

ISCO INTERNATIONAL INC

FORM 8-K

(Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934.**

Date of Report: October 25, 2007
(Date of earliest event reported)

ISCO International, Inc.
(Exact name of registrant as specified in its charter)

DE
(State or other jurisdiction
of incorporation)

001-22302
(Commission File
Number)

36-3688459
(IRS Employer
Identification Number)

**1001 Cambridge Drive, Elk Grove Village,
IL**
(Address of principal executive offices)

60007
(Zip Code)

847-391-9400
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

The company disclosed third quarter 2007 financial results.

Item 7.01. Regulation FD Disclosure

Pursuant to a proposed merger transaction, the company disclosed its related remarks to shareholders on an investor call.

Opening Comments for 10/25/07 ISCO investor call

Good afternoon, thanks for joining the call. I'm Ralph Pini, the Chairman of ISCO International's Board of Directors. I'm joined by John Thode, CEO, and by Frank Cesario, our CFO, who will read the Safe Harbor statement.

(After reading safe harbor, Frank continues...)

By now you should have seen the financial results from the third quarter. If not, please visit our website or send a request to our investor relations lines.

We reported revenue of approximately \$2 million for the third quarter, generally consistent with the average quarterly revenue of the first half of the year. We also reported quarterly and year to date gross margin figures of 37% and 42%, respectively. Our gross margin for the full year last year was 40%, so even at a lower total revenue run rate we've managed to drive improvements in our efficiency metrics.

On a cash flow basis, we show net losses of approximately \$1 million for the quarter and \$3 million for the year to date, again, fairly consistent during the year. The net result was a loss of a penny per share. These results include increased spending on product development for the Q4 launch activities. Cash and cash equivalents on hand are approximately the same as we enter Q4 as they were entering Q3 as we continued to more efficiently manage our inventory and strategic suppliers.

Due to the successful deployment of a new product, we entered the fourth quarter with roughly \$1 million in order backlog that we expect to fulfill during the quarter.

While we all certainly worked for results more in line with our record Q3 last year, spending and structural changes in the US markets we serve continue to be challenging as you seen from announcements from almost all OEM and after-market infrastructure suppliers. This continues to support our ongoing strategy to differentiate and diversify our portfolio.

I'd like to turn it over to our Chairman, Ralph Pini. Ralph?

Ralph: Thanks Frank.

I'm pleased to join you today to provide some insight on the proposed merger with Clarity Communication Systems that we announced earlier in the month. This proposed merger is very consistent with our strategy to continue to evolve our business to support incremental and sustainable long term growth and to accelerate the development of our strategic products. For those who aren't aware, Clarity is a private company based near Chicago with 35 people, primarily real-time software engineers with extensive telecommunication experience, who develop and sell value-added applications for mobile networks and devices, such as push-to-talk, location based services, and some exciting combinations of the two platforms. Clarity has commercialized some of these services through a hosted service targeted at 2nd and 3rd tire operators and is trialing others, including applications targeted at interoperability between commercial and public safety networks. For those who have been following the 700 MHz spectrum auctions, interoperability with public safety continues to be a challenge nationally and is an area where there will be substantial investment in the next several years. In addition during this call, we will report progress on our existing strategic products previously announced.

As we look at the wireless telecommunications market segment, along with recent announcements from some of the largest entities, we have seen that capital spending tends to be somewhat unpredictable and at times it is related to consumer adoption of new services. To reduce volatility in our results, our strategic intent has been to expand our addressable market and diversify our portfolio to mitigate this risk. Our customers and competitors have been focused on consolidation for growth and competitive advantage for the last several years. There is a significant benefit to size and scale in this business today and any reasonably priced, synergistic opportunity that allows us to achieve these benefits is important to act upon. Perhaps more importantly from a strategic view, the sustaining value of any partnership is the combined competencies, skills and technical assets of the combined teams. As a result of this proposed merger we believe Clarity's software skills will support and complement our hardware talent and will add significant value to our company and our shareholders.

Going forward, as we've indicated previously, our strategic intent continues to be to expand the addressable market for our adaptive interference management platform beyond an after-market standalone cellular product. This would include fully software based solutions sold directly into the infrastructure and mobile device OEM channels, as well as optimized solutions targeted at the higher growth segments of the market including WiFi, WiMax, Femto-cells, Distributed-Antenna-Systems, and Remote-Radio-Heads. We see the proposed merger with Clarity as an opportunity to accelerate our ability to address these significant emerging markets, in a timely manner, with the necessary complementary technical and channel expertise to do so.

In addition to the strategic perspective, we see significant near-term synergies between ISCO and Clarity. Our customers and channels are complementary and offer an opportunity to grow sales of both portfolios significantly. As you all know, ISCO has been selling to the largest wireless operators in the US for some time while Clarity has been selling to OEMs, tier 2/3 operators, and systems integrators addressing the public safety markets. The bottom line is from both a strategic and tactical perspective we believe the proposed merger with Clarity affords us a distinctly competitive advantage to support sequential near term growth and address significantly broader, high growth segments.

During the upcoming weeks we will continue to provide you with updates on this merger, which we hope will culminate in a shareholder's vote by the end of the year.

Before I finish, I'd also like to share some good news regarding our DIF product. I'm pleased to confirm that the fully digital platform targeted at the after-market, code named DIF, will indeed be completed during the current quarter and delivered commercially. DIF is an extremely important step in our Adaptive Interference Management portfolio and strategy and we are very excited at its imminent commercialization. The initial deployments may well be in Latin America and Europe, though we fully expect to target the US market as well. Lastly, as I know John and Frank have mentioned on previous calls, we continue to receive significant interest in derivatives of this platform for other differentiated applications. As an example, one of these derivatives we call TSF, or Tunable-Site-Filter, allows for a WEB-based, remotely tuned, multi-band selectable front end filter. This product derivative has received considerable customer interest and is currently in trial with a tier 1 US operator. This is one example of a number of product variants we expect will commercially emerge from this platform.

As you also read, John Thode will be leaving us shortly. I'd like to thank John for his outstanding service to ISCO during the past three years. He has been instrumental in shaping the strategy that we are executing on today, and will continue to execute on after he leaves. I want to wish John and his family the best since he is also embarking on a new and very challenging job, John?

John: Thanks, Ralph. While nothing is easy in this business, and we are not alone in terms of infrastructure providers who expected a higher run rate of revenue during Q3, I am pleased by how we have continued to implement the big picture view of the company, in some ways accelerating some of our longer term goals.

As Ralph mentioned, we announced that I am leaving to join a large Fortune 500 company. I want you to know that it was not a decision I made easily. I was invited to join by people for whom I have great respect and given an outstanding offer to do exactly the kind of thing I like to do. I am disappointed that I won't be able to directly lead ISCO any longer, but I intend to continue to support ISCO as a director, and, frankly, couldn't leave you with a better team of people. I believe we developed a clear strategy and we are executing on that strategy through today. The acquisition of Clarity accelerates a piece of that strategy in a unique and differentiated way. I can also say we have complete confidence that the people here will not allow my departure to impact the Company's direction or sense of urgency.

I turn the floor back over to Ralph and then look forward to your questions. Ralph?

Ralph: Thanks, John.

Just as a final note on some of the most strategic and important opportunities we are currently addressing let me start out with some work we are doing with a large multi-nation Latin American telecom operator. We are beginning a trial in Latin America for the DIF platform as we speak something we believe has significant near-term revenue

opportunity. We are also finalizing evaluations with two large operators in Europe, ISCO's first real penetration into Europe. Both of these are need-to-have applications involving the legitimate coexistence of interference. Finally we continue to make steady progress in Asia and India. In the next several weeks, we expect to be able to make some detailed announcements concerning many of these opportunities.

Let me close by saying that I have spent a great deal of time with the team reviewing the business over the last several weeks. My expectations is that even though we will likely continue to see some short term market challenges due to the slower roll out of broadband type services and reduced capital investment by the carrier channel, we can expect significant incremental growth with our new offerings and our proposed merger with Clarity. This is why I joined the Board back in 2004, and why the team we have in place is very, very excited. We hope that the Clarity merger is finalized quickly and that you support the measure.

Lastly, we have also started the process and are actively reviewing the qualifications of a number of candidates who have shown great interest in the permanent CEO position. We expect to make this announcement before the end of the year.

With that, we'll take your questions.

Additional Information and Where to Find It

In connection with the proposed merger and the debt restructuring, the Company intends to file with the SEC a proxy statement and other relevant materials. The final proxy statement will be mailed to Company stockholders. INVESTORS AND SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT AND THE OTHER RELEVANT MATERIALS WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE COMPANY, PROPOSED MERGER AND THE RESTRUCTURING. The proxy statement and other relevant materials (when they become available), and any other documents filed by the Company with the SEC, may be obtained free of charge at the SEC's web site at www.sec.gov. In addition, investors and security holders may obtain free copies of the documents (when they are available) filed with the SEC by the Company by directing a request to ISCO International, Inc., 1001 Cambridge Drive, Elk Grove Village, IL 60007, Attn: Frank Cesario, Corporate Secretary.

Participants in the Proposed Merger and the Debt Restructuring

The Company and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the Company stockholders in favor of the proposed merger and the debt restructuring. Information regarding the Company's directors and executive officers and their ownership of Company common stock is set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which was filed with the SEC on March 30, 2007 and its proxy statement for the 2006 Annual Meeting of Stockholders, which was filed with the SEC on April 27, 2007. Investors and security holders may obtain more detailed information regarding the direct and indirect interests of ISCO and its executive officers and directors in the proposed merger and the debt restructuring by reading the proxy statement regarding the proposed merger and the debt restructuring when it becomes available.

Item 9.01. Financial Statements and Exhibits

(a) Financial statements:

None

(b) Pro forma financial information:

None

(c) Shell company transactions:

None

(d) Exhibits

99.1 [Press Release of ISCO International, Inc. dated October 25, 2007](#)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: October 25, 2007

ISCO INTERNATIONAL, INC.

By: /s/ Frank J Cesario

Frank J Cesario
Chief Financial Officer

<u>Exhibit No.</u>	Exhibit Index	<u>Description</u>
99.1		Press Release of ISCO International, Inc. dated October 25, 2007

ISCO International Reports Financial Results for the Third Quarter 2007 and Investor Call

ELK GROVE VILLAGE, IL -- 10/25/2007 -- ISCO International, Inc. (AMEX: ISO), a leading supplier of RF management and interference-control solutions for the wireless telecommunications industry, today reported financial results for the third quarter 2007. The Company also announced an investor call.

Third Quarter Results

ISCO reported consolidated net revenues of \$1.9 million for the three months ended September 30, 2007, reduced from the \$6.4 million reported during the comparable period of 2006. Gross margins decreased to 37% from 40% for the same periods, primarily due to lower volume. The consolidated net loss was \$1.8 million for the three months ended September 30, 2007, an increase of \$1.6 million from the \$0.2 million net loss during the same period of 2006.

For the nine month period ended September 30, 2007, ISCO reported consolidated net revenues of \$6.3 million, down from the \$11.2 million reported during the same period of 2006. Gross margins increased to approximately 42% from the 40% reported during the first nine months of 2006. Also, deferred software revenue was \$0.3 million at September 30, 2007, an item that didn't exist at September 30, 2006. The consolidated net loss was \$5.0 million for the nine months ended September 30, 2007, versus \$3.1 million during the same period of 2006.

ISCO measures Cash Flow based on EBITDA (earnings before interest, taxes, depreciation and amortization), and adjusted for non-cash equity compensation expense, as an important non-GAAP measure of its performance. Please see the note on non-GAAP financial information attached.

"While we certainly had higher expectations for our Q3 financial results, and more in line with our record results of last year, the spending and structural changes in the US markets we serve continue to be extremely challenging, as is evident from the ongoing earnings disappointments being announced by several OEMs and after-market infrastructure providers," said John Thode, CEO of ISCO. "However, we have made significant progress in a number of areas including a sizeable order (nearly \$1 million) expected to be delivered during the fourth quarter for a new model of the RF2 product family that is displacing an incumbent, the imminent completion of our digital adaptive interference management (AIM) platform and the subsequent commercial trials of a number of product derivatives, some with international entities." Added Thode, "We also announced the proposed merger with Clarity Communications which we believe affords us a distinctive competitive advantage to support sequential near term growth and address critical technology and know-how needs in our plan. Three years ago we developed an extremely compelling growth strategy and, with the Clarity merger, have succeeded in putting the last key pieces in place." The Company will further discuss these developments in the investor call.

Investor call

To participate in the call domestically, dial 1-800-374-0113. International callers should dial 1-706-758-9607. The conference name is "ISCO International Third Quarter 2007 Investor Call." The call will be replayed for 30 days at 1-800-642-1687 (or 1-706-645-9291 for international callers), with a pass code of 21069799.

Following opening comments, a short question and answer session will be held. Participants are asked to dial in 10 minutes prior to the beginning of the call. The call will be webcast live and then archived for 30 days. ISCO will provide a link to the call on its website (www.iscointl.com) for both the live and archived versions. A copy of the webcast link will be provided at www.iscointl.com and is copied below.

Webcast: <http://www.b2i.us/external.asp?b=826&id=40905&from=du&L=e>

Use of Non-GAAP Financial Information

To supplement our financial results presented in accordance with GAAP, we use the following non-GAAP financial measure: GAAP net income (loss) excluding non-cash charges for patent amortization, depreciation and other amortization, equity compensation, and accrued interest expense. We present this non-GAAP financial measure as a supplement in reporting our financial results to provide investors with an additional tool to evaluate our operating results. This non-GAAP financial measure should not be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

Our management uses the above non-GAAP financial measure internally to understand, manage and evaluate our business, particularly on a cash flow basis. Our management believes this measure is useful for the Company and investors to review, as applicable, both GAAP information, which includes employee stock-based compensation expense for example, and the non-GAAP measure which excludes this item, in order to assess the performance of our core continuing businesses and for planning and forecasting in future periods. This non-GAAP measure is intended to provide investors with an understanding of our operational results and trends that more readily enables them to analyze our base financial and operating performance and facilitate period-to-period comparisons and analysis of operation trends. Our management believes this non-GAAP financial measure is useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision-making. Management sets operating plans and is evaluated and measured on both net result as well as cash flow as typically measured by EBITDA (earnings before interest, taxes, depreciation and amortization), removing the

non-cash impact of equity compensation expense, and thus uses this non-GAAP measure internally on a regular basis.

Non-GAAP Measurement Tables:

	Unaudited 3 months ended September 30, 2007	Unaudited 3 months ended September 30, 2006
(\$millions)		
Net loss per GAAP	(\$1.8)	(\$0.2)
Non-cash Equity Compensation	\$0.4	\$0.4
Depreciation and Amortization	\$0.0	\$0.0
Accrued Interest	\$0.2	\$0.3
	-----	-----
Net "Cash Flow" Result	(\$1.2)	\$0.5
	=====	=====

	Unaudited 9 months ended September 30, 2007	Unaudited 9 months ended September 30, 2006
(\$millions)		
Net loss per GAAP	(\$5.0)	(\$3.1)
Non-cash Equity Compensation	\$1.2	\$1.0
Depreciation and Amortization	\$0.1	\$0.1
Accrued Interest	\$0.8	\$0.6
	-----	-----
Net "Cash Flow" Result	(\$2.9)	(\$1.4)
	=====	=====

Safe Harbor Statement

Because the Company wants to provide investors with meaningful and useful information, this news release contains, and incorporates by reference, certain "forward-looking statements" that reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company. The Company has tried, wherever possible, to identify these forward-looking statements by using words such as "anticipates," "believes," "estimates," "looks," "expects," "plans," "intends" and similar expressions. These statements reflect the Company's current beliefs and are based on information currently available to it. Accordingly, these statements are subject to certain risks, uncertainties and contingencies, which could cause the Company's actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These factors include, among others, the following: market acceptance of the Company's technology; the spending patterns of wireless network operators in connection with the build out of 2.5G and 3G wireless systems; the Company's ability to obtain financing in the future if necessary; the Company's history of net losses and the lack of assurance that the Company's earnings will be sufficient to cover fixed charges in the future; uncertainty about the Company's ability to compete effectively against better capitalized competitors and to withstand downturns in its business or the economy generally; continued downward pressure on the prices charged for the Company's products due to the competition of rival manufacturers of front-end systems for the wireless telecommunications market; the timing and receipt of customer orders; the Company's ability to attract and retain key personnel; the Company's ability to protect its intellectual property; the risks of foreign operations; the risks of legal proceedings; the ability of the Company to complete the proposed merger and successfully integrate the combined entity. A more complete description of these risks, uncertainties and assumptions is included in the Company's filings with the Securities and Exchange Commission, including those described under the heading "Risk Factors" in the Company's Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. You should not place undue reliance on any forward-looking statements. The Company undertakes no obligation to release publicly the results of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date above or to reflect the occurrence of unanticipated events.

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Web site: <http://www.iscointl.com>

	Three Months Ended	
	September 30, 2007	September 30, 2006
	-----	-----
	UNAUDITED	
	(millions of dollars and shares; except per share data)	
Net sales	\$1.9	\$6.4
Costs and expenses:		
Cost of sales	1.2	3.8
Research and development	0.7	0.5
Selling and marketing	0.6	1.0
General and administrative	1.0	1.1
	-----	-----
Total costs and expenses	3.5	6.4
Operating income/(loss)	\$(1.6)	\$0.0
Other income (expense):		
Interest income	0.0	0.1
Interest expense	(0.2)	(0.3)
	-----	-----
Total other income (expense)	\$(0.2)	\$(0.2)
Net loss	\$(1.8)	\$(0.2)
Basic and diluted loss per common share	\$(0.01)	\$(0.00)
Weighted average number of common shares outstanding	200.2	186.1

	Nine Months Ended	
	September 30, 2007	September 30, 2006
	-----	-----
	UNAUDITED	
	(millions of dollars and shares; except per share data)	

Net sales	\$6.3	\$11.2
Costs and expenses:		
Cost of sales	3.6	6.7
Research and development	2.0	1.4
Selling and marketing	1.8	2.5
General and administrative	3.2	3.2
	-----	-----
Total costs and expenses	10.6	13.8
Operating loss	\$(4.3)	\$(2.6)
Other income (expense):		
Interest income	0.1	0.1
Interest expense	(0.8)	(0.6)
	-----	-----
Total other income (expense)	\$(0.7)	\$(0.5)
Net loss	\$(5.0)	\$(3.1)
Basic and diluted loss per common share	\$(0.02)	\$(0.02)
Weighted average number of common shares outstanding	193.4	184.7

Selected Balance Sheet Information:

(unaudited)
September 30, December 31,
2007 2006
----- -----
(millions of dollars and shares;
except per share data)

Cash and equivalents	\$2.8	\$2.9
Working Capital excl. Debt	\$7.0	\$9.9
Total Assets	\$22.5	\$26.9
Debt, short term and long term, including related accrued interest	\$15.7	\$16.4
Stockholders' Equity	\$5.8	\$8.2

Web site: <http://www.iscointl.com>

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