg. If Mr. Spragg's employment were to be terminated with or without cause on December 31, 2009, or if a change of control were to occur on December 31, 2009, he would not be entitled to receive any payments from us in connection therewith. However, pursuant to the terms of our 2001 Stock Option Plan, Mr. Spragg's outstanding stock options would immediately vest and become exercisable in the event of a merger of ISE with or into another entity or the sale of substantially all of the assets of ISE, in each case, if such stock options are not assumed or substituted by the successor entity. If such a transaction were to occur on December 31, 2009, the acceleration of the vesting with respect to Mr. Spragg's outstanding stock options would be valued at approximately $361,169, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

Alex G. Bernasconi

We do not have an employment agreement with Mr. Bernasconi. If Mr. Bernasconi's employment were to be terminated with or without cause on December 31, 2009, or if a change of control were to occur on December 31, 2009, he would not be entitled to receive any payments from us in connection therewith. However, pursuant to the terms of our 2001 Stock Option Plan, Mr. Bernasconi's outstanding stock options would immediately vest and become exercisable in the event of a merger of ISE with or into another entity or the sale of substantially all of the assets of ISE, in each case, if such stock options are not assumed or substituted by the successor entity. If such a transaction were to occur on December 31, 2009, the acceleration of the vesting with respect to Mr. Bernasconi's outstanding stock options would be valued at approximately $332,656, based on the fair market value of $0.95 per share of common stock of ISE on December 31, 2009 (calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six).

Proprietary Information and Inventions Agreements

Each of our executive officers, including each of the named executive officers, has also entered into a standard form agreement with respect to proprietary information and inventions. Among other things, this agreement obligates each executive officer to refrain from disclosing any of our proprietary information received during the course of employment and, with some exceptions, to assign to us any inventions conceived or developed during the course of employment.

Limitation of Liability, Indemnification Agreements and Insurance

We have adopted provisions in our constating documents to be in effect at the closing of the Offering that limit or eliminate the personal liability of our directors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock purchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under applicable securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our constating documents provide that:

- we will indemnify our directors, officers and, in the discretion of the Board, certain employees to the fullest extent permitted by law; and
- we will advance expenses, including attorneys' fees, to our directors and, in the discretion of the Board, to our officers and certain employees in connection with legal proceedings, subject to limited exceptions.

We have entered into, or will enter into, indemnification agreements with each of our directors and our executive officers. These agreements provide that we will indemnify each of our directors and executive officers to the fullest extent permitted by law and advance expenses, including attorneys' fees, to each indemnified director or executive officer in connection with any proceeding in which indemnification is available.

We also maintain general liability insurance that covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers under these indemnification provisions. We believe that these provisions, the indemnification agreements and the general liability insurance are necessary to attract and retain talented and experienced directors and officers.

At present, there is no pending litigation or other proceeding involving any of our directors or officers where indemnification from us will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Director Compensation

We use a combination of cash and equity-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to us as well as the skill level required by us of members of the Board.

Cash Compensation Paid to Directors

During the year ended December 31, 2009, non-employee directors were entitled to receive a monthly retainer of $1,000. Beginning April 2007, the Chairman of the Board was entitled to receive a monthly retainer of $3,000. Directors were also reimbursed for their reasonable out-of-pocket expenses incurred in connection with their attendance at board and board committee meetings.

We intend to adopt a new compensation policy for non-employee directors to be effective upon the closing of the Offering. Pursuant to this compensation policy, each of our non-employee directors will be entitled to receive a quarterly retainer, to be paid in advance, of $8,000 per quarter. Non-employee directors will also be entitled to receive $2,000 for each meeting of the Board attended in person and $750 for each meeting attended by telephone conference, unless such meeting of the Board is to be attended solely by telephone conference, in which case non-employee directors shall be entitled to receive $500 for each meeting, up to a maximum aggregate amount for all such telephonic meetings of $2,000 per year. The Chairman of the Board will be entitled to receive an additional quarterly fee of $1,500 per quarter; the Chairman of the Audit Committee will be entitled to receive an additional quarterly fee of $1,500 per quarter; the Chairman of the Compensation Committee will be entitled to receive an additional quarterly fee of $1,000 per quarter; and the Chairman of the Nominating and Corporate Governance Committee will be entitled to receive an additional quarterly fee of $1,000 per quarter. Directors will also be reimbursed for their reasonable out-of-pocket expenses incurred in connection with their attendance at Board and Board committee meetings.

Equity-Based Compensation Paid to Directors

Pursuant to our 2005 non-employee director stock option award policy, non-employee directors receive non-discretionary, automatic option grants to purchase 4,000 shares of common stock of ISE on the date of the first regularly scheduled meeting of the board of directors on or after the first day of each year, as long as the non-employee director served on the board of directors during the prior fiscal year. These automatic option grants were temporarily suspended in 2008 and there were no grants made to non-employee directors in 2009. The exercise price of the options is the fair market value of common stock of ISE on the grant date. The options vest and become exercisable on an annual basis over a period of five years from January 1 on the year of grant, with 20% of the option vesting on January 1 of each year. The options currently have a term of 10 years.

Pursuant to the 2010 Plan, non-employee directors will receive non-discretionary, automatic option grants to purchase 6,000 Common Shares on the fifth business day after each annual meeting of the Company's shareholders, beginning with the 2011 annual meeting. The exercise price of the options will be determined in accordance with the provisions of the 2010 Plan. The options will vest and become exercisable on the first anniversary of the grant date, unless otherwise determined by the plan administrator. In addition, each non-employee director who is first elected to the Board after the closing of this Offering will receive a non-discretionary, automatic option grant to purchase 20,000 Common Shares on the fifth business day after his or her election. The exercise price of the option will be determined in accordance with the provisions of the 2010 Plan. The option will vest and become exercisable on an annual basis over a period of four years from the grant date with 25% of the option vesting on the first anniversary of the grant date and 6.25% of the option vesting quarterly thereafter, unless otherwise determined by the plan administrator.

Director Summary Compensation Table

The table below summarizes the compensation earned by our non-employee directors for the fiscal year ended December 31, 2009:

Name	Fees Earned	Share-Based Awards	Option-Based Awards(1)(2)	Non-Equity Incentive Plan Compensation ($) Annual Incentive Plans	Non-Equity Incentive Plan Compensation ($) Long-Term Incentive Plans	Pension Value	All Other Compensation(3)	Total
	($)	($)	($)			($)	($)	($)
Current Directors								
David M. Mazaika(4)	36,000	—	7,061	—	—	—	251,602	294,663
Philip J. Deutch	12,000	—	7,297	—	—	—	—	19,297
Alexander Ellis III	12,000	—	7,297	—	—	—	—	19,297
David R. Goodman	12,000	—	10,671	—	—	—	—	22,671
Gerd-Dieter A. Goette	12,000	—	—	—	—	—	—	12,000
Michael E. Sears(5)	5,000	—	—	—	—	—	—	5,000
Former Directors								
Markus Mittermaier(6)	7,000	—	—	—	—	—	—	7,000

Notes:

(1) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2009 for awards granted in 2009 and in prior years. Such amounts are calculated in accordance with FAS 123(R), except that any estimate for forfeitures in excluded from, and does not reduce, such amounts. Assumptions used in the calculation of these amounts are included in Note 11 in the Notes to Financial Statements included elsewhere in this prospectus. As of December 31, 2009, each Non-Employee Director had the following number of options outstanding: (i) David M. Mazaika: 602,521 shares; (ii) Philip J. Deutch: 8,000 shares; (iii) Alexander Ellis III: 8,000 shares; (iv) David R. Goodman: 22,000 shares; (v) Gerd-Dieter A. Goette: 0 shares; and (vi) Michael E. Sears: 0 shares. The number of options outstanding does not give effect to the six-for-one share consolidation to be effected pursuant to the Reorganization. The six-for-one share consolidation represents the exchange ratio of six shares of common stock of ISE for each one share of the Company (either a Common Share or a Restricted Voting Share).

(2) There were no grants to non-employee directors in 2009.

(3) The amounts for Mr. Mazaika consist of severance payments pursuant to his employment agreement and services rendered to us. See "– Employment Agreements and Severance Agreements – David Mazaika".

(4) Mr. Mazaika previously served as our Chief Executive Officer from January 1995 to August 2008. He has been a member of the board of directors since our founding in January 1995.

(5) Mr. Sears was appointed to the board of directors effective July 2009.

(6) Mr. Mittermaier resigned from the board of directors effective July 2009.

Outstanding Equity Awards At Fiscal Year End

Name	Option-Based Awards: Number of Securities Underlying Unexercised Options	Option-Based Awards: Option Exercise Price	Option-Based Awards: Option Expiration Date	Option-Based Awards: Value of Unexercised In-the-Money Options(1)	Share-Based Awards: Number of Shares That Have Not Vested	Share-Based Awards: Market Value of Share-Based Awards That Have Not Vested(1)
	(#)	($)		($)	(#)	($)
Current Directors						
David M. Mazaika	100,000	0.40	Sep. 15, 2014	55,030	—	—
	502,521	0.40	Apr. 25, 2018	276,537	314,076	172,836
Philip J. Deutch	4,000	0.40	Mar. 30, 2017	2,201	1,600	880
	4,000	0.40	Feb. 9, 2018	2,201	2,400	1,321
Alexander Ellis III	4,000	0.40	Mar. 30, 2017	2,201	1,600	880
	4,000	0.40	Feb. 9, 2018	2,201	2,400	1,321
David R. Goodman	2,000	0.40	Dec. 21, 2011	1,101	—	—
	3,000	0.40	Dec. 20, 2012	1,651	—	—
	1,000	0.40	June 3, 2014	550	—	—
	4,000	0.40	Feb. 2, 2015	2,201	—	—
	4,000	0.40	Feb. 24, 2016	2,201	800	440
	4,000	0.40	Mar. 30, 2017	2,201	1,600	880
	4,000	0.40	Feb. 9, 2018	2,201	2,400	1,321
Gerd-Dieter A. Goette	—	—	—	—	—	—
Michael E. Sears	—	—	—	—	—	—
Former Directors						
Markus Mittermaier	—	—	—	—	—	—

Note:

(1) Calculated assuming the value determined as of December 31, 2009 equals the offering price of the Common Shares divided by six.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Company, and Wildeboer Dellelce LLP, counsel to the Underwriters, the following is, as of the date of this prospectus, a summary of the principal Canadian federal income tax considerations under the Tax Act that generally apply to holders who acquire beneficial ownership of Common Shares under the Offering. This summary assumes that the Company is not resident in Canada for the purposes of the Tax Act. This summary applies to holders who, for the purposes of the Tax Act and at all relevant times: (i) deal at arm's length and are not affiliated with the Company; (ii) are not "financial institutions" as defined in the Tax Act for purposes of the mark-to-market rules; (iii) are not "specified financial institutions" as defined in the Tax Act; (iv) an interest in which is not, or for whom a Common Share would not be, a "tax shelter investment" for the purposes of the Tax Act; (v) in respect of whom the Company is not a "foreign affiliate" for the purposes of the Tax Act; (vi) are resident in Canada for the purposes of the Tax Act; (vi) to whom subsection 261(5) of the Tax Act does not apply; and (vii) hold their Common Shares as capital property ("Canadian Holders"). The Common Shares will generally be "capital property" to a holder unless they are held in the course of carrying on a business of trading or dealing in securities or have been acquired in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is based upon the current provisions of the Tax Act in force as of the date hereof, all specific proposals (the "Proposed Amendments") to amend the Tax Act that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative and assessing practices of the Canada Revenue Agency ("CRA") that are publicly available. No assurance can be given that any Proposed Amendments will be enacted in their current proposed form, if at all. This summary does not take into account or anticipate any other changes to the law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations. Subject to certain exceptions that are not discussed in this summary, for the purposes of the Tax Act, all amounts must be determined in Canadian dollars based on the daily noon rate as quoted by the Bank of Canada for the applicable day (or, if there is no such rate quoted for the applicable day, the closest preceding day for which such a rate is quoted) or such other rate of exchange that is acceptable to the CRA. In addition, this summary does not address the deductibility of interest by a purchaser who has borrowed money to acquire Common Shares.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Therefore, holders should consult their own tax advisors with respect to their particular circumstances.

Dividends

Dividends received or deemed to be received on the Common Shares will be included in computing the Canadian Holder's income. In the case of a Canadian Holder that is an individual such dividends will not be subject to the gross-up and dividend tax credit rules that apply to taxable dividends received from taxable Canadian corporations (as defined in the Tax Act). In the case of a Canadian Holder that is a corporation, such dividends will not be deductible in computing the taxable income of the holder under the rules that generally apply to dividends received from taxable Canadian corporations.

Subject to the detailed rules in the Tax Act, a Canadian Holder may be entitled to a foreign tax credit or deduction for any foreign withholding tax paid with respect to dividends that the Canadian Holder receives on Common Shares.

Disposition of Common Shares

A disposition or deemed disposition by a Canadian Holder of Common Shares will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Canadian Holder's adjusted cost base of such shares. The tax treatment of capital gains and losses is discussed in greater detail below under the subheading "Capital Gains and Losses."

Canadian Holders should consult their own tax advisors with respect to the potential tax consequences of a disposition of Common Shares if the Company is a "foreign investment entity" under the "FIE Proposals" (defined below).

Capital Gains and Losses

One-half of any capital gain will be included in income as a taxable capital gain and one-half of any capital loss may normally be deducted as an allowable capital loss against taxable capital gains realized in the year of disposition. Any unused allowable capital losses may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act in that regard.

Other Taxes

A Canadian Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay an additional refundable tax of 6⅔% on its "aggregate investment income" for the year, including: (i) dividends received on Common Shares; (ii) taxable capital gains realized on a disposition (or deemed disposition) of Common Shares, and (iii) income from property deemed to have been realized due to the application of the FIE Proposals. This refundable tax generally will be refunded to a corporate holder at the rate of C$1 for every C$3 of taxable dividends paid by such Canadian Holder while it is a private corporation.

Individuals and certain trusts may be subject to alternative minimum tax in respect of realized capital gains as calculated in accordance with the detailed rules set out in the Tax Act.

Foreign Property Information Reporting

A Canadian Holder that is a "specified Canadian entity" for a taxation year or a fiscal period and whose total "cost amount" of "specified foreign property" (as such terms are defined in the Tax Act), including Common Shares, at any time in the year or fiscal period exceeds C$100,000 will be required to file an information return for the year or period disclosing prescribed information. Subject to certain exceptions, a Canadian Holder will generally be a specified Canadian entity. Canadian Holders should consult their own tax advisors about whether they must comply with these rules.

Foreign Investment Entity Tax Proposals

The Proposed Amendments contain provisions that relate to the taxation of certain interests held by Canadian residents in certain non-resident entities, applicable for taxation years commencing after 2006 (the "FIE Proposals"), notwithstanding that they have yet to be passed into law. The January 27, 2009 Federal Budget announced that the Government of Canada will review the existing FIE Proposals in light of submissions that it has received before proceeding with measures in the area. The FIE Proposals, as currently drafted, will apply where, in a taxation year that includes the taxation year-end of a "non-resident entity," a person resident in Canada (other than most taxpayers that are exempt from tax under Part I of the Tax Act) holds a "participating interest" in the non-resident entity that is not an "exempt interest" and the non-resident entity is a "foreign investment entity" at that year-end (as such terms are defined for the purposes of the FIE Proposals). For the purposes of the FIE Proposals, the Common Shares will be participating interests (and not exempt interests) in the Company. A corporation that is not resident in Canada will be a non-resident entity for the purposes of the FIE Proposals.

In general terms, the Company will be a foreign investment entity unless the "carrying value" of all of its "investment property" is not greater than one-half of the carrying value of all of its property, or if, throughout the Company's taxation year, its principal undertaking is the carrying on of a business that is not an "investment business" (as such terms are defined for the purposes of the FIE Proposals). In very general terms, for the purposes of the FIE Proposals, "investment property" includes equity interests and indebtedness of other entities and an "investment business" would generally include a business carried on by the Company, the principal purpose of which is to derive income from property. The determination of whether the Company is a foreign investment entity must be made on an annual basis at the end of each taxation year of the Company. Counsel expresses no opinion as to whether the Company will be a foreign investment entity for the purposes of the FIE Proposals at the end of its current taxation year or at the end of any subsequent taxation year.

However, the Company is of the view, and has advised counsel, that if the Company had a taxation year-end on the closing date of the Offering, the Company would not be a FIE on that date on the basis that on the closing date of the Offering its principal undertaking is not the carrying on of an investment business. The determination of whether or not the Company is a FIE must be made on an annual basis at the end of each taxation year of the Company and no assurance can be given that the Company will not be a FIE at the end of any of its taxation years.

The FIE Tax Rules are complex and have been subject to extensive amendments. No assurances can be given that these provisions will be enacted in the form proposed. Holders should consult their own tax advisors regarding the application of the FIE Tax Rules to their particular circumstances.

If the Company is a foreign investment entity at its taxation year-end, pursuant to the FIE Proposals, a Canadian Holder will generally be required to include in (or, in certain circumstances, deduct from) its income for each taxation year that includes the Company's year-end, an amount of income or gains (or a loss) computed in accordance with the FIE Proposals, regardless of whether or not the Canadian Holder actually received during that taxation year, any income or realized any gain (or loss) relating to such Canadian Holder's Common Shares. In very general terms, under the FIE Proposals, the amount of such Canadian Holder's income inclusion (or loss deduction) is calculated in one of three ways:

(a) an imputed return calculated as one-twelfth of a prescribed percentage multiplied by the "designated cost" (within the meaning of the FIE Proposals) of such interest held by the Canadian Holder at the end of each month ending in the Canadian Holder's taxation year at which time the interest is held by Canadian Holder ("Imputed Income Method");

(b) the annual accrued increase (or decrease) in the fair market value of the Canadian Holder's interest ("Mark-to-Market Method"); or

(c) the Canadian Holder's proportionate share of the Company's income (or loss) for the year calculated using Canadian income tax principles ("Accrual Method").

The Imputed Income Method is the default method for computing a Canadian Holder's annual income inclusion, if any, under the FIE Proposals. However, provided that certain conditions exist and the appropriate information is available, a Canadian Holder may be able to elect to use the Mark-to-Market Method or, in limited circumstances, the Accrual Method.

The above summary of the FIE Proposals provides a general description of the FIE Proposals only and does not constitute an exhaustive summary of the FIE Proposals. Further, the above summary of the FIE Proposals should not be construed as advice to any particular Canadian Holder regarding the implications of the FIE Proposals in the Canadian Holder's particular circumstances. Canadian Holders are urged to consult their own tax advisers regarding the impact of the FIE Proposals in their circumstances.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

To ensure compliance with Internal Revenue Service Circular 230, investors are hereby notified that: (a) any discussion of U.S. federal tax issues in this prospectus is not intended or written to be relied upon, and cannot be relied upon, by investors for the purpose of avoiding penalties that may be imposed on investors under the Internal Revenue Code; (b) such discussion is included herein in connection with the promotion or marketing of Common Shares; and (c) investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain U.S. federal income tax considerations relating to the acquisition, ownership and disposition of Common Shares received in this Offering. Except where noted, this summary deals only with Common Shares held as a capital asset by a holder, and does not discuss the U.S. federal income tax considerations applicable to a holder that is subject to special treatment under U.S. federal income tax laws, including (without limitation) a dealer in securities or currencies; a financial institution; a regulated investment company; a real estate investment trust; a tax-exempt organization; an insurance company; a person holding Common Shares as part of a hedging, integrated, conversion or straddle transaction or a person deemed to sell Common Shares under the constructive sale provisions of the Internal Revenue Code; a trader in securities that has elected the mark-to-market method of accounting; a person liable for alternative minimum tax; an entity that is treated as a partnership for U.S. federal income tax purposes; a person that received such Common Shares in connection with services provided; a U.S. person whose "functional currency" is not the U.S. dollar; a "controlled foreign corporation;" a "passive foreign investment company;" or a U.S. expatriate.

This summary is based upon provisions of the Internal Revenue Code, and applicable U.S. Treasury regulations, rulings and judicial decisions in effect as of the date hereof. Those authorities may be changed, perhaps retroactively, or may be subject to differing interpretations, so as to result in U.S. federal income tax consequences different from those discussed below. This summary does not address all aspects of U.S. federal income tax, does not deal with all tax considerations that may be relevant to holders in light of their personal circumstances and does not address any state, local, foreign, gift, estate or alternative minimum tax considerations.

For purposes of this discussion, a "U.S. holder" is a beneficial holder of Common Shares that is (i) an individual citizen or resident of the United States; (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if it (A) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

For purposes of this discussion, a "non-U.S. holder" is a beneficial holder of Common Shares (other than a partnership or any other entity that is treated as a partnership for U.S. federal income tax purposes) that is not a U.S. holder.

If a partnership (or an entity that is treated as a partnership for U.S. federal income tax purposes) holds Common Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding Common Shares is urged to consult its own tax advisors.

Holders of Common Shares are urged to consult their own tax advisors concerning their particular U.S. federal income tax consequences in light of their specific situations, as well as the tax consequences arising under the laws of any other taxing jurisdiction.

Expatriation Provisions

Pursuant to certain provisions of the Internal Revenue Code, a non-U.S. corporation that acquires substantially all of the stock of a U.S. corporation in exchange for its own stock will be treated as a U.S. corporation for U.S. federal income tax purposes if certain conditions are satisfied. The Company believes that these conditions will be met in the transactions that constitute the Reorganization and the Offering. Accordingly, the Company intends to treat itself as a U.S. corporation for U.S. federal income tax purposes, and the remainder of this discussion assumes such treatment.

U.S. Holders

Ownership and Disposition of Common Shares. The following discussion is a summary of certain U.S. federal income tax considerations relevant to a U.S. holder of Common Shares.

Distributions with respect to Common Shares, if any, will be includible in the gross income of a U.S. holder as ordinary dividend income to the extent paid out of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Any portion of a distribution in excess of current or accumulated earnings and profits would be treated as a return of the holder's tax basis in its Common Shares and then as gain from the sale or exchange of the Common Shares. Under current law, provided the Company is treated as a U.S. corporation for U.S. federal income tax purposes, if certain requirements are met, a maximum 15% U.S. federal income tax rate will apply to any dividends that are paid prior to January 1, 2011 to a U.S. holder of Common Shares who is an individual. Unless the reduced rate provision is extended by subsequent legislation, for tax years beginning on or after January 1, 2011, dividends will be taxed at regular ordinary income rates.

Dividend distributions to U.S. holders that are corporations may qualify for the 70% dividends received deduction ("DRD"), which is generally available to corporations that own less than 20% of the voting power or value of the outstanding stock of the distributing U.S. corporation. A U.S. holder that is a corporation holding 20% or more of the distributing U.S. corporation may be eligible for an 80% DRD. No assurance can be given that we will have sufficient earnings and profits (as determined for U.S. federal income tax purposes) to cause any distributions to be eligible for a DRD. In addition, a DRD is available only if certain holding period and other taxable income requirements are satisfied. The length of time that a stockholder has held stock is reduced by any period during which the stockholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales or other similar transactions. Also, to the extent that a corporation incurs indebtedness that is directly attributable to an investment in the stock on which the dividend is paid, all or a portion of the DRD may be disallowed. In addition, any dividend received by a corporation may also be subject to the extraordinary distribution provisions of the Internal Revenue Code.

A U.S. holder of Common Shares will generally recognize gain or loss on the taxable sale, exchange or other disposition of such shares in an amount equal to the difference between such U.S. holder's amount realized on the sale and its tax basis in the Common Shares sold. A U.S. holder's amount realized generally is equal to the amount of cash and the fair market value of any property received in consideration of its Common Shares. The gain or loss generally is capital gain or loss if the U.S. holder holds the Common Shares as a capital asset, and long-term capital gain or loss if the Common Shares are held for more than one year at the time of disposition. Capital loss can generally only be used to offset capital gain (individuals may also offset excess capital losses against up to $3,000 of ordinary income per tax year). Under current law, long-term capital gain recognized by an individual U.S. holder prior to January 1, 2011 is subject to a maximum 15% U.S. federal income tax rate.

Non-U.S. Holders

Ownership and Disposition of Common Shares. The following discussion is a summary of certain U.S. federal tax considerations relevant to a non-U.S. holder of Common Shares.

Distributions treated as dividends that are paid to a non-U.S. holder, if any, with respect to its Common Shares will be subject to withholding tax at a 30% rate (or lower applicable income tax treaty rate) unless the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business in the United States. If a non-U.S. holder is engaged in a trade or business in the United States and dividends with respect to the Common Shares are effectively connected with the conduct of that trade or business (and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment), then the non-U.S. holder will be subject to U.S. federal income tax on those dividends on a net income basis (although the dividends will be exempt from the 30% U.S. federal withholding tax, provided certain certification requirements are satisfied) in the same manner as if received by a U.S. person as defined under the Internal Revenue Code. Any such effectively connected income received by a non-U.S. corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or lower applicable income tax treaty rate). To claim the exemption from withholding, the non-U.S. holder must generally furnish to us or our paying agent a properly executed IRS Form W-8ECI (or applicable successor form).

A non-U.S. holder of Common Shares who wishes to claim the benefit of a reduced rate of U.S. withholding tax under an applicable treaty must furnish to us or our paying agent a valid IRS Form W-8BEN (or applicable successor form) certifying such holder's qualification for the reduced rate. If a non-U.S. holder is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, it may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the Internal Revenue Service.

Non-U.S. holders may recognize gain upon the sale, exchange, redemption or other taxable disposition of Common Shares. Such gain generally will not be subject to U.S. federal income tax unless: (i) that gain is effectively connected with the conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment) by a non-U.S. holder; (ii) the non-U.S. holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or (iii) we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes. We believe that we are not and we do not anticipate becoming a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If a non-U.S. holder is an individual described in clause (i) of the preceding paragraph, the non-U.S. holder will generally be subject to tax on the net gain at regular graduated U.S. federal income tax rates. If a non-U.S. holder is a non-U.S. corporation that falls under clause (i) of the preceding paragraph, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Internal Revenue Code and, in addition, the non-U.S. holder may be subject to the branch profits tax at a rate equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. If the non-U.S. holder is an individual described in clause (ii) of the preceding paragraph, the non-U.S. holder will generally be subject to a flat 30% tax on the gain, which may be offset by U.S. source capital losses even though the non-U.S. holder is not considered a resident of the United States.

Information Reporting and Backup Withholding Tax

We will report to our U.S. holders and the IRS the amount of dividends paid during each calendar year, if any, and the amount of any tax withheld. All distributions to holders of Common Shares are subject to any applicable withholding. Under U.S. federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the applicable rate (currently 28%). Backup withholding generally applies to a U.S. holder if the holder (i) fails to furnish its social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) fails to properly report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is a U.S. person that is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax and the appropriate information is timely supplied to the IRS. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

We will also report to our non-U.S. holders and the IRS the amount of dividends paid during each calendar year, if any, and the amount of any tax withheld. These information reporting requirements apply even if no withholding was required because the distributions were effectively connected with the non-U.S. holder's conduct of a United States trade or business, or withholding was reduced or eliminated by an applicable income tax treaty. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established. Backup withholding, however, generally will not apply to distributions to a non-U.S. holder of our Common Shares provided the non-U.S. holder furnishes to us or our paying agent the required certification as to its non-U.S. status, such as by providing a valid IRS Form W-8BEN or IRS Form W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient.

CERTAIN CAYMAN ISLANDS INCOME TAX CONSIDERATIONS

Notice to Residents of Cayman Islands

The public of the Cayman Islands is not invited to subscribe for any share in the Company unless and until the Company is listed on the Cayman Islands Stock Exchange. The shares in the Company may, however, be sold to exempt or other non-resident companies, unit trusts, exempted limited partnerships or other non-resident entities created or organised under the laws of the Cayman Islands.

Cayman Island Taxation

The following is a discussion on certain Cayman Islands income tax consequences. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has applied for and has received from the Governor in Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of shares. An annual registration fee will be payable by the Company to the Cayman Islands Government which will be calculated by reference to the nominal amount of its authorised capital.

Taxation of Shareholders

Currently, there is no Cayman Islands income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax, estate or inheritance tax or other tax payable by holders of our shares.

PLAN OF DISTRIBUTION

Pursuant to the terms and conditions of an underwriting agreement dated as of February 11, 2010 (the "Underwriting Agreement") among the Company, the Selling Shareholders and the Underwriters, the Company has agreed to sell and the Underwriters have severally agreed to purchase on the closing date of the Offering all but not less than all of the 3,450,000 Common Shares offered hereby at a price of C$6.00 per Common Share payable in cash to the Company against delivery. The determination of the terms of the distribution, including the offering price of the Common Shares, was made through negotiations between the Company and the Underwriters. The Underwriting Agreement provides for the Company and the Selling Shareholders to pay the Underwriters a fee of 7.0% per Common Share sold pursuant to this Offering, including any additional Common Shares sold pursuant to the exercise of the Over-Allotment Option, and for the Company to pay certain expenses of the Underwriters incurred in connection with the Offering. The Underwriters may offer the Common Shares at a lower price than the offering price, provided that the Company and the Selling Shareholders will receive net proceeds equal to the public offering price less the 7.0% fee for each Common Share sold. The Underwriters' fee does not apply to the 1,076,797 Common Shares to be issued and sold pursuant to the Offering to holders of ISE's secured convertible promissory notes issued in July 2009 for which no fee shall be paid to the Underwriters.

The Selling Shareholders have granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part, at the sole discretion of the Underwriters, for a period ending 30 days after the closing of the Offering, to purchase up to 517,500 additional Common Shares at a price of C$6.00 per Common Share to cover over-allotments and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters' fee, net proceeds to the Company and the net proceeds to the Selling Shareholders will be C$23,805,000, C$1,214,095, C$19,703,255 and C$2,887,650, respectively. This prospectus qualifies the issuance of the Over-Allotment Option and the distribution of the Common Shares to be sold by the Selling Shareholders thereunder upon any exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Over-Allotment Option acquires such Common Shares under this prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. The Selling Shareholders will only sell Common Shares pursuant to an exercise of the Over-Allotment Option.

The TSX has conditionally approved the listing of the Common Shares under the ticker symbol "ISE." Listing is subject to the Company fulfilling all of the requirements of the TSX on or before April 20, 2010, including distribution of the Common Shares to a minimum number of public shareholders.

The Underwriting Agreement provides that the Underwriters' obligations are several and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Common Shares offered hereby if any of the Common Shares are purchased under the Underwriting Agreement. The Underwriters may offer selling group participation to other registered dealers that are satisfactory to the Company, acting reasonably, with compensation to be negotiated between the Underwriters and such selling group participants, but at no additional cost to the Company or the Selling Shareholders.

The Company and the Selling Shareholders have each agreed to indemnify the Underwriters and their subsidiaries, affiliates, and the directors, officers, partners, employees and agents thereof against certain liabilities or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exemptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. In connection with this Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at a level other than that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

This prospectus also qualifies the aggregate of 11,902,651 Common Shares and Restricted Voting Shares issuable to the Existing Shareholders in connection with the Reorganization.

The closing of the Offering is expected to occur on or about February 23, 2010 or such other date as the Company and the Underwriters may agree, but in any event no later than March 25, 2010.

This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Common Shares offered herein in the United States. The Common Shares have not been and will not be registered under the U.S. Securities Act, or state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons (as defined in the U.S. Securities Act) except in a transaction exempt from the registration requirements of the U.S. Securities Act. Each Underwriter has agreed that, except as permitted under the Underwriting Agreement, it will not offer or sell the Common Shares at any time within the United States or to, or for the account or benefit of, U.S. Persons. The Underwriting Agreement permits the Underwriters to offer and sell Common Shares to certain accredited investors in the United States in a manner exempt from the registration requirements of the U.S. Securities Act and in compliance with applicable state securities laws. Each Underwriter has agreed that, except as permitted by the Underwriting Agreement, it (or such U.S. affiliates) will not offer to sell Common Shares within the United States or to U.S. Persons. In addition, until 40 days after the commencement of this Offering, an offer or sale of the Common Shares within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made other than in accordance with an exemption from such registration requirements. Terms used in this paragraph have the meanings given to them under the U.S. Securities Act.

Each securityholder of the Company holding, directly or indirectly, (together with that securityholder's associates and affiliates) in excess of 1% of the Common Shares outstanding prior to the closing of the Offering (on an as-if converted basis), representing approximately 95% of the issued and outstanding Common Shares (on an as-if converted basis), and each of the directors and officers of the Company have agreed that they will not, directly or indirectly, without the prior written consent of the Underwriters, issue, sell, grant any option for the sale of, or otherwise dispose or monetize, or offer to announce any intention to do so, in a public offering or by way of private placement or otherwise, any Common Shares or any securities convertible or exchangeable into Common Shares for the period from the closing date of the Offering to the day that is 180 days immediately following closing of the Offering; at the end of such period, approximately one-third of the Common Shares held by such persons will be released from such restrictions on each of the 180th, 270th and 360th day after the closing of the Offering. In addition, the Company has agreed in the Underwriting Agreement that it will not issue any Common Shares or any securities convertible into, or exchangeable for, or exercisable to acquire Common Shares for the 180 day period immediately following the closing of the Offering; notwithstanding the foregoing, the Company may (a) grant stock options in the normal course pursuant to any stock option plan of the Company existing on the closing date of the Offering, and (b) issue securities of the Company upon the conversion, exercise or exchange of convertible, exercisable or exchangeable securities existing on the closing date of the Offering or upon the exercise of stock options subsequently granted as permitted by the Underwriting Agreement.

RELATIONSHIP BETWEEN SELLING SHAREHOLDERS WHO ARE ALSO CONVERTIBLE PROMISSORY NOTE HOLDERS AND CERTAIN OF THE UNDERWRITERS

In connection with the Offering, Raymond James Ltd., one of the Underwriters, has agreed to lend an aggregate of C$6,460,782 million to the holders of our secured convertible promissory notes issued in July 2009 who are also Selling Shareholders (See "Interest of Management and Others in Material Transactions – Bridge Financing (2009)") to enable such Selling Shareholders to acquire an aggregate of 1,076,797 Common Shares pursuant to the Offering. Consequently, such Selling Shareholders may be considered "connected issuers" with Raymond James Ltd. under applicable Canadian securities laws. A portion of the proceeds of the Offering will be utilized to repay the July 2009 bridge loan indebtedness. See "Use of Proceeds". The holders of our July 2009 secured convertible promissory notes who have borrowed funds to acquire Common Shares will use such proceeds to repay the then outstanding indebtedness owing to Raymond James Ltd., if any.

RISK FACTORS

Investing in the Common Shares involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the financial statements and the related notes appearing at the end of this prospectus and the other information set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding to invest in the Common Shares. If any of the following risks occurs, our business, revenue, financial condition, liquidity, results of operations and future prospects could be materially and adversely affected. In that event, the market price of the Common Shares would likely decline and you could lose part or all of your investment.

Risks Related to Our Business and Industry

Our Hybrid System business has a long and unpredictable sales cycle that could result in significant fluctuations in our results in future periods.

Our Hybrid System business is characterized by a long and unpredictable sales cycle, where we typically enter into a limited number of long-term contracts for orders of our Hybrid Systems. Our revenue in any quarter is substantially dependent on orders delivered in that quarter, and our quarterly revenue would be adversely affected if we are unable to complete one or more large transactions or if contract terms were to prevent us from recognizing revenue during that quarter. If customers delay or cancel orders for Hybrid Systems or if we fail to deliver Hybrid System orders when anticipated, our revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected, and the market price of our Common Shares may fluctuate or decline significantly.

Variations in the size, type and timing of customer orders for our products could expose us to substantial fluctuations in our revenue, results of operations and liquidity.

Our revenue in any quarter is substantially dependent on the size, type and timing of our customer orders and could expose us to substantial fluctuations in our revenue, results of operations and liquidity. In addition, we incur or commit to operating expenses based on anticipated revenue and generally do not know whether revenue in any quarter will meet our expectations until the end of that quarter. If we encounter difficulty and cannot generate a sufficient number of customer orders, if customers delay or cancel such orders or if we fail to deliver product orders when anticipated, our revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected, and the market price of our Common Shares may fluctuate or decline significantly. Other factors that could materially and adversely affect us include:

- variations in the level and timing of research and development expenses related to our existing products or future development programs;
- negotiation and execution of supplier and customer contracts, and the timing and amount of payments we are required to make or may receive under these arrangements; and
- regulatory and legislative developments affecting our products or those of our competitors.

If our quarterly or annual results fall below the expectations of investors or securities analysts, the market price of our Common Shares could decline significantly. Furthermore, any quarterly fluctuations in our results may, in turn, cause the market price of our Common Shares to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our expected future performance.

We may not realize as revenue the full amounts reflected in our backlog, which could materially and adversely affect us.

As of September 30, 2009, we had total backlog of $19.4 million for the fourth quarter of fiscal 2009, total backlog of $40.3 million for fiscal 2010 and total backlog of $16.6 million for fiscal 2011. Firm backlog consists of executed contracts with us or signed purchase orders issued to us as of a particular date. Option backlog consists of (A) executed contracts between OEMs and fleet operators for heavy duty vehicles incorporating our products, but for which we have not received an executed contract or signed purchase order as of a particular date, and (B) options for the purchase of our products contained within previously executed contracts between us (as prime contractor) and fleet operators. Option backlog is adjusted for management's estimates of hybrid system deliveries by December 31, 2011.

See “Business – Backlog.” We may never receive contracts or purchase orders from OEMs with respect to our option backlog or we may not receive such contracts or purchase orders in amounts or at times we expect. The ability of our customers, particularly our government customers, to defer, modify, curtail or terminate our contractual arrangements with them makes the calculation of backlog subject to numerous uncertainties. If the amounts included in our backlog are not realized or are deferred to later periods, our revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected.

Our products are innovative and have not yet demonstrated a proven ability to meet the rigorous demands of heavy duty vehicle use over extended periods of operation. If our products fail to demonstrate their reliability and performance over extended periods of operational service, demand for our products would substantially decline and we would be materially and adversely affected.

The average operational life of a typical transit bus in service is 10 to 12 years. Other heavy duty vehicles are also expected to have long operational lives. Our products have not yet demonstrated the proven ability to reliably perform over this period of time. All of our products undergo testing procedures and must meet our quality control standards before shipment to a customer, but because our technology is innovative and our products are complex and have not been in service long enough to demonstrate consistent reliability and performance, we can provide no assurance that our products will be free from defects and able to meet the rigorous demands of the hybrid heavy duty commercial vehicle market or the energy storage systems market for heavy duty applications.

Our ability to test our technology has historically been limited by our available capital resources. Many of our largest competitors, who have greater financial resources and access to capital than we do, typically are able to test their new products in extensive laboratory and test-track conditions prior to use in service. Because we have been more financially constrained than our competitors to test our technology in a laboratory setting, our new products have undergone some testing by our customers in the field. Our customers have reported some component failures, which we believe have often been the result of defective energy storage systems and other subcomponents from suppliers or improper installation of our systems by third parties. We have implemented standardized testing procedures for new products and we have been investing increased resources in testing equipment and personnel. Despite these improvements in testing, we cannot be assured that our products will demonstrate reliability and performance over extended periods of operational service. If they fail to do so, demand for our products may substantially decline, we may experience significant costs correcting defects and making any necessary design modifications, we may lose customers and market share and our business, revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected.

We may face product liability or warranty claims, either directly or indirectly through our OEMs and customers, and we have limited experience with some of our products as to our potential liability.

We provide our customers with standard warranties for our products and we offer extended warranties for sale on a case-by-case basis. Defects in our products could arise from defects in components provided by our suppliers. Although our suppliers typically provide warranties on their components, these warranties often have warranty coverage periods that do not directly coincide with our product warranties. This could result in a gap in warranty coverage for these components, resulting in our having liability to our customers without our having recourse to our suppliers. In addition, while our suppliers are often willing to sell us extended warranties, there can be no certainty that they will do so on terms that are economically feasible for us and our customers, or at all.

Defects in our products could give rise to warranty claims against us or to liability for damages. Such defects could also lead to liability for consequential damages. Defects in our products could, moreover, impair the market’s acceptance of our products. Any of these events could have a material adverse effect on our business and financial condition. We have limited experience with some of our products in evaluating the potential liability that could be created by claims under our warranties. If the claims made under such warranties exceed our warranty reserves, our financial condition, results of operations, liquidity and prospects could be materially adversely affected.

Many applications incorporating our products have inherent safety risks that may result in substantial liabilities and costs to us that could materially adversely affect us.

Many applications incorporating our products have inherent safety risks, including equipment defects, malfunctions and failures, which could result in high-voltage electrical shock, fires and other damages. We have experienced some of these failures with our products, and, in particular, failures due to high-voltage third party batteries and our ultracapacitor ES Systems. While our suppliers are attempting to make improvements in these components, we cannot be certain that these and other failures will not recur. In addition, maintenance and servicing of our products require special training and tools because of the potential for injury from exposure to high-voltage energy storage systems. More generally, transit buses and other heavy duty vehicles have in the past been, and may in the future be, involved in accidents that result in explosions, fires and other damage, including potential loss of life. These risks may expose us to liability for personal injury, wrongful death, property damage, pollution and other environmental damage. We believe that our commercial liability insurance coverage is adequate, but we may be unable to renew this insurance or obtain replacement or increased coverage on commercially reasonable terms, or at all. If any damages or liabilities are not covered by insurance or are in excess of policy limits, we may incur substantial liabilities and costs that would adversely affect our business, revenue, financial condition, results of operations, liquidity and prospects.

If we fail to develop and achieve market acceptance for our products, or fail to expand and retain our customer base, our business will not grow and we will be materially and adversely affected.

Many of our products and technologies are new and not widely used. Although we believe that the market for our products will continue to expand, our revenue will depend in large part on the market acceptance of and demand for our products. We have invested significant time and money in developing the market for our products through sales and marketing activities, and we expect to continue to do so for the foreseeable future. If the market for our products does not develop and grow, our investments in sales and marketing may not produce new business, our business will not grow and our revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected.

We must develop new fleet customers in order to expand our Hybrid System business and we must continue to obtain and fulfill Hybrid System orders from the OEMs that sell to these fleet customers. There can be no assurance that we will be able to develop these fleet customers or obtain these OEM orders. We must also develop new customers for our ES System business. To date, we have only sold limited quantities of our ES Systems as stand-alone products (i.e., not incorporated into our Hybrid Systems) and our lithium-ion ES Systems are currently in the production sample phase. There can be no assurance that we will be able to expand our ES Systems business.

Our ability to expand and retain our customer base will depend on a number of factors, including the level of acceptance and availability of hybrid vehicles, the growth in our target markets, our ability to supply our products at competitive prices in a timely manner, the performance and reliability of our products and the level of our customer service and support. If we fail to expand and retain our customer base, our business, revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected.

Our growth depends in part on transit subsidies and related government incentives for clean burning fuels. A reduction in these incentives would increase the cost of hybrid technology and vehicles for our customers and could significantly reduce our revenue, results of operations, liquidity and prospects.

Our business depends in part on federal, state and local government incentives in the U.S. that subsidize the purchase of transit buses and promote the use of alternative fuels in the U.S. A majority of the transit buses purchased in the U.S. are heavily subsidized by the federal government, which provides added incentives to purchase alternative fuel buses, such as hybrids, that can reduce emissions. While the subsidization of transit bus purchases has existed in some form or another for decades, there can be no assurance that these subsidies will continue or be sustained at current levels. In the U.S., federal funds cover up to 80% of the purchase price of a conventional (non-hybrid) bus plus 90% of the incremental cost of an alternative fuel bus, including hybrids. In addition to federal subsidies, several states have programs to help finance the development and/or purchase of alternative fuel vehicles. For the year ended December 31, 2008, approximately 86% of our revenue was derived from contracts that involved federal funding under the TEA. During the nine month period ended September 30, 2009, approximately 38% of our revenue was derived from contracts that involved such funding. While such incentive and subsidy programs have been expanding in recent years and the TEA has been in place for more than 18 years, each of these programs have a finite duration and need to be extended from time to time through additional legislative action. For example, the most recent enactment of the TEA expired in September 2009 and is currently being extended by the U.S. Congress with short-term "continuing resolutions." We expect that a full six-year authorization bill will be enacted sometime in 2010. There can be no assurance that U.S. Congress will continue to extend the TEA with short-term continuing resolutions or that the full six-year authorization bill will be enacted.

If grant funds were no longer available under existing government programs, the sales and adoption rate for hybrid systems may slow, and our business, revenue, operating results, liquidity and prospects may be materially and adversely affected. The failure to extend the federal transit bus subsidies at current levels could have a detrimental effect on the transit bus and other target industries, which, in turn, could materially and adversely affect us.

We depend on contracts with federal, state and local government agencies for a significant portion of our revenue. In certain circumstances these contracts may be modified, curtailed or terminated at any time prior to their completion, and, if we do not replace them, we may suffer a significant decline in revenue, which would materially and adversely affect us.

A significant portion of our business involves integrating our products into buses sold to fleet operators, which typically include federal, state and local government agencies. For example, in situations where we are the prime contractor under a particular delivery contract, we are in direct privity of contract with the fleet operator. We expect to continue to derive a substantial portion of our revenue from work performed under government contracts. In addition, we often act as a subcontractor to OEMs who are in direct privity of contract with federal, state and local government agencies with respect to a particular delivery contract.

Many of the government programs in which we participate (either as a prime contractor or subcontractor) may extend several years, but are conditional on the continuing availability of governmental appropriations. Under these contracts, the government generally has the right not to exercise contract options for additional years and may modify, curtail or terminate contracts at its convenience. Any decision by a federal, state or local government agency not to exercise contract options or to modify, curtail or terminate major orders or contracts would materially and adversely affect our business, revenue, financial condition, results of operations, liquidity and prospects.

Our reliance on contracts with governmental agencies also means that any decline in U.S. federal, state or local governmental spending or changes in budgetary priorities could negatively affect us and harm our growth prospects. These changes may be the result of cyclical appropriation and spending patterns, changes in government personnel or other political factors that are outside of our control. In addition, in order to sell our products in hybrid vehicles being purchased by governmental agencies, we are often required to respond to RFPs, which can be time consuming and costly. We may participate in the RFP process in our role as a potential prime contractor or as a potential subcontractor to an OEM. In our experience, the period of time from announcement of an RFP by a governmental agency to the contract award stage can take up to a year and, over that period, we may expend significant resources with no guarantee of being awarded a contract or order. If we are unsuccessful in winning contracts or orders from RFPs, our business will suffer and our financial condition, results of operations, liquidity and prospects will be negatively affected.

Our growth depends in part on environmental regulations promoting or mandating the use of emissions-reducing technologies, and the delay, modification or repeal of these regulations may adversely impact our business or results of operations.

Our business also depends in part on environmental regulations in the U.S. and internationally that promote or mandate the use of emissions-reducing technologies, including hybrid-electric propulsion for vehicles. In recent years, there has been significant public pressure to enact legislation in the U.S., Europe and elsewhere to reduce or eliminate pollution caused by use of fossil fuels. Because the cost of hybrid systems without the benefit of subsidies or other economic incentives substantially exceeds the cost of conventional drive systems, mandates requiring or promoting zero or low emission vehicles are necessary to create a significant market for our products. We can provide no assurance that there will be further legislation enacted changing current requirements or that current legislation and mandates in the U.S., Europe and elsewhere will not be repealed, amended or expanded. Furthermore, in the U.S., our primary market, several car manufacturers have challenged these mandates in court and have obtained injunctions to delay them. The delay, repeal or modification of governmental policies and regulations that encourage the use of emissions-reducing technologies would have a detrimental effect on the hybrid-electric heavy duty vehicle industry in the U.S. and internationally, which, in turn, would slow our growth and adversely affect our business and results of operations.

A small number of customers account for a significant portion of our revenue.

Our primary customers are OEMs, and the number of OEMs in the bus manufacturing industry is relatively small and could get smaller if there is consolidation in the industry. A small number of OEM customers have historically accounted for a large portion of our revenue. We expect that this trend will continue for the foreseeable future. For example, for the year ended December 31, 2008 and the nine month period ended September 30, 2009, our top three OEM customers accounted for approximately 86% and 96% of our revenue, respectively. If our relationships with our OEM customers were to be disrupted, we could lose a significant portion of our anticipated revenue, which would materially and adversely affect our business, revenue, financial condition, liquidity, results of operations and prospects. Factors that could influence our relationships with our customers include:

- our ability to sell our products at prices that are competitive with competing suppliers;
- our ability to develop new products or to adapt our products to new technologies and customer demands and maintain quality standards for our products sufficient to meet the expectations of our customers; and
- our ability to produce and deliver a sufficient quantity of our products in a timely manner to meet our customers' requirements.

We depend on a small number of suppliers to provide the key components for our products and, in some cases, we do not have existing arrangements with alternative or secondary source suppliers. Interruptions in our access to key components, quality issues relating to these components or increases in costs to acquire these components could negatively impact our results of operations.

We depend on a relatively small network of suppliers for key components that would be difficult or impossible to replace in our Hybrid Systems. For example, nearly all of our Hybrid System variants use electric motors, motor controllers and generators supplied by Siemens. Our relationship with Siemens is governed by an agreement, originally entered into in August 2002, that is scheduled to terminate on March 30, 2010. While we are currently in negotiations to extend and expand our relationship, we can provide no assurance that we will be able to extend the agreement beyond March 2010 on commercially reasonable terms, or at all. If the Siemens agreement is terminated, we will need to find a new supplier of comparable components and adapt these components to our systems, which would likely take at least a year, may not be successful and could result in a disruption in our business that could materially and adversely affect our results of operations. In addition, the Siemens components are currently only produced in Europe, which subjects us to potential shipping delays, as well as cost increases if the value of the dollar continues to decline relative to the Euro.

We also depend on Ballard Power Systems Inc. for fuel cells, Maxwell for ultracapacitors and Ford Motor Products for gasoline engines. In each of these cases, there are relatively few substitute products available in the marketplace and redesigning our products to use substitute components would be time consuming and costly. Accordingly, interruptions in our access to key components, failures of these components to perform reliably or increases in their costs could adversely affect our ability to deliver reliable products at competitive prices and could negatively impact our results of operations. In addition, any interruptions in our access to key components could result in our inability to meet our contractual obligations to deliver products, causing customer dissatisfaction, harming our reputation and exposing us to contractual liabilities to our customers.

We have similar long-term contractual arrangements with other suppliers for products and materials necessary to our business. These relationships have contractual arrangements of varying lengths. In any given year, one or more of these contracts may come up for renewal. We can provide no assurance that we will succeed in negotiating replacement long-term arrangements with suppliers on commercially reasonable terms, or at all.

Failure of heavy duty vehicle manufacturers to offer and actively promote our products and technology would restrict our sales, and if the manufacturers' sales timing and volume fluctuates, we could be materially and adversely impacted.

The vast majority of transit buses and other heavy duty vehicles are purchased from OEMs, so our sales largely depend on the willingness of OEMs to offer and actively promote our products. For the North American market, only four bus manufacturers have sold significant numbers of vehicles using our Hybrid Systems, and heavy duty truck manufacturers are just beginning volume production of hybrid vehicles. Due to our dependence on OEMs for integration of our products into their vehicles, our ability to promote and sell our products may be restricted, even if there is demand from fleet operators and other end users.

The timing and volume of our sales to OEMs depend upon the sales levels and shipping schedules for their products. Thus, even if our products are superior, our sales will not increase unless the vehicles into which our products are incorporated are successfully marketed by our OEM customers. If our OEM customers fail to sell a sufficient quantity of vehicles incorporating our products or if the OEM's sales timing and volume fluctuate, our sales will be negatively impacted and our business, revenue, financial condition, results of operations, liquidity and prospects may be materially and adversely affected. Our OEM customers typically require a long development and engineering process before incorporating our products into their vehicles. This is in addition to the time we spend on basic research and product development. As a result, the opportunity to sell our products to OEMs typically occurs at infrequent intervals, depending on when an OEM customer designs a new product or enhances an existing one. If we are not aware of an OEM's product development schedule or if we cannot provide systems to meet an OEM's specifications when it develops its products, we may miss a sales opportunity that may not reappear for some time, if ever, and such OEM may develop stronger relationships with our competitors in the process.

Our business is subject to a variety of governmental regulations, compliance with which may require us to make material expenditures.

We are subject to a variety of federal, state and local laws and regulations relating to the environment, health and safety, labour and employment and workers' compensation. These laws and regulations are complex, change frequently and have tended to become more stringent over time. Failure to comply with these laws and regulations may result in a variety of administrative, civil and criminal enforcement measures, including assessment of monetary penalties and the imposition of remedial requirements. From time to time, as part of the regular overall evaluation of our operations, including newly acquired operations, we may be subject to compliance audits by regulatory authorities. In connection with our product development activities, we need to complete federally-mandated testing of every new variant of our Hybrid System to qualify for federal transit subsidies, and our Hybrid System must be certified by the EPA and state agencies, such as CARB. This may subject us to permitting conditions that may be onerous or costly. Compliance with laws and regulations and enforcement policies by regulatory agencies could require us to make material expenditures or significantly impact or eliminate target markets.

Failure to effectively manage our growth could harm our business and materially and adversely affect us.

Our strategy is to expand our business to address potential growth in the hybrid heavy duty commercial vehicle market and the energy storage systems market for heavy duty applications. In order to meet this anticipated growth, we have increased, and must further increase, the size of our organization, expand our production capability, enhance our operational systems and infrastructure, increase the size of our sales and marketing department, supplement our existing financial and accounting systems and controls and enhance our information technology infrastructure. We will need to develop the capability to manage several major product programs at the same time and marshal the resources to meet the contractual timelines for each of them. In the past, we have sometimes failed to meet contractual timelines and we can provide no assurance that we have or will have the resources to meet all of our contractually committed timelines in the future. We will also need to manage these expanding operations in multiple U.S. and international locations. This growth will require significant working capital expenditures that may divert financial resources from other projects, such as the development of new products. It will also require continued expansion of our workforce. We can provide no assurances that, if we continue to expand our business as planned, that we will be able to:

- increase our manufacturing capacity to produce higher volume orders more efficiently and make us profitable;
- develop or acquire new businesses, products or technologies and successfully integrate them into our company;

- expand our systems effectively, efficiently or in a timely manner;
- allocate our financial and human resources optimally;
- identify and hire qualified employees or retain valued employees; or
- maintain important aspects of our corporate culture.

Growth may place a strain on our management systems and our financial and human resources. If we are unable to effectively expand our business in accordance with our strategy and manage our growth, we may experience lower revenue, higher expenses, poor internal controls, employee attrition and customer dissatisfaction, any of which could harm our business and materially and adversely affect our revenue, financial condition, results of operations, liquidity and prospects.

We may experience difficulty in scaling up the manufacturing of our products, which would impede our growth.

We may experience difficulties as we seek to scale up the manufacturing of our products to fill our current and future backlog and to improve our manufacturing processes. We have limited experience in manufacturing our products in high volume and, therefore, it may be difficult for us to:

- increase the quantity of the products we can manufacture while ensuring performance and reliability, especially for those products that contain new technologies or are for new applications;
- reduce our production costs to the level needed to avoid losses on committed sales agreements priced below our then applicable production costs;
- accurately estimate the costs associated with the development and volume manufacturing of our products to ensure that our contracts provide adequate profit margins; and
- reduce our production costs even further to the level needed to produce adequate profit margins.

It may also be difficult for us to solve management, technological, engineering and other problems that may arise in connection with our manufacturing processes. These problems may include production volumes and yields, quality assurance, adequate and timely supply of high quality materials and components and shortages of qualified engineering and other personnel. If we are unable to manufacture our products in increased quantities or improve our manufacturing processes, we may be unable to fill our current or future backlog orders on time, which could subject us to liquidated damages or other contractual claims, or to increase sales and market share for our products, and we could lose existing customers and suffer damage to our reputation in the industry.

The success of our business depends on the continued service of our executive officers and our ability to hire, train and retain qualified technical, marketing and sales personnel.

Because our business is highly technical and many of our products employ innovative technologies, the success of our business depends on the continued service of our experienced senior management team and other key technical personnel. If we were to lose our President and Chief Executive Officer, our Chief Financial Officer and Treasurer or our Senior Vice President of Sales and Marketing, especially if one or more of them should decide to join a competitor or otherwise compete directly or indirectly with us, our ability to implement our business strategy successfully would be seriously harmed.

The recruitment and retention of scientists and engineers and sales and marketing personnel is critical to the continued development of our products and technologies and to grow our business. Our senior engineers are well recognized in their areas of expertise. The loss of such personnel could threaten our technological and competitive advantage in key product areas and product lines. Replacing these employees may be difficult and costly because of the limited number of qualified personnel with the skills and experience required to successfully develop and commercialize our products and the intense competition to recruit them. Our future success will depend on our ability to continue to attract, train, retain and motivate personnel with the technical and industry experience needed to design, manufacture, market, sell and service our products. If we are not successful in hiring, training and retaining scientists and engineers and sales and marketing personnel, our business would be harmed.

Our products currently face intense competition from companies that have significantly greater resources and access to capital than we have. If our competitors develop and commercialize products faster than we do, or commercialize products that are superior to our products in quality or cost, we would be materially and adversely affected.

Many of our competitors have substantially greater access to capital and greater resources and experience in research and development, product testing, manufacturing, marketing and sales than we have. For example, our two principal competitors in the hybrid transit bus market are Allison and BAE Systems, which together have approximately 90% market share in diesel-hybrid transit buses. Because of their greater access to capital, resources and experience, our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements and devote greater resources to the promotion and sales of their products than we can. These organizations also compete with us to:

- attract partners for collaborations, joint ventures or strategic relationships;
- acquire or license technology that is complementary to our technology; and
- attract and hire qualified scientific, engineering and marketing personnel.

Our competitors may also develop products or technologies that are superior in performance and/or reliability to our products or technologies, which would render our product candidates or technology obsolete or non-competitive. Our competitors may also have more success in sales and marketing, including in international markets where we have limited experience. If we cannot successfully compete with new or existing products, it is unlikely that we will ever become profitable and our business, revenue, financial condition, results of operations, liquidity and prospects would be materially and adversely affected.

In addition, current and potential competitors may establish collaborative relationships among themselves or with third parties, including third parties with whom we have relationships. Further, none of our strategic relationships are exclusive, and, accordingly, the companies with whom we have strategic relationships may, in the future, choose to do business with our competitors or elect to compete with us by developing and selling their own competing products. Accordingly, new competitors may emerge that can rapidly acquire significant market share.

A significant decline in fuel prices could slow or cease the adoption of our products and adversely affect our business and results of operations.

Demand for our products depends in part on savings that result from increased fuel economy resulting from their use. If fuel prices were to significantly decline, the adoption of our products could slow or cease altogether, because the savings from increased fuel economy would not offset the higher cost of vehicles equipped with our products to the same degree. Factors that could cause fuel prices to significantly decline include increases in the availability, production and importation of fuel, decreases in consumer demand for fuel, increases in refining and processing capacity, changes in government regulation relating to fuel and fuel prices, geopolitical matters, favourable weather conditions and other factors outside of our control. A significant decline in fuel prices may adversely affect our business, revenue and results of operations and slow the growth of our business, particularly if any such significant decline occurs over a sustained period of time.

If there are advances in other alternative vehicle fuels or technologies, or if there are improvements in gasoline, diesel or natural gas engines, demand for hybrid heavy duty vehicles may decline and our business and results of operations would suffer.

Technological advances in the production, delivery and use of alternative fuels that are, or are perceived to be, cleaner, more cost-effective or more readily available than hybrid propulsion have the potential to slow adoption of hybrid heavy duty commercial vehicles. Advances in gasoline, diesel, or natural gas engine technology may offer a more cost-effective option for emissions reduction and/or reduce the fuel-saving benefit of hybrid vehicles, making fleet operators less likely to convert their fleets to hybrid systems. Technological advances related to ethanol or biodiesel, which are increasingly used as an additive to, or substitute for, gasoline and diesel, may slow the need to save fuel and adversely impact the growth of the hybrid heavy duty commercial vehicle market. In addition, other alternative fuels in experimental or developmental stages may eventually offer a cleaner, more cost-effective alternative to hybrid systems. Any advances in technology that slow the growth of, or conversion to, hybrid systems may have a materially adverse effect on our business, revenue and results of operations. Failure of hybrid technology to advance at a sufficient pace may also limit its adoption and ability to compete with other alternative fuels.

Technological advances in the hybrid vehicle industry could render our technology and products obsolete, which would harm our business.

Success in our industry depends in large part on technology and innovation, and, in order to remain competitive, we must continuously adapt our existing products to new technologies and develop new and innovative products and technologies. Our existing products are designed for use with, and are dependent upon, existing vehicle technology. As technologies change, we must upgrade or adapt our products in order to continue to provide products with the latest technology. Accordingly, future performance depends in part on our ability to identify emerging technological trends, develop and manufacture competitive products, and bring these products to market quickly and at cost-effective prices. Our failure to further advance our technology and develop and introduce new products could cause our technology to become obsolete, which would materially and adversely affect us. Our development efforts may be rendered obsolete by the technological advances of others and other technologies may prove more advantageous than ours. We will need to invest significant human and financial resources in research and development to keep pace with technological advances in the hybrid-electric vehicle industry and to compete effectively in the future. We may not be able to invest the necessary resources in research and development of new technologies and also meet the delivery deadlines for our current or future backlog. As a result, we may be unable to effectively compete with other companies that have greater resources than we have.

During the year ended December 31, 2008 and the nine month period ended September 30, 2009, we spent approximately $2.3 million and $3.8 million, respectively, on research and development of new products and technologies. In addition, we incurred more than $3.3 million and $1.7 million during the year ended December 31, 2008 and in the nine month period ended September 30, 2009, respectively, in prototype and NRE, expenses for new customer production programs. We expect our spending on research and development, prototype and NRE expenses to increase in the foreseeable future. Research and development spending can expose us to a variety of risks. For example, despite our best efforts, a new product or technology that results from our research and development may prove to be unworkable, not cost effective, or otherwise unmarketable. We cannot make any assurances that any new product or technology we may develop will be successful or first to market or that an adequate market for such product or technology will ever develop. If our research and development efforts are unsuccessful in producing marketable products and technologies in a timely manner, we would be materially and adversely affected.

We have a history of losses and expect to incur additional losses in the future.

We have incurred losses every year since our inception in 1995 except 2003. In the years ended December 31, 2008, 2007, 2006 and the nine month period ended September 30, 2009 and 2008, we incurred losses of approximately $25.6 million, $26.3 million, $8.7 million, $10.8 million and $21.2 million respectively. These losses have had and will continue to have an adverse effect on shareholders' equity and working capital. We anticipate incurring additional losses as we continue to develop our products. If our Hybrid System sales activities and related operations continue to be unprofitable, our business, liquidity and prospects will suffer and our stock price may decline significantly. We cannot make any assurances that our operations will achieve profitability in the near future or ever or that, if we do achieve profitability, we will be able to maintain or increase it. Additionally, there can be no assurance that any net operating losses will be available in the future to offset any future profits for tax purposes. In particular, because we experienced "ownership changes" within the meaning of Internal Revenue Code Section 382 in March 2006 and October 2008, our ability to use net operating losses and tax credit carry-forwards existing at such dates to offset future taxable income will be limited. Furthermore, there can be no assurance that we have not experienced other "ownership changes" and will not experience future "ownership changes" (including potentially as a result of this Offering) that could limit our ability to use net operating losses and tax credit carry-forwards generated since the October 2008 "ownership change." In addition, new tax legislation in the State of California has temporarily suspended the net operating loss carry over deduction for two years, which may limit our ability to use net operating loss carry forwards in the State of California in the future.

Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a "going concern."

We have incurred losses from operations in each year since inception except 2003, and we currently have a net stockholders' deficit. We anticipate incurring additional losses through 2010. The report of our independent registered public accounting firm dated September 25, 2009 on our financial statements for the years ended December 31, 2008, 2007 and 2006 includes an explanatory paragraph stating that our ability to continue as a going concern is dependent on our ability to obtain additional debt or equity financing. See "Management's Discussion and Analysis of Financial

Condition and Results of Operations – Liquidity and Capital Resources," in which we discuss our need to obtain additional capital to continue as a going concern for the next 12 months. The financial statements do not include any adjustments that might result from our inability to obtain such financing or our ability to continue as a going concern.

We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance requirements.

We have never operated as a public company. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We expect that compliance with public company requirements will significantly increase our costs and make some activities more time consuming. In addition, we will incur additional expenses associated with our public reporting requirements. A number of those requirements require us to carry out activities we have not done previously and will require substantial management time and attention. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our registered public accounting firm identify material weaknesses or significant deficiencies in our internal control over financial reporting), we would likely incur additional costs remediating those issues and such costs could be significant, and the existence of those issues could materially and adversely affect us, our reputation or investor perceptions of us. It could also make it more difficult and expensive for us to obtain director and officer liability insurance, and we could be required to accept reduced policy limits and insurance coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it could become more difficult for us to attract and retain qualified persons to serve on the Board or as executive officers. Advocacy efforts by shareholders and third parties may also prompt even more changes in governance and reporting requirements. In addition, if we cease to be a Foreign Private Issuer we will be required to register our shares under the Securities Exchange Act of 1934 (the "Exchange Act"). As a result, we would incur significant additional legal, accounting and other expenses in order to ensure compliance with the reporting and other obligations required under the Exchange Act.

We will need funding in addition to this Offering, and, if we are unable to raise capital when needed, it would harm our product development programs and commercialization efforts.

Developing our products is expensive and our business is working capital intensive. We have limited financial resources and, even if this Offering is successful, we will need to raise additional capital in order to:

- continue our research and development activities;
- market new products and technologies; and
- expand our production, sales and marketing organizations, including internationally.

No assurance can be given that we will have the necessary funds for any or all of these matters. Any future funding requirements will depend on many factors, including, but not limited to:

- the rate of progress, cost and marketing impact of our product development programs;
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights associated with our products; and
- the effect of competing technological and market developments.

Future capital requirements may also depend on the extent to which we acquire or invest in additional complementary businesses, products and technologies. We currently have no commitments or agreements relating to any of these types of transactions, but we may need to make such acquisitions or investments in the future to remain competitive.

We may be unable to obtain additional financing on acceptable terms, or at all, and if we raise additional funds through debt financing arrangements, such arrangements could restrict our financial and operational matters.

Until we generate a sufficient amount of revenue and cash flow to fund our operations, if ever, we expect to finance future working capital needs through public or private equity offerings, debt financings and other capital raising efforts. We make no assurances that additional funding will be available on acceptable terms, or at all. If adequate funds are not available, we may be required to delay, reduce or eliminate programs designed to expand our business, and our results of operations, liquidity and prospects could be adversely affected. If we raise funds by issuing equity securities, current shareholders may experience significant dilution of their holdings.

If we obtain debt financing to fund our operations, the terms of such debt financing could include restrictive covenants relating to financial and operational matters. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens, pay dividends, repurchase our stock or make investments. Any such restrictive covenants could make it more difficult for us to operate our business and obtain additional capital on commercially reasonable terms, or at all.

We may incur losses and use working capital if we have to build, test and certify vehicles at our own expense.

To maintain technological leadership and support our product marketing, we are continuously involved in the design, integration, testing and certification of new variants of our Hybrid Systems. These new variants are required to adapt our products to new component technologies and to make our systems compatible with the vehicles that fleet operators demand. Although we attempt to secure customer or third-party financing to defray some or all of the costs of our prototype and demonstration vehicles, we may be unable to arrange such financing in a sufficiently timely manner to meet demand or at all and consequently may need to finance these activities on our own. These expenses may result in losses and would adversely affect our liquidity until such time as we can, if ever, commercialize these variants of our Hybrid System.

We have limited experience in international sales and may not succeed in growing our international sales.

We intend to use a portion of the net proceeds from this Offering to expand our North American and international sales and marketing capabilities. However, we have limited experience in sales outside of the U.S. and may not succeed in growing our European or other international sales. As we seek to expand into international markets, new customers may not be able to integrate our products into their existing systems. As a result, our products may require redesign for international customers, which could be costly and time-consuming. Because customers outside of the U.S. are important to the growth of our business, any difficulties in marketing or adapting our products to international customers could negatively impact our business and our prospects.

In addition, we may be subject to other risks associated with international business, including:

- delays in establishing international distribution channels;
- difficulties in collecting international accounts receivables;
- difficulties in complying with foreign regulatory quality standards and other commercial requirements;
- increased costs associated with international marketing efforts;
- compliance with U.S. Department of Commerce export controls;
- the impact of non-tariff trade barriers;
- increases in duty rates or tariff trade barriers;
- fluctuations in currency exchange rates;
- political and economic instability; and
- difficulties in enforcement of intellectual property rights.

Substantially all of our operations are currently conducted in a single location that may be at risk of damage from fire, earthquakes or other natural disasters. If a natural disaster strikes, we may be materially and adversely affected.

Substantially all of our operations are currently conducted at a single location in Poway, California, near known wildfire areas and earthquake fault zones. We have taken precautions to safeguard our facilities, including insurance, safety protocols and off-site storage of computer data. However, any future natural disaster, such as a fire or an earthquake, could cause substantial delays in our operations, damage or destroy our equipment or inventory and cause us to incur additional expenses. We maintain very limited insurance against earthquakes (covering only water damage caused by our sprinkler system in the event of an earthquake) and floods and the insurance we maintain against fires and other natural disasters may not be adequate to cover our losses in any particular case and may not continue to be available to us on acceptable terms, or at all. With or without insurance, damage to our facilities or our other property due to fire, earthquake or other natural disaster or casualty event may have a material adverse effect on us.

Fluctuations in exchange rates between and among the currencies of the countries in which we do business may adversely affect our operating results.

A significant amount of our inventory purchases are denominated in Euros. To date, we have chosen to purchase Euros in the spot market to make payment and have not hedged our exposure. We price our contracts based upon the prevailing rate at the time of the bid. We have the equivalent of approximately $5.5 million left to invoice under our contract (including options) with Transport for London, which is denominated in pounds sterling (£) partially offsetting our Euro exposure.

We may experience foreign exchange gains or losses due to the volatility of other currencies compared to the U.S. dollar. Our sales have been historically denominated in U.S. dollars and an increase in the value of the U.S. dollar relative to the currencies of the countries in which our end customers operate could impair the ability of our end customers to cost-effectively integrate our products, which may materially affect the demand for our products and cause these end customers to reduce their orders, which would adversely affect our revenue and business.

Our operating results are denominated in U.S. dollars and the difference in exchange rates in one period compared to another may directly impact period-to-period comparisons of our operating results. Furthermore, currency exchange rates have been especially volatile in the recent past and these currency fluctuations may make it difficult for us to predict our operating results.

We continue to review our foreign currency exchange risk and may consider hedging certain foreign currencies through the use of futures or options in the future. Even if we were to implement hedging strategies, not every exposure can be hedged, and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts which may vary or which may later prove to have been inaccurate. Failure to hedge successfully or anticipate currency risks accurately could adversely affect our operating results.

Risks Related to Our Intellectual Property

Much of our intellectual property consists of trade secrets and know-how that is very difficult to protect. If we experience leaks of trade secrets or know-how, our business would be substantially harmed.

Although we strive to protect our intellectual property rights to the fullest extent possible, there is always a risk that an employee might leak trade secrets or otherwise compromise important intellectual property rights or that a competitor could lawfully reverse-engineer our technology. We have confidentiality agreements with each of our employees in place to protect our intellectual property rights, but it is possible that an employee might breach this agreement, intentionally or unintentionally. It is also possible that our confidentiality agreements with employees will not be effective in preserving the confidential nature of our intellectual property. Because our ability to effectively compete in our industry depends upon our ability to protect our proprietary technology, we might lose business to competitors and our business, revenue, operating results, liquidity and prospects could be materially and adversely affected if we experience leaks of our trade secrets and/or breaches of our confidentiality agreements.

If we are sued for infringing intellectual property rights of third parties, or if we become subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers, defending against these suits and claims will be costly and time consuming, and an unfavourable outcome in any litigation would harm our business.

Numerous United States and foreign issued patents, pending patent applications, and other intellectual property rights have been asserted in the general fields of hybrid vehicle technology and energy storage technology. In the course of operating our business, our activities could infringe the intellectual property of others and we could be sued for such infringement. From time to time, in the ordinary course of operating our business, we receive correspondence from third parties inviting us to license particular intellectual property and occasionally alleging infringement of their intellectual property rights by us. We believe that all such allegations received to date are without merit; however, any litigation relating to alleged or actual infringement could be very costly, divert management time and attention and result in increased costs of doing business. An adverse judgment could negatively impact the market price of our Common Shares and our ability to obtain future financing on favourable terms or at all. If we are unsuccessful in defending any claims of infringement, we may be forced to obtain licenses or to pay royalties to continue to use our technology. We may not be able to obtain any necessary licenses on commercially reasonable terms or at all. If we fail to obtain necessary licenses or other rights, or if these licenses are costly, our results of operations and prospects may suffer either from reductions in revenue through our inability to serve customers or from increases in costs to license third-party technologies.

In addition, as is common in our industry, we employ personnel who were previously employed by other technology companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. We may be subject to litigation and our company may be required to defend itself against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

If we are unable to protect our patents and other proprietary technology in the United States and internationally, we will be unable to prevent third parties from using our technology, which would impair our competitiveness and ability to commercialize our products. In addition, the cost of enforcing our proprietary rights may be expensive and result in increased losses.

Our ability to compete effectively against other companies in our industry will depend, in part, on our ability to protect our proprietary technology in the U.S. and internationally. Although we have attempted to safeguard and maintain our proprietary rights, including in a limited number of foreign countries, we do not know whether we have been or will be successful in doing so. It is possible that a substantial market could develop in a country where we have not received patent protection and, under such circumstances, our proprietary products would not be afforded legal protection in these markets. Further, our competitors may independently develop or patent technologies that are substantially equivalent or superior to ours. We cannot ensure that additional patents will be issued to us or, if they are issued, the scope of their protection. Patents granted may not provide meaningful protection from competitors. Even if a competitor's products were to infringe patents owned by us, it would be costly for us to pursue our rights in an enforcement action, it would divert funds and resources which otherwise could be used in our operations and we cannot ensure that we would be successful in enforcing our intellectual property rights. In addition, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country where we may operate or sell our products in the future.

Risks Relating to the Offering, the Reorganization and our Common Shares

An active, liquid and orderly market for our Common Shares may not develop.

Prior to this Offering, there has been no market for our Common Shares. An active trading market for our Common Shares may never develop or be sustained, which could depress the market price of our Common Shares and could affect your ability, if any, to sell the Common Shares. The initial public offering price will be determined through negotiations between us and the Underwriters and may bear no relationship to the price at which our Common Shares will trade following the completion of this Offering. The trading price of our Common Shares following this Offering may be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this prospectus, these factors include:

- our historical and projected operating performance and that of similar companies;
- the overall performance of the equity markets;
- announcements by us or our competitors of acquisitions, business plans or commercial relationships;
- threatened or actual litigation;
- accounting issues;
- changes in laws or regulations relating to our products;
- any major change in the Board or management;
- publication of research reports or news stories about us, our competitors or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our Common Shares, or the perception that such sales could occur; and
- general political and economic conditions.

In addition, public equity markets in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These fluctuations may be even more pronounced in the trading market for our Common Shares shortly following this Offering. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, prospects, results of operations, liquidity and financial condition.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of our Common Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in our Common Shares by those institutions, which could adversely affect the trading price of our Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of our Common Shares may be adversely affected.

There are risks associated with the fact that the Company is a holding company.

The Company is a holding company and a substantial portion of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through our subsidiaries, which generate substantially all of its revenue. Consequently, the Company' cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company' subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

If securities or industry analysts do not publish research and reports about us or our business, or if they issue unfavourable commentary or downgrade our Common Shares, the price of our Common Shares could decline.

The trading market for our Common Shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. If no securities or industry analysts commence coverage of our company, the trading price for our Common Shares would suffer. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our Common Shares or publishes unfavourable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our Common Shares could decrease, which could cause our share price and trading volumes to decline.

We have broad discretion in the use of the net proceeds from this Offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this Offering, including for any of the purposes described in "Use of Proceeds." Accordingly, purchasers of the Common Shares will have to rely upon the judgment of our management with respect to the use of the proceeds, with only limited information concerning management's specific intentions. Our management may spend a portion or all of the net proceeds from this Offering in ways that our shareholders may not desire or that may not yield a favourable return. The failure by our management to apply these funds effectively could harm our business. Pending their use, we intend to invest the net proceeds of this Offering in short-term, interest-bearing, investment-grade securities.

A limited number of shareholders will have the ability to influence the outcome of director elections and other matters requiring shareholder approval.

After this Offering, our directors, executive officers and holders of 10% or more of our Common Shares and their respective affiliated entities will beneficially own more than 61% of our outstanding Common Shares (assuming the conversion of all Restricted Voting Shares to Common Shares). These shareholders, if they act together, could exert substantial influence over matters requiring approval by our shareholders, including the election of directors, the amendment of our constating documents and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of the Company and might reduce our share price. These actions may be taken even if they are opposed by other shareholders, including those who purchase Common Shares in this Offering.

Future sales of our Common Shares could cause the market price of our Common Shares to decline significantly.

After this Offering, it is anticipated that the Existing Shareholders will beneficially own or control, directly or indirectly, 12,979,448 Common Shares (assuming the conversion of all Restricted Voting Shares to Common Shares), which in the aggregate will represent approximately 84.5% of the outstanding Common Shares on completion of this Offering. Subject to compliance with applicable securities laws, officers, directors, principal shareholders and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of our Common Shares will have on the market price of our Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our officers, directors, principal shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for our Common Shares.

You will experience immediate and substantial dilution.

The initial public offering price per share will be substantially higher than the net tangible book value per share of the outstanding Common Shares immediately after this Offering. A purchaser of Common Shares in this Offering will suffer immediate and substantial dilution. At an initial public offering price of C$6.00 per share, with net proceeds of C$17.7 million, after deducting estimated underwriting discounts and estimated offering expenses payable by us, investors who purchase Common Shares in this Offering will have contributed approximately 24.7% of the total amount of equity funding we have received to date, but will only hold approximately 22.5% of the total voting rights (assuming the conversion of all Restricted Voting Shares to Common Shares). The dilution will be C$5.59 per share in the net tangible book value of the common shares, at an initial public offering price of C$6.00 per share. In addition, if outstanding options and warrants to purchase shares of our Common Shares are exercised, there would be further dilution.

We do not currently intend to pay dividends on our Common Shares and, consequently, your ability to achieve a return on your investment will depend on any future appreciation in the price of our Common Shares.

We have never declared or paid any cash dividends on our common shares and do not currently intend to do so for the foreseeable future. We currently intend to invest the cash generated from any future earnings to fund our growth. Therefore, a purchaser of the Common Shares is not likely to receive any dividends on such Common Shares for the foreseeable future and the success of an investment in our Common Shares will depend upon any future appreciation in its value. There is no guarantee that our Common Shares will appreciate in value or even maintain the price at which a purchaser of the Common Shares purchased its shares.

The Company may be considered to be a "foreign investment entity" under proposed amendments to Canadian tax laws.

Pursuant to the FIE Proposals, acquiring, holding or disposing of Common Shares may have tax consequences under the Tax Act that are not disclosed in this prospectus. If the Company is or becomes a "foreign investment entity" under the FIE Proposals, there may be adverse tax consequences for Canadian resident holders of Common Shares. Please see "Certain Canadian Federal Income Tax Considerations." No assurances can be given that the Company will not be a "foreign investment entity" at the end of its current taxation year or at the end of any subsequent taxation year. On January 27, 2009, the Department of Finance (Canada) announced that it will review the existing FIE Proposals in light of submissions that it has received before proceeding further with such proposals.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our Common Shares.

At any time, United States federal, state or local or non-U.S. (including Cayman Islands) income tax laws or the administrative interpretations of those laws may be amended. We cannot predict when or if any such new income tax law, regulation, or administrative interpretation, or any amendment to any such existing income tax law, regulation or administrative interpretation will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, United States federal, state or local or non-U.S. (including Cayman Islands) income tax law, regulation or administrative interpretation.

We intend to treat the Company as a United States corporation for United States federal income tax purposes.

Pursuant to certain provisions of the Internal Revenue Code, a non-U.S. corporation that acquires substantially all of the stock of a United States corporation in exchange for its own stock will be treated as a United States corporation for United States federal income tax purposes if certain conditions are satisfied. The Company believes that these conditions will be met in the transactions that constitute the Reorganization and the Offering. Accordingly, the Company intends to treat itself as a United States corporation for U.S. federal income tax purposes.

We may be prohibited from competing for prime contracts with the U.S. federal government.

We may be treated as an "inverted domestic corporation" for purposes of certain U.S. federal government procurement regulations that prevent inverted domestic corporations and their subsidiaries from competing for prime contracts with the U.S. federal government. We do not currently compete for prime contract business from the U.S. federal government. However, if we made a decision to do so, we would likely be prohibited from obtaining such business. Additionally, if these regulations were expanded or if similar regulations were enacted to extend these restrictions to different levels of government and to suppliers to prime contractors, this may have a material impact on our business.

Holders of the Common Shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Following this Offering, our corporate affairs will be governed by our Articles and by the Companies Law (2009 Revision) and by the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in Canada or the United States Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in Canada or the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

Shareholders of Cayman Islands exempted companies, such as us, have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the Company. While shareholders will have the right, subject to certain conditions and following certain procedures to inspect our shareholder list and to make copies thereof, our directors will, however, have discretion under our Articles to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

Provisions of our Articles and Cayman Islands corporate law may discourage or prevent an acquisition of us, which could adversely affect the value of our Common Shares.

Provisions of our Articles and Cayman Islands corporate law may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- authorization of the issuance of preferred shares, which can be created and issued by the Board without prior shareholder approval, with rights senior to those of our Common Shares;

- requirements that removal of outstanding directors by shareholders occur only upon the affirmative vote of holders of 75% or more of the shares then entitled to vote at an election of directors;
- prohibitions on the filling of vacancies on the Board by shareholders;
- advance notice requirements for shareholder proposals and nominations; and
- the elimination of the rights of shareholders to call or requisition a special meeting of shareholders.

As a holder of our Common Shares, you may have difficulty obtaining or enforcing a judgment against us because we are incorporated under the laws of the Cayman Islands.

There is doubt as to whether the courts of the Cayman Islands would (1) enforce judgments of Canadian or United States courts obtained in actions against us or our affiliates, directors, or officers, as well as the experts named in this prospectus, who reside outside Canada or the United States predicated upon the civil liability provisions of Canada or the United States federal securities laws or would (2) permit original actions brought in the Cayman Islands against us or our affiliates, directors or officers, as well as the experts named in this prospectus, who reside outside Canada or the United States predicated solely upon Canadian or United States federal securities laws.

There is no treaty in effect between Canada or the United States and the Cayman Islands providing for the enforcement of Canadian or United States judgments in the Cayman Islands, and there are grounds upon which the Cayman Islands courts may decline to enforce the judgments of Canadian or United States courts. The question whether a Canadian or United States judgment would be enforceable in the Cayman Islands against us or our affiliates, directors, officers or experts depends upon whether the Canadian or United States court that entered such judgment is recognized by the Cayman Islands Court as having jurisdiction over the judgment debtor, as determined by reference to the Cayman Islands conflict of law rules. In addition, certain remedies available under the laws of Canadian or United States jurisdictions, including certain remedies available under the Canadian or United States federal securities laws, may not be allowed or enforceable in the Cayman Islands courts to the extent that they are penal or contrary to Cayman Islands's public policy.

LEGAL MATTERS

Certain Canadian and United States legal matters relating to the Offering will be passed upon on our behalf by Fasken Martineau DuMoulin LLP and by Goodwin Procter LLP, and on behalf of the Underwriters by Wildeboer Dellelce LLP.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Below is a description of transactions and series of similar transactions, entered into within the three years before the date of this prospectus, to which the Company or ISE was a party or will be a party, in which any director, executive officer or shareholder who beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Common Shares (assuming the conversion of all Restricted Voting Shares into Common Shares), or any known associate or affiliate of any such person, has or had any material interest, direct or indirect, and that has materially affected or will materially affect the Company or any subsidiary.

Bridge Financing (2007)

In August 2007, ISE completed a bridge loan financing transaction with three of the Company's Existing Shareholders—NGP Energy Technology Partners, L.P., Rockport Capital Partners II, L.P. and Third Avenue Trust, on behalf of Third Avenue Value Fund Series. Each of NGP Energy Technology Partners, L.P. and Rockport Capital Partners II, L.P. will hold more than 10% of the Company's outstanding Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares) and are affiliated with members of the Board. See "Principal and Selling Shareholders." ISE issued and sold to these investors senior subordinated convertible promissory notes and warrants to purchase common stock for an aggregate purchase price of $5 million. The convertible promissory notes accrued interest at a rate of 10% per annum and were scheduled to mature in February 2009 unless earlier converted or prepaid. The holders of the convertible promissory notes had a one-time right to convert, in whole or in part, the outstanding principal of and accrued but unpaid interest on the outstanding convertible promissory notes into shares of ISE's capital stock upon the occurrence of certain events. In connection with the issuance of the convertible promissory notes, ISE also issued to each of the three investors warrants to purchase shares of ISE's common stock. The warrants had a five-year term and were to become exercisable for shares of common stock upon the occurrence of certain events.

In connection with the consummation of the April 2008 Placement (as hereinafter defined), all outstanding principal and accrued interest on the convertible promissory notes converted into an aggregate of 4,887,345 shares of ISE's Series C preferred stock. See "Series C Preferred Stock Financing (2008)" below. In addition, the warrants to purchase common stock issued in the bridge financing were exchanged for an aggregate of 1,086,052 shares of ISE's common stock pursuant to the terms of a Warrant Exchange Agreement entered into in connection with the Series C preferred stock financing.

Bridge Financing (2008)

In February 2008, ISE completed a bridge loan financing transaction pursuant to which ISE issued and sold senior subordinated convertible promissory notes and warrants to purchase shares of ISE common stock for an aggregate purchase price of $985,000. David R. Goodman, a member of the Board, was one of the investors in this financing. The convertible promissory notes accrued interest at a rate of 10% per annum and were scheduled to mature in February 2009 unless earlier converted. The outstanding principal of and accrued but unpaid interest on the convertible promissory notes was to automatically convert into shares of ISE capital stock upon the occurrence of certain events. In connection with the issuance of the convertible promissory notes, ISE also issued to each of the investors warrants to purchase shares of ISE common stock. The warrants had a five-year term and were to become exercisable for shares of ISE common stock on the first anniversary of the date of issuance of the warrants.

In connection with the consummation of the April 2008 Placement, all outstanding principal and accrued interest on the convertible promissory notes converted into an aggregate of 918,839 shares of ISE's Series C preferred stock. See "Series C Preferred Stock Financing (2008)" below. In addition, the warrants to purchase common stock issued in the bridge financing were exchanged for an aggregate of 213,948 shares of ISE's common stock pursuant to the terms of a Warrant Exchange Agreement entered into in connection with consummation of the Series C preferred stock financing.

Series C Preferred Stock Financing (2008)

In April 2008, ISE issued and sold an aggregate of 12,693,230 shares of ISE's Series C preferred stock at a price per share of $1.089, for aggregate consideration of approximately $13.8 million (the "April 2008 Placement"), consisting of $7,500,000 in cash and approximately $6.3 million in conversion of outstanding indebtedness. See "Bridge Financing (2007)" and "Bridge Financing (2008)" above with respect to the conversion of indebtedness. The following table summarizes the shares of ISE's Series C preferred stock purchased pursuant to the April 2008 Placement by, or otherwise issued to, the Company's directors, executive officers, entities affiliated with the Company's directors and executive officers and holders that will hold more than 10% of the Company's Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares).

Investor	Series C Preferred Stock
NGP Energy Technology Partners, L.P.(1)	4,250,622
Rockport Capital Partners II, L.P.(2)	4,250,622
David R. Goodman(3)	966,371

Notes:

(1) The voting and disposition of the shares held by NGP Energy Technology Partners, L.P. is determined by NGP ETP, L.L.C., its general partner. Mr. Deutch, a member of the Board, is a member of the investment committee of NGP ETP, L.L.C. See "Principal and Selling Shareholders."

(2) The voting and disposition of the shares held by Rockport Capital Partners II, L.P. is determined by Rockport Capital II, LLC, its general partner. Mr. Ellis, a member of the Board, is a Managing Member of each of Rockport Capital I, LLC, RP Co-Investment Fund I GP, LLC and Rockport Capital II, LLC. See "Principal and Selling Shareholders."

(3) Mr. Goodman is a member of the Board.

In connection with consummation of the April 2008 Placement, all of ISE's outstanding warrants to purchase shares of common stock were exchanged for shares of common stock pursuant to the terms of a Warrant Exchange Agreement. The following table summarizes the shares of ISE's common stock issued in this exchange to the Company's directors, executive officers, entities affiliated with the Company's directors and executive officers and holders that will hold more than 10% of the Company's Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares).

Investor	Common Stock
NGP Energy Technology Partners, L.P.(1)	434,421
Rockport Capital Partners II, L.P.(2)	434,421
North Arrows-ISE Investment LLC(3)	273,263
David R. Goodman(4)	58,683
Justin M. Spragg(5)	9,607

Notes:

(1) The voting and disposition of the shares held by NGP Energy Technology Partners, L.P. is determined by NGP ETP, L.L.C., its general partner. Mr. Deutch, a member of the Board, is a member of the investment committee of NGP ETP, L.L.C. See "Principal and Selling Shareholders."

(2) The voting and disposition of the shares held by Rockport Capital Partners II, L.P. is determined by Rockport Capital II, LLC, its general partner. Mr. Ellis, a member of the Board, is a Managing Member of each of Rockport Capital I, LLC, RP Co-Investment Fund I GP, LLC and Rockport Capital II, LLC. See "Principal and Selling Shareholders."

(3) The voting and disposition of the shares held by North Arrows-ISE Investment LLC is determined by North Arrows-ISE Capital LLC, its managing member. Mr. Goodman, a member of the Board, is a principal of North Arrows-ISE Capital LLC.

(4) Mr. Goodman is a member of the Board.

(5) Mr. Spragg is the Company's Vice President, General Counsel and Corporate Secretary.

Series D Preferred Stock Financing (2008)

In August and October 2008, ISE issued and sold an aggregate of 27,227,480 shares of ISE's Series D preferred stock at a price per share of $0.642733, for aggregate consideration of approximately $17.5 million. The following table summarizes the shares of ISE's Series D preferred stock purchased in this transaction by, or otherwise issued to, the Company's directors, executive officers, entities affiliated with the Company's directors and executive officers and holders that will hold more than 10% of the Company's Common Shares following the completion of the Reorganization and the Offering (assuming the conversion of all Restricted Voting Shares into Common Shares).

Investor	Series D Preferred Stock
Siemens Venture Capital GmbH(1)	11,668,920
NGP Energy Technology Partners, L.P.(2)	3,111,712
Rockport Capital Partners II, L.P.(3)	3,111,712

Notes:

(1) The voting and disposition of the shares held by Siemens Venture Capital GmbH is determined by Siemens Aktiengesellschaft, its sole shareholder. Messrs. Goette and Sears, members of the Board, are Vice Presidents and Investment Partners of Siemens Venture Capital, Inc., an affiliate of both Siemens Venture Capital GmbH and Siemens Aktiengesellschaft. See "Principal and Selling Shareholders."

(2) The voting and disposition of the shares held by NGP Energy Technology Partners, L.P. is determined by NGP ETP, L.L.C., its general partner. Mr. Deutch, a member of the Board, is a member of the investment committee of NGP ETP, L.L.C. See "Principal and Selling Shareholders."

(3) The voting and disposition of the shares held by Rockport Capital Partners II, L.P. is determined by Rockport Capital II, LLC, its general partner. Mr. Ellis, a member of the Board, is a Managing Member of each of Rockport Capital I, LLC, RP Co-Investment Fund I GP, LLC and Rockport Capital II, LLC. See "Principal and Selling Shareholders."

Bridge Financing (2009)

In July 2009, ISE completed a bridge loan financing transaction in which it issued and sold secured convertible promissory notes and warrants to purchase shares of ISE's Series D preferred stock for an aggregate purchase price of approximately $5.6 million. The investors in the financing included, among others, four investors—NGP Energy Technology Partners, L.P., Rockport Capital Partners II, L.P., Siemens Venture Capital GmbH and David R. Goodman – who either hold more than 10% of the Company's outstanding Common Shares (assuming the conversion of all Restricted Voting Shares into Common Shares) and are affiliated with members of the Board, or are members of the Board themselves. See "Principal and Selling Shareholders." The secured convertible promissory notes are secured by substantially all of ISE's assets other than its' intellectual property (which intellectual property is subject to a negative pledge for the benefit of the investors). The secured convertible promissory notes accrue interest at a rate of 15% per annum and were originally scheduled to mature on December 31, 2009 unless earlier converted or prepaid. On December 16, 2009, the maturity date of the notes was extended to March 31, 2010. The outstanding principal of and accrued but unpaid interest on the secured convertible promissory notes automatically converts into shares of ISE's capital stock upon the occurrence of certain qualifying ISE financing events resulting in proceeds to ISE of at least $15 million, at the per share purchase price of the capital stock sold in the qualifying ISE financing event. The holders of at least two-thirds in interest of the aggregate principal amount outstanding under all of the notes have a right to elect to convert all of the notes into shares of ISE's capital stock upon the occurrence of certain qualifying ISE financing events resulting in proceeds to ISE of less than $15 million, at the per share purchase price of the capital stock sold in the qualifying ISE financing event. In connection with the issuance of the secured convertible promissory notes, ISE also issued to each of the investors warrants to purchase shares of ISE's Series D preferred stock. The warrants have a five-year term and are exercisable at any time prior to expiration at an exercise price of $0.01 per share. The number of shares of ISE's Series D preferred stock issuable to each investor upon exercise of the warrants is equal to the product of 30% multiplied by the quotient obtained by dividing the original principal amount of each investor's secured convertible promissory note by $0.642733.

Pursuant to the Merger Agreement, the investors have agreed to exercise these warrants in connection with the consummation of the Reorganization. The shares of Series D preferred stock issuable upon exercise of the warrants will be converted into common shares of ISE, and then exchanged for Common Shares of the Company on the same terms provided to other Existing Shareholders in the Reorganization.

Supply Agreement with Siemens Subsidiary

In August 2002, ISE entered into a supply agreement with a U.S. subsidiary of Siemens providing for the supply of electric motors, motor controllers, generators and other components that are used in many of our products. The agreement is scheduled to terminate on March 31, 2010, and we are currently in negotiations to extend the agreement and expand our relationship to include the sale by Siemens of our ES Systems worldwide through its sales channels.

Under the terms of the agreement we have paid Siemens $500,000 annually for non-exclusive sales rights for contractual products in the United States, a prescribed level of engineering services by Siemens to adapt certain products to our applications and receipt of reduced pricing on certain contractual Siemens products.

The costs recognized from transactions with Siemens reflect the prices and terms which are in accordance with normal trade practices. ISE made payments of $5,439,000, $2,237,000, $1,466,000, $4,067,000, and $4,235,000 during the years ended December 31, 2008, 2007 and 2006 and for the nine months ended September 30, 2009 and 2008, respectively. Siemens Venture Capital GmbH, one of our Existing Shareholders, is an affiliate of Siemens. Gerd-Dieter A. Goette and Michael E. Sears, members of the Board, are Vice Presidents and Investment Partners of Siemens Venture Capital, Inc., an affiliate of Siemens Venture Capital GmbH.

Business Advisory Arrangement with North Arrows-ISE Capital LLC

Pursuant to the purchase agreement relating to the issuance and sale of ISE's Series A preferred stock entered into in September 2004, ISE agreed to pay North Arrows-ISE Capital LLC an annual $150,000 advisory fee, payable quarterly, in return for business advisory services. ISE also agreed to reimburse North Arrows-ISE Capital LLC for their reasonable costs and expenses incurred while advising ISE. This advisory arrangement terminated on March 7, 2007, and no payments were made after such date. During the years ended December 31, 2006 and 2007, ISE paid approximately $127,000 and $37,500, respectively, to North Arrows-ISE Capital LLC in connection with this advisory arrangement. North Arrows-ISE Investment LLC owns shares of ISE's preferred stock and common stock. The voting and disposition of the shares of preferred stock and common stock held by North Arrows-ISE Investment LLC is determined by North Arrows-ISE Capital LLC, its managing member. Mr. Goodman, a member of the Board, is a principal of North Arrows-ISE Capital LLC.

Board Compensation

We will pay our Non-Employee Directors Board retainer fees, and certain of our Non-Employee Directors have received options to purchase shares of common stock of ISE. For more information regarding these arrangements, see "Statement of Executive Compensation."

Employment Agreements

We have entered into employment agreements with each of Messrs. Morash and Sander. ISE also entered into an employment agreement with Mr. Mazaika in 2005 relating to his prior service as ISE's Chief Executive Officer. Mr. Mazaika continues to receive severance payments under this employment agreement. For more information regarding these agreements, see "Statement of Executive Compensation—Employment Agreements and Severance Arrangements."

Indemnification Agreements

We have entered into, or will enter into, indemnification agreements with each of our directors and executive officers. These agreements provide that we will indemnify each of our directors and executive officers to the fullest extent permitted by law and advance expenses, including attorneys' fees, to each indemnified director or executive officer in connection with any proceeding in which indemnification is available.

Stock Option Grants

We have granted options to purchase Common Shares to our directors and executive officers. See "Statement of Executive Compensation—Director Compensation."

Policies and Procedures with respect to Related Party Transactions

The board of directors of ISE currently reviews and approves transactions with directors, executive officers and holders of 5% or more of our voting securities and their affiliates, and we consider each such person or entity a related party. Prior to this Offering, when the board of directors of ISE considered a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction were required to be disclosed to the board of directors of ISE and the transaction was not to be approved by the board of directors of ISE unless a majority of the directors who did not have an interest in the transaction approved the transaction. Following this Offering, such transactions must be approved by our Audit Committee or another independent body of the Board. Further, when shareholders are entitled to vote on a transaction with a related party, the material facts of the related party's relationship or interest in the transaction are required to be disclosed to the shareholders.

EXPERTS

None of Fasken Martineau DuMoulin LLP, Goodwin Procter LLP, Conyers Dill & Pearman or Wildeboer Dellelce LLP has received or will receive a direct or indirect interest in our property or of any of our associates or affiliates. None of Fasken Martineau DuMoulin LLP, Goodwin Procter LLP or Wildeboer Dellelce LLP beneficially owns, directly or indirectly, any of our securities or of any of our associates or affiliates. In addition, none of the aforementioned persons or companies, nor any partner, associate, director, officer or employee of any of the aforementioned persons or companies is, or is expected to be, elected, appointed or employed as a director, officer or employee of ours or of any of our associates or affiliates.

AUDITOR, TRANSFER AGENT AND REGISTRAR

Our auditor is KPMG LLP at its principal offices at 4747 Executive Drive, Suite 600, San Diego, California, USA 92121. The transfer agent and registrar for the Common Shares is CIBC Mellon Trust Company at its principal offices located at 320 Bay Street, Toronto, Ontario M5H 4A6.

MATERIAL CONTRACTS

The following are the material contracts other than contracts in the ordinary course of business, and material contracts in the ordinary course of business required to be listed, that we have entered into since January 1, 2008 or prior thereto but still in effect, or will be entering into prior to the closing of this Offering:

- the Underwriting Agreement referred to under "Plan of Distribution;"
- the Merger Agreement referred to under "Corporate Structure—The Reorganization;" and
- the Registration Rights Agreement referred to under "Description of Share Capital—Registration Rights".

Copies of the above material contracts (when executed) may be inspected in Canada at the offices of the Company's Canadian legal counsel's offices located at 66 Wellington Street West, Suite 4200, Toronto, Ontario during normal business hours during the period of distribution of the Common Shares offered hereunder or may be viewed on the System for Electronic Data Analysis and Retrieval website at www.sedar.com.

EXEMPTIONS FROM INSTRUMENT

The Company requested an exemption to item 35.6(3) of Form 41-101F1 – Information Required in a Prospectus to include pro forma financial statements in this prospectus. The issuance of the receipt for this prospectus will evidence the granting of the requested relief.

RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies of rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. Purchasers should refer to any applicable provisions of the securities legislation of their province for the particulars of these rights or consult with a legal advisor.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings material to us or any of our subsidiaries or to which we or any of our subsidiaries is a party, or of which any of our respective property is the subject matter, nor are any such proceedings known to us to be contemplated. There have been no penalties or sanctions imposed against us or any of our subsidiaries by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately prior to the date of this prospectus, or any other penalties or sanctions imposed by a court or regulatory body that would be necessary to disclose for this prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed. Neither we nor any of our subsidiaries have entered into any settlement agreements with any court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately prior to the date of this prospectus.

ISE LIMITED

AUDIT COMMITTEE CHARTER

1. General Statement of Purpose

The Audit Committee (the "**Committee**") of the Board of Directors (the "**Board**") of ISE Limited (the "**Company**") assists the Board in fulfilling its duties of oversight and evaluation of:

- the quality and integrity of the financial statements of the Company;
- the internal control and financial reporting systems of the Company;
- the compliance by the Company with legal and regulatory requirements in respect of financial disclosure;
- the qualification, independence and performance of the Company's independent auditors;
- the performance of the Company's Chief Financial Officer; and
- any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

In addition, the Committee provides an avenue for communication between the independent auditor, financial management, other employees and the Board concerning accounting and auditing matters.

The Committee is directly responsible for the appointment, compensation, retention (and termination) and oversight of the work of the independent auditor (including oversight of the resolution of any disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing audit reports or performing other audit, review or attest services for the Company.

The Committee is not responsible for:

- planning or conducting audits;
- certifying or determining the completeness or accuracy of the Company's financial statements or that those financial statements are in accordance with generally accepted accounting principles; or
- guaranteeing the report of the Company's independent auditor.

The fundamental responsibility for the Company's financial statements and disclosure rests with management and the independent auditors are responsible for auditing those financial statements. It is not the duty of the Committee to conduct investigations, to itself resolve disagreements (if any) between management and the independent auditor or to ensure compliance with applicable legal and regulatory requirements.

2. Reports

The Committee shall report to the Board on a regular basis and, in any event, before the public disclosure by the Company of its quarterly and annual financial results. The reports of the Committee shall include any issues of which the Committee is aware with respect to:

- the quality or integrity of the Company's financial statements;
- compliance by the Company with legal or regulatory requirements in respect of financial matters and disclosure;
- the performance and independence of the Company's independent auditor;
- the effectiveness of systems of control (including risk management) established by management to safeguard the assets (real and intangible) of the Company; and
- the proper maintenance of accounting and other records.

The Committee shall also prepare, as required by applicable law, any audit committee report required for inclusion in the Company's publicly filed documents.

3. Composition

The Committee shall consist of such number of directors as the Board may from time to time determine, but in no event shall the Committee consist of less than three directors. Within one year of the anniversary date of the filing of and the receipt for the final prospectus with respect to the Company's initial public offering the composition of the Committee shall satisfy the independence standards required pursuant to National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators ("**NI 52-110**") by the Committee ensuring that all of its members are independent within the meaning of NI 52-110. Each of the members of the Committee shall be financially literate (or acquire that familiarity within a reasonable period after appointment). This shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity that can reasonably be expected to be raised by the Company's financial statements. No member of the Committee shall accept (directly or indirectly) any consulting, advisory or other compensatory fee from the Company (other than remuneration for acting in his or her capacity as a director) or be an "affiliated person" of the Company. (For this purpose, an "affiliate" of a person is a person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the first person.) Without the approval of the Board, no member of the Committee shall concurrently serve on the audit committee of a competitor or client.

4. Responsibilities

It is recognized that, in fulfilling their responsibilities, members of the Committee are not full-time employees of the Company. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to determine that the Company's financial statements are complete and accurate. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which it receives information, and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).

The Committee shall have authority over, and shall be responsible for, the following specific matters:

4.1 Independent Auditors

The Committee shall:

- Recommend to the Board the independent auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Company.
- Establish the compensation of the independent auditor.
- Obtain confirmation from the independent auditor that it ultimately is accountable, and will report directly, to the Committee and the Board.
- Oversee the independent auditor and, in the context thereof, require the independent auditor to report to the Committee (among other things) any disagreement between management and the independent auditor regarding financial reporting and the resolution of each such disagreement.
- Adopt policies and procedures for the pre-approval of the retention of the Company's independent auditor for all audit and permitted non-audit services (subject to any restrictions on such services imposed by applicable legislation), including procedures for the delegation of authority to provide such approval to one or more members of the Committee.
- At least annually, review the qualifications, performance and independence of the independent auditor. In doing so, the Committee should, among other things, undertake the measures set forth in Appendix "A" to this Charter.

4.2 The Audit Process, Financial Statements and Related Disclosure

The Committee shall, as it determines to be appropriate:

- Review with management and the independent auditor:
  - the proposed audit plan and scope of review by the independent auditor;

- before public disclosure, the Company's annual audited financial statements and quarterly unaudited financial statements, the Company's accompanying disclosure of Management's Discussion and Analysis ("**MD&A**") and earnings press releases and make recommendations to the Board as to the approval and dissemination of those statements and disclosure;
- the adequacy of the procedures for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in the immediately preceding paragraph and periodically assess the adequacy of those procedures and consider whether they are complete and consistent with the information known to committee members;
- financial information and any earnings guidance provided to analysts and rating agencies, recognizing that this review and discussion may be done generally (consisting of a discussion of the types of information to be disclosed and the types of presentations to be made) and need not take place in advance of the disclosure of each release or provision of guidance;
- any significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the selection or application of accounting principles, any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect the Company's financial statements;
- all critical accounting policies and practices used;
- all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
- the use of "pro forma" or "adjusted" non-GAAP information;
- the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise), on the Company's financial statements;
- any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls or disclosure controls made to the Committee by the Chief Executive Officer and the Chief Financial Officer during their certification process in documents filed with applicable securities regulators;
- the adequacy of the Company's internal accounting controls and management information systems and its financial, auditing and accounting organizations and personnel and any special steps adopted in light of any material control deficiencies; and
- the establishment, and periodic review, of procedures for the review of financial information extracted or derived from the Company's consolidated financial statements.

- Review with management the Company's guidelines and policies with respect to risk assessment and the Company's major financial and business risk exposures and the steps management has taken to monitor and control such exposures.
- Review with the independent auditor:
  - the quality as well as the acceptability of the accounting principles that have been applied;
  - any problems or difficulties the independent auditor may have encountered during the provision of its audit-related services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management, any management letter provided by the independent auditor or other material communication (including any schedules of unadjusted differences) to management and the Company's response to that letter or communication; and
  - any changes to the Company's significant accounting principles and practices suggested by the independent auditor and members of management.
- Review with management all related party transactions and the development of policies and procedures related to those transactions.

- Following completion of the annual audit, review with each of management and the independent auditors any significant issues, concerns or difficulties encountered during the course of the audit including:
  - restrictions on the scope of work or on access to required or requested information;
  - issues or concerns that arose during the course of the audit concerning the Company’s internal accounting controls, or the fair presentation, completeness or accuracy of the financial statements; and
  - analyses prepared by management or the auditors setting forth significant financial reporting issues and judgments made in connection with preparation of the financial statements (including analysis of the effects of alternative treatments under generally accepted accounting principles).
- Periodically review reports on the Company’s information technology systems that support the financial reporting process.
- Receive and review reports from other Board committees with regard to matters that could affect the audit or results of operations.
- Oversee appropriate disclosure of the Charter, and other information required to be disclosed by applicable legislation in the Company’s public disclosure documents, including any management information circular distributed in connection with the solicitation of proxies from the Company’s security holders.

4.3 Compliance

The Committee shall, as it determines appropriate:

- Review with the Company’s Chief Financial Officer, other members of management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company’s financial statements or accounting policies.
- Review with the Company’s external legal counsel legal matters that may have a material impact on the financial statements or accounting policies.
- Establish procedures for:
  - the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and
  - the confidential, anonymous submission by employees of the Company with concerns regarding any accounting or auditing matters.
- Review independent financial analyst commentary concerning the Company and its financial reporting.

4.4 Limitation on Delegation

To avoid any confusion, the Committee responsibilities identified above are the sole responsibility of the Committee and may not be delegated to a different committee.

5. Meetings

The Chair of the Committee shall be selected by the Board. If the Chair of the Committee is not present, the members of the Committee may designate a Chair for the meeting by majority vote of the members of the Committee present.

The Committee shall meet in accordance with a schedule established each year by the Committee, and at other times that the Committee may determine. Quorum for all meetings shall be a majority of the Committee members. Minutes shall be maintained of all meetings of the Committee and copies of the minutes shall be made available to all members of the Board.

The Committee shall meet periodically with the Chief Financial Officer, the independent auditors and external legal counsel in separate sessions. Meeting agendas shall be developed by the Committee chair in consultation with the

Company's management and the independent auditors. Committee members may propose agenda items through communication with the Chair of the Committee or the Chief Financial Officer. Agendas, together with appropriate briefing materials, shall be circulated to Committee members prior to meetings. At the discretion of the Committee, members of management and others may attend Committee meetings other than the separate sessions with the independent auditors, the Chief Financial Officer and the external legal counsel.

6. Resources and Authority

The Committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to engage and establish the compensation of, at the expense of the Company, outside advisors including experts in particular areas of accounting, legal counsel and other experts or consultants as it determines necessary to carry out its duties, without seeking approval of the Board or management. The Committee will advise the Board of any such action taken.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the independent auditors as well as anyone in the Company.

7. Annual Evaluation

At least annually, the Committee shall, in a manner it determines to be appropriate:

- Perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with this Charter.
- Review and assess the adequacy of its Charter (including with respect to the procedures regarding the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements) and recommend to the Board any improvements to this Charter that the Committee determines to be appropriate.

Appendix "A"

Qualifications, Performance and Independence of Independent Auditor

- Review the experience and qualifications of the senior members of the independent auditor's team.
- Confirm with the independent auditor that it is in compliance with applicable legal, regulatory and professional standards relating to auditor independence.
- Review and approve clear policies for the hiring by the Company of employees or partners or former employees or former partners of the current and former independent auditor.
- Review annual reports from the independent auditor regarding its independence and consider whether there are any non-audit services or relationships that may affect the objectivity and independence of the independent auditor and, if so, recommend that the Board take appropriate action to satisfy itself of the independence of the independent auditor.
- Obtain and review such report(s) from the independent auditor as may be required by applicable legal and regulatory requirements.
- Conduct an evaluation (taking into account the opinions of management) of the independent auditors qualification, performance and independence and present to the Board the Committee's conclusion in such regard.
- Review, as required, the independent auditors plans with respect to the partner rotation.

AUDITORS' CONSENT

We have read the prospectus of ISE Limited (the "Company") dated February 11, 2010 qualifying the initial public offering of 3,450,000 common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of:

- the Company on the balance sheet of the Company as of December 9, 2009. Our report is dated December 16, 2009;
- ISE Corporation ("ISE") on the balance sheets of ISE as at December 31, 2008 and 2007 and the related statements of operations, stockholders' deficit and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2008. Our report is dated September 25, 2009, except for note 15 which is as of December 16, 2009.

(Signed) KPMG LLP

San Diego, California
February 11, 2010

INDEX TO FINANCIAL STATEMENTS

Independent Auditors' Report

The Board of Directors and Shareholders
ISE Limited:

We have audited the accompanying balance sheet of ISE Limited (the Company) as of December 9, 2009. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes consideration of internal control financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in that balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of the Company as of December 9, 2009 in conformity with U.S. generally accepted accounting principles.

(Signed) KPMG LLP

San Diego, California
December 16, 2009

ISE LIMITED

Balance Sheet
December 9, 2009

Assets	
Cash	$0.01
Shareholders' Equity	
Common shares, par value $0.01 per share	
Authorized 5,000,000; issued & outstanding shares: 1	$0.01

See accompanying notes to Balance Sheet.

ISE LIMITED

Notes to Balance Sheet
As of December 9, 2009

(1) Organization

ISE Limited (the Company) was incorporated under the *Companies Law* (2009 Revision) Cayman Islands on December 9, 2009 for the sole purpose of acquiring 100% of the capital stock of ISE Corporation (ISE) and to carry out an initial public offering.

(2) Basis of Presentation

The Company's balance sheet has been prepared in accordance with U.S. generally accepted accounting principles. Separate statements of operations, cash flows, and changes in stockholder's equity and comprehensive income have not been presented because this entity has had no activity.

(3) Shareholder's Equity

The Company has been capitalized with the issuance of one Common Share with a par value of $0.01 per share for a total $0.01.

(4) Subsequent Events (unaudited)

On December 16, 2009, the Company entered into an Agreement and Plan of Merger (the Merger Agreement), which sets forth the terms and conditions pursuant to which the Company will acquire all of the capital stock of ISE Corporation (ISE), a company incorporated under the laws of the State of California. Pursuant to the terms of the Merger Agreement, ISE Acquisition Corp., a wholly-owned subsidiary of the Company will merge with ISE under the laws of California, with ISE as the surviving entity. The existing shareholders of ISE will become the sole shareholders of the Company and ISE will become a wholly-owned subsidiary of the Company. The merger is conditional on, among other things, the offering of common shares of the Company.

Immediately following the merger an aggregate of 11,902,651 Common Shares and Restricted Voting Shares will be issued and outstanding.

Independent Auditors' Report

The Board of Directors and Stockholders
ISE Corporation:

We have audited the accompanying balance sheets of ISE Corporation (ISE) as of December 31, 2008 and 2007, and the related statements of operations, stockholders' deficit and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of ISE's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISE as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that ISE will continue as a going concern. As discussed in note 1 to the financial statements, ISE has suffered recurring losses from operations, has a net stockholders' deficit, and has a lack of additional committed financing, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

U.S. generally accepted accounting principles vary in certain significant respects from Canadian generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 15 to the financial statements.

(Signed) KPMG LLP

San Diego, California
September 25, 2009, except for note 15 which is as of December 16, 2009.

ISE CORPORATION

Balance Sheets
(In thousands, except share data)

	December 31 2008	December 31 2007	September 30, 2009 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 638	$ 1,469	$ 2,251
Short-term investments	5,400	1,122	—
Accounts receivable, net of allowance for doubtful accounts of $93, $25, and $74 at December 31, 2008 and 2007 and September 30, 2009, respectively	8,887	6,553	5,778
Unbilled accounts receivable	366	788	103
Restricted cash	1,253	483	237
Inventories	11,406	5,502	17,760
Other current assets	1,158	749	757
Total current assets	29,108	16,666	26,886
Restricted cash	406	1,634	228
Property and equipment, net	1,973	2,749	1,540
Intangibles, net	462	284	531
Other long-term assets	45	35	46
Total assets	$ 31,994	$ 21,368	$ 29,231
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Deficit			
Current liabilities:			
Accounts payable	$ 10,880	$ 7,001	$ 12,187
Accrued liabilities	4,121	5,764	3,463
Current portion of payable to related party	252	115	252
Current portion of long-term debt and capital lease	61	41	4,863
Preferred stock warrants subject to mandatory redemption	—	—	1,908
Current portion of deferred revenue	395	407	641
Current portion of accrued warranty and retrofit costs	3,161	3,286	3,752
Billings in excess of costs	10,126	3,854	9,375
Total current liabilities	28,996	20,468	36,441
Deferred revenue	511	964	401
Accrued warranty and retrofit costs	2,029	837	2,103
Other long-term liabilities	259	318	206
Long-term payable to related party	402	—	221
Long-term debt and capital lease	60	5,007	40
Total liabilities	32,257	27,594	39,412
Redeemable convertible Series B preferred stock; $0.001 par value. Authorized, issued, and outstanding shares 3,799,322 at December 31, 2008 and 2007 and September 30, 2009 liquidation preference of $37,500	35,122	30,584	38,161
Redeemable convertible Series C preferred stock; $0.001 par value. Authorized, issued, and outstanding shares 12,693,230 at December 31, 2008 and at September 30, 2009 liquidation preference of $20,700	14,772	—	15,974
Redeemable convertible Series D preferred stock; $0.001 par value. Authorized, issued, and outstanding shares 27,227,480 at December 31, 2008 and at September 30, 2009 liquidation preference of $26,250	17,482	—	20,084
Commitments and contingencies (notes 6 and 7)			
Stockholders' deficit:			
Convertible Series A preferred stock; $0.001 par value. Authorized, issued, and outstanding 2,077,724 at December 31, 2008 and 2007 and September 30, 2009 liquidation preference of $8,477	13,564	13,564	13,564
Common stock, $0.003 par value. Authorized, 25,000,000; issued and outstanding shares 4,252,939, 2,452,939, and 4,252,939 at December 31, 2008 and 2007 and at September 30, 2009, respectively	13	8	13
Additional paid-in capital	(14,073)	(9,370)	(20,000)
Accumulated other comprehensive income	2	16	—
Accumulated deficit	(67,145)	(41,028)	(77,977)
Total stockholders' deficit	(67,639)	(36,810)	(84,400)
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	$ 31,994	$ 21,368	$ 29,231

See accompanying notes to financial statements.

ISE CORPORATION

Statements of Operations
(In thousands, except share data)

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Revenue	$ 19,445	$ 11,044	$ 4,251	$ 26,008	$ 12,988
Cost of revenue	30,390	23,843	7,236	25,013	23,309
Gross income (loss)	(10,945)	(12,799)	(2,985)	995	(10,321)
Product engineering, research, and development	2,338	2,035	1,115	3,828	1,390
Sales and marketing	2,293	2,235	1,368	1,866	1,645
General and administrative	9,165	9,086	3,856	4,809	7,268
Total operating expenses	13,796	13,356	6,339	10,503	10,303
Loss from operations	(24,741)	(26,155)	(9,324)	(9,508)	(20,624)
Other income (expense):					
Interest expense	(529)	(209)	(9)	(1,393)	(594)
Interest income	61	238	631	5	48
Other income (loss), net	(234)	(140)	(33)	65	146
Warrant modification expense	(177)	—	—	—	(177)
Other income (expense)	(879)	(111)	589	(1,323)	(577)
Loss before income tax provision	(25,620)	(26,266)	(8,735)	(10,831)	(21,201)
Income tax provision	1	1	1	1	1
Net loss	(25,621)	(26,267)	(8,736)	(10,832)	(21,202)
Returns to preferred shareholders	(7,153)	(4,376)	(10,395)	(6,843)	(5,108)
Net loss attributable to common stockholders	$ (32,774)	$ (30,643)	$ (19,131)	$ (17,675)	$ (26,310)
Net loss per common share attributable to common stockholders – basic and diluted	$ (8.71)	$ (12.49)	$ (7.79)	$ (4.16)	$ (7.31)
Weighted average number of shares to compute basic and diluted net loss per share attributable to common stockholders	3,764,724	2,452,939	2,457,377	4,252,939	3,600,192

See accompanying notes to financial statements.

ISE CORPORATION

Statements of Stockholders' Deficit and Comprehensive Loss
(In thousands, except share data)

	Series A preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2005	2,077,724	$ 6,280	2,457,939	$ 8	$ 4,101	$ —	$ (6,025)	$ 4,364
Modification to Series A preferred stock conversion ratio	—	7,178	—	—	(7,178)	—	—	—
Amortization of increasing rate Series A preferred stock	—	106	—	—	(106)	—	—	—
Accretion of redeemable convertible Series B preferred stock	—	—	—	—	(3,111)	—	—	(3,111)
Repurchase of common stock	—	—	(5,000)	—	(35)	—	—	(35)
Stock-based compensation	—	—	—	—	113	—	—	113
Net loss	—	—	—	—	—	—	(8,736)	(8,736)
Balance at December 31, 2006	2,077,724	13,564	2,452,939	8	(6,216)	—	(14,761)	(7,405)
Discount on Bridge note	—	—	—	—	378	—	—	378
Accretion of redeemable convertible Series B preferred stock	—	—	—	—	(4,376)	—	—	(4,376)
Comprehensive loss:								
Net loss	—	—	—	—	—	—	(26,267)	(26,267)
Other comprehensive income	—	—	—	—	—	16	—	16
Stock-based compensation	—	—	—	—	844	—	—	844
Balance at December 31, 2007	2,077,724	13,564	2,452,939	8	(9,370)	16	(41,028)	(36,810)
Accretion of redeemable convertible Series B preferred stock	—	—	—	—	(4,538)	—	—	(4,538)
Accretion of redeemable convertible Series C preferred stock	—	—	—	—	(1,282)	—	—	(1,282)
Accretion of redeemable convertible Series D preferred stock	—	—	—	—	(837)	—	—	(837)
Modification to Series A preferred stock conversion ratio	—	—	—	—	314	—	(314)	—
Modification to Series B preferred stock conversion ratio	—	—	—	—	182	—	(182)	—
Issuance of common stock in exchange for warrants	—	—	1,800,000	5	172	—	—	177
Net loss	—	—	—	—	—	—	(25,621)	(25,621)
Other comprehensive loss	—	—	—	—	—	(14)	—	(14)
Stock-based compensation	—	—	—	—	1,286	—	—	1,286
Balance at December 31, 2008	2,077,724	13,564	4,252,939	13	(14,073)	2	(67,145)	(67,639)
Accretion of Series B convertible preferred stock (unaudited)	—	—	—	—	(3,039)	—	—	(3,039)
Accretion of redeemable convertible Series C preferred stock (unaudited)	—	—	—	—	(1,202)	—	—	(1,202)
Accretion of redeemable convertible Series D preferred stock (unaudited)	—	—	—	—	(2,602)	—	—	(2,602)
Comprehensive loss:								
Net loss (unaudited)	—	—	—	—	—	—	(10,832)	(10,832)
Other comprehensive loss (unaudited)	—	—	—	—	—	(2)	—	(2)
Stock-based compensation (unaudited)	—	—	—	—	916	—	—	916
Balance at September 30, 2009	2,077,724	$13,564	4,252,939	$13	$(20,000)	$ —	$(77,977)	$(84,400)

See accompanying notes to financial statements.

ISE CORPORATION

Statements of Cash Flows
(In thousands)

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Cash flows from operating activities:					
Net loss	$(25,621)	$(26,267)	$ (8,736)	$(10,832)	$(21,202)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	871	665	256	698	644
Realized gains on sale of short-term investments	(2)	(126)	(577)	(2)	(22)
Loss on sale or disposition of fixed assets	526	55	—	2	526
Accretion of interest on convertible notes	159	179	—	—	159
Write-off of interest on convertible notes	220	—	—	—	220
Accretion of debt discount	70	89	—	756	70
Fair value adjustments to warrant liability	—	—	—	366	—
Provision (recovery) for bad debts	93	21	(70)	40	60
Impairment of intangible assets	—	—	30	—	—
Warrant modification	177	—	—	—	177
Stock-based compensation	1,286	844	113	916	967
Change in assets and liabilities:					
Accounts receivable	(2,427)	(5,311)	493	3,069	(2,820)
Unbilled accounts receivable	422	216	(519)	263	381
Inventories	(5,904)	(1,898)	(615)	(6,205)	(977)
Other current assets	(409)	(520)	(58)	401	(764)
Other long-term assets	(10)	—	1	(1)	—
Accounts payable	3,879	5,339	146	1,307	2,582
Accrued liabilities	(1,643)	5,080	182	(658)	(332)
Payable to related party	539	(168)	(159)	(181)	615
Accrued warranty and retrofit costs	1,067	3,176	(200)	665	1,116
Billings in excess of costs	6,272	3,775	79	(751)	4,969
Deferred revenue	(465)	147	—	136	(453)
Other long-term liabilities	(59)	(56)	16	(53)	(42)
Net cash used in operating activities	(20,959)	(14,760)	(9,618)	(10,064)	(14,126)
Cash flows from investing activities:					
Change in restricted cash	458	(569)	(329)	1,194	460
Purchase of property and equipment and internal-use software	(561)	(1,475)	(1,100)	(339)	(500)
Purchase of intangible assets	(192)	(93)	(127)	(123)	(98)
Purchases of short-term investment securities	(9,160)	(9,318)	(38,799)	—	(1,161)
Proceeds from sale of short-term investment securities	1,165	9,173	—	—	1,164
Maturities of investment securities	3,705	12,657	25,885	5,400	1,125
Net cash provided by (used in) investing activities	(4,585)	10,375	(14,470)	6,132	990
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	985	5,000	—	5,600	985
Principal payments on long-term debt	—	—	(36)	—	—
Principal payments on capital lease obligations	(84)	(66)	(2)	(55)	(59)
Repurchase of common stock	—	—	(35)	—	—
Net proceeds from issuance of Series C preferred stock, net of issuance costs of $333	7,167	—	—	—	7,167
Net proceeds from issuance of Series D preferred stock, net of issuance costs of $855	16,645	—	—	—	4,644
Net proceeds from issuance of Series B preferred stock, net of issuance costs of $1,904	—	—	23,096	—	—
Net cash provided by financing activities	24,713	4,934	23,023	5,545	12,737
Net increase (decrease) in cash and cash equivalents	(831)	549	(1,065)	1,613	(399)
Cash and cash equivalents, beginning of year	1,469	920	1,985	638	1,469
Cash and cash equivalents, end of year	$ 638	$ 1,469	$ 920	$ 2,251	$ 1,070
Supplemental disclosure of cash flow:					
Cash paid during the year for:					
Interest	$ 19	$ 8	$ 9	$ 11	$ 13
Income taxes	—	1	1	1	—
Noncash financing and investing activities:					
Purchase of fixed assets under capital lease agreements	$ 46	$ 143	$ 47	$ 23	$ 46
Return to preferred shareholders	7,153	4,376	10,395	6,843	5,108

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

ISE Corporation (ISE) was incorporated in the state of California in January 1995. ISE develops, manufactures and distributes heavy duty hybrid-electric drive systems and components for sale to original equipment manufacturers of heavy-duty vehicles (primarily transit buses to date), who in turn sell vehicles incorporating ISE's systems to vehicle fleet operators, such as municipal and local transit agencies, primarily located in North America. ISE has a single reporting segment and operating unit.

(b) Basis of Presentation

The accompanying balance sheet as of September 30, 2009, the statements of operations and cash flows for the nine months ended September 30, 2009 and 2008, and the statement of stockholders' deficit for the nine months ended September 30, 2009 are unaudited. The unaudited interim financial information has been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of ISE's management, the unaudited interim financial information has been prepared on the same basis as the annual financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly ISE's financial position as of September 30, 2009, and its results of operations and cash flows for the nine months ended September 30, 2009 and 2008. The financial data and other information disclosed in these notes to the financial statements related to the nine-month periods are unaudited. The results for the nine months September 30, 2009 are not necessarily indicative of the results to be expected for any other interim period or for any other future year.

The preceding financial statements have been prepared assuming that ISE will continue as a going concern. This basis of accounting contemplates the recovery of ISE's assets and the satisfaction of its liabilities in the normal course of business. Successful completion of ISE's development and its transition to attaining profitable operations is dependent upon management obtaining adequate debt or equity financing to fulfill its research and development and marketing activities, and achieving a level of revenues adequate to support ISE's cost structure.

ISE has incurred losses in recent periods and negative cash flows during the current fiscal year. As of and for the nine months ended September 30, 2009, ISE has an accumulated deficit of $77,977,000 and incurred a net loss before returns to preferred shareholders of $10,832,000. Additionally, ISE has used cash in operating activities of $20,959,000, $14,760,000, $9,618,000, $10,064,000 and $14,126,000 during the years ended December 31, 2008, 2007 and 2006, and for the nine months ended September 30, 2009 and 2008, respectively. To date, these operating losses have been funded primarily through the issuance of equity instruments for cash consideration and bridge note financing arrangements. ISE needs to generate additional revenue, improve gross profit margins, and manage operating expenses to be profitable in future periods. ISE's history of net losses could cause current or potential customers to defer new orders or select other vendors, and may cause suppliers to require terms that are unfavorable. Although ISE raised approximately $24.8 million in cash through private equity offerings and a bridge note, net of issuance costs, during the fiscal year 2008, and borrowed $5.6 million in connection with a short-term bridge financing arrangement in July 2009 to meet short-term working capital requirements, failure to achieve profitability and the lack of additional committed financing raise substantial doubt about ISE's ability to continue as a going concern.

The ability of ISE to continue as a going concern is dependent upon many factors, including the ability of management to raise additional financing. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

(c) Cash and Cash Equivalents

ISE considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market accounts. Cash equivalents totaled $192,000, $38,000, and $593,000 at December 31, 2008 and 2007, and September 30, 2009, respectively.

(d) Restricted Cash

In connection with the operating lease of ISE's headquarters, ISE is required to maintain a cash deposit in a restricted account. ISE currently holds these funds in an escrow account, restricting the use of the funds until certain terms at the conclusion of the lease are met. Restricted cash held as security under this arrangement was \$227,000, \$227,000, and \$228,000 at December 31, 2008 and 2007 and September 30, 2009, respectively, which was classified as long-term restricted cash in the accompanying balance sheets.

In connection with certain of ISE's extended warranty revenue contracts, ISE is required to maintain the customer's payments in a restricted account. Restricted cash held as security under these arrangements totaled \$1,432,000, \$1,890,000, and \$177,000 at December 31, 2008 and 2007, and September 30, 2009, respectively. Of these balances, \$1,253,000, \$483,000, and \$177,000 was classified as current restricted cash, with the remainder classified as long-term restricted cash at December 31, 2008 and 2007, and September 30, 2009, respectively, in the accompanying balance sheets.

In connection with certain of ISE's corporate credit card accounts, ISE is required to maintain a balance in a restricted account. Restricted cash held as security under these arrangements totaled \$0, \$0, and \$60,000 at December 31, 2008 and 2007, and September 30, 2009, respectively, which was classified as current restricted cash in the accompanying balance sheets.

(e) Short-Term Investments

ISE accounts for its investment securities in accordance with the authoritative guidance for investments in debt and equity securities. ISE maintains an investment portfolio consisting of U.S. Treasury Bills with maturities of less than one year, all of which are classified as available-for-sale. Available-for-sale securities are carried at fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized. Other comprehensive income was \$2,000, \$16,000, \$0, \$0, and \$0 at December 31, 2008, 2007, and 2006 and the nine months ended September 30, 2009 and 2008, respectively. Available-for-sale securities with remaining maturities of less than one year are classified as short-term and all other available for sale securities are classified as long-term. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. ISE analyzes investment securities for other-than-temporary impairment on a periodic basis.

(f) Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Unbilled accounts receivable represent revenues on contracts to be billed in subsequent periods, per the terms of the related contracts. ISE maintains an allowance for doubtful accounts for estimated credit losses resulting from collection risks, including the inability of customers to make required payments. The adequacy of this allowance is determined by evaluating historical delinquency and write-off trends, the financial condition and credit risk of individual customer receivables, and current economic conditions. ISE does not have any off-balance-sheet credit exposure related to its customers.

(g) Inventories

Inventories include the cost of material, labour, and overhead and are stated at the lower of cost or net realizable value, using the first-in, first-out method of accounting. ISE evaluates inventory valuation on a quarterly basis for obsolete or slow-moving items and records appropriate provisions and dispositions in the period that such inventory is identified.

(h) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Property and equipment under capital leases are stated at the present value of minimum lease payments. Major additions and improvements are capitalized and maintenance and repairs are expensed as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the asset or the remaining lease term. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Amortization of equipment obtained under capital leases is included in depreciation expense in the accompanying statements of operations. ISE depreciates its property and equipment using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Equipment	5
Furniture and fixtures	5
Computer software	3
Manufacturing equipment and demonstration vehicles	5

(i) Software Development Costs

Internal-use software development costs are accounted for in accordance with authoritative guidance for intangibles, under which these costs are capitalized during the application development stage. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation, and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Amortization of capitalized software development costs begins when the product is ready for its intended use. At December 31, 2007 and 2006, ISE capitalized approximately $80,000 and $164,000, respectively, of software development costs, which are included in property and equipment in the accompanying balance sheets. No amounts were capitalized during the year ended December 31, 2008 and the nine-month period ended September 30, 2009. During fiscal 2007, the software was deemed ready for its intended use. ISE amortized $81,000, $47,000, $0, $61,000, and $61,000 for the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 30, 2009 and 2008, respectively.

(j) Deferred Financing Costs

ISE allocates direct financing costs to the financial instruments issued based upon their relative fair values. Amounts allocated to debt instruments are carried as assets and amortized through charges to interest expense using the effective-interest method. Amounts allocated to derivative financial instruments are charged upon inception to interest expense. Amounts associated with equity instruments are included as reductions of the related credit to equity. Any amounts paid directly to a creditor are reflected as a reduction in the carrying amount of the debt instrument and amortized through charges to interest expense using the effective-interest method.

(k) Intangible Assets

Intangible assets consist of costs incurred in obtaining patents. Amortization is calculated using the straight-line method over the shorter of the patent term or the estimated useful life, which generally is 17 years. As of September 30, 2009, 25 patents have been issued to ISE. ISE has other patent applications that are in various stages of approval. Details of our intangibles are as follows (in thousands):

	December 31		September 30,
	2008	2007	2009
			(Unaudited)
Patents:			
Gross carrying amount	$ 578	386	701
Less accumulated amortization	(116)	(102)	(170)
Net amount	$ 462	284	531

Amortization expense was $14,000, $21,000, $6,000, $54,000, and $12,000 for the years ended December 31, 2008, 2007, and 2006, and for the nine months ended September 30, 2009 and 2008, respectively. During 2007, ISE abandoned one patent and recorded the $14,000 value in amortization expense upon abandonment. During 2008, ISE abandoned one patent and recorded the $7,500 value in amortization expense upon abandonment. For the nine months ended September 30, 2009, ISE abandoned four patents and recorded the $46,000 value in amortization expense. ISE estimates amortization expense for the next five years to be approximately $9,000 per year.

(l) Impairment of Long-Lived Assets

In accordance with authoritative guidance for the impairment or disposal of long-lived assets, ISE's long-lived assets, such as property, equipment, and intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. As a result of an impairment analysis of its patents, ISE wrote down the value of three patents to zero during 2006 and recognized a loss of $30,000, which is included in income from operations for the year ended December 31, 2006. There was no impairment for the years ended December 31, 2008 and 2007 and during the nine-month periods ended September 30, 2009 and 2008.

(m) Redeemable Convertible Preferred Stock

The carrying value of redeemable convertible preferred stock is increased by periodic accretions so that the carrying amount will equal the redemption amount at the redemption date. These increases are affected through charges to additional paid-in capital. Conversion is automatic immediately upon the closing of a firm commitment underwritten public offering registered under the U.S. Securities Act of 1933, as amended, in which the aggregate proceeds raised from the offering exceed $35 million.

(n) Revenue Recognition

ISE derives revenue from the sale of its hybrid-electric drive systems (system sales), prototype projects, spare parts, and extended warranties.

ISE recognizes drive system revenue in accordance with authoritative guidance for revenue recognition, specifically the percentage of completion method utilizing either the units-of-delivery or the cost-to-cost method, depending on the terms of the sale. If the drive system sale requires ISE to produce multiple drive systems in a continuous production process as well as design or modify its technology to manufacture such drive systems to meet customer specifications, the sale is accounted for using the units-of-delivery method. The units-of-delivery method recognizes as revenue the contract price of the drive systems delivered during the period and as the cost of earned revenue the costs allocable to the delivered drive systems; costs allocable to undelivered drive systems are reported in the balance sheet as inventory.

ISE recognizes prototype project revenue using the percentage-of-completion method of accounting. Revenues and fees on these contracts are recognized using the percentage-of-completion method of accounting based on the ratio of contract costs incurred to date to total estimated costs at completion (cost to cost method).

Adjustments to estimates for a contract's revenue, estimated costs at completion, and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change or if contract modifications occur. The impact of revisions in profit (loss) estimates for all types of contracts subject to percentage-of-completion accounting is recognized on a prospective basis in the period in which the revisions are made. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and their realization is reasonably assured. The revisions in contract estimates, if significant, can materially affect our results of operations and cash flows, as well as reduce the valuations of receivables and inventories, and in some cases result in liabilities to complete contracts in a loss position.

Revenue from spare parts and drive system orders that require ISE to produce multiple drive systems in a continuous production process, but do not require design or development efforts, is recognized when persuasive evidence of an arrangement exists, delivery has occurred, or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. These criteria are usually met at the time of product shipment. However, certain sales require customer acceptance, and revenue is deferred until all customer acceptance requirements have been met.

ISE's drive system sales generally also include training and support services. Therefore, ISE also applies authoritative guidance for revenue arrangements with multiple deliverables to these arrangements. As ISE has established fair value for the training and support services, based on stand-alone sales, revenue is allocated to the separate elements based on residual method. The training and support services are generally provided within a few weeks after shipment of the drive system. Undelivered elements totaling $227,000 at December 31, 2008 were recorded in deferred revenue of which $160,000 was classified as current in the accompanying balance sheet. Undelivered elements totaling $138,000 at December 31, 2007 were recorded in deferred revenue of which $72,000 was classified as current in the accompanying balance sheet. Undelivered elements totaling $538,000 at September 30, 2009 were recorded in deferred revenue of which $379,000 was classified as current in the accompanying balance sheet.

ISE recognizes revenue from its sales of extended warranties in accordance with the authoritative guidance for separately priced extended warranty and product maintenance contracts. ISE offers separately priced extended three-year warranties for sale to customers of ISE's drive systems. Revenue from extended warranty contracts is deferred and recognized ratably over the extended warranty period. ISE recorded deferred warranty revenue of $679,000, $1,233,000, $503,000 at December 31, 2008 and 2007, and September 30, 2009, respectively, of which $235,000, $335,000, $262,000, respectively, was classified as current in the accompanying balance sheets.

(o) Shipping and Handling Costs

Amounts billed to customers for shipping and handling costs are included as revenue, and costs incurred related to shipping and handling are included in cost of revenue.

(p) Product Engineering, Research, and Development

Product engineering, research, and development costs include costs incurred for experimentation, design, testing, and bid and proposal efforts and are expensed in the period incurred unless the costs are related to certain contractual arrangements. Costs that are incurred pursuant to such contractual arrangements are recorded over the period that revenue is recognized, consistent with ISE's contract accounting policy.

(q) Advertising

Advertising costs are expensed in the period incurred. Advertising costs were $45,000, $52,000, $43,000, $44,000, and $25,000 during the years ended December 31, 2008, 2007, and 2006, and the nine months ended September 30, 2009 and 2008, respectively.

(r) Fair Value

In September 2006, the FASB issued authoritative guidance for fair value measurements and disclosure, which defines fair value, establishes a framework for measuring fair value using U.S. generally accepted accounting principles, and expands disclosures related to fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements, and accordingly, it does not require any new fair value measurements. In February 2008, the FASB issued additional authoritative guidance for fair value measurements, which delayed the effective date of the authoritative guidance for fair value measurement to fiscal years beginning after November 15, 2008, for all nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

ISE adopted this guidance on January 1, 2008, with the exception of the guidance related to nonrecurring nonfinancial assets and liabilities, which was effective January 1, 2009. Because ISE does not have any nonfinancial assets or liabilities measured at fair value on a recurring basis, no additional disclosures as of or for the year ended December 31, 2008 and as of or for the nine-month period ended September 30, 2009 were required. Significant items for which the application of this guidance has been deferred include the impairment of long-lived assets.

The carrying amounts of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, unbilled accounts receivable, accounts payable, accrued liabilities, accrued compensation, and other current liabilities approximate their respective fair values due to the short-term nature and liquidity of these financial instruments. The carrying amount of long-term debt approximates its fair value, as the instruments' interest rates are comparable to rates currently offered for similar debt instruments of comparable maturities. At December 31, 2008 and 2007, and September 30, 2009, ISE had no material financial instruments subject to significant market exposure.

(s) Product Warranties

In the ordinary course of business, ISE is not subject to potential obligations under guarantees that fall within the scope of the authoritative guidance for guarantees with the exception of ISE's standard warranty provisions associated with product sales, as the guidance gives rise only to the disclosure requirements for product warranties.

ISE offers a two-year warranty on its products covering parts and labour. ISE provides for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized and retrofit accruals at the time retrofit programs are established. While ISE engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, ISE's warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to ISE. If future actual warranty costs were to differ significantly from estimate, the impact of these unforeseen costs or cost reductions would be recorded in subsequent periods. The majority of ISE's suppliers also warrant their products to ISE for a minimum of two years.

(t) Indemnifications

In the normal course of business, ISE enters into contracts and agreements that contain a variety of representations and warranties, provide for general indemnifications and indemnify certain customers for claims against ISE's products, where such claims allege infringement of third-party patents. ISE's exposure under these agreements is unknown because it involves claims that may be made against ISE in the future, but have not yet been made. To date, ISE has not paid any claims or been required to defend any action related to its indemnification obligations. However, ISE may record charges in the future as a result of these indemnification obligations.

In accordance with its bylaws, ISE has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at ISE's request in such capacity. There have been no claims to date and ISE has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future claims.

(u) Income Taxes

Income taxes are accounted for under the asset and liability method of accounting. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when a judgment is made that it is considered more likely than not that a tax benefit will not be realized.

ISE recognizes the effect of income tax positions only if those positions are more likely than not of being sustained in accordance with the authoritative guidance for income taxes. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(v) Stock Option Plan

Effective January 1, 2006, ISE adopted the authoritative guidance for share-based payments, using the prospective transition method, and therefore, prior period results were not restated. Under this transition method, ISE will continue to account for nonvested awards outstanding at the date of the adoption using the intrinsic value method. Compensation costs related to all stock-based awards granted after January 1, 2006 are recognized based on the estimated grant-date fair value of the awards. ISE is required to include an estimate of the number of the awards that will be forfeited in calculating compensation costs, which is recognized over the requisite service period of the awards on a straight-line basis.

ISE recognizes compensation expense on a straight-line basis over the option's vesting period. Stock-based compensation expense is based on awards ultimately expected to vest, reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. The measurement of stock-based compensation cost is based on several criteria including, but not limited to, input factors to the valuation model such as expected term of the award, stock price volatility, dividend rate, risk-free interest rate, and award forfeiture rate. The input factors used in the valuation model are based on subjective future expectations combined with management judgment. ISE estimates the fair value of stock options granted using the Black-Scholes valuation model and the assumptions shown in note 11, Stockholders' Equity.

(w) Net Loss per Share

Basic and diluted net loss per share attributable to common stockholders has been computed using the weighted average number of shares of common stock outstanding during the period.

ISE has excluded the shares issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, outstanding options and warrants from the calculation of diluted net loss per share, as all such securities were anti-dilutive as indicated in the table below (in thousands, except per share and share amounts).

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Numerator:					
Net loss	$ (25,621)	(26,267)	(8,736)	(10,832)	(21,202)
Returns to preferred shareholders	(7,153)	(4,376)	(10,395)	(6,843)	(5,108)
Net loss attributable to common stockholders	$ (32,774)	(30,643)	(19,131)	(17,675)	(26,310)
Denominator:					
Weighted average shares used in computing basic and diluted net loss per share attributable to common stockholders	$ 3,764,724	2,452,939	2,457,377	4,252,939	3,600,192
Basic and diluted net loss per share attributable to common stockholders	(8.71)	(12.49)	(7.79)	(4.16)	(7.31)
Denominator:					
Weighted average antidilutive securities not included in basic and diluted net loss per share attributable to common stockholders calculation:					
Stock options	$ 3,419,381	1,241,412	623,212	5,010,922	3,158,328
Series A Preferred Stock	2,077,724	2,077,724	2,077,724	2,077,724	2,077,724
Series B Preferred Stock	3,799,332	3,799,332	3,185,193	3,799,332	3,799,332
Series C Preferred Stock	8,728,769	—	—	12,693,230	7,392,760
Series D Preferred Stock	9,100,692	—	—	27,227,480	2,992,031
Warrants	—	1,861,832	1,861,832	1,397,874	—
Total antidilutive securities not included in basic and diluted net loss per share calculation	$27,125,898	8,980,300	7,747,961	52,206,562	19,420,175

Warrants were granted during the year ended December 31, 2007 in connection with the issuance of convertible notes (2007 Bridge Notes and Warrants, note 6). The number of 2007 Bridge Warrants to be issued was to be determined by taking 25% of the principal amount divided by the exercise price, which was defined as the price per share to the public of ISE's common stock sold in an initial public offering or, in the case of the next private equity financing, the per share price of the capital stock sold in the next private equity financing of at least $5,000,000. The next qualified private equity financing occurred in April 2008, with the issuance of Series C Preferred Stock (note 10), and accordingly, the number of 2007 Bridge Warrant shares was determined to be 1,086,052 warrant shares.

In conjunction with the Series C Preferred Stock financing, a Warrant Exchange Agreement (note 10) was executed and all outstanding warrants were converted into 1,800,000 shares of common stock based on the negotiated terms of the agreement.

In connection with the 2009 Bridge Notes, ISE issued warrants to purchase shares of ISE's Series D Preferred Stock (2009 Bridge Notes and Warrants, note 6). The warrants have a five-year term and were exercisable upon issuance. The number of warrant shares was determined to be 2,613,832 by dividing 30% of the principal of the 2009 Bridge Notes by $0.642733. The exercise price is $0.01 per warrant share.

(x) Use of Estimates

The preparation of financial statements requires management of ISE to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include inventory valuation, estimated warranty costs, allowance for doubtful accounts, valuation allowance on deferred income tax assets, common stock valuation, share-based compensation, valuation of derivative instruments, and percentage-of-completion revenue recognition. Actual results could differ from those estimates.

(y) Recently Issued Accounting Standards

In November 2007, the Financial Accounting Standards Board (FASB) ratified the authoritative guidance for collaborative arrangements, which defines collaborative arrangements and requires that revenues and costs incurred with third parties that do not participate in the collaborative arrangements be reported in the statement of operations gross or net pursuant to the guidance for revenue recognition relating to principal agent considerations. Classification of payments made between participants of a collaborative arrangement is to be based on other applicable authoritative accounting literature or, in the absence of other applicable authoritative accounting literature, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The adoption of the guidance did not have a material impact on ISE's financial statements.

In May 2008, the FASB issued authoritative guidance for debt, which applies to all convertible debt instruments that have a "net settlement feature," which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. The guidance requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers' nonconvertible debt borrowing rate. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We adopted this guidance on January 1, 2009 and considered it in connection with the 2009 Bridge Notes as explained in Note 6 Long-Term Debt.

In April 2008, the FASB issued authoritative guidance for intangibles – goodwill and other, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the guidance. This guidance also requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. We adopted this guidance on January 1, 2009, but it did not have an impact on our financial statements as we did not renew or extend any of the useful lives of our intangible assets during the nine-month period ended September 30, 2009.

In June 2008, the FASB issued authoritative guidance for earnings per share. The guidance addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share pursuant to the two-class method of the guidance for earnings per share. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted this guidance on January 1, 2009, but it did not have an impact on our financial statements as our unvested stock awards are not participating securities as defined by this guidance.

In April 2009, the FASB issued authoritative guidance for interim disclosures for financial instruments. This guidance amends prior authoritative guidance by requiring disclosures of the fair value of financial instruments included within the scope of the prior guidance whenever a public company issues summarized financial information for interim reporting periods. This guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 under certain circumstances. We adopted this guidance for the nine months ended September 30, 2009, but it did not have an impact on our financial statements.

In April 2009, the FASB issued authoritative guidance for fair value measurements and disclosures. This guidance provides companies with guidelines on how to determine fair value measurements when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this guidance for the nine months ended September 30, 2009, but it did not have an impact on our financial statements.

In April 2009, the FASB issued authoritative guidance for interim disclosures about the fair value of financial instruments, which requires disclosures about the fair value of financial instruments for interim and annual reporting periods of publicly traded companies. ISE adopted the standards in the first quarter of 2009 and additional disclosure about financial instruments is included in Note 1.

In May 2009, the FASB issued authoritative guidance for subsequent events, which provides rules on recognition and disclosure for events and transactions occurring after the balance sheet date but before the financial statements are issued or available to be issued. In addition, the guidance requires a reporting entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements are issued or the date the financial statements are available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009. We adopted this guidance for the nine months ended September 30, 2009 and have included the required additional disclosures in Note 16, "Subsequent Events."

In June 2009, the FASB issued authoritative guidance on the Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles (U.S. GAAP), which establishes the Codification as the single source for nongovernmental financial statements prepared in accordance with U.S. GAAP, except for Securities and Exchange Commission (SEC) rules and interpretive releases, which is also authoritative guidance for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and will supersede all then existing non-SEC accounting and reporting standards. The guidance is not intended to change or alter existing U.S. GAAP and will only impact references to accounting guidance.

(2) Investment Securities

The cost, gross unrealized gains, gross unrealized losses, and fair market value for investment securities, which consisted entirely of U.S. Treasury Bills with maturities of less than one year, were classified as available-for-sale for the years ended December 31, 2008 and 2007, and September 30, 2009 as follows (in thousands):

	December 31							
	2008				2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities	$5,398	$2	$—	$5,400	$1,106	$16	$—	$1,122

Proceeds from the sale of investment securities available for sale were $1,165,000, $9,173,000, and $0 in 2008 and 2007, and September 30, 2009 respectively; gross realized gains included in "other income (expense), net" in 2008 and 2007 and September 30, 2009 were $2,000, $126,000, and $2, respectively; and gross realized losses included in "other income (expense), net" in 2008 and 2007 and September 30, 2009 were $0, $0 and $0, respectively.

(3) Inventories

Inventories consist of the following (in thousands):

	December 31		September 30,
	2008	2007	2009
			(Unaudited)
Raw materials	$10,300	$3,748	$ 7,323
Work in process	981	1,754	10,377
Finished goods	125	—	60
Total inventories	$11,406	$5,502	$17,760

ISE's balances are net of an allowance for obsolescence of approximately $4,879,000, $1,422,000, and $4,731,000 for the years ended December 31, 2008 and 2007 and the nine months ended September 30, 2009, respectively.

In accordance with revenue recognition guidance for contracts where we recognize revenue under the units of delivery method of accounting, we account for a portion of our nonrecurring engineering costs as inventoried contract costs. At December 31, 2008 and 2007, and September 30, 2009, the amounts included in inventoried contract costs were $301,000, $403,000, and $344,000, respectively.

(4) Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31		September 30,
	2008	2007	2009
			(Unaudited)
Equipment	$ 626	502	685
Furniture and fixtures	144	96	151
Computer software	1,135	1,062	1,186
Manufacturing equipment and demonstration vehicles	1,212	994	1,455
Leasehold improvements	706	664	706
Construction in progress	169	678	18
	3,992	3,996	4,201
Less accumulated depreciation and amortization	(2,019)	(1,247)	(2,661)
Total property and equipment	$ 1,973	2,749	1,540

Depreciation and amortization expense related to property and equipment totaled $854,000, $644,000, $250,000, $644,000, and $632,000 for the years ended December 31, 2008, 2007, and 2006, and for the nine-month periods ended September 30, 2009 and 2008, respectively. During the year ended December 31, 2008, ISE abandoned a demonstration vehicle capitalized in construction in progress. Costs of $526,000, net of estimated salvage value of $150,000, previously capitalized have been expensed in selling, general, and administrative expenses.

(5) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31 2008	December 31 2007	September 30, 2009 (Unaudited)
Accrual for loss contracts	$1,139	3,299	10
Accrual for legal contingency	1,640	1,100	1,750
Accrued payroll and benefits	887	865	889
Other accrued liabilities	455	500	814
	$4,121	5,764	3,463

(6) Long-Term Debt

In September 2007, ISE executed a long-term note agreement with a third-party vendor to purchase its procurement and accounting systems, in the amount of $143,000. The agreement provides for 12 equal payments of $13,800 beginning on October 1, 2007, which are payable quarterly and bear interest of 10.17% per annum. The note is secured by the related systems and matures on July 1, 2010. At December 31, 2008 and 2007, and September 30, 2009, respectively, the balance of this note was $76,000, $121,000, and $39,000 with $37,000, $33,000, and $39,000 as the current portion. At December 31, 2008, the future principal payments for 2009 and 2010 are $37,000, and $39,000, respectively.

In April 2008, ISE executed a long-term note agreement with a third-party vendor to purchase an engineering design software system, in the amount of $46,000. The agreement provides for 12 equal payments of $3,800 beginning on April 10, 2008, which are payable monthly and bear interest of 16.9% per annum. The note is secured by the related systems and matures on April 10, 2009. At December 31, 2008 and September 30, 2009, the balance of this note was $15,000 and $0. At December 31, 2008, the future principal payments for 2009 were $15,000.

In August 2009, ISE executed a long-term note agreement with a third-party vendor to purchase equipment, in the amount of $48,000. The agreement provides for 60 equal payments of $1,218 beginning on August 22, 2009, which are payable monthly and bear interest of 18.3% per annum. The note is secured by the related equipment and matures on August 22, 2014. At September 30, 2009, the balance of this note was $46,000 with $7,000 as the current portion.

In July 2003, ISE executed convertible notes (2003 Bridge Notes) in the aggregate principal amount of $625,000 and issued detachable warrants to purchase common stock (2003 Bridge Warrants). The 2003 Bridge Notes bore interest at a rate of 12% per annum and were convertible into the securities of ISE sold in its next equity financing in which at least $3 million is raised. The 2003 Bridge Warrants were fully exercisable and had a seven-year term, and were originally issued with an exercise price and number of shares of common stock issuable upon exercise to be calculated pursuant to a formula tied to the next equity financing. The fair value of the Bridge Warrants was estimated at $210,000, which was recorded as a discount against the carrying value of the convertible debt in 2003. In connection with ISE's Series A Preferred Stock financing in September 2004 (note 10), $600,000 of the principal amount (plus accrued interest) was converted into 166,234 shares of Series A Preferred Stock, and $25,000 was repaid in cash (note 10).

In August 2007, ISE issued convertible promissory notes (2007 Bridge Notes) with an aggregate principal of $5,000,000 with detachable warrants (2007 Bridge Warrants). The 2007 Bridge Notes bore interest at a rate of 10% per annum and were convertible into the securities of ISE sold in its next equity financing in which at least $5 million was raised. In connection with the Series C Preferred Stock financing, the 2007 Bridge Notes were amended to reduce the minimum amount of the next equity financing from $5 million to $4 million. The 2007 Bridge Warrants had a five-year term and were originally issued with an exercise price and number of shares of common stock issuable upon exercise to be calculated pursuant to a formula tied to the next equity financing. The fair value of the 2007 Bridge Warrants was determined to be $378,000, which was recorded as a discount against the carrying value of the 2007 Bridge Notes. Accretion of the aforementioned discount amounted to $70,000 for the year ended December 31, 2008. In connection with the Series C Preferred Stock financing in April 2008 (note 10), the principal plus accrued interest was converted into 4,887,345 shares of Series C Preferred Stock. The unamortized portion of the debt discount totaled $220,000 at the date of conversion and was charged to interest expense.

In February 2008, ISE borrowed $985,000 and issued an aggregate principal of convertible promissory notes (2008 Bridge Notes) with detachable warrants (2008 Bridge Warrants). The 2008 Bridge Notes bore interest at a rate of 10% per annum and were convertible into the securities of ISE sold in its next equity financing in which at least $10 million is raised. In connection with the Series C Preferred Stock financing, the 2008 Bridge Notes were amended to reduce the minimum amount of the next equity financing from $10 million to $4 million. The 2008 Bridge Notes were senior in right of payment to all equity and debt securities, with the exception of current or future ordinary indebtedness, including debt owed to ISE's financial institutions and the 2007 Bridge Notes. The 2008 Bridge Warrants had a five-year term and were originally issued with an exercise price and number of shares of common stock issuable upon exercise to be calculated pursuant to a formula tied to the next equity financing. In connection with the Series C Preferred Stock financing in April 2008 (note 10), the number of 2008 Bridge Warrants was determined to be 213,948 and the principal plus accrued interest on the 2008 Bridge Notes was converted into 918,839 shares of Series C Preferred Stock.

In April 2008, ISE executed a Warrant Exchange Agreement with all warrant holders in which all 3,235,795 outstanding warrant shares were exchanged for 1,800,000 shares of common stock (note 10).

In July 2009, ISE executed convertible notes (2009 Bridge Notes) in the aggregate principal amount of $5,600,000 and issued detachable warrants to purchase Series D Preferred Stock (2009 Bridge Warrants). The 2009 Bridge Notes bear interest at a rate of 15% per annum and are convertible into the securities of ISE sold in its next equity financing in which at least $15 million is raised. The 2009 Bridge Notes are senior in right of payment to all equity and debt securities, with the exception of current or future ordinary indebtedness, including debt owed to ISE's financial institutions. The 2009 Bridge Warrants are fully exercisable and had a five-year term, and were issued with an exercise price of $0.01 per share and exercisable into 2,613,832 shares.

The principal amount along with all accrued and unpaid interest of the notes is payable on December 31, 2009. Upon the closing of the next preferred stock financing of ISE resulting in gross proceeds in excess of $15,000,000 (Auto-Convert Financing), the principal and accrued interest will automatically convert into that number of shares of preferred stock equal to the principal and accrued interest divided by the lowest price per share paid by the investors. Upon the closing of the next preferred stock financing of ISE resulting in gross proceeds less than $15,000,000 (Non-Qualifying Financing), the principal and accrued interest will convert at the election of at least two thirds of the debt holders into that number of shares of preferred stock equal to the principal and accrued interest divided by the lowest price per share paid by the investors. We may prepay the 2009 Bridge Notes in whole or from time to time in part without premium or penalty after the closing of a non-qualifying financing. In the event of a liquidation event, as defined in the 2009 Bridge Notes, the notes become immediately due and payable. The liquidation event provision was determined to have no value, as the probability of the execution and finalization of a liquidation event transaction from the time the notes were issued until maturity was estimated to be remote.

ISE evaluated the terms and conditions of the 2009 Bridge Warrants under the authoritative guidance for debt with conversion and other options and recorded the fair value of the warrants at the issuance as a warrant liability as they are warrants on redeemable shares. The fair value of the warrants was estimated to be $1,542,000 at the issuance date and revalued to $1,908,000 at September 30, 2009. Fair value of the warrants was measured using the Black-Scholes-Merton valuation technique and in applying this technique, ISE was required to develop certain subjective assumptions. We have valued the underlying Series D Preferred Shares at $0.59 and $0.73 on the inception and September 30, 2009, respectively, being representative of our best estimates of our enterprise value, applying the discounted cash flow method and guideline company method consistent with approaches outlined by the American Institute of Certified Public Accountants. We have developed volatility assumptions of 114% and 111% on the inception date and September 30, 2009, respectively, using a peer group of companies whose common shares have traded in public markets for periods of at least the expected term, which we have concluded is the contractual term. Finally, we have used the publicly available rates of 0.51% and 0.36% on the inception date and September 30, 2009, respectively, related to zero coupon U.S. Treasury Securities, with remaining terms consistent with the remaining warrant term. During the nine months ended September 30, 2009, approximately $760,000 was amortized to interest expense. The change in the fair value of the warrants of $366,000 was recorded as additional interest expense for the nine months ended September 30, 2009.

As of September 30, 2009, ISE's debt outstanding included the 2009 Bridge Notes and related 2009 Bridge Warrants and capital lease obligations as described in Note 7.

(7) Commitments and Contingencies

(a) Defense Contractors

From time to time, ISE has contracts with organizations within the U.S. Department of Defense. In the ordinary course of business, defense contractors are subject to many levels of audit and investigation by various government agencies, the most common of which are performed by the Defense Contract Audit Agency (DCAA). ISE records revenue based on amounts expected to be collected from U.S. government customers, net of estimated provisions for adjustments identified by government audits.

(b) Legal

From time to time, ISE may be involved in litigation relating to claims arising out of its operations. ISE is not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition, or operating results.

On May 20, 2008, the City of Elk Grove (City) filed a complaint against multiple defendants, including ISE, alleging theories of liability in connection with problems experienced by the City with refurbished hybrid buses purchased from Defendant Complete Coach Works (CCW). The case arises out of the City's contract with CCW to retrofit 21, 11-year old buses for delivery to the City by CCW. As one of CCW's suppliers, ISE provided CCW with gasoline hybrid-electric drive systems (Hybrid Drive Systems), which CCW installed in the buses prior to delivery as part of the retrofit project. ISE did not contract with the City or with any other defendant except for CCW, the prime contractor that supplied the refurbished buses to the City. ISE denies the City's allegations and ISE asserts that many of the problems alleged by the City are unrelated to the hybrid-electric drive systems supplied by ISE, and that other alleged problems with the product were caused by improper maintenance, repair, and use by other parties, as alleged by the City in its complaint. In March 2009, ISE entered into a settlement agreement with the City. Under the terms of the settlement agreement, ISE will directly pay the City the sum of $1,150,000 and ISE's insurance carriers will directly pay the City an additional $600,000. The settlement agreement explicitly states that it is not to be construed as an admission of liability or wrongdoing of any kind by ISE. ISE and the City have filed a good faith settlement motion with the court to obtain the court's approval of the terms of the settlement agreement. ISE will be released from all liability arising from this action upon the court's approval of the good faith settlement motion. The court is expected to rule on the motion in December 2009. ISE has accrued $1,150,000 at December 31, 2008 and September 30, 2009 related to this matter.

In 1999 and 2000, ISE delivered eight propane-fueled hybrid-electric buses to a customer and warranted them for a defined period. Subsequently, the customer asserted that the buses did not satisfactorily meet all of the customer's performance specifications and could demand that ISE convert the buses to fulfill the original performance specifications. Based on recent conversations with the customer, ISE believes that this matter will be successfully resolved. ISE accrued approximately $400,000 in estimated costs during the year ended December 31, 2007. An additional $90,000 was accrued in 2008 for a total accrual of $490,000 to complete the additional work. ISE has accrued $490,000 at December 31, 2008 and September 30, 2009 related to this matter.

(c) Contingencies

During 2007, ISE became aware of technical issues related to units delivered to various customers that had been placed into service during the fiscal year 2005. ISE estimated that costs of approximately $2,400,000 would be incurred to rework the units delivered and included this amount in accrued warranty and retrofit costs as of December 31, 2007. The accrued liability as of December 31, 2008 and September 30, 2009 was $1,700,000 and $1,018,000, respectively.

(d) Collaborative Agreement

Our energy storage product plan includes the development of an all electric bus. In connection with our business strategy, we have entered into collaboration agreements with several California governmental agencies to develop and demonstrate an advanced battery electric bus in transit service. The agencies will contribute some funding towards the evaluation and procurement of the batteries. All rights, title, and interest of ownership in and to all inventions, technology, software, proprietary data, and know-how developed or produced during the performance of this contract are maintained by ISE. This program is expected to be completed in the third quarter of 2010. We received $261,000 in the nine months ended September 30, 2009 from these agreements, which has been recorded as a reduction to product engineering, research, and development expense.

(e) Operating Leases

ISE leases its office facility under a noncancelable lease agreement. The lease expires on December 31, 2011, provides for minimum annual increases, and contains certain renewal options. ISE recognizes rent expense on a straight-line basis over the lease term. Future minimum lease payments as of December 31, 2008 are as follows (in thousands):

2009	$ 390
2010	404
2011	418
Total future minimum lease payments	$1,212

Rent expense totaled $389,000, $388,000, $385,000, $292,000, and $293,000 for the years ended December 31, 2008, 2007, and 2006 and the nine-month periods ended September 30, 2009 and 2008, respectively.

(f) Capital Leases

ISE leases certain property and equipment under noncancelable capital lease agreements, which were included in fixed assets as follows (in thousands)

	September 30, 2009
Furniture and fixtures	$ 93
Computer software	143
	236
Less accumulated depreciation	(122)
	$ 114

At December 31, 2008, future minimum lease payments are included in long-term debt in the accompanying balance sheet and are as follows (in thousands):

2009	$ 70
2010	55
2011	10
Total future minimum lease payments	135
Amount representing interest (rates between 10.2% – 16.9%)	(14)
Present value of minimum lease payments	121
Less current portion	(61)
Long-term portion	$ 60

(g) Product Warranties

The following table summarizes information related to our warranty provision for the years ended December 31, 2008 and 2007 (in thousands):

	December 31		September 30,
	2008	2007	2009
			(Unaudited)
Beginning balance	$ 4,123	947	5,190
Liabilities accrued for warranties issued during the period	4,224	4,147	2,408
Warranty expenditures incurred during the period	(3,157)	(971)	(1,743)
Ending balance	$ 5,190	4,123	5,855

(8) Fair Value Measurements

(a) Financial Assets and Liabilities

We analyze our financial assets and liabilities measured at fair value and categorize them within the fair value hierarchy based on the level of judgment associated with the inputs used to measure their fair value in accordance with the authoritative guidance for fair value instruments and the fair value option for financial assets and financial liabilities. The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The levels as defined by the fair value hierarchy are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly at the measurement date.

Level 3 Inputs are unobservable for the asset or liability and usually reflect the reporting entity's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Our financial assets and financial liabilities measured at fair value on a recurring basis are as follows (in thousands):

	September 30, 2009	Fair value measurements at reporting date using (Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities:				
Cash and cash equivalents	$2,251	2,251	—	—
Restricted cash	237	237	—	—
Total assets	2,488	2,488	—	—
Liabilities:				
Preferred stock warrants subject to mandatory redemption	1,908	—	—	1,908
Total liabilities	$ 580	2,488	—	(1,908)

(b) Nonfinancial Assets and Liabilities

We apply fair value techniques on a nonrecurring basis associated with (1) valuing potential impairment losses related to patents, which are accounted for pursuant to the authoritative guidance for intangibles – goodwill and other, and (2) valuing potential impairment losses related to long-lived assets, which are accounted for pursuant to the authoritative guidance for property, plant, and equipment.

We test for the impairment of our long-lived assets when triggering events occur and such impairment, if any, is measured at fair value. The inputs for fair value of our long lived assets would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows, which are not observable from the market, directly or indirectly. During the nine months ended September 30, 2009, there have been no triggering events associated with our long-lived assets, and thus, no impairment analysis was conducted during the period.

(9) Employee Benefit Plan

Effective December 31, 1996, ISE participated in a Small Simplified Employee Pension (SEP) program, a defined contribution plan, under which ISE was required to make contributions on an employee's behalf. All contributions vested immediately. The program also included a salary reduction arrangement (SARSEP) for all eligible employees subject to statutory limits as set periodically by the Internal Revenue Service. Employees were eligible to participate after one year of service. The plan was discontinued on December 31, 2006. ISE's contributions to the plan were $72,000 for the year ended December 31, 2006.

On January 1, 2007, ISE established a retirement savings plan (Plan) under Section 401(k) of the Internal Revenue Code of 1986. Employees who are at least 18 years of age are eligible to participate in the Plan after three consecutive months of service. Employees may contribute up to 100% of their annual compensation, limited to a maximum annual amount as set periodically by the Internal Revenue Service. ISE matches employee contributions dollar for dollar up to 5% of employee compensation. All matching contributions vest immediately. ISE's contributions to the Plan were $309,000, $200,000, $0, $270,000, and $222,000 for the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 30, 2009 and 2008, respectively. In addition, the Plan provides for discretionary contributions as determined by ISE. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. No discretionary contributions have been made to date.

(10) Convertible Redeemable Preferred Stock

(a) *Series B Redeemable Convertible Preferred Stock*

Under the terms of ISE's Amended and Restated Articles of Incorporation (Amended Articles of Incorporation), ISE has designated and has authorized the issuance of 3,799,332 shares of Series B Preferred Stock, with a par value of $0.001 per share. On March 15, 2006, ISE completed a Series B Preferred Stock financing and issued 3,799,332 shares of Series B Preferred Stock, with a par value of $0.001 per share, for proceeds of $23,096,000, net of issuance costs of $1,904,000. Series B Preferred Stock is redeemable and convertible. No warrants were issued with the Series B Preferred Stock.

Each share of Series B Preferred Stock is convertible into shares of common stock at any time, at the option of the holder, in accordance with the conversion ratio then in effect and the other requirements set forth in ISE's Amended Articles of Incorporation. As of the date of the issuance, the initial conversion ratio was one to one. In connection with the Series C Preferred Stock financing (described below), the conversion price of the Series B Preferred Stock was reduced to $2.451139, resulting in a conversion ratio of 1.00 to 2.68. The conversion ratio is subject to future adjustments for (i) stock splits, stock dividends, reorganization, and similar events and (ii) certain subsequent dilutive financings pursuant to a broad-based weighted average antidilution provision. In addition, each share of Series B Preferred Stock shall automatically convert into shares of common stock at the then effective conversion ratio upon the earlier of: (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of common stock for the account of ISE to the public with aggregate proceeds to ISE in excess of $35 million (before deductions for underwriters' commissions and discounts) and a per share price not less than the Minimum Offering Price, as defined in the Amended Articles of Incorporation and (ii) the affirmative vote or written consent of a majority of the outstanding shares of preferred stock voting as a single class; provided, however, that for so long as at least 1,481,740 shares of Series B Preferred Stock remain issued and outstanding, the affirmative vote or written consent of 61% of the then outstanding shares of Series B Preferred Stock, voting as a separate class, shall be required. In connection with the Series D Preferred Stock financing, the Series B Preferred Stock became subject to the Special Mandatory Conversion provision described below.

The Series B Preferred Stock is also redeemable, with a written request for redemption from at least a majority of the originally issued shares of Series B Preferred Stock at any time on or after both (i) March 7, 2012 and (ii) the senior redemption rights of Series C Preferred Stock and Series D Preferred Stock have been satisfied. The redemption is equal to twice the original issue price. In connection with the Series D Preferred Stock financing (described below), the previous Series B Preferred Stock redemption date of March 7, 2011 was extended to March 7, 2012. The initial carrying value of the preferred stock was $23,096,000. Unless earlier converted, ISE will accrete the carrying value of the preferred stock to the aggregate redemption value of $50,000,000 through March 7, 2012, the earliest redemption date, using the effective-interest rate method. The accretion is recorded as a reduction of additional paid-in capital, and totaled $4,538,000, $4,376,000, 3,111,000, $3,039,000, and $3,579,000 during the years ended December 31, 2008, 2007, and 2006 and the nine months ended September 30, 2009 and 2008, respectively.

Upon a liquidation event, after payment has been made to the holders of Series D Preferred Stock and Series C Preferred Stock, the holders of shares of Series B Preferred Stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds to the holders of Series A Preferred Stock or common stock, a liquidation preference equal to 150% of the original Series B Preferred Stock issue price as adjusted for combinations, consolidations, subdivisions, stock splits, or similar transactions per share plus any dividends declared but unpaid on such shares.

Each share of Series B Preferred Stock shall have one vote for each full share of common stock into which the respective share of preferred stock would be convertible into on the record date of the vote. The holders of shares of Series B Preferred Stock are entitled to receive noncumulative dividends in an amount to be determined by the Board of Directors when and if declared by the Board of Directors. No dividends have been declared by the Board of Directors.

(b) Series C Redeemable Convertible Preferred Stock

Under the terms of ISE's Amended Articles of Incorporation, ISE has designated and has authorized the issuance of 12,693,230 shares of Series C Preferred Stock, with a par value of $0.001 per share. In April 2008, ISE completed a Series C Preferred Stock financing and issued 12,693,230 shares of Series C Preferred Stock in exchange for $7,500,000 in cash and the conversion of $6,323,000 in bridge loan debt consisting of $5,985,000 in principal plus $338,000 in accrued interest. Issuance costs totaled $333,000 for net proceeds of $13,490,000. No warrants were issued with the Series C Preferred Stock.

Each share of Series C Preferred Stock is convertible into shares of common stock at any time, at the option of the holder, in accordance with the conversion ratio then in effect and the other requirements set forth in ISE's Amended Articles of Incorporation. As of the date of issuance, the initial conversion ratio was one to one. In connection with the Series D Preferred Stock financing (described below), the conversion price of the Series C Preferred Stock was reduced to $0.642733, resulting in a conversion ratio of 1.00 to 1.69. The conversion ratio is subject to future adjustments for (i) stock splits, stock dividends, reorganization, and similar events and (ii) certain subsequent dilutive financings. In addition, each share of Series C Preferred Stock shall automatically convert into shares of common stock at the then effective conversion ratio upon the earlier of: (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of common stock for the account of ISE to the public with aggregate proceeds to ISE in excess of $35 million (before deductions for underwriters' commissions and discounts) and a per share price not less than the Minimum Offering Price, as defined in the Amended Articles of Incorporation and (ii) the affirmative vote or written consent of a majority of the outstanding shares of preferred stock voting as a single class; provided, however, that so long as 6,346,616 shares of Series C Preferred Stock remain issued and outstanding (adjusted for stock splits, stock dividends, and similar events), the affirmative vote or written consent of a majority of the outstanding shares of Series C Preferred Stock, as a separate class, shall be required. In connection with the Series D Preferred Stock financing, the Series C Preferred Stock became subject to the Special Mandatory Conversion provision described below.

The Series C Preferred Stock is also redeemable, with a written request for redemption from at least a majority of the originally issued shares of Series C Preferred Stock, at any time on or after both (1) March 7, 2012 and (ii) the senior redemption rights of the Series D Preferred Stock have been satisfied. In connection with the Series D Preferred Stock financing, the previous Series C Preferred Stock redemption date of March 7, 2011 was extended to March 7, 2012. The redemption price is equal to 1.5 multiplied by the original issue price. The initial carrying value of the preferred stock was $13,490,000. Unless earlier converted, ISE will accrete the carrying value of the preferred stock to the aggregate redemption value of $20,734,000 through March 7, 2012, the earliest redemption date, using the effective-interest rate method. The accretion is recorded as a reduction of additional paid-in capital and totaled $1,282,000, $1,202,000, and $901,000 for the year ended December 31, 2008 and the nine months ended September 30, 2009 and 2008, respectively.

Upon a liquidation event, after satisfaction of the senior Series D Preferred Stock liquidation preference, the holders of shares of Series C Preferred Stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds to the holders of Series A Preferred Stock, Series B Preferred

Stock, or common stock, a liquidation preference equal to 150% of the original Series C Preferred Stock issue price as adjusted for combinations, consolidations, subdivisions, stock splits, or similar transactions per share plus any dividends declared but unpaid on such shares.

Each share of Series C Preferred Stock shall have one vote for each full share of common stock into which the respective share of preferred stock would be convertible into on the record date of the vote. The holders of shares of Series C Preferred Stock are entitled to receive noncumulative dividends in an amount to be determined by the Board of Directors when and if declared by the Board of Directors. No dividends have been declared by the Board of Directors.

In connection with the Series C Preferred Stock financing, ISE's Amended Articles of Incorporation were amended to (a) reduce the conversion price of the Series A Preferred Stock from $3.5789 to $1.502075 (which results in a conversion ratio of 1.00 to 2.72 based on the original issuance price of $4.08) and (b) reduce the conversion price of Series B Preferred Stock from $6.58 to $2.451139 (which results in a conversion ratio of 1.00 to 2.68).

(c) Series D Redeemable Convertible Preferred Stock

Under the terms of ISE's Amended Articles of Incorporation, ISE has designated and has authorized the issuance of 38,896,400 shares of Series D Preferred Stock, with a par value of $0.001 per share. On August 14, 2008, ISE completed the first closing of the Series D Preferred Stock financing and issued 8,557,208 shares of Series D Preferred Stock for gross proceeds of $5,500,000. On October 7, 2008, ISE completed the second closing of the Series D Preferred Stock financing and issued 18,670,272 shares of Series D Preferred Stock for gross proceeds of $12,000,000. No warrants were issued with the Series D Preferred Stock.

Each share of Series D Preferred Stock is convertible into shares of common stock at any time, at the option of the holder, in accordance with the conversion ratio then in effect and the other requirements set forth in ISE's Amended Articles of Incorporation. As of the date of issuance, the conversion ratio was one to one. The conversion ratio is subject to future adjustments for (i) stock splits, stock dividends, reorganization, and similar events and (ii) certain subsequent dilutive financings. In addition, each share of Series D Preferred Stock shall automatically convert into shares of common stock at the then effective conversion ratio upon the earlier of: (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of common stock for the account of ISE to the public with aggregate proceeds to ISE in excess of $35 million (before deductions for underwriters' commissions and discounts) and a per share price not less than the Minimum Offering Price, as defined in the Amended Articles of Incorporation and (ii) the affirmative vote or written consent of a majority of the outstanding shares of preferred stock voting as a single class; provided, however, that so long as at least 50% of the shares of Series D Preferred Stock remain outstanding (adjusted for stock splits, stock dividends, and similar events), the affirmative vote or written consent of a majority of the then outstanding shares of Series D Preferred Stock, voting as a separate class, shall be required. The Series D Preferred Stock is also subject to the Special Mandatory Conversion provision described below.

The Series D Preferred Stock is also redeemable, at any time after March 7, 2011, with a written request for redemption from the holders of a majority of the originally issued Series D Preferred Stock. The redemption price is equal to 1.5 multiplied by the original issue price plus all declared and unpaid dividends on Series D Preferred Stock. Unless converted earlier, ISE will accrete the carrying value of the preferred stock to the aggregate redemption value (less issuance costs) through March 7, 2011, the earliest redemption date, using the effective-interest rate method. The accretion is recorded as a reduction of additional paid-in capital, and totaled $837,000, $2,602,000 and $131,000 for the year ended December 31, 2008 and the nine months ended September 30, 2009 and 2008, respectively.

Upon a liquidation event, the holders of shares of Series D Preferred Stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds to the holders of Series A Preferred

Stock, Series B Preferred Stock, Series C Preferred Stock, or common stock, a liquidation preference equal to 150% of the original Series D Preferred Stock issue price as adjusted for combinations, consolidations, subdivisions, stock splits, or similar transactions per share plus any dividends declared but unpaid on such shares; provided, however, in the event a Qualified Initial Public Offering (as defined in the Amended Articles of Incorporation) does not occur on or prior to March 31, 2010, then the liquidation preference will be increased to 200%.

Each share of Series D Preferred Stock shall have one vote for each full share of common stock into which the respective share of Series D Preferred Stock would be convertible into on the record date of the vote. The holders of shares of Series D Preferred Stock are entitled to receive noncumulative dividends in an amount to be determined by the Board of Directors when and if declared by the Board of Directors. No dividends have been declared by the Board of Directors.

In connection with the Series D Preferred Stock financing, ISE's Amended Articles of Incorporation were amended to include a "Special Mandatory Conversion" provision that is applicable to all preferred stock. If a holder of preferred stock fails to participate in any future Qualified Financing, as defined below, on a pro rata basis (according to its total equity ownership immediately after such financing, assuming all shareholders subject to the provision participate), then such holder will lose its antidilution protection for all prior and future financings on all preferred stock that it owns and will have the preferred stock it owns converted to common stock. If such preferred holder participates in such future Qualified Financing but not to the full extent of its pro rata share, then only a percentage of its preferred stock will be converted to common stock (under the same terms as in the preceding sentence), with such percentage being equal to the percent of its pro rata contribution that it failed to contribute. A Qualified Financing is that portion of any private equity financing by ISE that the Board of Directors (including at least one Series D Preferred Stock director) determines in good faith must be purchased pro rata among the preferred stockholders of ISE. The Special Mandatory Conversion provision will automatically terminate after ISE has raised in excess of $30 million in Qualified Financings.

(11) Stockholders' Equity

(a) Common Stock

Under the terms of ISE's Amended Articles of Incorporation, ISE is authorized to issue 95,000,000 shares of common stock with a par value of $0.003 per share. Each holder of common stock is entitled to one vote for each share of common stock held on matters submitted to a vote of the stockholders.

The holders of outstanding shares of common stock are entitled to receive noncumulative dividends out of assets legally available in an amount determined by the Board of Directors, subject to certain limitations and preferential rights of the preferred stock then outstanding.

Upon a liquidation event, the holders of common stock are entitled to share ratably in the proceeds from the sale of all assets remaining after payment of liabilities, subject to the prior distribution rights of preferred stock then outstanding. The rights of the common stock are subject to the preferential rights of any class or series of preferred stock.

(b) Convertible Preferred Stock and Warrants

Under the terms of ISE's Amended Articles of Incorporation, ISE has designated and has authorized the issuance of 2,077,724 shares of Series A Preferred Stock, with a par value of $0.001 per share.

In December 2001, ISE completed a Series A Preferred Stock financing and issued 441,177 shares of Series A Preferred Stock and warrants (2001 Warrants) to purchase 441,177 shares of common stock, at an exercise price of $4.08 per share, with a grant-date fair value of $0.87 per share. Total proceeds amounted to $1,570,000, net of issuance costs of $230,000. The 2001 Warrants were originally exercisable upon issuance and had a 10-year term.

In September 2004, ISE completed a Series A Preferred Stock financing (the 2004 Agreement) and issued 1,470,313 shares of Series A Preferred Stock and warrants (2004 Warrants) to purchase 1,102,732 shares of common stock, at an exercise price of $4.08 per share, with a grant-date fair value of $0.77 per share. Total proceeds amounted to $5,466,000, net of issuance costs of $533,000. The 2004 Warrants are exercisable upon issuance and have a 10-year term. In connection with the 2004 Agreement and under the terms of the 2003 Bridge Notes, $600,000 of the outstanding principal under the 2003 Bridge Notes and $78,000 of accrued interest were converted into 166,234 shares of ISE's Series A Preferred Stock. At the same time, ISE issued additional 2004 Warrants to purchase an aggregate of 124,674 shares of common stock. Also, in connection with ISE's Series A Preferred Stock financing in September 2004, the exercise price of each Bridge Warrant (note 6) was fixed at $4.285 and the aggregate number of shares of common stock issuable under the Bridge Warrants was fixed at 164,868.

Each share of Series A Preferred Stock is convertible into shares of common stock at any time, at the option of the holder thereof, in accordance with the conversion ratio then in effect and the other requirements set forth in ISE's Amended Articles of Incorporation. As of the date of issuance, the initial conversion ratio was one to one. In connection with the Series B Preferred Stock financing (described in note 10), the conversion price of the Series A Preferred Stock was reduced to $3.58, resulting in a conversion ratio of 1.00 to 1.14. Thereafter, in connection with the Series C Preferred Stock financing (described in note 10), the conversion price of Series A Preferred Stock was reduced again to $1.502075, resulting in a current conversion ratio of 1.00 to 2.72. The conversion ratio is subject to future adjustments for (i) stock splits, stock dividends, reorganization, and similar events and (ii) certain subsequent dilutive financings pursuant to a broad-based weighted average antidilution provision. In addition, each share of Series A Preferred Stock shall automatically convert into shares of common stock at the then effective conversion ratio upon the earlier of: (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of common stock for the account of ISE to the public with aggregate proceeds to ISE in excess of $35 million (before deductions for underwriters' commissions and discounts) and a per share price not less than the Minimum Offering Price, as defined in the Amended Articles of Incorporation and (ii) the affirmative vote or written consent of a majority of the outstanding shares of ISE's preferred stock voting as a single class; provided, however, that for so long as at least 810,313 shares of Series A Preferred Stock remain issued and outstanding, the affirmative vote or written consent of a majority of the then outstanding shares of Series A Preferred Stock, voting as separate classes, shall be required. In connection with the Series D Preferred Stock financing, the Series A Preferred Stock became subject to the Special Mandatory Conversion provision described in note 9.

Upon a liquidation event, after payment has been made to the holders of Series D Preferred Stock, Series C Preferred Stock, and Series B Preferred Stock, the holders of shares of Series A Preferred Stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds to the holders of common stock, a liquidation preference equal to the original Series A Preferred Stock issue price as adjusted for combinations, consolidations, subdivisions, stock splits, or similar transactions per share plus any dividends declared but unpaid on such shares.

Each share of Series A Preferred Stock shall have one vote for each full share of common stock into which the respective share of Series A Preferred Stock would be convertible on the record date of the vote. The holders of shares of Series A Preferred Stock are entitled to receive noncumulative dividends in an amount to be determined by the Board of Directors when and if declared by the Board of Directors. No dividends have been declared by the Board of Directors.

In connection with the Series B Preferred Stock financing, the previous cumulative dividend right of the Series A Preferred Stock was terminated. The Series A Preferred Stock cumulative dividend rate previously provided that, effective June 30, 2006, the holders of Series A Preferred Stock would be entitled to receive cumulative dividends at an annual rate determined by multiplying the 12-month LIBOR then in effect by the original Series A Preferred Stock issue price of $4.08 per share, but in no case greater than 8% of $4.08 per share, or $0.32, per share, whether or not declared by the Board of Directors. No dividend could have been declared and distributed among holders of common stock at a rate greater than the rate at which dividends are paid to the holders of Series A Preferred Stock, based on the number of shares of common stock into which such shares of Series A Preferred Stock are convertible on the date such dividend was declared. No dividends were recorded or paid during 2004 or 2005, as the dividends are not cumulative until after June 30, 2006. However, because the Series A Preferred Stock previously was an increasing-rate preferred stock, in accordance with authoritative guidance, ISE recorded discounts on the increasing-rate preferred stock upon issuances, and amortized such discounts over the periods preceding commencement of the perpetual dividend, by charging imputed dividend costs against additional paid-in capital (in the absence of retained earnings), and increasing the carrying amount of the preferred stock by a corresponding amount. The amortization during 2005 and 2006 amounted to $212,000 and $106,000, respectively. The Series A Preferred Stock cumulative dividend right was terminated in March 2006.

In addition, ISE issued 18,381 warrants in connection with a bridge financing during 2001 (2001 Bridge Warrants) and issued 10,000 warrants as compensation to ISE's external counsel during 2004. These warrants were outstanding at December 31, 2007, were exercisable into shares of common stock on a one-to-one ratio at a price of $0.25 per share, and had a 10-year term. ISE recorded approximately $40,000 of compensation expense relating to the issuance of the external counsel's warrants during the year ended December 31, 2004.

In April 2008, ISE entered into a Warrant Exchange Agreement with all warrant holders in which all 3,235,795 outstanding warrant shares were exchanged for 1,800,000 shares of common stock. The Warrant Exchange Agreement modified the conversion ratios that existed in all prior warrant issuances. As a result, the fair value of the warrants was remeasured as of the date of the modification and the difference between the adjusted fair value of the warrants and the fair value of the common stock issued was recorded in other expense as an increase to additional paid-in capital of $177,000 in the accompanying financial statements.

In July 2009, ISE borrowed $5.6 million and issued an aggregate principal of convertible promissory notes (2009 Bridge Notes) with detachable warrants (2009 Bridge Warrants) issued to purchase shares of ISE's Series D Preferred Stock. The warrants have a five-year term and were exercisable upon issuance. The number of warrant shares was determined to be 2,613,832 by dividing 30% of the principal of the 2009 Bridge Notes by $0.642733. The exercise price is $0.01 per warrant share. ISE recorded a warrant liability as the warrants contained certain net settlement provisions. The fair value of the warrants was estimated to be $1,542,000 at the issuance date and revalued at September 30, 2009. At September 30, 2009, ISE recorded a warrant liability of approximately $1,908,000 (note 6).

(c) Stock Options

2001 Stock Option Plan – ISE has a stock option plan (the 2001 Plan), which provides for the grant of options to employees, directors, and consultants of ISE to purchase up to 8,300,000 shares of common stock. Options under the 2001 Plan granted prior to April 2008 generally vest ratably over a period of five years and expire 10 years after the grant date, except for certain incentive stock option grants to 10% shareholders, which expire five years after the date of grant. Options under the 2001 Plan granted on or after April 2008 vest over a four-year period and expire 10 years after the grant date. ISE has also issued 100,693 options outside of the 2001 Plan that are included in the activity below of which 81,693 of these options are outstanding as of September 30, 2009. These options were accounted for in accordance with the authoritative guidance for stock-based compensation.

In April 2008, the Board of Directors authorized the repricing of all outstanding stock options granted prior to April 2008 held by then current employees to $1.089 per share of common stock. The change was made in order to retain employees with a better prospect of exercising options at a profit. The repriced options represent 99% of the total number of options outstanding at the date of modification. These options were accounted for in accordance with modification accounting guidance. The incremental compensation cost resulting from the modifications was considered to be nominal, and no expense was recorded.

The following table summarizes stock option activity:

	Plan options	Weighted average exercise price
Outstanding, December 31, 2005	487,043	$4.24
Granted	181,014	6.58
Forfeited	(23,899)	3.64
Outstanding, December 31, 2006	644,158	4.92
Granted	1,022,535	9.97
Forfeited	(113,518)	8.05
Outstanding, December 31, 2007	1,553,175	8.01
Granted	2,891,781	1.09
Forfeited	(250,929)	2.98
Outstanding, December 31, 2008	4,194,027	8.01
Granted (unaudited)	3,349,331	1.09
Forfeited (unaudited)	(297,033)	1.29
Outstanding, September 30, 2009 (unaudited)	7,246,325	$1.09

	Plan options	Weighted average exercise price
Exercisable, December 31, 2008	700,908	$1.15
Exercisable, December 31, 2007	373,600	$4.31
Exercisable, December 31, 2006	288,218	$3.98
Exercisable, September 30, 2009 (unaudited)	2,233,378	$1.10

The following table summarizes information about stock options outstanding at December 31, 2008:

	Options outstanding			Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (in years)	Weighted average exercise price
$ 0.65	8,360	1.67	$ 0.65	8,360	1.67	$ 0.65
1.089	1,548,516	7.58	1.09	592,900	6.40	1.09
1.09	2,617,421	9.32	1.09	—	9.32	1.09
4.00	3,667	5.08	4.00	3,103	5.02	4.00
4.08	3,547	6.18	4.08	2,128	6.18	4.08
6.58	12,016	7.39	6.58	4,183	7.29	6.58
11.88	500	8.59	11.88	100	8.59	11.88
Total options	4,194,027	8.65	$ 1.11	610,774	6.33	$ 1.15

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options outstanding			Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (in years)	Weighted average exercise price
$ 3.00	50,654	3.78	$ 3.00	50,654	3.78	$3.00
4.00	96,315	5.74	4.00	66,825	5.64	4.00
4.08	254,950	6.81	4.08	197,019	6.76	4.08
6.58	330,714	8.85	6.58	59,102	7.96	6.58
10.32	389,412	9.25	10.32	—	—	—
11.88	376,130	9.59	11.88	—	—	—
3.64	55,000	9.88	3.64	—	—	—
Total options	1,553,175	8.41	$ 8.01	373,600	6.34	$4.31

The following table summarizes information about stock options outstanding at September 30, 2009:

	Options outstanding			Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise Price	Number exercisable	Weighted average remaining contractual life (in years)	Weighted average exercise price
$ 0.65	8,360	8.92	$ 0.65	8,360	8.92	$ 0.65
1.089	1,443,846	6.78	1.09	832,593	6.16	1.09
1.09	5,786,827	9.28	1.09	1,387,512	9.06	1.09
4.00	1,200	3.64	4.00	1,200	3.64	4.00
4.08	2,352	5.43	4.08	1,881	5.43	4.08
6.58	3,240	6.84	6.58	1,632	6.75	6.58
11.88	500	7.84	11.88	200	7.84	11.88
Total options	7,246,325	8.78	$ 1.09	2,233,378	7.97	$ 1.10

Stock-based compensation expense for the years ended December 31, 2008, 2007, and 2006 and for the nine-month periods ended September 30, 2009 and 2008 was estimated at the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	Year ended December 31			September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Expected term of the options	6.5 years	6.2 years	6.5 years	6.5 years	6.5 years
Risk-free interest rate	2.99%	4.54%	4.34%	3.27%	2.99%
Expected volatility	63.80	62.54	70.85	68.38	63.80
Expected dividend yield	—	—	—	—	—
Preventing forfeiture rate	6.80 and 5.02	6.80 and 5.02	6.80 and 5.02	6.80 and 5.02	6.80 and 5.02

Risk-Free Interest Rate – The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected terms of ISE's employee stock options.

Dividend Yield – A zero dividend yield was based on the fact that ISE has not intended, and does not intend, to pay dividends.

Volatility – The volatility factor was calculated based on the historical volatility on a peer group of the industry in which ISE does business.

Expected Term of Options – The expected term of options granted is determined using the average period the stock options are expected to remain outstanding and is based on the options vesting term, contractual terms and historical exercises, and vesting information used to develop reasonable expectations about future exercise patterns and postvesting employment termination behavior.

Prevesting Forfeiture Rate – The prevesting forfeiture rate calculated is based on ISE's historical option forfeiture information. Stock-based compensation expense recognized in the statements of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. Authoritative guidance for stock-based compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In ISE's pro forma information for the periods prior to 2006, ISE accounted for forfeitures as they occurred.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by ISE.

ISE recognizes compensation cost using the straight-line vesting method.

As of December 31, 2008 and September 30, 2009, the total compensation cost related to nonvested options not yet recognized was approximately $4,119,000 and $3,041,000, respectively, with a weighted average remaining recognition period of 4.98 years as of December 31, 2008 and 4.93 years as of September 30, 2009. The total intrinsic value of options exercised during the year ended December 31, 2008 and the nine months ended September 30, 2009 was zero. At December 31, 2008 and September 30, 2009, the total intrinsic value of stock options outstanding was zero and the total intrinsic value of stock options exercisable was zero.

The following table shows the total estimated stock-based compensation expense recognized for the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 30, 2009 and 2008: (in thousands):

	Year ended December 31			Nine months ended September 30	
	2008	**2007**	**2006**	**2009**	**2008**
				(Unaudited)	
Cost of revenue	$ 224	181	53	155	171
Selling, general, and administrative expenses	872	326	25	674	648
Research, engineering, and development expenses	190	337	35	87	148
Total stock-based compensation	$1,286	844	113	916	967
Stock-based compensation expense per share	$ 0.34	0.34	0.05	0.21	0.27

During 2008 and 2007, ISE estimated the fair value of the underlying common stock on the date of each option grant. During this period, ISE estimated the fair value of its common stock based upon several factors, including progress milestones attained in its business subsequent to financing. The table below summarizes information about the fair value of ISE's common stock, original exercise prices (premodification), and the intrinsic value of ISE's stock option grants during the years ended December 31, 2008 and 2007 and for the nine months ended September 30, 2009:

	Number of options granted	Exercise price	Fair value per common share	Intrinsic value per option
January 25, 2007	139,493	$ 6.58	9.38	2.80
March 30, 2007	20,000	6.58	10.04	3.46
April 26, 2007	419,412	10.32	10.32	—
August 2, 2007	388,630	11.88	11.88	—
November 7, 2007	55,000	3.64	3.64	—
February 9, 2008	154,000	1.09	1.97	0.88
April 25, 2008	2,729,421	1.09	0.11	—
August 13, 2008	5,360	0.65	0.06	—
October 1, 2008	3,000	0.65	0.06	—
June 18, 2009	2,374,331	1.09	0.12	—
September 23, 2009	975,000	1.09	0.12	—

(12) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income (loss) in the years in which those temporary differences are expected to be recovered or settled. Due to our history of loss, a full valuation allowance is recognized against deferred tax assets. The difference between the expected income tax expense computed by applying the federal tax rate of 34% and actual income tax expense is as follows for the years ended December 31, 2008, 2007, and 2006 and the nine month period ended September 30, 2009 and 2008 (in thousands):

	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Expected federal income tax benefit	$(8,711)	(8,930)	(2,970)	(3,683)	(7,328)
Expected state tax	1	1	1	1	1
Deferred compensation	—	30	—	—	51
Research and development credits	(58)	(83)	(50)	(256)	(112)
Remove net operating loss and R&D credit deferred tax assets	9,543	—	—		
Change in valuation allowance	(1,249)	8,959	3,006	3,850	7,156
Other	475	24	14	89	233
Total income tax provision	$ 1	1	1	1	1

ISE CORPORATION

Notes to Financial Statements
(Information as of and for the nine months ended September 30, 2009 and 2008 is unaudited)

The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to a significant portion of the net current deferred tax assets and their approximate tax effects at December 31, 2008, 2007, 2006, and September 30, 2009 are as follows (in thousands):

	Year ended December 31			September 30,
	2008	2007	2006	2009
				(Unaudited)
Deferred tax assets:				
Net operating loss carryforwards	$ 8,046	11,226	4,518	12,685
General credit carryforwards	97	1,053	829	730
Accruals and reserves	6,284	4,727	881	5,864
Noncash compensation	961	410	49	1,353
Depreciation	174	34	8	142
	15,562	17,450	6,285	20,774
Less valuation allowance	(15,444)	(17,211)	(5,845)	(20,648)
Net deferred tax assets	118	239	440	126
Deferred tax liabilities:				
Cash to accrual adjustment	—	(198)	(395)	—
Depreciation	—	—	—	—
Other	(118)	(41)	(45)	(126)
Net deferred tax liabilities	(118)	(239)	(440)	(126)
Net deferred tax assets	$ —	—	—	—

A valuation allowance has been recorded against ISE's deferred tax assets as it is not more likely than not that future taxable income and tax planning strategies will provide sufficient levels of income to allow realization of the assets.

As of December 31, 2008, ISE had net operating loss and Research & Development (R&D) credit carryforwards. However, ISE's ability to utilize these tax benefits is subject to the rules of Section 382 of the Internal Revenue Code. Section 382 generally restricts the use of net operating losses and tax credits after an "ownership change." In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOL carryforwards and on the amount of credits that may offset income tax.

Through the completion of a Section 382 analysis it has been determined that ISE experienced an ownership change on October 7, 2008. The annual limitation for the October 7, 2008 exchange date is approximately $717,000 for the pre-change net operating losses and credits.

As a result of the above limitations, approximately $18.8 million of U.S. federal and California NOLs will be available for utilization within the federal and California carryover period of 20 years expiring in 2028.

In conjunction with the adoption of FASB guidance, there were no unrecognized tax benefits as of January 1, 2008 and December 31, 2008 that would, if recognized, affect the effective tax rate. ISE's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. ISE had $0 accrued for interest and penalties on its balance sheet as of December 31, 2008 and January 1, 2008, and has recognized $0 in interest and/or penalties in its statements of operations for the year ended December 31, 2008.

With limited exception, ISE is subject to taxation only in the U.S. and California jurisdictions. ISE's tax years for 1997 and forward are subject to examination by the U.S. and California tax authorities due to the carryforward of unutilized net operating losses and research and development credits. However, with the Section 382 ownership changes, the only reported operating losses and credits are from 2008, as all other NOLs and credits have been removed.

(13) Related-Party Transactions

The following is a summary of ISE's related-party transactions:

ISE entered into a consulting agreement with a Series A Preferred Stock shareholder, effective March 4, 2006, to provide certain advisory services to ISE. The agreement terminated in March 2007. Under the terms of the agreement, ISE paid quarterly consulting fees of $38,000. ISE paid consulting fees of $0 and $38,000 for the years ended December 31, 2008 and 2007, respectively.

During the years ended December 31, 2008, 2007, and 2006, and for the nine months ended September 30, 2009 and 2008, ISE made severance payments of $115,000, $168,000, $168,000, $0, and $115,000, respectively, to the former Co-Chief Executive Officer and former director, in accordance with an employment agreement. ISE has recorded an accrued liability for the estimated severance payments of $0 and $115,000 at December 31, 2008 and 2007, respectively. The agreement terminated on August 31, 2008.

During the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 30, 2009 and 2008, respectively, ISE paid board fees of $8,500, $12,000, $12,000, $0, and $8,500, respectively, to a former Co-Chief Executive Officer of ISE.

During the year ended December 31, 2008 and for the nine months ended September 30, 2009 and 2008, ISE made severance payments of $90,000, $181,000, and $27,000, respectively, to the former Chief Executive Officer and current director, in accordance with an employment agreement. ISE recorded an accrued liability for the estimated severance payments of $654,000 and $473,000 at December 31, 2008 and September 30, 2009, respectively. The agreement terminates in August 2011. ISE made $400 in health benefit payments during the year ended December 31, 2008 and for the nine months ended September 30, 2008. There were no health benefit payments made in 2009.

In October 2008, Siemens Venture Capital GmbH (Siemens) made an initial investment in our company redeemable convertible Series D preferred stock and has since that time has two company representatives on our Board of Directors. In August 2002, we signed a five-year supply agreement with Siemens Transportation Systems, Inc., which has subsequently been renewed on annual basis and is currently scheduled to terminate on March 31, 2010. Under the terms of the agreement we have paid Siemens $500,000 annually for: nonexclusive sales rights for contractual products in the United States, a prescribed level of engineering services by Siemens to adapt certain products to our applications and receipt of reduced pricing on certain contractual Siemens products. These payments have been allocated on a prorata basis between cost of sales, selling, general, and administrative and research and development expense.

The costs recognized from transactions with Siemens reflect the prices and terms which are in accordance with normal trade practices. At December 31, 2008 and 2007 and for the nine months ended September 30, 2009, ISE had $436,000, $810,000 and $203,000 in accounts payable to this party. ISE made payments of $5,439,000, $2,237,000, $1,466,000, $4,067,000, and $4,235,000 during the years ended December 31, 2008, 2007 and 2006 and for the nine months ended September 30, 2009 and 2008, respectively.

(14) Concentrations of Credit Risk

ISE extends credit to its customers based on evaluation of each entity's financial condition, and collateral is generally not required. Credit losses have been minimal.

ISE invests its excess cash in money market accounts and U.S. Treasury Bills. ISE has not experienced any material losses on its cash accounts or other investments.

During the year ended December 31, 2008, three customers accounted for 38%, 18%, and 15% of revenue and two customers represented 47% and 31% of accounts receivable. During the year ended December 31, 2007, three customers accounted for 38%, 16%, and 11% of revenue and two customers represented 54% and 39% of accounts receivable.

ISE is dependent on a small network of suppliers for key components. During the year ended December 31, 2008, three suppliers accounted for 23%, 13%, and 12% of products purchased. In 2007, ISE's two largest suppliers accounted for approximately 14% and 10% of products purchased. ISE is dependent on the ability of its suppliers to provide products on a timely basis and on favorable pricing terms. The loss of certain principal suppliers or a significant reduction in product availability from principal suppliers could have an adverse effect on ISE's results of operations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as follows:

	December 31, 2008	September 30, 2009
Cash and cash equivalents	$ 638	$2,251
Restricted cash	1,659	465
Accounts receivable	8,887	5,778
Unbilled accounts receivable	366	103
	$11,550	$8,597

The aging of accounts receivable as follows:

	December 31, 2008	September 30, 2009
Current	$6,751	$5,133
Past due 61 – 90 days	871	17
Past due greater than 90 days	1,265	628
	$8,887	$5,778

Reconciliation of allowance for credit losses:

	December 31, 2008	September 30, 2009
Opening balance	$25	$ 93
Increase (decrease) during the year	68	(19)
Closing balance	$93	$ 74

(15) Reconciliation to Canadian generally accepted accounting principles (Canadian GAAP)

ISE's consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from Canadian GAAP. The following tables present the impact of material differences between U.S. GAAP and Canadian GAAP on ISE's financial statements:

	Statements of Operations				
	Year ended December 31			Nine months ended September 30	
	2008	2007	2006	2009	2008
				(Unaudited)	
Net loss under U.S. GAAP	$ (25,621)	$ (26,267)	$ (8,736)	$ (10,832)	$ (21,202)
Stock-based compensation[b]	180	180	180	112	135
Accretion of Series B Preferred Stock[a]	5,133	4,653	3,192	3,383	4,076
Accretion of Series C Preferred Stock[a]	1,391	—	—	1,335	972
Accretion of Series D Preferred Stock[a]	895	—	—	2,834	138
Loss under Canadian GAAP	$ (33,220)	$ (31,100)	$ (12,108)	$ (18,496)	$ (26,523)
Weighted average number of common shares under U.S. and Canadian GAAP	3,764,724	2,452,939	2,457,377	4,252,939	3,600,192
Basic and diluted loss per common share under Canadian GAAP	$ (8.82)	$ (12.68)	$ (4.93)	$ (4.35)	$ (7.37)

	Balance Sheets					
	December 31, 2008		December 31, 2007		September 30, 2009	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Current assets:						
Other current assets[c]	$ 1,158	$ 1,158	$ 749	$ 749	$ 757	$ 694
Total assets	$ 31,994	$ 31,994	$ 21,368	$ 21,368	$ 29,231	$ 29,168
Current liabilities:						
Current portion of LTD	$ 61	$ 61	$ 41	$ 41	$ 4,863	$ 4,800
Redeemable preferred stock	—	63,690	—	28,098	—	71,242
Total liabilities	32,267	95,947	27,594	55,692	39,412	110,591
Redeemable convertible Series B preferred stock[a]	35,122	—	30,584	—	38,161	—
Redeemable convertible Series C preferred stock[a]	14,772	—	—	—	15,974	—
Redeemable convertible Series D preferred stock[a]	17,482	—	—	—	20,084	—
Stockholders' deficit:						
Preferred stock conversion option[a]	—	4,623	—	2,843	—	4,623
Additional paid-in capital[a,b]	(14,073)	984	(9,370)	(1,332)	(20,000)	2,010
Accumulated deficit[a,b]	(67,145)	(83,139)	(41,028)	(49,423)	(77,977)	(101,634)
Total liabilities and stockholders' deficit	$ 31,994	$ 31,994	$ 21,368	$ 21,368	$ 29,231	$ 29,168

(a) Convertible Preferred Stock

Under U.S., Accounting for Certain Financial Instrument with Characteristics of both Liabilities and Equity, derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivatives are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized in net income. Under U.S. GAAP, ISE's Series B, C, and D preferred shares have been classified as mezzanine debt since these instruments are redeemable (1) at a fixed or determinable price on a fixed or determinable date, (2) at the option of the holder, or (3) upon the occurrence of an event that is not solely within the control of the issuers. There were no other embedded derivatives separately identified and measured at fair value. Under Canadian GAAP, Section 3855, the preferred shares are classified as a liability since they are redeemable at the option of the holder for cash. Canadian GAAP also requires recognition of embedded derivatives at fair value for which the economic characteristics and risks are not clearly and closely related to the economic characteristics of the debt host contract. Under Canadian GAAP, the conversion options of each series of the preferred shares was an equity instrument and accordingly the fair value of the conversion option was measured at the time the share was issued and included as an equity instrument.

The differences in the original allocation of the liability and equity components under Canadian GAAP when compared to U.S. GAAP results in a difference of $580,000, $277,000, $80,000, $709,000, and $392,000 in the accretion expense associated with the redemption feature of the preferred shares for the years ended December 31, 2008, 2007, and 2006 and for the nine months ended September 31, 2009 and 2008, respectively. In addition, under Canadian GAAP, since the preferred shares are classified as a liability the accretion has been classified as accretion expense in operating expenses in each year. Under U.S. GAAP, the accretion was recorded as return to preferred shareholders since the preferred shares are categorized as mezzanine debt.

(b) Stock-Based Compensation

Under U.S. GAAP, ISE accounted for stock-based compensation, including options and warrants granted to employees prior to January 1, 2006, using the intrinsic value method. Under Canadian GAAP, effective January 1, 2004, stock-based compensation including options and warrants granted to employees is accounted for at fair value.

There exists a difference between Canadian GAAP and U.S. GAAP for the measurement and recognition of compensation expense for options granted to employees for the period from January 1, 2004 to December 31, 2005 over the period the requisite services are being rendered. An adjustment of $190,000 was made to contributed surplus and deficit at December 31, 2007 to reflect the cumulative change.

(c) Deferred Financing Costs

Under U.S. GAAP, deferred financing costs related to debt is classified as other assets and amortized using the effective-interest-rate method over the term of the related debt. Under Canadian GAAP, deferred financing costs related to debt are offset against the outstanding principle balance of the debt and amortized using the effective-interest-rate method.

(d) Canadian GAAP requires certain disclosures not required by U.S. GAAP as follows:

Capital Structure Financial Policies

Canadian Institute of Chartered Accountants (CICA) for Capital Disclosures (CICA Handbook Section 1535) establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires a Company to disclose: (i) its objectives, policies, and processes for managing capital;

(ii) summary quantitative data about what it manages as capital; (iii) whether during the period it complied with any externally imposed capital requirements to which it is subject; and (iv) when the entity has not complied with such requirements, the consequences of such noncompliance.

ISE's primary objective when managing capital is to ensure that it has sufficient cash resources to maintain its ongoing operations and meet its current obligations and complete contracts currently in process. ISE's objectives when managing capital are to manage its capital with strong fiscal discipline and focus on securing new revenue generating contracts. To secure the additional capital, ISE is attempting to file an initial public offering and may attempt to raise additional funds through the issuance of equity or by securing strategic partners. ISE's current financing principles is to maintain cash balances sufficient to fund at least four quarters of operating cash consumption at all times. ISE includes cash and cash equivalents, short term investments, accounts payable, and accrued liabilities in the definition of capital. ISE is not subject to externally imposed capital requirements, other than the restriction on cash, and there has been no change with respect to the overall capital management strategy during the nine months ended September 30, 2009.

(e) Financial Instruments

ISE has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. The Board of Directors has responsibility for the review of ISE's risk management framework. The Board of Directors has mandated the audit committee to review how management monitors compliance of ISE's risk management policies and procedures and review the adequacy of the risk management polices and procedures.

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect ISE's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing ISE's returns. ISE does not employ any form of financial derivative to manage market risk.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. ISE has certain purchases and sales denominated in the British pound (GBP) and the euro, and is therefore exposed to risk as a result of foreign exchange changes associated with these contracts. ISE had no forward exchange rate contracts in place as at or during September 30, 2009.

	December 31, 2008		September 30, 2009	
	Euro	GB P	Euro	GB P
Cash	€ —	£ 71,512	€ —	£ —
Accounts receivable	—	327,750	—	—
Unbilled receivables	—	2,369,225	—	1,064,225
Accounts payable	(41,815)	(159,500)	(31,865)	(159,500)
Accrued liabilities	—	(63,041)	—	(56,350)
	€(41,815)	£2,545,946	€(31,865)	£ 848,375

A 10% weakening of the following currencies against the U.S. dollar would have increased the net loss by the amounts shown below. A strengthening of the following currencies would have the opposite effect.

	Year ended December 31, 2008	Nine months ended September 30, 2009
EURO	$368,628	$135,078
British Pound	(5,895)	(4,650)

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2008 and for the nine months ended September 30, 2009:

	December 31, 2008		September 30, 2009	
	Euro	GB P	Euro	GB P
Opening exchange rate	€1.4704	£1.9973	€1.4043	£1.4501
Closing exchange rate	1.4097	1.4479	1.4592	1.5922
Average exchange rate	1.4713	1.8552	1.3669	1.5430

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. ISE is exposed to interest rate fluctuations on its debenture and the outstanding notes. ISE had no interest rate swap or financial contracts in place as at or during the period ended September 30, 2009.

Liquidity Risk and Funding Risk

Liquidity risk is the risk that ISE will not be able to meet its financial obligations as they fall due. ISE's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet liabilities when due. ISE monitors the sales pipeline and collection efforts to ensure sufficient cash flows are generated from operations to meet the current debt requirements. At September 30, 2009, ISE has a cash balance of $2,251. All of ISE's financial liabilities, other than long-term debt, have contractual maturities of less than 60 days.

Risk Measurement

The assessment of our liquidity position reflects management's estimates, assumptions, and judgments pertaining to current and prospective company specific and market conditions and the related behavior of our customers and counterparties. Our liquidity management is designed to ensure that adequate sources of cost-effective cash or its equivalents are continually available to satisfy our current and prospective financial commitments under normal and contemplated stress conditions. In managing liquidity, we favor a centralized management approach so that funding and operational efficiencies can be maximized. We also believe this approach results in more coordinated and effective measurement and oversight.

Management monitors consolidated cash flow, in detail, on a weekly basis covering a rolling 12-week period, quarterly through forecasting and yearly through the budget process. Based on the financial liabilities due, ISE does not have sufficient operating cash flow to meet amounts when due and payable. ISE is pursuing financing options, including an initial public offering, to meet current cash needs.

Fair Value of Financial Instruments

ISE's financial instruments as at September 30, 2009 included accounts receivable, accounts payable, accrued liabilities, and redeemable preferred shares. Except for the redeemable preferred shares, the fair values of financial instruments approximate their carrying amounts due either to the short-term maturity of those instruments or the applicability of interest rates, which approximate market rates at September 30, 2009.

The redeemable preferred shares are not readily susceptible to valuation because there are no similar instruments generally available in the market place.

(16) Subsequent Events (unaudited)

(a) Reorganization

On December 9, 2009, ISE Limited (the Company) was incorporated as an exempted Cayman company for the purpose of acquiring 100% of the capital stock of ISE. In this regard, the Company's wholly-owned subsidiary ISE Acquisition Corp. and ISE entered into an Agreement and Plan of Merger on December 16, 2009 (the Merger Agreement), which sets forth the terms and conditions pursuant to which the Company will acquire all of the capital stock of ISE. Pursuant to the terms of the Merger Agreement, ISE Acquisition Corp. will merge with ISE under the laws of the State of California, with ISE as the surviving entity. The existing shareholders of ISE will become the sole shareholders of the Company and ISE will become a wholly-owned subsidiary of the Company. The merger is conditional on, among other things, the completion of the initial public offering referred to in this note 16.

The holders of all outstanding warrants to purchase shares of preferred stock of ISE have agreed to exercise the warrants in connection with the consummation of the merger. The shares of preferred stock issuable upon exercise of the warrants will be converted into common shares of ISE, and then exchanged for common shares of the Company on the same terms provided to other existing shareholders in the Merger Agreement.

All of the outstanding shares of preferred stock of ISE will be converted into common shares of ISE immediately prior to the consummation of the merger and the initial public offering in accordance with ISE's Amended Articles of Incorporation

(b) Initial Public Offering of the Company

On December 21, 2009, the Company filed a preliminary prospectus to qualify the distribution of its common shares. In addition, certain shareholders of the Company have granted to the underwriters an over-allotment option, exercisable, in whole or in part, at the sole discretion of the underwriters, for a period of 30 days from the closing of the initial public offering, to purchase from such shareholders up to such number of common shares as is equal to 15% of the common shares issued and sold by the Company pursuant to the offering. The Company will not receive any proceeds from the sale of common shares by the selling shareholders.

The Company intends to use the net proceeds from the issuance of common shares for (i) the repayment of the $6.2 million (in outstanding principal plus interest) of secured convertible promissory notes of ISE (2009 Bridge Notes) referred to in note 6, (ii) continued research and development of energy storage system technology, (iii) the purchase of additional capital equipment relating to the manufacturing and testing of our products, (iv) continued research and development of controls software and power electronics technology, and (v) expansion of sales and marketing capabilities in North American and internationally.

(c) Stock-Based compensation

In November 2009, the Board of Directors of ISE authorized the repricing of all outstanding stock options granted prior to November 2009 to $0.40 per share of common stock. The change was made in order to retain employees with a better prospect of exercising options at a profit. These options were accounted for in accordance with authoritative guidance for stock compensation modification guidance. The incremental compensation cost resulting from the modification was $145,000.

(d) 2009 Bridge Notes

On December 16, 2009, ISE entered into an agreement with the holders of the 2009 Bridge Notes to extend the maturity date of the 2009 Bridge Notes from December 31, 2009 to March 31, 2010.

CERTIFICATE OF THE COMPANY

Date: February 11, 2010

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador.

By: (Signed) Richard J. Sander
Chief Executive Officer

By: (Signed) David L. Morash
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) Alexander Ellis III
Director

By: (Signed) David R. Goodman
Director

CERTIFICATE OF UNDERWRITERS

Date: February 11, 2010

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador.

RAYMOND JAMES LTD.

By: (Signed) Jimmy Leung

RBC DOMINION SECURITIES INC.

By: (Signed) Robert Nicholson

CORMARK SECURITIES INC.

By: (Signed) Kelsen Vallee

JACOB SECURITIES INC.

By: (Signed) Dan Phaure

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