

ISCO INTERNATIONAL INC
Form DEF 14A
December 11, 2007

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant To Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

ISCO INTERNATIONAL, INC.
(Name Of Registrant As Specified In Its Charter)
(Name Of Person(S) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies: Common Stock, par value \$0.001 per share
(2)	Aggregate number of securities to which transaction applies: 40,000,000 shares of common stock
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \$0.25 (the average of the high and low trading prices of ISCO's common stock on AMEX on November 27, 2007)
(4)	Proposed maximum aggregate value of transaction: \$10,000,000
(5)	Total fee paid: \$2,000

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Fee paid previously with preliminary materials: \$2,000

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

1001 Cambridge Drive
Elk Grove Village, Illinois 60007

December 12 , 2007

Dear Stockholder:

On behalf of the board of directors, I cordially invite you to attend a Special Meeting of Stockholders of ISCO International, Inc., to be held at 10:00 am central time on December 27, 2007, at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL 60018.

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

- (1) To approve the merger of ISCO International, Inc. with Clarity Communication Systems Inc. ("Clarity") and the issuance of shares of our common stock to Jim Fuentes, the sole shareholder of Clarity and one of our directors, and the issuance of shares of our common stock from our 2003 Equity Incentive Plan, as amended (the "Plan") to Clarity Rightsholders to satisfy certain employee rights and interests, as described in the Proxy Statement;
- (2) To increase the number of authorized shares of common stock permitted by our certificate of incorporation, as described in the Proxy Statement;
- (3) To approve the increase in the amount of shares of common stock available under the Plan, as described in the Proxy Statement;
- (4) To approve the issuance of shares of common stock upon the conversion of notes issued in accordance with our debt restructuring in June 2007, as described in the Proxy Statement; and
- (5) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Special Meeting to adopt any of the Proposals.

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

It is important that your shares be represented whether or not you are able to be present at the Special Meeting. Please sign and date the enclosed proxy card and promptly return it to us in the enclosed postage paid envelope. Your vote is very important, regardless of the amount of stock that you own.

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

Sincerely,

Ralph Pini
Chief Executive Officer

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 27, 2007

To the Stockholders of
ISCO International, Inc.

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of ISCO International, Inc. (the "Company"), a Delaware corporation, will be held at 10:00 am central time on December 27, 2007, at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL 60018 for the following purposes:

- (1) To approve the merger of ISCO International, Inc. with Clarity Communication Systems Inc. ("Clarity") and the issuance of shares of our common stock to Jim Fuentes, the sole shareholder of Clarity and one of our directors, and the issuance of shares of our common stock from our 2003 Equity Incentive Plan, as amended (the "Plan") Clarity Rightsholders to satisfy certain employee rights and interests, as described in the Proxy Statement;
- (2) To increase the number of authorized shares of common stock permitted by our certificate of incorporation, as described in the Proxy Statement;
- (3) To approve the increase in the amount of shares of common stock available under the Plan, as described in the Proxy Statement;
- (4) To approve the issuance of shares of common stock upon the conversion of notes issued in accordance with our debt restructuring in June 2007, as described in the Proxy Statement; and
- (5) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt any of the Proposals.

The board of directors has fixed the close of business on November 30, 2007 as the record date for determining stockholders entitled to notice of, and to vote at, the Special Meeting. Only stockholders of record of the Company as of the close of business on November 30, 2007 will be entitled to vote at the Special Meeting. The Company will maintain a complete list of its stockholders entitled to vote at the Special Meeting at its headquarters located at 1001 Cambridge Drive, Elk Grove Village, IL for ten days prior to the date of the Special Meeting. If the Company has to adjourn the Special Meeting, then it will take action on the items described above on the date to which the Special Meeting is adjourned.

By Order of the Board,

Frank Cesario, Secretary

Elk Grove Village, IL
December 12, 2007

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1001 CAMBRIDGE DRIVE
ELK GROVE VILLAGE, ILLINOIS 60007

PROXY STATEMENT – GENERAL INFORMATION

The accompanying proxy is solicited on behalf of the board of directors (the “Board of Directors” or “Board”) of ISCO International, Inc., a Delaware corporation (sometimes referred to in the Proxy Statement as the “Company”, “ISCO”, “we”, “us”, or “our”), for use at the Special Meeting of Stockholders (the “Special Meeting”) to be held at 10:00 am central time on December 27, 2007 at the Marriott Suites Chicago O’Hare, 6155 North River Road, Rosemont, IL 60018, and any adjournment or postponement thereof. This Proxy Statement and accompanying proxy are first being mailed to stockholders on or about December 12, 2007.

Record Date and Outstanding Shares. The Board has fixed the close of business on November 30, 2007 as the record date (the “Record Date”) for the determination of stockholders entitled to notice of, and to vote at, the Special Meeting or any adjournment or postponement thereof. As of the Record Date, the Company had outstanding approximately 201 million shares of common stock, par value \$0.001 per share, (the “Common Stock”).

Each of the outstanding shares of Common Stock is entitled to one vote on all matters to come before the Special Meeting. As of the Record Date, none of the Company’s preferred stock, par value \$0.001 per share, was outstanding.

Matters To Be Voted On. Stockholders will be asked to approve the following proposals (collectively, the “Proposals”):

- (1) To approve (the “Merger Proposal”) the merger (the “Merger”) of ISCO International, Inc. with Clarity Communication Systems Inc. (“Clarity”) pursuant to the Agreement and Plan of Merger dated November 13, 2007 (the “Merger Agreement”), the issuance of shares of Common Stock to Jim Fuentes, the sole shareholder of Clarity and one of our directors, and the issuance of shares of Common Stock from our 2003 Equity Incentive Plan (the “Plan”), as amended, to certain Clarity rightsholders (the “Rightsholders”) to satisfy certain employee rights and interests;
- (2) To approve (the “Charter Amendment”) the increase in the number of authorized shares of Common Stock permitted by our certificate of incorporation;
- (3) To approve (the “Plan Amendment”) the increase in the amount of shares of Common Stock available under the Plan; and
- (4) To approve (the “Note Issuance”) the issuance of shares of Common Stock upon the conversion of the amended and restated notes (the “Notes”) issued in connection with our debt restructuring in June 2007 (the “Restructuring”).

We may also transact other business as may properly come before the special meeting or any adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt any of the Proposals.

Voting of Proxies. Mr. Ralph Pini and Mr. Frank Cesario, the persons named as proxies on the proxy card accompanying this Proxy Statement, were selected by the Board of the Company to serve in such capacity. Mr. Pini is serving as the Company’s interim Chief Executive Officer and is also a member of the Board and Mr. Cesario is the Company’s Chief Financial Officer. **Each executed and returned proxy will be voted in accordance with the directions indicated thereon, or if no direction is indicated, such proxy will be voted in accordance with the recommendations of the Board contained in this Proxy Statement.**

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

Required Votes. The affirmative vote of a majority of the shares of Common Stock present, in person or represented by proxy at the Special Meeting and entitled to vote on the matter is required to approve each of the Proposals.

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

Abstentions and broker non-votes will be included in determining the presence of a quorum. If your shares are held in the name of a bank or broker or other nominee, you will receive separate instructions from your bank, broker or other nominee describing how to vote your shares. The availability of telephonic or Internet voting will depend on the bank's or broker's voting process. Please check with your bank or broker and follow the voting procedures your bank or broker provides.

You should instruct your bank, broker or other nominee how to vote your shares. Although rules applicable to broker-dealers grant your broker discretionary authority to vote your shares without receiving your instructions on certain matters, your broker does not have discretionary authority to vote your shares for each of the Proposals. If your broker does not receive voting instructions from you regarding those proposals, your shares will not be voted on the Proposals.

Stockholder List. A list of stockholders entitled to vote at the Special Meeting, arranged in alphabetical order, showing the address and number of shares registered in the name of each stockholder, will be open to the examination of any stockholder for any purpose germane to the Special Meeting during ordinary business hours commencing on December 17, 2007 and continuing through the date of the Special Meeting at the principal offices of the Company, 1001 Cambridge Drive, Elk Grove Village, Illinois 60007.

Recommendation. The Board of Directors recommends that you vote **"FOR"** all of the Proposals.

Revocation of Proxies. If you wish to change your vote, please send a later-dated, signed proxy card to our Corporate Secretary at ISCO, prior to the date of the Special Meeting or attend the Special Meeting and vote in person. You also may revoke your proxy by sending a notice of revocation to our Corporate Secretary at the address of ISCO's corporate headquarters, provided such revocation is received prior to the Special Meeting.

Solicitation of Proxies. The Company will pay all expenses relating to this proxy solicitation. The Company reserves the right to retain a solicitation agent to assist in the solicitation of proxies. The Company will also request banks, brokers and other intermediaries holding shares of the Company's Common Stock beneficially owned by others to send this Proxy Statement to, and obtain proxies from, the beneficial owners and will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in so doing. Solicitation of proxies by mail may be supplemented through solicitation by telephone and other electronic means, advertisements and personal solicitation by the directors, officers or employees of the Company. No additional compensation will be paid to the Company's directors, officers or employees for soliciting votes in connection with the special meeting.

Who Can Help Answer Your Questions?

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

A Warning About Forward-Looking Statements

The Company makes forward-looking statements in this document. These forward-looking statements are subject to risks and uncertainties, including those that are enumerated under the heading “Risk Factors” in this Proxy Statement, the Company’s Annual Report to Stockholders on Form 10-K for the year ended December 31, 2006, as updated in the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, and in the Company’s other filings with the Securities and Exchange Commission. Such risks and uncertainties could cause actual results to differ materially from those projected. Therefore, there can be no assurance that such statements will prove to be correct. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “plans,” “believe,” “anticipates,” “expects,” “looks,” and “intends,” or the negative of such terms and similar terminology. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated events.

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SUMMARY OF THE ACQUISITION AND MATERIAL TERMS OF THE MERGER

The following summary provides an overview of the acquisition of all of the outstanding stock of Clarity through a merger in which our wholly-owned subsidiary, ISCO Illinois, Inc. (“Merger Subsidiary”) will merge with and into Clarity with Clarity being the surviving corporation and a wholly-owned subsidiary of our Company. We will issue shares of our Common Stock in connection with the Merger as described herein. This overview is not a complete summary of the transaction and may not contain all of the information that is important to you. You should carefully read this Proxy Statement and the attached annexes in their entirety. A copy of the Merger Agreement is attached to this Proxy Statement as Appendix A and is incorporated herein by reference.

The Companies

ISCO International, Inc.

1001 Cambridge Drive

Elk Grove Village, IL 60007

847-391-9400

ISCO is a leading global supplier of radio frequency management and interference-control systems for the wireless telecommunications industry. By integrating state-of-the-art filtering, duplexing and low noise amplifier technology, ISCO’s product portfolio is able to improve the performance of new and existing cellular deployments. ISCO now offers software-based, adaptive filtering solutions targeted at increasing the performance of CDMA and WCDMA wireless systems worldwide. ISCO maintains a website at <http://www.iscointl.com>. The information contained therein is not incorporated into this Proxy Statement.

Clarity Communication Systems Inc.

2640 White Oak Circle, Suite C

Aurora, IL 60502-4809

630-499-1234

Clarity is a leading provider of applications and platforms for the wireless industry. Its portfolio of applications for mobile devices includes end-to-end Push-to-Talk (“PTT”) solutions and Location-Based Services (“LBS”). Where2Talk, its latest product, combines PTT and LBS into one application. Clarity also offers custom development services that utilizes its core technologies and accelerates development time in an effort to help customers introduce new products and services quickly and cost-effectively. Founded in 1998, Clarity is a privately held company with headquarters in the Chicago area. Clarity maintains a website at <http://www.claritycsi.com>. The information contained therein is not incorporated into this Proxy Statement.

Clarity is owned by a single stockholder, Mr. Fuentes. However, certain employees, former employees, advisors and consultants hold rights to receive either cash or the same consideration Mr. Fuentes or Clarity receives in the event of a change in control of Clarity pursuant to Clarity’s Non-Qualified Phantom Stock Plan, as amended (the “Phantom Plan”). In addition, pursuant to separate At-Risk Compensation Plans (collectively, the “At-Risk Plan”), Mr. Fuentes and certain employees each agreed to suspend receipt of his or her salary for employment with Clarity for two and a half months in exchange for an amount equal to his or her accrued suspended salary (the “Suspended Salary”) in cash plus an

equal amount to be paid in equity securities (the “Enhanced Benefits”) received upon an acquisition of Clarity. The Suspended Salary would be paid by Clarity through its line of credit upon approval of, but prior to closing of the Merger.

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The Merger

ISCO and Clarity have agreed to the acquisition of Clarity by ISCO under the terms of the Merger Agreement that is described in this Proxy Statement. A special committee of disinterested members of our Board of Directors reviewed and negotiated the terms of the merger, received a fairness opinion by an independent financial advisor with respect to the financial terms of the Merger, and recommended to the full Board of Directors (excluding Mr. Fuentes) that it approve the Merger. In addition, in accordance with the rules of the American Stock Exchange (“AMEX”), the Audit Committee of our Board of Directors reviewed the terms of the Merger and recommended to the full Board of Directors that it approve the Merger. The full Board of Directors (excluding Mr. Fuentes) has approved the Merger on the terms and subject to the conditions of the Merger Agreement.

In addition, the board of directors and the sole stockholder of Clarity have approved the Merger on the terms and subject to the conditions of the Merger Agreement.

In the Merger, newly created ISCO Illinois, Inc. (“Merger Subsidiary”) will merge with and into Clarity with Clarity being the surviving corporation and a wholly-owned subsidiary of ISCO. In connection with the Merger, we are issuing shares of Common Stock in exchange for all of the shares of Clarity stock and to satisfy certain obligations of Clarity to its Rightsholders. We have attached the Merger Agreement to this Proxy Statement as Appendix A. We encourage you to carefully read the Merger Agreement in its entirety because it is the legal document that governs the Merger. For a description of the material terms of the Merger Agreement, please see the section titled “THE MERGER AGREEMENT” beginning on page 51 of this Proxy Statement.

Merger and Rights Consideration

Pursuant to the Merger Agreement, ISCO will issue up to an aggregate of 40 million shares (the “Shares”) of ISCO common stock in exchange for all of Clarity’s stock, which is held entirely by Mr. Fuentes, and satisfaction of the rights under the Phantom Plan and the Enhanced Benefits under the At-Risk Plan. Of the total number of Shares ISCO may issue in the Merger, 20 million Shares would be issuable upon closing (subject to adjustment if the amount of total liabilities, subject to certain exceptions, on Clarity’s closing balance sheet, including Clarity’s line of credit, exceeds \$1.5 million), 2.5 million Shares would be issuable on each of the first and second anniversaries of closing (the “Time-Based Shares”) (subject to any indemnification claims), and 3.75 million Shares would be issuable on each of the first dates on which ISCO’s equity market capitalization first equals or exceeds \$125,000,000, \$175,000,000, \$225,000,000 and \$275,000,000 within the three year period after closing of the Merger for at least 40 of the 45 consecutive trading days ISCO’s market capitalization equals such thresholds (the “Market-Based Shares”). The exact number of Shares issuable to Mr. Fuentes and the Rightsholders will depend on, among other things, whether any of the Time-Based Shares are used to satisfy indemnification claims or whether one or more Rightsholders forfeit their shares because their employment with ISCO following the closing of the Merger is terminated. In the event one or more Rightsholders forfeit their Shares prior to the closing of the Merger, the Shares allocated to Mr. Fuentes and the remaining Rightsholders will be adjusted upward on a pro-rata basis. Mr. Fuentes will be allocated approximately 65% of the Shares. No single Rightsholder will be allocated more than 2.75% of the Shares. Assuming Mr. Fuentes is issued all of the shares he is eligible to receive in connection with the Merger, Mr. Fuentes will beneficially own approximately 11% of ISCO’s outstanding Common Stock. We will pay off the amount of Clarity’s outstanding line of credit at closing, which we expect to be approximately \$1,000,000. For additional information please see the section titled “THE MERGER AGREEMENT – Merger and Rights Consideration” beginning on page 51 of this Proxy Statement.

In addition, we have agreed to reimburse certain professional fees and expenses of Clarity relating to the Merger up to an aggregate of \$375,000.

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Financing Condition

We will require additional capital as part of the costs anticipated with the Merger, as well as to support any significant quarterly revenue increases in the form of working capital or in any greater than expected expansion of our business and product offering that are expected to provide additional revenue opportunities. Further, as a condition to closing of the Merger, we will be required to obtain \$1.5 million in financing to fund the initial operations of the combined entity, which we expect to obtain through one of our existing lenders and on terms substantially similar to our current debt arrangements. The primary covenant in our existing debt arrangement involves the right of the lenders to receive debt repayment from the proceeds of new financing activities. In the event we need to look to sources other than our existing lenders for the financing required in the Merger, this covenant may restrict our ability to obtain new sources of financing and/or to apply the proceeds of such financing event toward the integration of the combined company until our existing debt is repaid in full. For a description of our debt arrangements, please see the Note Issuance Proposal beginning on page 68 of the Proxy Statement or our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, a copy of which is attached as Appendix E to this Proxy Statement. For additional information regarding the financing, please see the section titled “THE MERGER AGREEMENT – Financing Condition” beginning on page 53 of this Proxy Statement.

Other Conditions

In addition to the financing condition described above, the consummation of the Merger will depend on the satisfaction or waiver of a number of closing conditions by both ISCO and Clarity, including obtaining ISCO stockholder approval of the Merger, the issuance of the Shares, and the transactions contemplated thereby. These conditions are described in more detail in the section titled “THE MERGER AGREEMENT - Other Conditions Required for Closing” beginning on page 53 of this Proxy Statement.

Covenants and Other Agreements

The Merger Agreement contains certain covenants and agreements among the parties. For instance, Clarity has agreed to certain restrictions on the operations of its business and a no solicitation provision. In addition, the Merger Agreement contains certain other covenants and agreements, including, among others, covenants relating to:

- Access by ISCO to Clarity and Clarity information;
- Clarity maintaining the confidentiality of all non-public information of Clarity and ISCO and their respective operations;
 - Obligations to provide prompt notice to the other party upon the occurrence of certain events;
- ISCO using its commercially reasonable efforts to cause the shares of Common Stock issuable in connection with the Merger to be approved for listing on AMEX;
- ISCO taking commercially reasonable efforts to file a registration statement on Form S-8 prior to closing of the Merger; and
- Clarity taking commercially reasonable efforts to obtain by December 1, 2007 acknowledgements and releases from the Rightsholders regarding their share allocations.

The covenants and agreements are described in more detail in the section titled “Other Covenants and Agreements on page 55 of this Proxy Statement.

Termination of the Merger Agreement

ISCO and Clarity can mutually agree to terminate the Merger Agreement at any time without completing the Merger. In addition, either party may terminate the Merger Agreement if the Merger is not completed by January 31, 2008, or under other circumstances set forth in the Merger Agreement and described in this Proxy Statement. For additional information please see the section titled “THE MERGER AGREEMENT – Termination of the Merger Agreement beginning on page 58 of this Proxy Statement.

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Indemnification

ISCO, its officers, directors, employees, stockholders, successors, representatives and certain other parties will be entitled to indemnification in the event of losses resulting from, among other things, breaches of Clarity's representations and warranties, failure to perform covenants under the Merger Agreement and Clarity tax obligations solely and exclusively as provided in the Merger Agreement, other than for fraud. ISCO and these other parties will not be entitled to indemnification until the cumulative amount of all losses pursuant to indemnification claims exceeds \$150,000, and then only to the extent of any amounts that exceed \$150,000. The length of time in which to bring an indemnification claim and the amount by which ISCO or another indemnified party may be indemnified are subject to certain caps and time limits. For additional information regarding indemnification, please see the section titled "THE MERGER AGREEMENT – Indemnification beginning on page 59 of this Proxy Statement.

Employment Agreement with Jim Fuentes and Other Interests of Mr. Fuentes

In connection with the proposed Merger, ISCO and Mr. Fuentes intend to enter into an employment agreement for a term of 24 months following closing of the proposed transaction whereby Mr. Fuentes would earn an annual salary of \$240,000. Pursuant to the terms of the employment agreement, Mr. Fuentes will assist our Chief Executive Officer in the coordination and integration of Clarity's operations with our business and perform such other duties as the Chief Executive Officer may assign to Mr. Fuentes. The employment agreement would be subject to customary for-cause termination and severance payments in the event of termination without cause, and allows for the parties to modify or extend the employment agreement as may be mutually agreed. Mr. Fuentes will continue to serve on our Board at least for the remainder of his term.

In addition, we intend to enter into a registration rights agreement with Mr. Fuentes and certain Clarity Rightsholders pursuant to which we would agree to register the shares of Common Stock they receive in connection with the Merger for resale under the Securities Act on a Registration Statement on Form S-3, or other available form to be filed by us within 30 days after the closing of the Merger, subject to certain conditions. Assuming Mr. Fuentes is issued all of the shares he is eligible to receive in connection with the Merger, Mr. Fuentes would beneficially own approximately 11% of our outstanding Common Stock.

For additional information on these agreements, please see the section titled "THE MERGER AGREEMENT – Related Agreements beginning on page 60.

Risk Factors

In evaluating the Merger, the Merger Agreement or the issuance of the Shares, you should carefully read this Proxy Statement and especially consider the factors discussed in the section entitled "Risk Factors" on page 23 of this Proxy Statement.

Material United States Federal Income Tax Consequences of the Merger

The Merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Assuming the Merger qualifies as such a reorganization, for U.S. federal income tax purposes, Mr. Fuentes will generally not recognize a gain or loss with respect to his Clarity Common Stock exchanged in the Merger for shares of our common stock and the right to receive the Time-Based Shares and the Market-Based Shares, if any. However, a portion of the Time-Based Shares and the Market-Based Shares, if any, may be treated as taxable interest income to Mr. Fuentes at the time such shares are issued.

ISCO stockholders will not exchange their ISCO Common Stock in the Merger and accordingly will not recognize any taxable gain or loss as a result of the Merger.

Tax matters are very complicated. The tax consequences of the Merger to Mr. Fuentes will depend on his particular circumstances. Mr. Fuentes is urged to consult his tax advisors to determine the U.S. federal, state, local, foreign or other tax consequences of the Merger to him. For additional information please see the section titled “Material United States Federal Income Tax Consequences of the Merger” beginning on page 48.

Dissenters’ or Appraisal Rights

No dissenters’ or appraisal rights are available under applicable Delaware or Illinois law to either our stockholders or to the sole Clarity stockholder.

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Regulatory Matters

We believe the Merger and the transactions contemplated by the Merger Agreement are not subject to any federal or state regulatory requirement or approval, except for filings necessary to effectuate the transactions contemplated by the Merger Proposal with the Secretary of State of the State of Illinois and the Charter Amendment with the Secretary of State of the State of Delaware as well as compliance with applicable federal and state securities laws and the application for listing of the shares issuable in connection with the Merger with AMEX.

Related Proposals

Approval of the Merger is conditioned on the approval of certain related proposals we are asking our stockholders to consider at the Special Meeting and described in this Proxy Statement.

Increase in Authorized Shares of Common Stock pursuant to the Charter Amendment (see page 61). We are also seeking your consent to amend our certificate of incorporation to increase the number of shares of common stock that we are authorized to issue to 500 million shares of common stock from 250 million shares of common stock pursuant to the Charter Amendment described in this Proxy Statement. In addition to the Shares that will be paid as consideration in connection with the Merger, we issued convertible notes (the “Amended and Restated Notes”) to our two lenders, Alexander Finance, L.P. (“Alexander”) and Manchester Securities Corporation (“Manchester” and together with Alexander, the “Lenders”) in connection with our June 2007 debt restructuring. The Amended and Restated Notes and associated financing documents contain provisions that require us to increase the number of authorized shares under our certificate of incorporation to a number that would permit the Lenders to convert their Amended and Restated Notes into shares of Common Stock (the “Conversion Shares”). Without the approval of the Charter Amendment we will not be able to issue the Shares in connection with the Merger, and as a result the Merger will not be consummated, or issue the Conversion Shares. Further, if we are unable to issue the Conversion Shares, the interest rate on the Amended and Restated Notes will increase and we will be required to repay the Amended and Restated Notes, including any accrued interest thereon, upon the maturity date of the Amended and Restated Notes whether or not we have sufficient cash resources to do so. In addition, increasing the number of authorized shares of Common Stock will give us flexibility to compensate our directors and employees, including officers, finance future acquisitions, and raise additional capital in the future, if necessary, through sales of shares of Common Stock and future stock splits and stock dividends, if any, if the Board of Directors deems it in the our best interest to do so.

Increase in Available Shares of Common Stock pursuant to the Plan Amendment (see page 63). In addition, we would like to increase the amount of shares of Common Stock we have available under the Plan, primarily to be able to satisfy our obligation to issue Shares pursuant to the Merger Agreement to Rightsholders who will be new employees of the combined entity after the Merger pursuant to the terms and conditions governed by the Plan and with shares registered under the Securities Act. In addition, we seek to increase the amount of Common Stock available under the Plan to continue to be able to attract and retain quality employees within the combined entity.

Recommendation of ISCO’s Board of Directors

After careful consideration, our Board of Directors (other than Mr. Fuentes) based on the recommendation of the Special Committee of disinterested directors, has determined that the Merger is advisable, fair to and in the best interests of ISCO and its stockholders and recommends that you vote “**FOR**” adoption of the Merger Proposal. Our Board of Directors considered a number of factors in determining to approve the Merger Agreement and the issuance of the Shares pursuant to the Merger Agreement. These considerations are described in the section entitled “Reasons for the Merger” beginning on page 41 of this Proxy Statement.

In addition, the Board of Directors has determined that the other Proposals are advisable, fair to and in the best interests of, ISCO and its stockholders and recommends that you vote “**FOR**” adoption of the other Proposals.

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QUESTIONS AND ANSWERS ABOUT THE PROXY STATEMENT

Why am I receiving these materials?

You are receiving this Proxy Statement because you own shares of ISCO Common Stock. Our Board of Directors is providing these proxy materials to give you information for use in determining how to vote in connection with the Special Meeting of stockholders.

When and where is the special meeting?

The Special Meeting of ISCO stockholders will be held on December 27, 2007, beginning at 10:00 am central time at the Marriott Suites Chicago O'Hare, 6155 North River Road, Rosemont, IL.

What matters will be voted on at the special meeting?

As a stockholder of ISCO you will be asked to consider and vote on the following proposals (the "Proposals"):

- (1) To approve (the "Merger Proposal") the merger (the "Merger") of ISCO International, Inc. with Clarity Communication Systems Inc. ("Clarity") pursuant to the Agreement and Plan of Merger dated November 13, 2007 (the "Merger Agreement"), the issuance of shares of Common Stock to Jim Fuentes, one of our directors, and the issuance of shares of Common Stock from our 2003 Equity Incentive Plan (the "Plan"), as amended, to certain Clarity rightsholders (the "Rightsholders") to satisfy certain employee rights and interests;
- (2) To approve (the "Charter Amendment") the increase in the number of authorized shares of Common Stock permitted by our certificate of incorporation;
- (3) To approve (the "Plan Amendment") the increase in the amount of shares of Common Stock available under the Plan; and
- (4) To approve (the "Note Issuance") the issuance of shares of Common Stock upon the conversion of the amended and restated notes (the "Notes") issued in connection with our debt restructuring in June 2007 (the "Restructuring").

In addition, we may transact such other business as may properly come before the meeting or any adjournment or postponement thereof, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt any of the Proposals.

What is the proposed Merger?

The proposed transaction is the merger of Clarity Communication Systems Inc. with a wholly-owned subsidiary of ISCO ("Merger Subsidiary") pursuant to the Merger Agreement. Once the Merger Proposal has been approved and adopted by ISCO's stockholders and the other closing conditions under the Merger Agreement have been satisfied or waived, Merger Subsidiary will merge with and into Clarity. Clarity will be the surviving corporation in the Merger and thereby become a wholly-owned subsidiary of ISCO. A copy of the Merger Agreement is attached to this Proxy Statement as Appendix A, which we encourage you to read in its entirety.

Why does ISCO wish to conduct the Merger with Clarity?

We believe that the growth provided by an acquisition will strengthen our Company, diversify our product and service solutions and allow us to be more competitive as we continue to move toward a more software driven business model

within the wireless telecommunications industry. The telecommunications industry, particularly the wireless segment, has been consolidating for several years and continues to do so. Inherent benefits in a larger entity size include cost efficiencies in operations and sourcing, as well as diversity of products and markets, all of which would allow us to reduce our reliance on any particular element of the organization in the face of fluctuating customer spending patterns. For a more detailed discussion on our reasons for conducting the Merger, as well as other considerations that factored into our decision, please see the section titled “Reasons for Merger” beginning on page 41 of this Proxy Statement.

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What is the relationship among the proposals?

Approval of the Merger is conditioned on the approval of certain related proposals we are asking our stockholders to consider at the Special Meeting and described in this Proxy Statement, in particular an amendment (the “Charter Amendment”) to our certificate of incorporation to increase in the number of shares of Common Stock authorized for issuance and an amendment (the “Plan Amendment”) to our 2003 Equity Incentive Plan, as amended (the “Plan”), to increase the number of shares of Common Stock available for issuance under the Plan. Without the approval of the Charter Amendment, we will not be able to issue shares of Common Stock in the Merger, and therefore, we will not be able to complete the Merger. In addition, without the approval of the Charter Amendment, we will not be able to issue shares of Common Stock upon conversion of the Amended and Restated Notes. In that event, the interest rate on the Amended and Restated Notes will increase and we will need to repay the Amended and Restated Notes at maturity, which we may not have sufficient cash resources available to do. Further, if the Note Issuance is not approved, as a result of the failure to approve the Charter Amendment or otherwise, our ability to secure the \$1.5 million of additional financing required by the Merger Agreement may be adversely affected. For additional information on the Charter Amendment please see the description of the proposal beginning on page 61 of this Proxy Statement.

Without the approval of the Plan Amendment, we will not be able to issue shares of Common Stock registered under the Securities Act of 1933, as amended (the “Securities Act”), to the Rightsholders of Clarity who are expected to become employees of the combined company following the Merger. An exemption from registration for the issuance of such shares may not be available in that event. For additional information on the Plan Amendment, please see the description of the proposal beginning on page 65 of this Proxy Statement.

What will ISCO stockholders receive if the Merger occurs?

ISCO stockholders will continue to own their existing ISCO shares. However, those shares will represent a smaller proportion of the outstanding shares of the combined company due to the issuance of ISCO Common Stock to Mr. Fuentes and the Clarity Rightsholders in connection with the Merger. As a result of the Merger, depending upon whether all time and market capitalization milestones are reached, we estimate that current ISCO stockholders will own approximately 83% of ISCO’s Common Stock following the Merger (which does not account for any shares of ISCO Common Stock that may be issued upon conversion of the Amended and Restated Notes pursuant to the Note Issuance).

What will Clarity receive if the Merger occurs?

Pursuant to the Merger Agreement, ISCO will issue up to an aggregate of 40 million shares (the “Shares”) of ISCO Common Stock in exchange for all of Clarity’s stock, which is held entirely by Mr. Fuentes, and satisfaction of the rights under the Phantom Plan and the Enhanced Benefits under the At-Risk Plan. Of the total number of Shares ISCO may issue in the Merger, 20 million Shares would be issuable upon closing (subject to adjustment if the amount of total liabilities, subject to certain exceptions, on Clarity’s closing balance sheet, including Clarity’s line of credit, exceeds \$1.5 million), 2.5 million Time-Based Shares would be issuable on each of the first and second anniversaries of closing (subject to any indemnification claims pursuant to the Merger Agreement), and 3.75 million Market-Based Shares would be issuable on each of the first dates on which ISCO’s equity market capitalization first equals or exceeds \$125,000,000, \$175,000,000, \$225,000,000 and \$275,000,000 for at least 40 of the 45 consecutive trading days ISCO’s market capitalization equals such thresholds within the three year period after closing of the Merger. The exact number of Shares issuable to Mr. Fuentes and the Rightsholders will depend on, among other things, whether any of the Time-Based Shares are used to satisfy indemnification claims or whether one or more Rightsholders forfeit their shares because their employment with ISCO following the closing of the Merger is terminated. In the event one or more Rightsholders forfeit their Shares prior to the closing of the Merger, the Shares allocated to Mr. Fuentes and the remaining Rightsholders will be adjusted upward on a pro-rata basis. Mr. Fuentes will be allocated approximately

65% of the Shares. Subject to the possibility of this reallocation, no single Rightsholder will be allocated more than 2.75% of the Shares. Assuming Mr. Fuentes is issued all of the Shares he is eligible to receive in connection with the Merger, Mr. Fuentes will beneficially own approximately 11% of ISCO's outstanding common stock. For additional information please see the section titled "THE MERGER AGREEMENT – Merger and Rights Consideration" beginning on page 51 of this Proxy Statement.

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How does ISCO's Board of Directors recommend that I vote my shares?

The Board of Directors recommends that you vote "FOR" all of the Proposals.

You should read the Risk Factors section beginning on page 23 of this Proxy Statement for a discussion of the material risks pertinent to and surrounding the Merger. In addition, in considering the proposed Merger, you should be aware that some of our directors and executive officers have interests in the Merger that may be different from, or in addition to, the interests of our stockholders generally. See the section titled "Interests of Directors and Officers in the Merger" beginning on page 47 of this Proxy Statement.

Did ISCO receive a fairness opinion in connection with the Merger?

The Special Committee of ISCO's Board of Directors engaged Appraisal Economics, Inc. ("AEI") as its independent financial advisor to assist the Special Committee in determining whether to recommend to the full Board to approve the Merger and the transactions contemplated thereby. AEI rendered a fairness opinion to the Special Committee regarding its opinion as to the fairness, from a financial point of view to ISCO and its stockholders, of the consideration payable in connection with the Merger. A summary of AEI's fairness opinion is described in the section titled "Opinion of Appraisal Economics, Inc., Financial Advisor to ISCO's Special Committee of the Board of Directors" beginning on page 42. The full text of AEI's fairness opinion is attached to the Proxy Statement as Appendix B.

How is ISCO paying for the Merger?

ISCO will be issuing new shares of Common Stock in the Merger in exchange for all of the capital stock of Clarity and to satisfy certain obligations to Clarity employees and interests triggered upon a change of control of Clarity. ISCO will pay off Clarity's outstanding line of credit at closing, which we expect to be approximately \$1.0 million. As a condition to the Merger, ISCO will obtain financing in an aggregate amount of \$1.5 million, which is expected to come from one of ISCO's existing lenders on terms expected to be substantially similar to ISCO's existing debt. For a description of ISCO's current debt arrangement, please see the Note Issuance Proposal beginning on page 68 of the Proxy Statement and ISCO's Current Report on Form 10-Q for the quarter ended September 30, 2007 attached as Appendix E to this Proxy Statement.

When do you expect the Merger to be completed?

Assuming ISCO's stockholders approve the Merger Proposal, the Charter Amendment and the Plan Amendment, the Merger will be completed within three business days after the satisfaction or waiver of the other conditions to closing of the Merger. For a description of these conditions, please see page 53 of the Proxy Statement.

Who is entitled to vote?

Holders of the Company's Common Stock of record at the close of business on November 30, 2007, the record date, will be entitled to one vote per share. On the record date, ISCO had approximately 201 million shares of Common Stock outstanding.

What vote is required to approve the Merger Proposal and the other Proposals?

The affirmative vote of a majority of the shares of Common Stock issued and outstanding present, in person or represented by proxy at the Special Meeting and entitled to vote is required to approve the Merger Proposal as well as the other Proposals.

What happens if the Merger Proposal is not approved?

If the Merger Proposal is not approved, or if the Charter Amendment or the Plan Amendment are not approved, we will not be able to close the Merger and the transaction will be abandoned.

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What if the Note Issuance is not approved?

If the Note Issuance is not approved, we will be unable to issue the Conversion Shares upon conversion of the Amended and Restated Notes. Further, if we are unable to issue the Conversion Shares, the interest rate on the Amended and Restated Notes would increase and we would be required to repay the Amended and Restated Notes, including any accrued interest thereon, upon the maturity date of the Amended and Restated Notes, whether or not we have sufficient cash resources to do so. Further, if the Note Issuance is not approved, our ability to secure the \$1.5 million of additional financing required by the Merger Agreement may be adversely affected.

What will happen if I abstain from voting or fail to vote?

Each of the Proposals requires the affirmative vote of a majority of the shares of ISCO's Common Stock present in person or by proxy and entitled to vote at the Special Meeting. Therefore, a failure to vote or an abstention will have the effect of a vote against each of the Proposals.

If my shares are held in "street name" by my broker will my broker vote my shares for me?

If you hold your shares in "street name," your bank or broker cannot vote your shares with respect to any of the Proposals without specific instructions from you, which are sometimes referred to in this Proxy Statement as the broker "non-vote" rules. If you do not provide instructions with your proxy, your bank or broker may deliver a proxy card expressly indicating that it is NOT voting your shares; this indication that a bank or broker is not voting your shares is referred to as a "broker non-vote." Broker non-votes will be counted for the purpose of determining the existence of a quorum, but will not count for purposes of determining the number of votes cast at the Special Meeting. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares in accordance with directions you provide to your broker.

What do I do if I want to change my vote?

If you wish to change your vote, please send a later-dated, signed proxy card to our Corporate Secretary at ISCO prior to the date of the Special Meeting or attend the Special Meeting and vote in person. You also may revoke your proxy by sending a notice of revocation to our Corporate Secretary at the address of ISCO's corporate headquarters, provided such revocation is received prior to the Special Meeting.

Who can help answer my questions?

If you have questions about any of the Proposals, you may write or call ISCO International, Inc. at 1001 Cambridge Drive, Elk Grove Village, IL 60007 (847) 391-9400, Attention: Frank Cesario. You may also obtain additional information about ISCO from documents filed with the Securities and Exchange Commission ("SEC") by following the instructions in the section entitled "Where You Can Find More Information".

Table of Contents**SELECTED HISTORICAL FINANCIAL INFORMATION****Selected Historical Financial Information of ISCO**

The following selected historical consolidated financial data should be read in conjunction with ISCO's consolidated financial statements and related notes and ISCO's Management's Discussion and Analysis of Financial Condition and Results of Operations included in ISCO's Annual Report on Form 10-K for the year ended December 31, 2006 attached as Appendix F to this Proxy Statement, and Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which is attached as Appendix E to this Proxy Statement. The consolidated statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from audited consolidated financial statements, which are included in Appendix F to this Proxy Statement. The consolidated statement of operations data for the years ended December 31, 2002 and 2003 and the consolidated balance sheet data as of December 31, 2002 and 2003 have been derived from audited consolidated financial statements not included or incorporated by reference in this Proxy Statement. The consolidated statement of operations data for the nine months ended September 30, 2006 and September 30, 2007 and the consolidated balance sheet data as of September 30, 2007 have been derived from unaudited condensed consolidated financial statements provided in Appendix E to this Proxy Statement and, in the opinion of ISCO, include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of this information when read in conjunction with the ISCO audited consolidated financial statements and related notes provided in this Proxy Statement. The consolidated statement of operations data presented below is not necessarily indicative of results for any future period.

**CONSOLIDATED STATEMENT OF
OPERATIONS DATA**

	Unaudited nine months ended Sept 30, 2007	Unaudited nine months ended Sept 30, 2006	Year ended Dec 31, 2006	Year ended Dec 31, 2005	Year ended Dec 31, 2004	Year Ended Dec 31, 2003	Year Ended Dec 31, 2002
Net sales	\$ 6,300,357	\$ 11,205,308	\$ 14,997,320	\$ 10,264,428	\$ 2,621,933	3,238,402	\$ 3,662,805
Costs and expenses:							
Cost of sales	3,633,283	6,739,266	9,066,929	5,121,650	1,527,554	1,639,540	3,565,140
Research and development	2,004,003	1,390,374	2,011,652	1,767,447	1,119,406	988,425	2,737,084
Selling and marketing	1,808,800	2,472,426	3,207,882	1,861,065	1,164,830	959,798	2,201,195
General and administrative	3,185,141	3,152,764	4,287,080	3,691,070	4,757,935	5,614,492	7,972,948
Operating loss	(4,330,870)	(2,549,522)	(3,576,223)	(2,176,804)	(5,947,792)	(5,963,853)	(12,813,562)
Other income							
(Expense)							
Interest income	70,387	97,885	118,590	77,383	8,660	5,087	62,954
Interest expense	(759,501)	(646,344)	(907,351)	(877,461)	(1,028,169)	(1,197,309)	(327,224)
	(689,114)	(548,459)	(788,761)	(800,078)	(1,019,509)	(1,192,222)	(264,270)

Total other
expense, net

Net loss	\$ (5,019,984)	\$ (3,097,981)	\$ (4,364,984)	(2,976,882)	\$ (6,967,301)	(7,156,075)	\$ (13,077,832)
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Basic and
diluted loss
per

common share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.09)
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Weighted
average
number of
common
shares

outstanding	193,433,000	184,705,000	185,506,261	170,786,657	158,977,249	148,080,749	142,884,921
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SHEET DATA**

	Unaudited as of	Unaudited as of	Year ended	Year ended	Year ended	Year	Year Ended
	Sept 30,	Sept 30,	Dec 31,	Dec 31,	Dec 31,	Ended Dec	Dec 31,
	2007	2006	2006	2005	2004	31, 2003	2002
Cash and cash equivalents	\$ 2,782,761	\$ 4,173,382	\$ 2,886,476	\$ 3,486,430	\$ 402,391	346,409	\$ 216,119
Working capital	6,816,455	(847,927)	(1,422,309)	6,396,541	979,413	735,840	1,333,827
Total assets	22,460,653	27,468,474	26,875,195	22,905,633	17,133,752	17,723,035	19,183,000
Total debt, with related parties	15,363,070	16,166,712	5,131,762	10,520,369	7,500,000	5,000,000	2,000,000
Stockholders' equity	5,797,377	8,720,182	8,164,192	10,530,716	7,247,635	10,943,247	15,380,306

Table of Contents**Selected Historical Financial Information of Clarity**

The following selected historical consolidated financial data should be read in conjunction with the Clarity consolidated financial statements and related notes included elsewhere in this Proxy Statement, and “Clarity Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Proxy Statement. The consolidated statement of operations data for the year ended December 31, 2006 and the consolidated balance sheet data as of December 31, 2006 have been derived from Clarity’s audited consolidated financial statements, included elsewhere in this Proxy Statement. The consolidated statement of operations data for the years ended December 31, 2002, 2003, 2004, and 2005 and the consolidated balance sheet data as of December 31, 2002, 2003, 2004, and 2005 have been derived from unaudited consolidated financial statements not included in this Proxy Statement. The consolidated statement of operations data for the nine months ended September 30, 2006 and 2007, respectively, and the consolidated balance sheet data as of September 30, 2007 have been derived from the unaudited condensed consolidated financial statements included elsewhere in this Proxy Statement and, in the opinion of Clarity, include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of this information when read in conjunction with the Clarity audited consolidated financial statements and related notes included elsewhere in this Proxy Statement. The consolidated statement of operations data presented below are not necessarily indicative of results for any future period.

**CONSOLIDATED STATEMENT OF
OPERATIONS DATA**

	Unaudited nine months ended Sept 30, 2007	Unaudited nine months ended Sept 30, 2006	Year ended Dec 31, 2006	Unaudited Year ended Dec 31, 2005	Unaudited Year ended Dec 31, 2004	Unaudited Year Ended Dec 31, 2003	Unaudited Year Ended Dec 31, 2002
Net sales	\$ 2,852,911	\$ 7,692,158	\$ 8,983,165	\$ 9,856,500	\$ 6,174,459	9,126,655	\$ 8,577,615
Costs and expenses:							
Cost of sales	1,180,516	2,467,115	3,025,314	4,469,774	1,797,031	2,109,282	4,814,252
Research and development	2,330,075	3,026,874	4,131,878	2,862,636	2,759,326	4,359,558	1,273,398
Selling and marketing	269,185	272,559	383,774	243,354	170,456	218,033	105,336
General and administrative	930,088	1,064,109	1,402,909	1,654,015	1,237,875	1,514,887	1,564,649
Operating income (loss)	(1,856,953)	861,501	39,290	626,721	209,771	924,895	819,980
Other income (expense)							
Interest income (expense), net	(58,578)	26,680	29,324	13,271	11,073	36,254	87,067
Other income (expense), net	91,806	-	-	(27,595)	(1,010)	(13,130)	(18,013)
Total other income (expense), net	33,228	26,680	29,324	(14,324)	10,063	23,124	69,054

Net income (loss)	\$ (1,823,725)	\$ 888,179	\$ 68,614	612,397	\$ 219,834	948,019	\$ 889,034
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Basic and diluted income (loss) per common share	\$ (1,824)	\$ 888	\$ 68	\$ 612	\$ 220	\$ 948	\$ 889
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Weighted average number of common shares outstanding	1,000	1,000	1,000	1,000	1,000	1,000	1,000
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Table of Contents**CONSOLIDATED BALANCE
SHEET DATA**

	Unaudited as of Sept 30, 2007	Unaudited as of Sept 30, 2006	As of Dec 31, 2006	As of Dec 31, 2005	Unaudited as of Dec 31, 2004	Unaudited as of Dec 31, 2003	Unaudited as of Dec 31, 2002
Cash and cash equivalents	\$ 199,537	\$ 1,480,390	\$ 1,547,831	\$ 3,592,770	\$ 490,689	2,535,529	\$ 3,306,393
Working capital	(2,399,095)	1,662,950	(607,114)	2,911,548	2,595,309	2,635,221	2,569,967
Total assets	852,604	2,329,650	2,730,072	5,793,930	3,026,132	3,324,915	3,862,824
Total debt, with related parties	2,074,712	-	2,000,000	-	-	-	-
Stockholders' equity (deficit)	(2,095,477)	2,543,585	(276,689)	3,278,409	2,739,815	2,820,473	2,917,356

Table of Contents**SELECTED QUARTERLY FINANCIAL INFORMATION**

The following selected quarterly financial data should be read in conjunction with ISCO's consolidated financial statements and related notes and ISCO's Management's Discussion and Analysis of Financial Condition and Results of Operations included in ISCO's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which is attached as Appendix E to this Proxy Statement, with respect to ISCO, and the Clarity consolidated financial statements and related notes included elsewhere in this Proxy Statement, and "Clarity Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Proxy Statement, with respect to Clarity. The information for the quarters ended September 30, 2006 and 2007 have been derived from unaudited consolidated financial statements included elsewhere in this Proxy Statement. The information for other quarters have been derived from unaudited consolidated financial statements not included in or incorporated into this Proxy Statement. The selected quarterly financial information presented below is intended to be a summary only and is not necessarily indicative of results for any future period.

Selected ISCO Quarterly Financial Information

	2007 Quarter Ended		
	March 31	June 30	September 30
	(in thousands of U.S. dollars except per share amounts)		
Net Sales	\$ 953	\$ 3,423	\$ 1,924
Gross Profit	244	1,720	703
Net Loss	(2,397)	(832)	(1,791)
Loss per Share	\$ (0.01)	\$ (0.00)	\$ (0.01)

	2006 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	\$ 1,326	\$ 3,446	\$ 6,433	\$ 3,792
Gross Profit	495	1,387	2,583	1,464
Net Loss	(1,700)	(1,231)	(167)	(1,267)
Loss per Share	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.01)

	2005 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	\$ 3,293	\$ 2,484	\$ 2,037	\$ 2,450
Gross Profit	1,372	1,290	1,265	1,216
Net Loss	(482)	(811)	(596)	(1,088)
Loss per Share	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)

Table of Contents**Selected Clarity Quarterly Financial Information****2007 Quarter Ended**

	March 31	June 30	September 30
	(in thousands of U.S. dollars except per share amounts)		
Net Sales	\$ 1,163	\$ 928	\$ 762
Gross Profit	771	525	377
Net Loss	(740)	(610)	(473)
Loss per Share	\$ (740)	\$ (610)	\$ (473)

2006 Quarter Ended

	March 31	June 30	September 30	December 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	\$ 3,731	\$ 2,705	\$ 1,256	\$ 1,291
Gross Profit	2,720	1,920	576	742
Net Income (Loss)	1,354	455	(931)	(809)
Loss per Share	\$ 1,354	\$ 455	\$ (931)	\$ (809)

2005 Quarter Ended

	March 31	June 30	September 30	December 31
	(in thousands of U.S. dollars except per share amounts)			
Net Sales	\$ 2,313	2,538	2,569	2,435
Gross Profit	1,175	1,424	1,477	1,310
Net Loss	254	250	190	(82)
Loss per Share	\$ 254	250	190	(82)

Table of Contents**UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION**

The accompanying unaudited pro forma combined consolidated financial statements present financial information from the ISCO and Clarity unaudited pro forma combined consolidated statement of operations for the nine months ended September 30, 2007 and for the year ended December 31, 2006 and the unaudited pro forma combined consolidated balance sheet as of September 30, 2007 is based on the historical balance sheets of ISCO and Clarity as of that date. The unaudited pro forma combined consolidated statement of operations is presented as if the Merger had occurred on the first day of the period (*i.e.*, October 1, 2007). The unaudited pro forma combined consolidated balance sheet gives effect to the transaction as if it occurred on September 30, 2007. The unaudited pro forma combined consolidated financial data are based on estimates and assumptions, which are preliminary and subject to change, as set forth in the notes to such statements and which are provided for information purposes only. The unaudited pro forma combined consolidated financial data are not necessarily indicative of the financial position or operating results that would have been achieved had the Merger been consummated as of the dates indicated, nor are they necessarily indicative of future financial position or operating results. This information should be read in conjunction with the historical financial statements and related notes of ISCO and Clarity included this Proxy Statement.

Unaudited Pro Forma Balance Sheets as of September 30, 2007
As of September 30, 2007

	Historical		Pro Forma		
	ISCO	Clarity	Adjustments		Combined
Assets:					
Current Assets:					
Cash and					
Equivalents					
Inventory	\$ 2,782,761	\$ 199,537	\$ (375,000)	A	\$ 2,607,298
Accounts					
Receivable, net	3,820,067	-			3,820,067
Prepaid Expenses					
and Other	889,908	274,524			1,164,432
Total Current					
Assets	80,485	74,925			155,410
Property and					
Equipment	7,573,221	548,986	(375,000)		7,747,207
Less:					
Accumulated					
Depreciation	1,407,530	819,421	(99,183)	B	2,127,768
Net Property and					
Equipment	(909,363)	(588,303)	20,347	B,K	(1,477,319)
Restricted					
Certificates of					
Deposit	498,167	231,118	(78,836)		650,449
Goodwill					
	170,648	-			170,648
Intangible assets,					
net	13,370,000	-	7,525,353	C	20,895,353
Total Assets					
	\$ 22,460,653	\$ 852,604	\$ 7,171,517		\$ 30,484,774
Liabilities and					
Stockholders'					
Equity:					

Current Liabilities:					
Accounts Payable					
Inventory-related material purchase accrual	\$ 224,087	\$ 172,543		\$ 396,630	
Employee-related accrued liability	84,607	-		84,607	
Accrued professional services	184,730	350,635		535,365	
Other accrued liabilities and current deferred revenue	46,000	-	400,000	D	446,000
Current Portion of LT Debt, including related interest, with related parties	217,342	350,191		567,533	
Total Current Liabilities	-	2,074,712	(2,074,712)	E	-
	\$ 756,766	\$ 2,948,081	\$ (1,674,712)		\$ 2,030,135

Deferred facility reimbursement	\$ 91,250	-		\$ 91,250	
Deferred revenue - non current	128,040	-		128,040	
Notes and related accrued interest with related parties	15,363,070	-		15,363,070	
Accrued interest payable, with related parties	324,150	-		324,150	
Stockholders' equity:					
Preferred stock	-				
Common stock	200,508	1,000	24,000	F,G	225,508
Treasury Stock	(64,600)				(64,600)
Additional paid-in capital	175,086,385	9,000	6,716,000	F,G	181,811,384
Accumulated deficit	(169,425,256)	(2,105,477)	2,106,229	F,K	(169,424,504)
Total Shareholders' Equity	\$ 5,797,377	\$ (2,095,477)	\$ 8,846,229		\$ 12,548,129
Total Liabilities and Shareholders' Equity	\$ 22,460,653	\$ 852,604	\$ 7,171,517		\$ 30,484,774

A - \$375,000 to be paid upon closing

Asset Liability Equity

for Clarity's
reimbursable
transaction costs

B - Assets that are
not expected to be
included in the
transaction (leased
autos), net of
accumulated
depreciation

(375,000)

C - Total cost estimated at \$7,525,000, including
\$6,750,000 in equity value (20 million up front
shares plus 5 million time vest shares x \$0.27 per
share closing price of ISCO stock on AMEX)

(79,588)

plus \$375,000 paid for Clarity's closing reimbursable costs plus an estimated \$400,000
of transaction fees

7,525,353

to be paid directly by ISCO

100,000

D - Estimated
transaction fees to
be paid directly by
ISCO

E - Liabilities that
are excluded from
the transaction -
notes and related
accrued interest to
related party (sole
shareholder) of
Clarity.

400,000
(2,074,712)

F - Termination of historical capital accounts of seller (\$1,000 common
stock, \$9,000 APIC, and \$2,105,477 of negative retained earnings.

2,095,477

G - Recording of newly issued
stock of \$25,000 common stock
and \$6,725,000 of APIC.

6,750,000

K - Impact of
adjustments in the
income statement
for the period.

752

752

Average of five
closing days prior
to September 30,
2007 was \$0.27
per share on
AMEX.

7,171,517 (1,674,712) 8,846,229

Table of Contents**Unaudited Pro Forma Statements of Operations as of September 30, 2007****Nine Month Period Ended September 30, 2007**

	Historical		Pro Forma		
	ISCO	Clarity	Adjustments		Combined
Net Sales	\$ 6,300,357	\$ 2,852,911			\$ 9,153,268
Costs and Expenses:					
Cost of Sales	3,633,283	1,180,516			4,813,799
Research and Development	2,004,003	2,330,075	10,000	B,C	4,344,078
Selling and Marketing General and Administrative	1,808,800	269,185			2,077,985
	3,185,141	930,088	(10,752)	B,C	4,104,477
Total Costs and Expenses	\$ 10,631,227	\$ 4,709,864	\$ (752)		\$ 15,340,339
Operating (Loss) Income	(4,330,870)	(1,856,953)	752		(6,187,071)
Other Income (Expense):					
Interest Expense, net of interest income	(689,114)	(58,578)	74,712	E	(672,980)
Other Income (Expense) Other Income (Expense), net	\$ (689,114)	\$ 91,806	\$ 33,228		\$ 91,806
			\$ 74,712		\$ (581,174)
Net Loss (Income)	\$ (5,019,984)	\$ (1,823,725)	\$ 75,464		\$ (6,768,245)
Basic and diluted loss per share	\$ (0.03)	\$ (0.09)			\$ (0.03)