ISCO INTERNATIONAL INC
Form PREM14A
November 30, 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 x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x 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.

x 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

¨ Fee paid previously with preliminary materials:

¨ 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

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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 central time on, 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 , 200

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 central time on , 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
, 200_

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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 central time on , 200_ 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 , 200 .

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 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 no 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 Aand 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 Eto 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.

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.

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 , beginning at ____ 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".

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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 ISCOs Annual Report on Form 10-K for the year ended December 31, 2006 attached as Appendix Fto this Proxy Statement, and Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which is attached asAppendix Eto 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 Fto 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 inAppendix Eto 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
Basic and diluted loss per common share	$	(0.03)	$	(0.02)	$	(0.02)	$	(0.02)	$	(0.04)	$	(0.05)	$ (0.09
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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CONSOLIDATED BALANCE SHEET DATA

	Unaudited as of Sept 30, 2007	Unaudited as of 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
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

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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
Basic and diluted income (loss) per common share	$ (1,824)	$ 888	$ 68	$ 612	$ 220	$ 948	$ 889
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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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

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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)

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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)

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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	848,617	72,500	100,000	C	1,021,117
	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			
Accued 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			Goodwill
to be paid directly by ISCO	100,000			Other Intang
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**	**-**

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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	1,808,800	269,185			2,077,985
General and Administrative	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)		91,806			91,806
Other Income (Expense), net	(689,114)	33,228	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)
Weighted average number of common shares outstanding	193,433,000	20,000,000			213,433,000

E - Eliminate interest on note receivable with related party that would not relate to the combined entity

B,C - Reduced amortization related to fixed assets not included in the transaction less estimated additional intangible asset amortization

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Pro Forma Balance Sheets as of December 30, 2006

	Historical ISCO	Historical Clarity	Pro Forma Adjustments		Pro Forma Combined
Assets:					
Current Assets:					
Cash and Equivalents	2,886,476	1,647,831	(475,000)	A	4,059,307
Inventory	6,368,599	-			6,368,599
Accounts Receivable, net	2,554,716	734,014			3,288,730
Prepaid Expenses and Other	168,741	107,802			276,543
Total Current Assets	11,978,532	2,489,647	(475,000)		13,993,179
Property and Equipment	1,334,203	819,421	(99,183)	B	2,054,441
Less: Accumulated Depreciation	(811,167)	(573,996)	15,320	B,K	(1,369,843)
Net Property and Equipment	523,036	245,425	(83,863)		684,598
Restricted Certificates of Deposit	162,440	-			162,440
Goodwill	13,370,000	-	7,525,552	C	20,895,552
Intangible assets, net	841,187	95,000	100,000	C	1,036,187
Total Assets	26,875,195	2,830,072	7,066,689		36,771,956
Liabilities and Stockholders' Equity:					
Current Liabilities:					
Accounts Payable	1,172,844	82,280			1,255,124
Inventory-related material purchase accrual	328,663	-			328,663
Employee-related accrued liability	284,653	302,505			587,158
Accrued professional services	93,000	-	400,000	D	493,000
Other accrued liabilities and current deferred revenue	225,724	611,976			837,700
Current Portion of LT Debt, including related interest, with related parties	11,295,957	2,000,000	(2,000,000)	E	11,295,957
Total Current Liabilities	13,400,841	2,996,761	(1,600,000)		14,797,602
Deferred facility reimbursement	102,500	-			102,500
Deferred revenue - non current	75,900	-			75,900
	5,131,762	-			5,131,762

Notes and related accrued interest with related parties					
Stockholders' equity:					
Preferred stock	-				
Common stock	189,622	1,000	24,000	F,G	214,622
Treasury Stock	-				-
Additional paid-in capital (net of unearned compensation)	172,379,842	9,000	8,466,000	F,G	180,854,842
(Accumulated deficit)/Retained Earnings	(164,405,272)	(276,689)	276,689	F,K	(164,405,272)
Total Shareholders' Equity	8,164,192	(266,689)	8,766,689		16,664,192
Total Liabilities and Shareholders' Equity	26,875,195	2,730,072	7,166,689		36,771,956

	Asset	Liability	Equity	
A - $375,000 to be paid upon closing for Clarity's reimbursable transaction costs	(375,000)			
B - Assets that are not expected to be included in the transaction (leased autos), net of accumulated depreciation	(83,863)			
C - Total cost estimated at $9,275,000, including $8,500,000 in equity value (20 million up front shares plus 5 million time vest shares x $0.34 per share closing	7,525,552			Goodwill
price of ISCO stock on AMEX) plus $375,000 paid for Clarity's reimbursable closing costs plus estimated $400,000 of transaction fees	100,000			Other Intang
to be paid directly by ISCO.				
D - Estimated transaction fees to be paid directly by ISCO		400,000		
E - Liabilities that are excluded from the transaction - notes and related accrued interest to related party (sole shareholder) of Clarity.		(2,000,000)		
F - Termination of historical capital accounts of seller ($1,000 common stock, $9,000 APIC, and $276,689 of negative retained earnings.			266,689	
G - Recording of newly issued stock of $25,000 common stock and $8,475,000 of APIC.			8,500,000	
K - Impact of adjustments in the income statement for the period.	-	-		
	7,166,689	**(1,600,000)**	**8,766,689**	**-**

Average of five closing days prior
to December 31, 2007 was $0.34
per share on AMEX.
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Pro Forma Statement of Operations as of December 30, 2006
Twelve Month Period Ended December 31, 2006

	Historical		Pro Forma		
	ISCO	Clarity	Adjustments		Combined
Net Sales	14,997,320	8,983,165			23,980,485
Costs and Expenses:					
Cost of Sales	9,066,929	3,025,314			12,092,243
Research and Development	2,011,652	4,131,878	15,320	B,C	6,158,850
Selling and Marketing	3,207,882	383,774			3,591,656
General and Administrative	4,287,080	1,402,909	(15,320)	B,C	5,674,669
Total Costs and Expenses	18,573,543	8,943,875	-		27,517,418
Operating (Loss) Income	(3,576,223)	39,290	-		(3,536,933)
Other Income (Expense):					
Interest Expense, net of interest income	(788,761)	29,324	-		(759,437)
Other Income (Expense)	-	-			-
Other Income (Expense), net	(788,761)	29,324	-		(759,437)
Net Loss (Income)	(4,364,984)	68,614	-		(4,296,370)
Basic and diluted loss per share	$ (0.02)	$ 0.00			$ (0.02)
Weighted average number of common shares outstanding	185,506,000	20,000,000			205,506,000

B,C - Reduced amortization related to fixed assets not included in the transaction less estimated additional intangible asset amortization

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COMPARATIVE PER SHARE INFORMATION

The following table sets forth for ISCO and Clarity common stock, certain historical, pro forma combined consolidated and pro forma equivalent per share financial information. The pro forma data in the table are derived from, and should be read in conjunction with, the "Unaudited Pro Forma Combined Consolidated Financial Data" and related notes thereto beginning on page 18. ISCO's historical per share information is derived from the audited consolidated financial statements for the year ended December 31, 2006 contained in ISCO's Annual Report on Form 10-K for the year ended December 31, 2006 and the unaudited interim financial statements for the nine months ended September 30, 2007 which are attached as Appendix Fand Appendix E, respectively, to this Proxy Statement. Clarity's historical per share information is derived from the audited financial statements for the year ended December 31, 2006 and the unaudited interim financial statements for the nine months ended September 30, 2007 contained elsewhere in this Proxy Statement.

The unaudited pro forma combined consolidated per share information does not purport to represent what the actual results of operations of the combined company would have been had the Merger been in effect for the periods described below or to project the future results of the combined company after the Merger.

Comparative Per Share Data

			ISCO	Clarity	Unaudited Pro Forma Consolidated	Pro Forma Equivalent per ISCO Share
Net loss						
Per share (basic and diluted)			$ (0.03)	$(1,824.00)	$ (0.04)	$(0.08)
Book Value per share			$ 0.03	$(2,095.00)	$ 0.06	$(0.02)
Clarity	1,000	shares				
		shares of ISCO per share of Clarity, including performance				
ISCO	40,000,000	shares				
Ratio	40,000					

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RISK FACTORS

You should carefully consider the risk factors described below, the matters discussed under "A Warning About Forward-Looking Statements" on page 2 of this Proxy Statement, and all other information contained in this Proxy Statement before deciding whether to vote to approve the Merger Proposal. If any of the following risks, as well as other risks and uncertainties that are not currently known to ISCO or Clarity or that are currently not believed by ISCO or Clarity to be material, actually occur, the business, financial condition and results of operation of the combined company could be materially and adversely affected. As Clarity's operations will combined with those of ISCO's upon consummation of the Merger, we believer the risk factors described below relating to the business and operations of Clarity may continue to be risks for the combined company.

RISK FACTORS RELATING TO CLARITY

Clarity had a net loss during 2007 that raises doubts about its ability to continue as a going concern

Clarity was founded in 1998 and generated profitable results until 2007 when Clarity posted a substantial loss of $1.8 million through the first nine months (ended September 30, 2007) of the current year. In addition, Clarity is changing its business model from an almost exclusively custom product development outsourced engineering function to an entity providing both custom engineering services and selling finished products and hosted services to customers. It is possible that Clarity may continue to experience net losses and cannot be certain if or when Clarity will again become profitable, even if the Merger is consummated.

These conditions raise substantial doubt about Clarity's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming Clarity will continue as a going concern and do not include any adjustments relating to the recoverability of reported assets or liabilities should Clarity be unable to continue as a going concern.

If Clarity fails to obtain necessary funds for its operations, Clarity may be unable to maintain or improve on its technology position and unable to develop and commercialize its products

During October 2007, Clarity drew on its line of credit that is guaranteed by Clarity's sole shareholder up to $1.5 million. As of November 30, 2007, approximately $610,000 has been drawn down under the line of credit. Borrowings on this line of credit are subject to the approval of the lending institution. In addition, Clarity owes its sole shareholder $2 million plus accrued interest in the form of a shareholder note executed on December 31, 2006 and payable upon demand. Clarity lacks the credit facilities or immediate cash flows needed to repay these liabilities.

Clarity's continued existence is therefore dependent upon Clarity's ability to raise funds through borrowings. Although Clarity believes that it will be able to secure suitable financing for its operations, there can be no guarantee that such financing will be available on reasonable terms, or at all. As a result, there is no assurance that Clarity will be able to continue as a going concern.

The actual amount of future funding requirements will depend on many factors, including: the amount and timing of future revenues, the level of product marketing and sales efforts to support Clarity's commercialization plans, the magnitude of research and product development programs, the ability to improve or maintain product margins, consummation of the Merger and the receipt of the $1.5 million in financing required under the Merger Agreement, and the costs involved in protecting patents or other intellectual property.

Clarity has limited experience in sales and marketing

Clarity's sales and marketing experience to date is very limited. Clarity may be required to further develop its marketing and sales force in order to effectively demonstrate the advantages of Clarity's products over other products. Clarity also may elect to enter into arrangements with third parties regarding the commercialization and marketing of Clarity's products. If Clarity enters into such agreements or relationships, Clarity would be substantially dependent upon the efforts of others in deriving commercial benefits for Clarity's products. Clarity may be unable to establish adequate sales and distribution capabilities, including entering into marketing arrangements or relationships with third parties on financially acceptable terms, and any such third party may not be successful in marketing Clarity's products. There is no guarantee that Clarity's sales and marketing efforts will be successful, which would have a material adverse effect on Clarity's business, operating results and financial condition.

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Unsuccessful management of Clarity's growth may cause a material, adverse effect on Clarity's business

Growth may cause a significant strain on management, operational, financial and other resources. The ability to manage growth effectively may require Clarity to implement and improve its operational, financial, and management information systems and expand, train, manage and motivate employees. These demands may require the addition of new management personnel and the development of additional expertise by management. Any increase in resources devoted to product development and marketing and sales efforts could have an adverse effect on financial performance in future fiscal quarters. If Clarity were to receive substantial customer orders, Clarity may have to expand current facilities, which could cause an additional strain on Clarity's management personnel and development resources. The failure of the management team to effectively manage growth could have a material adverse effect on Clarity's business, operating results and financial condition.

TECHNOLOGY AND MARKET RISKS

Clarity is dependent on wireless telecommunications and any adverse changes in the industry could have a material adverse effect on Clarity's business

The principal target market for Clarity's products is wireless telecommunications. The devotion of substantial resources to the wireless telecommunications market creates vulnerability to adverse changes in this market. Adverse developments in the wireless telecommunications market, which could come from a variety of sources, including future competition, new technologies or regulatory measures, could affect the competitive position of wireless systems. Any adverse developments in the wireless telecommunications market may have a material adverse effect on Clarity's business, operating results and financial condition.

Clarity is dependent on the acceptance of push-to-talk and location-based services and related applications

Increased sales of products are dependent on a number of factors, one of which is the acceptance and demand for location-based features and push-to-talk services. Further, the spending patterns of wireless operators and OEMs is beyond management's control and depends on a variety of factors, including access to financing, the status of federal, local and foreign government regulation and deregulation, changing standards for wireless technology, the overall demand for wireless services, competitive pressures and general economic conditions. The expansion of wireless services and applications, and related networks to support them, may take years to complete. The magnitude and timing of capital spending by these operators for constructing, rebuilding or upgrading their systems significantly impacts the demand for Clarity's products. Any decrease or delay in capital spending patterns in the wireless telecommunications industry, whether because of a general business slowdown or a reevaluation of the prospective demand for data and other services, would delay the build-out of these networks and may significantly harm Clarity's business prospects.

Rapid technological change and future competitive technologies could negatively affect Clarity's operations

The field of telecommunications is characterized by rapidly advancing technology. Clarity's success will depend in large part upon Clarity's ability to keep pace with advancing its solutions in light of applications and services offered by competitors. Rapid changes have occurred, and are likely to continue to occur, in the development of wireless telecommunications. Development efforts may be rendered obsolete by the adoption of alternative solutions to current wireless operator problems or by technological advances made by others, which could have a material adverse effect on Clarity's business, operating results, and financial condition.

BUSINESS RISKS

Dependence on a limited number of customers

Sales to three customers accounted for nearly 100% of Clarity's total revenues for 2006. During 2006, Clarity's top three customers were Alcatel-Lucent Technologies, Autodesk and Lockheed Martin, respectively. In addition, a significant amount of Clarity's technical and managerial resources have been focused on working with these and a limited number of other operators and OEMs. The loss of any of these large customers might have a material adverse effect on Clarity's business, operating results, and financial condition.

Clarity expects that if its products achieve market acceptance, a limited number of wireless service providers and OEMs will account for a substantial portion of revenue during any period. Sales of many of Clarity's products depend in significant part upon the decisions of prospective and current customers to adopt and expand their use of these products. Wireless service providers, wireless equipment OEMs and Clarity's other customers are significantly larger than Clarity is, and are able to exert a high degree of influence over Clarity in negotiating customer contracts. Customers' orders are affected by a variety of factors such as new product introductions, regulatory approvals, end user demand for wireless services, customer budgeting cycles, inventory levels, customer integration requirements, competitive conditions and general economic conditions. The loss of any such customer or the failure to attract new customers would have a material adverse effect on Clarity's business, operating results and financial condition.

Clarity has lengthy sales cycles which may result in inconsistent revenues and be difficult to predict

Prior to selling products to customers, Clarity may be required to undergo lengthy approval and purchase processes. Technical and business evaluation by potential customers can take up to a year or more for products based on new technologies. The length of the approval process is affected by a number of factors, including, among others, the complexity of the product involved, priorities of the customers, budgets and regulatory issues affecting customers. Clarity may not obtain the necessary approvals or ensuing sales of such products may not occur. The length of customers' approval processes or delays could make Clarity's quarterly revenues and earnings inconsistent and difficult to predict.

Loss of, or failure to attract or retain key personnel could have a material adverse effect on Clarity

Clarity's success depends in large part upon its ability to attract and retain highly qualified management, engineering, manufacturing, marketing, sales and R&D personnel. Due to the specialized nature of Clarity's business, it may be difficult to locate and hire qualified personnel. The loss of services of any of Clarity's key personnel, or the failure to attract and retain other key personnel, could have a material adverse effect on Clarity's business, operating results and financial condition.

Failure of products to perform properly might result in significant warranty expenses

In general, Clarity's products and services carry a warranty of one or two years, limited to replacement of the product or refund of the cost of the product. In addition, Clarity offers its customers extended warranties. Repeated or widespread quality problems could result in significant warranty expenses and/or the loss of customer confidence. The occurrence of such quality problems could have a material adverse effect on Clarity's business, operating results and financial condition.

Intense competition, and continued consolidation in the wireless telecommunications industry could create stronger competitors and harm Clarity's business

The wireless telecommunications applications market is very competitive. Many of these companies have substantially greater financial resources, larger research and development staffs and greater manufacturing and marketing capabilities than Clarity does. Clarity's products compete directly with products which embody existing and future competing commercial technologies. Other emerging wireless technologies may also provide similar functionality, potentially at lower prices and/or superior performance, and may therefore compete with Clarity's products. Failure of Clarity's products to improve performance sufficiently, reliably, or at an acceptable price or to achieve commercial acceptance or otherwise compete with existing and new technologies, would have a material adverse effect on Clarity's business, operating results and financial condition.

LEGAL RISKS

Intellectual property and patent protection and infringement may be costly

Clarity's success will depend in part on Clarity's ability to obtain patent protection for Clarity's products and processes, to preserve trade secrets and to operate without infringing upon the patent or other proprietary rights of others and without breaching or otherwise losing rights in the technology licenses upon which many of Clarity's products are based.

Clarity's participation in litigation or patent office proceedings in the U.S. or other countries to enforce patents issued or licensed to Clarity, to defend against infringement claims made by others or to determine the ownership, scope or validity of Clarity's proprietary rights of others, could result in substantial cost to, and diversion of effort by, Clarity. The parties to such litigation may be larger, better capitalized than Clarity is and better able to support the cost of litigation. An adverse outcome in any such proceedings could subject us to significant liabilities to third parties, require Clarity to seek licenses from third parties and/or require Clarity to cease using certain technologies, any of which could have a material adverse effect on Clarity's business, operating results and financial condition.

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Government regulations may have a material adverse effect on Clarity's business

Although Clarity believes that its wireless telecommunications products themselves are not subject to licensing by, or approval requirements of, the Federal Communications Commission ("FCC"), wireless operators and OEMs are subject to FCC licensing and the radio equipment into which Clarity's products would be incorporated must meet specified technical standards and is subject to FCC approval. The ability to sell Clarity's wireless telecommunications products is dependent on the ability of wireless equipment manufacturers and wireless operators to obtain and retain the necessary FCC approvals and licenses. In order for them to be acceptable to equipment manufacturers and to operators, the characteristics, quality and reliability of Clarity's products must enable them to meet FCC technical standards. Clarity may be subject to similar regulations of foreign governments. Any failure to meet such standards or delays by equipment manufacturers and wireless operators in obtaining the necessary approvals or licenses could have a material adverse effect on Clarity's business, operating results and financial condition. In addition, Clarity's products may be covered by the U.S. Department of Commerce's export regulation list. Therefore, exportation of Clarity's products to certain countries may be restricted or subject to export licenses.

Clarity is subject to governmental labor, safety and discrimination laws and regulations with substantial penalties for violations. In addition, employees and others may bring suit against Clarity for perceived violations of such laws and regulations. Defending against such complaints could result in significant legal costs for Clarity. Although Clarity endeavors to comply with all applicable laws and regulations, Clarity may be the subject of complaints in the future, which could have a material adverse effect on Clarity's business, operating results and financial condition.

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RISK FACTORS RELATING TO ISCO

RISKS RELATED TO OUR OPERATIONS, INCLUDING RESPECT TO THE MERGER

We have a history of losses that raises doubts about our ability to continue as a going concern

We were founded in October 1989 and through 1996 we were engaged principally in research and development, product testing, manufacturing, marketing and sales activities. Since 1996, we have been actively selling products to the marketplace and we continue to develop new products for sale. We have incurred net losses since inception. As of September 30, 2007, our accumulated deficit was approximately $169 million. We have only recently begun to generate revenues from the sale of our ANF and RF² products, having sold more in the two years ended December 31, 2006 than in the fourteen years of company history prior to 2005. Although we showed a substantial improvement in revenues and we have indicated the expectation of continued improvement in the future, it is nonetheless possible that we may continue to experience net losses, such as during the third quarter of 2007, and cannot be certain if or when we will become profitable.

These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments relating to the recoverability of reported assets or liabilities should we be unable to continue as a going concern.

If we fail to obtain necessary funds for our operations, we may be unable to maintain or improve on our technology position and unable to develop and commercialize our products

To date, we have financed our operations primarily through public and private equity and debt financings, and most recently through several financings with affiliates of our two largest shareholders. As a condition to closing the proposed acquisition of Clarity, 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. Additionally, we may have additional working capital requirements that may require additional financial resources. As such, we will require additional capital. We intend to look into augmenting our existing capital position by continuing to evaluate potential short-term and long-term sources of capital whether from debt, equity, hybrid, or other methods. 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. This covenant may restrict our ability to obtain new sources of financing and/or to apply the proceeds of a financing event toward operations until the debt is repaid in full.

Our continued existence is therefore dependent upon our continued ability to raise funds through the issuance of our equity securities or borrowings. Our plans in this regard are to obtain other debt and equity financing until such time as profitable operation and positive cash flow are achieved and maintained. Although we believe, based on the fact that we have raised funds through sales of common stock and from borrowings over the past several years, that we will be able to secure suitable additional financing for our operations, there can be no guarantee that such financing will continue to be available on reasonable terms, or at all. As a result, there is no assurance that we will be able to continue as a going concern.

The actual amount of future funding requirements will depend on many factors, including: the amount and timing of future revenues, the level of product marketing and sales efforts to support our commercialization plans, the magnitude of research and product development programs, the ability to improve or maintain product margins, the completion of the proposed merger with Clarity, Clarity's successful integration into our business as well as any other merger and acquisition activity, and the costs involved in protecting patents or other intellectual property.

The Merger is subject to conditions to closing that could result in the Merger being delayed or not consummated, which could negatively affect our stock price and future business and operations

The Merger is subject to conditions to closing as set forth in the Merger Agreement, including obtaining the approval of our stockholders. If any of the conditions to the Merger are not satisfied or, where permissible, not waived, the merger will not be consummated. If the Merger is not completed for any reason, our ongoing business may be adversely affected and will be subject to a number of risks, including:

- the market price of our Common Stock might decline to the extent that the current market price reflects a market assumption that the Merger will be completed; and
- we must pay the costs related to the Merger, such as legal and accounting, even if the even if the Merger is not completed.

In addition, any delay in the consummation of the Merger or any uncertainty about the consummation of the Merger may adversely affect the future business, growth, revenue and results of operations of our Company or the combined company.

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Risks involved in future acquisitions, including the risk that we may not successfully integrate the Clarity business or realize the anticipated benefits from the Merger, which could adversely affect our business, financial condition and results of operations

In the future, we may pursue acquisitions to obtain products, services and technologies that we believe would complement or enhance our current product or services offerings. On November 13, 2007, we announced the signing of a definitive Merger Agreement to acquire Clarity. There is no assurance that the proposed Merger will be consummated, and if the proposed Merger is consummated, there is no assurance that we will be able to successfully integrate Clarity's business into our own. At the present time, no other definitive agreements or similar arrangements exist with respect to any other acquisition. An acquisition, such as the Merger with Clarity, may not produce the revenue, earnings or business synergies as anticipated and may attach significant unforeseen liabilities, and an acquired product, service or technology might not perform as expected. Our management could spend a significant amount of time and effort in identifying and completing the acquisition and may be distracted from the operations of the business. In addition, management would probably have to devote a significant amount of resources toward integrating the acquired business with the existing business, and that integration may not be successful. The process is resource intensive, both in time and financial resources, and thus incorporates a cost to the company.

Failure to attract and retain of key personnel could have a material adverse effect on our business

Our success depends on our ability to attract and retain the appropriate personnel needed to operate our business. During October 2007, we announced the departure of our CEO and our subsequent search for his replacement. Our success depends, in part, on finding an appropriate person to fill this necessary role within our Company.

Additionally, the value of the Clarity acquisition to our stockholders rests in large part on the continuity of the key personnel within the Clarity organization. While we believe we have devised appropriate incentives to retain Clarity's employees, there can be no guarantee that they will choose to remain with our Company after the Merger is complete, should it be completed, which may have an adverse impact on our operations and financial condition.

The indemnification obligations under the Merger Agreement are limited, which means we could have unreimbursed liabilities related to the acquisition

Our Company, our officers, directors, employees, stockholders and other related 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. Our Company and other indemnified parties will not be entitled to indemnification until the cumulative amount of all losses exceed $150,000, after which such party will only be entitled to any amounts that exceed $150,000. In addition, the length of time in which our Company and other indemnified parties have a right to bring an indemnification claim and the amount to which a party may be indemnified are subject to certain caps as set forth in the Merger Agreement. Further, indemnification may be satisfied by withholding Time-Based Shares of Common Stock issuable in connection with the Merger, which would not provide us with any cash to either pay or offset the liability that was the subject of the indemnification claim.

The issuance of additional shares of Common Stock will result in dilution to our existing stockholders

If stockholders approve the issuances of Common Stock pursuant to the proposed merger with Clarity and in connection with our June 2007 debt restructuring, and if we issue the full number of shares issuable pursuant to these two transactions, we will be issuing up to approximately 98.5 million additional shares of Common Stock (subject to certain anti-dilution adjustments), or approximately 49% of the total number of shares currently outstanding as of

November 30, 2007. As a result, these issuances will be dilutive to existing stockholders and may have an adverse effect on the market value of our common stock.

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Further, as of November 30, 2007, we had outstanding options to purchase 4.9 million shares of Common Stock at a weighted average exercise price of $0.41 per share (fewer than 0.1 million of which have not yet vested) issued to employees, directors and consultants pursuant to the 2003 Equity Incentive Plan and its predecessor 1993 Stock Option Plan, as amended, the merger agreement with Spectral Solutions, and individual agreements with management and directors. In addition, on the same date we had 3.8 million unvested shares of restricted stock outstanding. In order to attract and retain key personnel, we may issue additional securities, including grants of restricted shares, in connection with or outside our company employee benefit plans, or may lower the price of existing stock options. The exercise of options and notes for Common Stock and the issuance of additional shares of Common Stock, shares of restricted stock and/or rights to purchase Common Stock at prices below market value would be dilutive to existing stockholders and may have an adverse effect on the market value of our Common Stock.

As a result of the issuances described above, the sale of a substantial number of shares of our Common Stock, or the perception that such sales could occur, could adversely affect the market price for our Common Stock. It could also impair our ability to raise money through the sale of additional shares of Common Stock or securities convertible into shares of our Common Stock.

Failure to manage our growth may have a material adverse effect on our business

Growth may cause a significant strain on our management, operational, financial and other resources. The ability to manage growth effectively may require us to implement and improve our operational, financial, manufacturing and management information systems and expand, train, manage and motivate employees. These demands may require the addition of new management personnel and the development of additional expertise by management. Any increase in resources devoted to product development and marketing and sales efforts could have an adverse effect on financial performance in future fiscal quarters. If we were to receive substantial orders, we may have to expand current facilities, which could cause an additional strain on our management personnel and development resources. The failure of the management team to effectively manage growth could have a material adverse effect on our business, operating results and financial condition. In addition, the proposed acquisition of Clarity will require substantial attention and resources in order to integrate Clarity's operations into our business and distract management from other areas of our business.

The Internal Revenue Service may disagree with the anticipated 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 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.

No assurance can be given that the Internal Revenue Service will not challenge the income tax consequences of the acquisition. Neither we nor Clarity have applied for, or expect to obtain, a ruling from the Internal Revenue Service or an opinion of legal counsel as to the U.S. federal income tax consequences of the Merger.

OTHER BUSINESS RISKS

We have limited experience in manufacturing, sales and marketing and dependence on third party manufacturers

For us to be financially successful, we must either manufacture our products in substantial quantities, at acceptable costs and on a timely basis or enter into outsourcing arrangements with qualified manufacturers that will allow us the same result. Currently, our manufacturing requirements are met by third party contract manufacturers. The efficient operation of our business will depend, in part, on our ability to have these and other companies manufacture our products in a timely manner, cost-effectively and in sufficient volumes while maintaining the required quality. Any manufacturing disruption could impair our ability to fulfill orders and could cause us to lose customers.

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In the event that we are unable to maintain manufacturing arrangements on acceptable terms with qualified manufacturers then we would have to produce our products in commercial quantities in our own facilities. Although to date we have produced limited quantities of our products for commercial installations and for use in development and customer field trial programs, production of large quantities of our products at competitive costs presents a number of technological and engineering challenges. We may be unable to manufacture such products in sufficient volume. We have limited experience in manufacturing, and substantial costs and expenses may be incurred in connection with attempts to manufacture larger quantities of our products. We may be unable to make the transition to large-scale commercial production successfully.

Our sales and marketing experience to date is very limited. We may be required to further develop our marketing and sales force in order to effectively demonstrate the advantages of our products over other products. We also may elect to enter into arrangements with third parties regarding the commercialization and marketing of our products. If we enter into such agreements or relationships, we would be substantially dependent upon the efforts of others in deriving commercial benefits from our products. We may be unable to establish adequate sales and distribution capabilities, we may be unable to enter into marketing arrangements or relationships with third parties on financially acceptable terms, and any such third party may not be successful in marketing our products. There is no guarantee that our sales and marketing efforts will be successful.

Dependence on a limited number of customers

Sales to three customers accounted for 98%, 97%, and 94% of our total revenues for 2006, 2005 and 2004, respectively. During 2006, our top three customers were Verizon Wireless, Alltel Corporation, and Bluegrass Cellular Corporation, respectively. In addition, a significant amount of our technical and managerial resources have been focused on working with these and a limited number of other operators and OEMs. The loss of any of these large customers might have a material adverse effect on our business, operating results, and financial condition.

We expect that if our products achieve market acceptance, a limited number of wireless service providers and OEMs will account for a substantial portion of revenue during any period. Sales of many of our products depend in significant part upon the decisions of prospective and current customers to adopt and expand their use of these products. Wireless service providers, wireless equipment OEMs and our other customers are significantly larger than we are, and are able to exert a high degree of influence over us. Customers’ orders are affected by a variety of factors such as new product introductions, regulatory approvals, end user demand for wireless services, customer budgeting cycles, inventory levels, customer integration requirements, competitive conditions and general economic conditions. The failure to attract new customers would have a material adverse effect on our business, operating results and financial condition.

We have lengthy sales cycles which could make revenues and earnings inconsistent and difficult to trend

Prior to selling products to customers, we may be required to undergo lengthy approval and purchase processes. Technical and business evaluation by potential customers can take up to a year or more for products based on new technologies. The length of the approval process is affected by a number of factors, including, among others, the complexity of the product involved, priorities of the customers, budgets and regulatory issues affecting customers. We may not obtain the necessary approvals or ensuing sales of such products may not occur. The length of customers’ approval process or delays could make our quarterly revenues and earnings inconsistent and difficult to trend.

We are dependant on limited sources of supply

Certain parts and components used in our RF products are only available from a limited number of sources. Our reliance on these limited source suppliers exposes us to certain risks and uncertainties, including the possibility of a

shortage or discontinuation of certain key components and reduced control over delivery schedules, manufacturing capabilities, quality and costs. Any reduced availability of such parts or components when required could materially impair the ability to manufacture and deliver products on a timely basis and result in the cancellation of orders, which could have a material adverse effect on our business, operating results and financial condition.

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In addition, the purchase of certain key components involves long lead times and, in the event of unanticipated increases in demand for our products, we may be unable to manufacture products in quantities sufficient to meet customers' demand in any particular period. We have few guaranteed supply arrangements with our limited source suppliers, do not maintain an extensive inventory of parts or components, and customarily purchase parts and components pursuant to actual or anticipated purchase orders placed from time to time in the ordinary course of business.

Related to this topic, we produce substantially all of our products through third-party contract manufacturers. Like raw materials, the elimination of any of these entities or delays in the fulfillment process, for whatever reason, may impact our ability to fulfill customer orders on a timely basis and may have a material adverse effect on our business, operating results, or financial condition.

To satisfy customer requirements, we may be required to stock certain long lead-time parts and/or finished product in anticipation of future orders, or otherwise commit funds toward future purchase. The failure of such orders to materialize as forecasted could limit resources available for other important purposes or accelerate the requirement for additional funds. In addition, such excess inventory could become obsolete, which would adversely affect financial performance. Business disruption, production shortfalls or financial difficulties of a limited source supplier could materially and adversely affect us by increasing product costs or reducing or eliminating the availability of such parts or components. In such events, the inability to develop alternative sources of supply quickly and on a cost-effective basis could materially impair the ability to manufacture and deliver products on a timely basis and could have a material adverse effect on our business, operating results and financial condition.

Failure of products to perform properly might result in significant warranty expenses

In general, our products carry a warranty of one or two years, limited to replacement of the product or refund of the cost of the product. In addition, we offer our customers extended warranties. Repeated or widespread quality problems could result in significant warranty expenses and/or the loss of customer confidence. The occurrence of such quality problems could have a material adverse effect on our business, operating results and financial condition.

The wireless telecommunications equipment market is very competitive. Many of our competitors have substantially greater financial resources, larger research and development staffs and greater manufacturing and marketing capabilities than we do. Our products compete directly with products which embody existing and future competing commercial technologies. Other emerging wireless technologies may also provide protection from RF interference and offer enhanced range to wireless communication service providers, potentially at lower prices and/or superior performance, and may therefore compete with our products. High performance RF solutions may not become a preferred technology to address the needs of wireless communication service providers. Failure of our products to improve performance sufficiently, reliably, or at an acceptable price or to achieve commercial acceptance or otherwise compete with existing and new technologies, would have a material adverse effect on our business, operating results and financial condition.

RISKS RELATED TO OUR COMMON STOCK AND CHARTER PROVISIONS

Volatility of common stock price

The market price of our Common Stock, like that of many other high-technology companies, has fluctuated significantly and is likely to continue to fluctuate in the future. Since January 1, 2007 and through September 30, 2007, the price of our common stock has ranged from a low of $0.15 per share to a high of $0.35 per share. Announcements by us or others regarding the receipt of customer orders, quarterly variations in operating results, acquisitions or divestitures, additional equity or debt financings, results of customer field trials, scientific

discoveries, technological innovations, litigation, product developments, patent or proprietary rights, government regulation and general market conditions may have a significant impact on the market price of our Common Stock. In addition, fluctuations in the price of our Common Stock could affect our ability to maintain the listing of our Common Stock on the American Stock Exchange.

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Concentration of our stock ownership

At the time of this filing, officers, directors and principal stockholders (holding greater than 5% of outstanding shares) together control more than 50% of the outstanding voting power on a fully diluted basis. The two largest stockholders, along with their affiliates, are also our lenders, holding all of our outstanding debt instruments. Consequently, these stockholders, if they act together, would be able to exert significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as the Merger Proposal and the Note Issuance Proposal. In addition, this concentration of ownership may delay or prevent a change of control of us, even if such a change may be in the best interests of our stockholders. The interests of these stockholders may not always coincide with our interests or the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements that we would not otherwise consider.

Certain provisions in our charter documents have an anti-takeover effect

There exist certain mechanisms that may delay, defer or prevent such a change of control. For instance, our Certificate of Incorporation and By-Laws provide that (i) our Board of Directors has authority to issue series of our preferred stock with such voting rights and other powers as the Board of Directors may determine and (ii) prior specified notice must be given by a stockholder making nominations to the Board of Directors or raising business matters at stockholders meetings. The effect of the anti-takeover provisions in our charter documents may be to deter business combination transactions not approved by our Board of Directors, including acquisitions that may offer a premium over market price to some or all stockholders.

The reporting requirements of a public company could result in significant cost to us and divert attention from other activities

As a public company, we are required to comply with various reporting obligations. These obligations change from time to time, and currently include full compliance with Section 404 of the Sarbanes-Oxley Act for our fiscal year ending December 31, 2007. The process of achieving full compliance might involve the commitment of significant resources, including substantial levels of management attention. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act, or if we fail to achieve and maintain adequate internal controls over financial reporting, our business, results of operations and financial condition, and investors’ confidence in us, could be materially adversely affected.

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act, including preparing annual reports, quarterly reports and current reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, we are required under applicable law and regulations to integrate our systems of internal controls over financial reporting. We plan to evaluate our existing internal controls with respect to the standards adopted by the Public Company Accounting Oversight Board. During the course of our evaluation, we may identify areas requiring improvement and may be required to design enhanced processes and controls to address issues identified through this review. This could result in significant delays and cost to us and require us to divert substantial resources, including management time, from other activities.

TECHNOLOGY AND MARKET RISKS

We are dependent on wireless telecommunications

The principal target market for our products is wireless telecommunications. The devotion of substantial resources to the wireless telecommunications market creates vulnerability to adverse changes in this market. Adverse developments in the wireless telecommunications market, which could come from a variety of sources, including future competition, new technologies or regulatory decisions, could affect the competitive position of wireless systems. Any adverse developments in the wireless telecommunications market may have a material adverse effect on our business, operating results and financial condition.

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We are dependent on the enhancement of existing networks and the build-out of next-generation networks, and the capital spending patterns of wireless network operators

Increased sales of products are dependent on a number of factors, one of which is the build-out of next generation (3G and 4G) enabled wireless communications networks as well as enhancements of existing infrastructure. Building wireless networks is capital intensive, as is the process of upgrading existing equipment. Further, the capital spending patterns of wireless network operators is beyond management's control and depends on a variety of factors, including access to financing, the status of federal, local and foreign government regulation and deregulation, changing standards for wireless technology, the overall demand for wireless services, competitive pressures and general economic conditions. The build-out of next-generation networks may take years to complete. The magnitude and timing of capital spending by these operators for constructing, rebuilding or upgrading their systems significantly impacts the demand for our products. Any decrease or delay in capital spending patterns in the wireless communication industry, whether because of a general business slowdown or a reevaluation of the prospective demand for data and other services, would delay the build-out of these networks and may significantly harm business prospects.

Our success depends on the market's acceptance of our products

Our RF products, including our ANF and RF^2 products, have not been sold in very large quantities and a sufficient market may not develop for these products. Customers establish demanding specifications for performance, and although we believe we have met or exceeded these specifications to date, there is no guarantee that the wireless service providers will elect to use these solutions to solve their wireless network problems. Although we have enjoyed substantial revenue growth between 2005 and the beginning of 2007, there is no assurance that we will continue to receive orders from these customers.

Rapid technological change and future competitive technologies could negatively affect our operations

The field of telecommunications is characterized by rapidly advancing technology. Our success will depend in large part upon our ability to keep pace with advancing our high performance RF technology and efficient, readily available low cost materials technologies. Rapid changes have occurred, and are likely to continue to occur, in the development of wireless telecommunications. Development efforts may be rendered obsolete by the adoption of alternative solutions to current wireless operator problems or by technological advances made by others.

LEGAL RISKS

Intellectual property and patent protection and infringement may be costly

Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve trade secrets and to operate without infringing upon the patent or other proprietary rights of others and without breaching or otherwise losing rights in the technology licenses upon which any of our products are based. We have applied for patents for inventions developed internally and acquired patent rights in connection with the purchase of the Adaptive Notch Filtering business unit of Lockheed Martin Canada. One of the patents is jointly owned with Lucent Technologies, Inc. We believe there are a large number of patents and patent applications covering RF products and other products and technologies that we are pursuing. Accordingly, the patent positions of companies using RF technologies, including us, are uncertain and involve complex legal and factual questions. The patent applications filed by us or others may not result in issued patents or the scope and breadth of any claims allowed in any patents issued to us or others may not exclude competitors or provide competitive advantages. In addition, patents issued to us, our subsidiaries or others may not be held valid if subsequently challenged or others may claim rights in the patents and other proprietary technologies owned or licensed by us. Others may have developed, or may

in the future develop, similar products or technologies without violating any of our proprietary rights. Furthermore, the loss of any license to technology that we might acquire in the future may have a material adverse effect on our business, operating results and financial condition.

Some of the patents and patent applications owned by us are subject to non-exclusive, royalty-free licenses held by various U.S. governmental units. These licenses permit these U.S. government units to select vendors other than us to produce products for the U.S. Government, which would otherwise infringe our patent rights that are subject to the royalty-free licenses. In addition, the U.S. Government has the right to require us to grant licenses (including exclusive licenses) under such patents and patent applications or other inventions to third parties in certain instances.

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Older patent applications in the U.S. are currently maintained in secrecy until patents are issued. In foreign countries and for newer U.S. patent applications, this secrecy is maintained for a period of time after filing. Accordingly, publication of discoveries in the scientific literature or of patents themselves or laying open of patent applications in foreign countries or for newer U.S. patent applications tends to lag behind actual discoveries and filing of related patent applications. Due to this factor and the large number of patents and patent applications related to RF materials and technologies, and other products and technologies that we are pursuing, comprehensive patent searches and analyses associated with RF technologies and other products and technologies that we are pursuing are often impractical or not cost-effective. As a result, patent and literature searches cannot fully evaluate the patentability of the claims in our patent applications or whether materials or processes used by us for our planned products infringe or will infringe upon existing technologies described in U.S. patents or may infringe upon claims in patent applications made available in the future. Because of the volume of patents issued and patent applications filed relating to RF technologies and other products and technologies that we are pursuing, we believe there is a significant risk that current and potential competitors and other third-parties have filed or will file patent applications for, or have obtained or will obtain, patents or other proprietary rights relating to materials, products or processes used or proposed to be used by us. In any such case, to avoid infringement, we would have to either license such technologies or design around any such patents. We may be unable to obtain licenses to such technologies or, if obtainable, such licenses may not be available on terms acceptable to us or we may be unable to successfully design around these third-party patents.

Our participation in litigation or patent office proceedings in the U.S. or other countries to enforce patents issued or licensed to us, to defend against infringement claims made by others or to determine the ownership, scope or validity of the proprietary rights of us and others, could result in substantial cost to, and diversion of effort by, us. The parties to such litigation may be larger, better capitalized than we are and better able to support the cost of litigation. An adverse outcome in any such proceedings could subject us to significant liabilities to third parties, require us to seek licenses from third parties and/or require us to cease using certain technologies, any of which could have a material adverse effect on our business, operating results and financial condition.

Litigation may be costly and divert management’s attention

We have no active lawsuits, or any pending or threatened to the best of our knowledge. The act of defending against any potential claim may be costly and divert management attention. If we are not successful in defending against whatever claims and charges may be made against us in the future, there may be a material adverse effect on our business, operating results and financial condition.

Government regulations may have a material adverse effect on our business

Although we believe that our wireless telecommunications products themselves are not subject to licensing by, or approval requirements of, the FCC, the operation of base stations is subject to FCC licensing and the radio equipment into which our products would be incorporated is subject to FCC approval. Base stations and the equipment marketed for use therein must meet specified technical standards. The ability to sell our wireless telecommunications products is dependent on the ability of wireless base station equipment manufacturers and wireless base station operators to obtain and retain the necessary FCC approvals and licenses. In order for them to be acceptable to base station equipment manufacturers and to base station operators, the characteristics, quality and reliability of our base station products must enable them to meet FCC technical standards. We may be subject to similar regulations of foreign governments. Any failure to meet such standards or delays by base station equipment manufacturers and wireless base station operators in obtaining the necessary approvals or licenses could have a material adverse effect on our business, operating results and financial condition. In addition, certain RF filters are on the U.S. Department of Commerce’s export regulation list. Therefore, exportation of such RF filters to certain countries may be restricted or subject to export licenses.

We are subject to governmental labor, safety and discrimination laws and regulations with substantial penalties for violations. In addition, employees and others may bring suit against us for perceived violations of such laws and regulations. Defending against such complaints could result in significant legal costs for us. Although we endeavor to comply with all applicable laws and regulations, we may be the subject of complaints in the future, which could have a material adverse effect on our business, operating results and financial condition.

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Environmental liability may involve substantial expenditures

Certain hazardous materials may be used in research, development and to the extent of any manufacturing operations. As a result, we are subject to stringent federal, state and local regulations governing the storage, use and disposal of such materials. It is possible that current or future laws and regulations could require us to make substantial expenditures for preventive or remedial action, reduction of chemical exposure, or waste treatment or disposal. We believe we are in material compliance with all environmental regulations and to date have not had to incur significant expenditures for preventive or remedial action with respect to the use of hazardous materials.

However, our operations, business or assets could be materially and adversely affected by the interpretation and enforcement of current or future environmental laws and regulations. In addition, although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, there is the risk of accidental contamination or injury from these materials. In the event of an accident, we could be held liable for any damages that result. Furthermore, the use and disposal of hazardous materials involves the risk that we could incur substantial expenditures for such preventive or remedial actions. The liability in the event of an accident or the costs of such actions could exceed available resources or otherwise have a material adverse effect on the business, results of operations and financial condition. We carry property and worker’s compensation insurances in full force and effect through nationally known carriers which include pollution cleanup or removal and medical claims for industrial incidents.

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PROPOSAL 1 – APPROVAL OF THE MERGER OF ISCO INTERNATIONAL, INC. WITH CLARITY COMMUNICATION SYSTEMS INC.

Background

On November 13, 2007, the Merger Agreement was entered into by and among ISCO, ISCO Illinois, Inc. ("Merger Subsidiary"), a wholly-owned subsidiary of ISCO, Clarity Communication Systems Inc. and Jim Fuentes, for himself and as the representative of Clarity's Rightsholders.

Jim Fuentes is the sole stockholder of Clarity. However, certain employees, former employees, advisors and consultants (collectively, the "Rightsholders") hold rights to receive either cash or the same type of 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"). Further, Mr. Fuentes and certain of the Rightsholders are also entitled to receive equity consideration ("Enhanced Benefits") in the event of a change in control of Clarity pursuant to the at risk compensation arrangements (collectively, the "At-Risk Plan").

Mr. Fuentes is currently a director of ISCO and will enter into an employment agreement with ISCO upon closing of the Merger. Due to the nature of Mr. Fuentes' relationship with ISCO, the Board deemed the potential transaction with Clarity to be a related party transaction subject to ISCO's related party transaction approval process.

Pursuant to Rule 712 of the AMEX Company Guide, we are required to seek approval of the issuance of shares of Common Stock to Mr. Fuentes in connection with the Merger.

Related Party Transaction Approval Process and Establishment of Special Committee

Statement of Principles

ISCO's Board of Directors is required to pre-approve any transactions with related parties, as those terms are defined by AMEX, the Public Company Accounting Oversight Board, the Securities and Exchange Commission (*e.g*., Item 404 of Regulation S-K), or any other qualified entity.

When in doubt, all members of the organization are required to disclose the information and the Board will determine the appropriate course of action, if any. In making this determination the Board has the authority to engage the Company's counsel or other legal counsel as it deems appropriate and necessary. Company management is prohibited from engaging in any related party transaction without the express approval of the Board of Directors.

Procedures

Requests or applications to enter into related party transactions must be submitted to the Chairman of the Board, who will then process the request using reasonable judgment, including but not limited to submission for review to the full Board of Directors. The Chairman will enter any such communications into the minutes of the next Board meeting and include a current status and/or resolution. In addition, pursuant to AMEX rules, the Audit Committee of the Board must review and approve any such transaction, as is noted in its charter.

Establishment of Special Committee

Mr. Fuentes informed Mr. Thode, ISCO's Chief Executive Officer, of his potential interest in evaluating a possible strategic combination with ISCO, who in turn disclosed such interest to the Chairman of the Board and other members of the Board. Upon learning of Mr. Fuentes' interest, the full Board resolved to establish a special committee of disinterested directors (the "Special Committee") to evaluate, review and negotiate the terms of what became the Merger and to recommend to the full Board whether to approve the Merger and the transactions contemplated thereby. The

Special Committee consisted of directors of ISCO who the Board determined were independent in this matter and did not have a personal interest in the Merger, outside that of which is created solely as a result of their service on ISCO's Board of Directors. The Special Committee consisted of Mr. John Thode, who was ISCO's chief executive officer at the time the Special Committee was established, Mr. Ralph Pini, the Chairman of ISCO's Board of Directors, and Dr. George Calhoun. Mr. Fuentes was not at any time a member of the Special Committee and did not participate in the activities of the Special Committee, except to the extent of any negotiations with the Special Committee as the sole stockholder and director of Clarity.

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The Board of Directors and management of ISCO regularly discuss ISCO's business, competitive position and strategic direction. They review alternatives for growth, both organic and through transaction, in an effort to strengthen the Company and maximize shareholder value.

Material Contacts

On May 14, 2007, Mr. John Thode, then CEO of ISCO, and Mr. Jim Fuentes, CEO of Clarity and Director of ISCO, had a preliminary conversation about a potential strategic partnership or combination between the entities. Mr. Fuentes described a need for his company to expand commercial and financial resources in the commercial solutions area. Mr. Thode described a need for ISCO to accelerate the extension of the AIM platform into software, ideally into a handset application. Mr. Thode notified ISCO's Board of Directors of this communication via email.

On May 21, 2007, Mr. Thode summarized this initial discussion for the rest of ISCO's Board of Directors, and after consulting the Company's legal counsel who reviewed the role and duties of the Board of Directors in a related-party transaction with a director and the Board of Directors' responsibility to ISCO's stockholders, recommended that a Special Committee of the Board be established to consider the potential benefits and any adverse consequences of some type of strategic arrangement with Clarity, as well as any proposed terms. Mr. Fuentes was not present for this discussion. The Board of Directors identified Mr. Fuentes' personal interest in any transaction, that any transaction would be between related parties, and determined that Mr. Fuentes be excluded from any communication on the topic, except as the representative of Clarity. In addition, the Board identified certain Board members who it determined were independent of any transaction with Clarity and had the ability to perform their fiduciary obligations involved in serving on a Special Committee, which would be responsible, in part, for leading any direct communications or negotiations with Clarity, as potential members of the Special Committee.

Between May 21, 2007 and June 8, 2007, limited discussions between Mr. Thode, Mr. Cesario (ISCO's Chief Financial Officer), Mr. Fuentes and Mr. Bill Jenkins (Clarity's Vice President of Strategy and Product Management), took place to learn more about Clarity's products and services. Robert W. Baird & Co. ("Baird"), Clarity's investment banker engaged to assist in the possible sale of Clarity, provided a summary overview of Clarity's business.

On June 8, 2007, ISCO's Board of Directors created a Special Committee of disinterested directors as described in the section "Related Party Transaction Approval Process and Establishment of Special Committee" above. The members of the Special Committee consisted of three directors who the Board determined had no personal interest in any potential transaction and were knowledgeable about Clarity's business. They were Mr. Thode, Dr. George Calhoun, and Mr. Ralph Pini. The Special Committee was directed to analyze any potential transaction with Clarity, review the terms of the transaction, share information with the Board of Directors, participate in any negotiations should they be appropriate, and make one or more recommendations of appropriate action to the Board of Directors, subject to additional approval by the Audit Committee pursuant to AMEX rules on related party transactions. It was determined that other disinterested members of the Board of Directors would be welcome to participate in Special Committee meetings but not have a formal vote on Special Committee matters. The duties and obligations of the Special Committee were discussed with legal counsel and confirmed with the committee members. Mr. Thode was named Chairman of the Special Committee. In addition, the Special Committee determined that ISCO's legal counsel, Pepper Hamilton, LLP, did not have any relationship with Clarity or Mr. Fuentes and could act as counsel for the Special Committee.

For the next two weeks, discussions occurred between Mr. Thode, Mr. Cesario, and Clarity representatives Jim Fuentes and Bill Jenkins. Both sides shared their respective strategic plans and identified needs to make their respective companies more competitive. Clarity expressed a desire to quickly expand its selling and operations capabilities to provide product solutions to customers, as opposed to the almost exclusively custom product development it had focused on during its history. ISCO expressed a desire to accelerate the conversion of its AIM platform to software, as well as to push deeper into software-based solutions for wireless telecommunications.

Discussions ceased during June 2007 as ISCO focused on restructuring its credit line arrangement with its lenders, which was announced on June 26, 2007. In the course of restructuring ISCO's credit line arrangement, ISCO notified its lenders that it was in discussions with Clarity about a possible transaction.

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Discussions between ISCO and Clarity resumed on July 5, 2007, when Mr. Fuentes contacted Mr. Cesario. Mr. Fuentes expressed his desire to continue toward a strategic combination with ISCO, citing the rapid addition of sales and operational assets as a significant potential benefit to Clarity. Mr. Cesario and Mr. Fuentes discussed the type of due diligence data that would be required in order to further consider a strategic combination. Limited information from Clarity was provided to ISCO over the following two weeks. Mr. Cesario reported this discussion to Mr. Thode who then reported it to the Special Committee and the other disinterested members of the Board.

On July 19, 2007, Mr. Thode and Mr. Cesario summarized what they had learned about Clarity from discussions with Mr. Fuentes and Mr. Jenkins, to the Special Committee and other disinterested members of the Board. Mr. Thode and Mr. Cesario expressed a view that the arrangement that offered the greatest potential to meet each side's strategic needs would be a combination of the entities through a merger and described potential synergies between the companies. They described their view that the discussions involved cross selling products and utilizing R&D resources, and in light of the limited administrative staffs of both entities, any arrangement would essentially involve all of the employees of each company in some fashion. As both companies' value was determined to be based on human knowledge and expertise, in order to have value the entities must continue, and thus described a merger of the two companies into one. They explained that Mr. Fuentes asked for a nonbinding letter of intent to confirm basic deal concepts prior to performing detailed due diligence in order to ensure the entities were of like mind. The Special Committee determined that detailed due diligence would be required before it could truly understand the pros and cons of a potential combination, and that a non-binding letter of intent may align the parties, and facilitate the gathering of additional information. Management was then instructed to execute along this course.

Between July 19, 2007 and mid-August 2007, representatives of Clarity, including Baird, and Mr. Thode discussed the potential terms of a merger and the terms of a non-binding letter of intent.

As of mid-August 2007, the companies had not agreed upon a nonbinding letter of intent but expressed continued interested in gathering more data and evaluating whether a transaction would be beneficial for both sides. Clarity began to provide further limited diligence materials that were requested by ISCO. This limited diligence review continued through the rest of August 2007. The parties were able to identify economic terms desired by each side and create the basis for discussions for a potential transaction. ISCO indicated that it had a limited amount of cash available and wanted to explicitly align the performance of a combined entity by using stock as consideration. Clarity described the need for financial assets to defray any transaction expenses, but otherwise agreed to a deal for equity consideration as Mr. Fuentes expressed optimism in the value of a combined entity.

On August 23, 2007, Mr. Cesario and Mr. Thode summarized to the Special Committee the results of the diligence process to date. They described the information that was obtained concerning Clarity's legal structure and Board minutes/actions, shareholder structure, financial condition, contracts, customers, vendors, employees, assets and liabilities. Mr. Cesario created a repository for the diligence materials collected from Clarity and shared such data with ISCO's legal counsel.

After the Special Committee meeting on August 23, 2007, Mr. Thode and Mr. Cesario had further discussions with ISCO's lenders regarding the proposed transaction and received an oral non-binding consent from the lenders to the deal structure to satisfy the requirement under ISCO's line of credit arrangement to seek consent from the lenders prior to issuing or assuming additional debt, which Clarity and ISCO had discussed as part of the terms of the potential transaction.

On August 27, 2007, ISCO's Special Committee decided it had gathered sufficient information to present a nonbinding letter of intent to Clarity, based largely on points discussed during the prior weeks of discussions (as described above) for purposes of gathering additional diligence materials. Mr. Thode presented this proposal to Clarity.

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On August 28, 2007, ISCO and Clarity entered into a letter of intent for a transaction, subject to, among other things, the completion of additional due diligence, a no-solicitation period granted to ISCO by Clarity until September 30, 2007, the rendering of a fairness opinion to ISCO's Special Committee and full Board of Directors, completion of an audit of Clarity's financial statements, commitment from ISCO's lenders for funding of the combined entity, and approvals on both sides. This agreement included a period of exclusivity between ISCO and Clarity, ending on September 30, 2007, and included substantial due diligence procedures, which provided, among other things, that within two weeks after receipt of due diligence materials, ISCO would notify Clarity whether ISCO intended to proceed with a transaction and toward a definitive agreement. This nonbinding letter of intent outlined economic terms of ISCO providing 40 million shares of Common Stock to Clarity – 20 million up front, 10 million vesting over two years and subject to continued employment conditions, and 10 million subject to certain market capitalization thresholds for 45 consecutive days during the following three year period. It was agreed by the parties that a portion of these shares would be used to satisfy certain employee compensation plan obligations that would be triggered in the event of a change in control of Clarity. In addition, ISCO was to assume a $2 million shareholder note, provide up to $750,000 in cash to offset documented and reasonable Clarity transaction costs and assume a credit line that Clarity did not have but was contemplating possibly needing for a short period of time. Finally, Mr. Fuentes was to have a two year contract to serve as an employee of ISCO following the transaction.

During the next two weeks Clarity provided due diligence materials to ISCO and its legal counsel to review and ISCO's management and legal counsel conducted their due diligence review.

On September 14, 2007, ISCO's Special Committee met to consider the data that had been gathered, the risks and opportunities associated with Clarity's business, potential synergies, and potential transaction costs and cash requirements throughout a transaction process and beyond. After reviewing the duties and obligations of the Special Committee with legal counsel, Mr. Cesario and Mr. Thode shared revised financial forecasts and the results of authorized customer contact, as well as a more complete view of the assets and liabilities of Clarity. Mr. Cesario and Mr. Thode noted that financial performance had been significantly below expectations based on earlier discussions and review of Clarity financial data as certain opportunities had not yet materialized, and explained that Clarity would likely need more cash than expected and for a longer period of time, which would be ISCO's obligation should a transaction be consummated. Ultimately, the Special Committee considered whether to maintain, change, or terminate the transaction process with Clarity. After a detailed review, the Special Committee decided that there remained value in a potential combination and decided to present a revised letter of intent to Clarity, with the ability for the entities to terminate without completing a transaction, including requiring final approval of ISCO's Board of Directors.The nonbinding letter of intent was revised to tie more of the consideration to equity capitalization performance measures to relieve ISCO of some of the risk and allow for the repayment by ISCO of a credit line to be utilized by Clarity for operation funding, but offset this use of cash by eliminating the assumption of the shareholder note and reducing the amount of cash to be provided to cover Clarity's closing costs.

After the meeting of September 14, 2007, Mr. Thode held discussions with ISCO's lenders to review the proposed revised terms of the transaction, including the elimination of the assumption of the shareholder note and the extension of debt financing to ISCO to pay off Clarity's line of credit at closing of the Merger. One of ISCO's lenders, Alexander Finance, L.P. indicated its willingness to provide up to $1.5 million for this purpose.

On September 21, 2007, ISCO and Clarity entered into a revised letter of intent, reflecting adjusted economic elements based on the preliminary diligence findings and updated cash needs and expectations of the business. Upon agreement of the revised letter of intent, Mr. Cesario was instructed by the Special Committee to engage an independent auditor to audit Clarity's financial statements as well as an independent appraisal firm to provide a fairness opinion. ISCO then engaged Grant Thornton, LLP ("Grant Thornton"), ISCO's independent registered public accounting firm to conduct the audit of Clarity's financial statements and Appraisal Economics, Inc. ("AEI") to render the fairness opinion. The Special Committee indicated a preference for an outside professional investment advisor

that had no prior relationship with ISCO or Clarity, due to the related party nature of the potential transaction. A number of candidates were identified and evaluated. Based on reviews of clients and competencies including AEI's reputation and experience on the valuation of companies, a direct interview process and reference checks, AEI was selected as providing the most value to ISCO, the Special Committee, the Board of Directors, ISCO's stockholders and the transaction process overall. To the best knowledge of ISCO management and the Board of Directors, there has never been a relationship between ISCO, or its affiliates, and AEI.

During the next few weeks, diligence review continued, including legal and accounting diligence. On October 8, 2007, Grant Thornton began its field work at Clarity's offices. AEI also began its evaluation of Clarity and the proposed transaction during this time. ISCO's legal counsel continued to conduct due diligence and draft a definitive merger agreement.

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On October 10, 2007, Mr. John Thode submitted his resignation as CEO to ISCO's Board of Directors. ISCO considered the appropriate disclosure to the marketplace, and its Board of Directors concluded that it should disclose the advanced stage of the Clarity relationship as well. On October 15, 2007, both a non-binding letter of intent between the parties and Mr. Thode's resignation were disclosed via press release and Current Report on Form 8-K. During this time ISCO also announced that Mr. Ralph Pini, ISCO's Chairman of the Board of Directors would serve as interim chief executive officer of ISCO until a permanent successor to Mr. Thode could be found.

On October 12, 2007, a draft definitive merger agreement was sent to Clarity, its legal counsel and Baird for review.

On October 22, Clarity, through its legal counsel, provided a number of preliminary comments to the draft merger agreement. Many of these points related to rights and obligations specified in the draft definitive agreement as well as the type and amount of indemnities to be provided by each side to the other (primarily from Clarity to ISCO). Between October 22, 2007 and October 24, 2007, representatives from the parties discussed various alternatives to achieve each party's interests.

On October 24, 2007, ISCO's Special Committee, with its legal counsel and Mr. Cesario, met to consider deal points raised by Clarity pertaining to the draft merger agreement. Mr. Cesario and ISCO's legal counsel explained the points that were raised and provided recommendations, as well as certain potential alternatives to the two positions that had been advanced (ISCO's initial draft and Clarity's requested changes). After discussion of the individual and overall elements, the Special Committee directed Mr. Cesario to present ISCO's reply to these points, with the expectation of moving forward in the negotiations if agreement on these points could be reached.

On October 26, 2007, ISCO's Special Committee, with its legal counsel, Mr. Cesario, and independent financial advisors from AEI, met to discuss the fairness opinion document that was provided on October 25, 2007 and the underlying assumptions and analysis. Mr. Joe Kettel of AEI led the presentation of their analysis. Mr. Kettel described the nature of the engagement, his understanding of the consideration to be offered, the processes and tools employed, the information that was used, and expressed that AEI was able to conduct an appropriate, independent review of the financial nature of the transaction for ISCO, its Board of Directors and stockholders. Key assumptions were analyzed, including pro forma changes that would result should certain assumptions be changed as discussed (*e.g.*, future revenue and discount rate). Members of the Special Committee, as well as other disinterested directors who were in attendance, asked questions and engaged in a discussion with AEI about its report and analysis. Ultimately the Special Committee agreed with the findings presented by Appraisal Economics, that the transaction was fairly priced from a valuation perspective.

Revised drafts of the definitive merger agreement were circulated between the parties during the last week of October 2007.

On November 2, 2007, the Audit Committee of ISCO's Board of Directors met with representatives of Grant Thornton for Grant Thornton's presentation of the results of the audit of Clarity's financial statements.

Later on November 2, 2007, the Special Committee, with its legal counsel and Mr. Cesario, again reviewed the duties and obligations of the Special Committee, and then considered what it believed to be the final points that had to be resolved in order for a definitive agreement to be agreeable to the Special Committee and ISCO's Board of Directors. After a careful review of the history, positions, and data, the Special Committee analyzed the risks and requirements of each point, and which could and could not be compromised. Ultimately, Mr. Cesario was instructed to present to Clarity the decision on those points with an intention to move forward with a final agreement pending agreement on the open points.

Negotiations on the terms of the definitive merger agreement continued between the parties between November 2 and November 12, 2007 on several open points. During this time, Mr. Cesario kept ISCO's lenders informed about the

status of the proposed transaction as well as open deal points. Toward the end of this period, Mr. Cesario also showed the revised draft definitive merger agreement and related open deal points to AEI, who determined that the assumptions contained in its fairness opinion still applied and no changes were necessary to the fairness opinion.

On November 12, 2007, ISCO's Special Committee, with its legal counsel and Mr. Cesario, met to review a further revised definitive merger agreement. After a review of goals, management confirmed it believed the revised definitive agreement was in near final form with all material issues resolved. After confirming with legal counsel the duties and responsibilities of the Special Committee, the Special Committee reviewed the terms of the proposed transaction, the risks and opportunities that would go with it, and the final deal points as presented by management and described in the draft definitive agreement. The Special Committee unanimously recommended to the Board of Directors (excluding Mr. Fuentes) and to the Audit Committee that the transaction be consummated as described.

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On November 12, 2007, subject to the formal recommendation and approval of the Audit Committee, the Board of Directors (excluding Mr. Fuentes) considered the merger transaction and supporting materials and determined it was in the best interest of ISCO's stockholders to proceed with the transaction. The Special Committee and the Board of Directors considered the fairness opinion rendered by AEI and considered whether there were any circumstances, including such circumstances specific to ISCO as well as to the capital markets and the wireless telecommunications industry generally, that would undermine the assumptions contained in the fairness opinion. It was determined that the fairness opinion dated October 25, 2007 remained valid and applicable. Because of scheduling limitations, the Audit Committee was not able to formally meet prior to this Board of Directors Meeting. Because of a lack of a quorum of Audit Committee members at the appropriate portion of this full Board of Directors meeting, the Board approved of this transaction and instructed Mr. Cesario to execute the definitive agreement subject to the formal recommendation of the Audit Committee.

On November 13, 2007, the Audit Committee met with the Company's legal counsel and Mr. Cesario, considered its duties and obligations, considered the merger transaction as proposed, considered the related party nature of the transaction and controls employed during the process, considered the results of the audit and the comments provided by the independent auditors, as well as other factors, and recommended that the Company proceed with the transaction. Mr. Cesario shared the Audit Committee's approval with the full Board of Directors prior to signing the definitive agreement.

On November 13, 2007, Mr. Cesario on behalf of ISCO and Mr. Fuentes on behalf of Clarity, himself and as representative of the Rightsholders, executed a Definitive Merger Agreement, which is attached as Appendix A to this Proxy Statement and announced the agreement to the public via press release and on a Current Report on Form 8-K filed with the SEC.

Reasons for Merger

In reaching its decision to approve the merger, ISCO's Special Committee and Board of Directors consulted with ISCO's management and advisors, and considered the following potentially positive factors:

- The telecommunications industry, particularly the wireless segment, has been consolidating for years and continues to do so. The Merger offers an opportunity for ISCO to become a larger, more competitive company. Inherent benefits in entity size include cost efficiencies in operations and sourcing, as well as diversity of products and markets, to reduce the reliance on any particular element of the organization in the face of fluctuating customer spending patterns.

- ISCO's competitors are growing larger, in many cases through acquisition, and thus are more difficult to compete against. By increasing its own size, ISCO expects to be in a better position to compete with these entities.

- ISCO's customers and potential customers are also growing via merger. By becoming a larger entity with a larger breadth of product and serve offerings, ISCO believes it would be more likely to be selected as a vendor by these entities.

- ISCO is moving toward a more software-driven business model within wireless telecommunications industry, including a view into mobile devices. Clarity has built significant capabilities in the field of mobile device applications, including assembling a strong, skilled employee base and competency over the years. The Merger may significantly improve ISCO's ability to expand its AIM platform into a handset application and related derivatives.

- The customer bases between the two companies appear highly complementary. There may be significant cross-selling opportunities in bringing the product lines of both companies to the combined customer base.

- Each entity offers a different set of solutions to the marketplace, thus reducing the risk of adding one solution while diminishing the value of another.

- The expansion of product and market breadth would reduce the reliance on any one product, market or customer. ISCO has experienced a relatively concentrated customer base for several years. This combination would reduce the reliance on any single customer and reduce the risk profile of the combined entity.

- Each entity has a highly entrepreneurial culture and their respective facilities are geographically close, thus increasing the probability of a successful integration.

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- The structure of the transaction ties combined company performance in the future to the cost of the transaction, as 37% of the shares issuable in connection with the Merger are tied to future increases in the combined entity's value as measured by its market capitalization. Should these projected increases not occur, this large portion of the consideration in the Merger (15 million shares out of a maximum possible issuance of 40 million shares) would not be paid.

- The combined entity affords greater opportunity for larger and longer-term customer orders with longer revenue recognition cycles, which is viewed as potentially reducing the volatility of ISCO's revenues and common stock valuation.

The Board of Directors and Special Committee also considered the following potentially adverse effects:

- 2007 was the lowest revenue Clarity ever posted and its first significant operating loss.

- Clarity was shifting from its historical revenue base (almost exclusively providing custom product development services) to offering products and hosted services to customers. It did not have a significant track record of success in these new areas.

- The combined entity would have greater cash requirements to operate than ISCO as a standalone entity, and thus the pressure on the combined entity for additional revenues and/or funding in the near term will be significant.

- ISCO will need its lenders to lend an additional $1.5 million to cover transaction costs and initial working capital of the combined entity.

- The volatility in the telecommunications marketplace, and while a positive in terms of expanded product offerings and customer bases, the resulting entity would have greater assets in this marketplace and thus be more intensely subject to macro trends in the wireless telecommunications industry.

- Dilution to ISCO's stockholders as a result of the equity to be issued in the proposed transaction.

- ISCO has a modest amount of cash in the bank and Clarity has a net deficit. A combined entity would start without a significant amount of cash, even after additional debt financing to resolve certain liabilities and transaction costs.

- Despite the attempt to incentivize Clarity employees to stay after a merger, there could be no assurance that they would indeed stay with the combined entity.

- The additional strain on ISCO's personnel in integrating an entity, in light of the thin staffing at ISCO and particularly in light of the recent departure of Mr. Thode as ISCO's CEO and related CEO search process.

Opinion of Appraisal Economics Inc., Financial Advisor to ISCO's Special Committee of the Board of Directors

FAIRNESS OPINION

Appraisal Economics Inc. ("AEI") was retained by the Special Committee to render a fairness opinion in connection with its proposed acquisition of Clarity. The Special Committee chose to retain AEI based on AEI's reputation and experience in the valuation of telecommunications companies. Specifically, the Special Committee requested AEI to determine whether the consideration that would be paid by the Company in connection with the acquisition of Clarity was fair to the Company's stockholders from a financial point of view. On October 26, 2007, at a meeting of the Special Committee of the Board of Directors, held to evaluate the acquisition, AEI rendered the opinion (the "Fairness

Opinion”), which Fairness Opinion was distributed to the Special Committee, to the effect that, as of the date of the Fairness Opinion (October 25, 2007 or the “Report Date”) and based on and subject to the matters described in its opinion, the consideration to be paid by the Company in connection with the acquisition is fair, from a financial point of view to the Company stockholders.

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The full text of AEI's written Fairness Opinion to the Special Committee, which sets forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix B. AEI has consented to the inclusion of its Fairness Opinion in the proxy statement. You are encouraged to read the Fairness Opinion carefully in its entirety. The Fairness Opinion was provided to the Special Committee in connection with its evaluation of the acquisition and relates only to the fairness to the stockholders, from a financial point of view, of the consideration to be paid by the Company, and does not address any other aspect of the acquisition and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the acquisition. The Fairness Opinion is neither a recommendation nor advice as to whether the Company stockholders should exercise their right to vote their shares for or against the transaction. The summary of AEI's Fairness Opinion in this proxy statement is qualified in its entirety by reference to the full text of the Fairness Opinion.

In conducting the analysis and arriving at its opinion, AEI reviewed such materials and considered such financial and other factors as deemed relevant under the circumstances, including:

- a copy of the Letter of Intent for Purchase of Clarity Stock dated August 28, 2007 and the Amendment to the Letter of Intent dated September 21, 2007;
- unaudited financial statements of Clarity for the years ended December 31, 2002 through 2006, and for the interim period ended June 30, 2007 (the periods of 2006 and 2007 were audited during October 2007 by Grant Thornton, LLP, with no material changes from the financial statements as presented to AEI);
- certain internal financial and operating information, including financial projections for Clarity prepared by the management of Clarity and financial projections for Clarity prepared by the management of ISCO;
- market traded security prices and publicly available financial and operating data concerning certain companies whose business description was deemed comparable to Clarity or otherwise relevant to the inquiry;
- information regarding acquisitions of other companies in the telecommunications industry;
- ISCO stock price history on and before the Report Date to determine the value of the merger consideration;
- published studies of discounts to be applied to restricted stock in order to determine the value of the time-based equity consideration;
- application of a Monte Carlo simulation model to determine the value of the market cap-based equity consideration; and
- other financial studies, analyses, and investigations as deemed appropriate.

In addition, AEI discussed with the senior management of ISCO and Clarity; (i) the recent history and prospects for Clarity's business, (ii) the terms of the Transaction, and (iii) such other matters as deemed relevant.

As part of its review and analysis and in arriving at its opinion, AEI relied upon the accuracy and completeness of the financial and other information provided to it by ISCO and Clarity. AEI did not undertake any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Clarity except as noted. AEI assumed that the final terms of the transaction will be substantially similar to those described to it and included in the Fairness Opinion. The Fairness Opinion is necessarily based on economic, financial, and market conditions as they exist and can only be evaluated as of the date of the Fairness Opinion. The Fairness Opinion does not address and should not be construed to address the merits of the transaction and alternative financing strategies.

AEI and all of its employees are independent of ISCO and Clarity and have no current financial interest in these parties or in the transaction. It was retained by ISCO to render the Fairness Opinion in connection with the transaction and will receive a fee for such services. AEI's fee for the engagement is in no way contingent upon the results reported in the Fairness Opinion.

AEI's opinion and financial analyses were only one of many factors considered by the Special Committee in their evaluation of the acquisition and should not be viewed as determinative of the views of the Special Committee with

respect to the decision to pursue the acquisition or the consideration to be paid in connection with the acquisition.

Valuation Analysis

The following is a summary of the financial analysis performed by AEI in connection with the preparation of its opinion. No company or security used in the analysis is directly comparable to Clarity. In addition, mathematical analysis such as determining the mean or median is not in itself a meaningful method of using selected company or market data. The analysis performed is not necessarily indicative of actual values, which may be significantly more or less favorable than suggested by the analysis. Furthermore, AEI considered all of the shares of ISCO common stock, including those which may be issued in connection with the transaction, including the time-based and performance based shares, as merger consideration for valuation purposes.

AEI concluded that Clarity's business enterprise value is between $5.2 million and $8.2 million, with a most applicable value of $7.0 million and, net of $1.0 million in assumed debt, a fair market value of equity of approximately $6.0 million as of September 30, 2007 (the "Valuation Date"). Fair market value is defined as the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion, and when both have reasonable knowledge of the relevant facts. The fair market value presented in the Fairness Opinion is, to the best of AEI's knowledge, the latest fair market value established for Clarity's total equity, prior to closing.

AEI utilized the discounted cash flow method of the income approach with support from the guideline public company method and the guideline transaction method of the market approach to determine the business enterprise value of Clarity.

Income Approach - Discounted Cash Flow Method

AEI was provided with budgeted sales and expenses for 2007 through 2011 (the "Projection Period"'). The time frame beyond the Projection Period was denoted as the residual period. AEI estimated the free operating cash flow ("FCF") for each year of the Projection Period and discounted it to present value using an appropriate discount rate of 22 percent and then estimated the present value of the estimated FCF for the residual period. The sum of these two components is the business enterprise value of the company. The annual FCF was discounted to present value at a rate of 22.0 percent using a mid-year discounting convention. To estimate the discount rate for Clarity, AEI used the sized based method to best consider the relative small size of Clarity. Details of the discount rate computation are captured in the Appraisal Economics Inc. Fairness Opinion. AEI tested the sensitivity of its model by varying the discount rate and revenue projection.
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AEI determined a residual value of the enterprise at the end of the discrete forecast period and discounted it to present value. The residual value analysis requires the determination of the value of all prospective cash flow generated by the business after a discrete forecast period. This model states that the value of an income stream is determined by the following equation: $RV= (CF \times (1+g)) / (k-g)$ where,

RV = residual value in the last year of the projection;

CF = cash flow in the last year of the projection;

k = discount rate; and

g = residual cash flow annual growth rate.

AEI used a residual cash flow annual growth rate of 5.0 percent in its model. The term "k-g" is known as the capitalization rate, equal to 17.0 percent in the analysis. AEI discounted the resulting residual value to present value. The present values from both the Projection Period and the residual value were added to obtain the business enterprise value.

AEI concluded a business enterprise value of $7.3 million (rounded) for Clarity as of the Valuation Date using the discounted cash flow method of the income approach.

Market Approach - Guideline Public Company Method

AEI compared Clarity to similar (or "guideline") companies that are publicly traded on a stock market or exchange. The use of valuation ratios calculated from the selected guideline companies provided an indication of Clarity's fair market value of equity. AEI selected the following six guideline companies: PCTEL, Inc.; Smith Micro Software

Inc.; MMS Communications Corporation; CalAmp Corp; Openwave Systems, Inc.; and Wind River Systems, Inc. It should be noted that Clarity is substantially smaller then the guideline public companies, having only $1.2 million in total assets, as such, no company was considered directly comparable to Clarity.

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AEI computed the market value of equity for the guideline companies relative to certain valuation metrics, such as total assets, revenue and income. These ratios were then applied to Clarity to obtain an indication of its market value of equity. A company's size, growth, and profitability were critical elements in selecting appropriate valuation multiples. Given Clarity's lack of consistent profitability, AEI utilized the revenue multiple in determining an indication of value. Furthermore, AEI applied multiples in line with the median of the multiples of the selected guideline companies to Clarity's trailing twelve- month revenue and 2007E revenue.

AEI concluded a business enterprise value of $5.2 million for Clarity as of the Valuation Date using the guideline public company method of the market approach.

Market Approach - Guideline Transaction Method

AEI computed valuation ratios from the observed purchase prices paid in the acquisition of companies, operating within the wireless telecommunications industry. Then AEI applied the valuation ratios to Clarity, similar to the guideline company method.

Although none of the companies identified within the guideline transactions have operations with the same scope as Clarity, AEI selected 16 transactions involving the acquisition of companies operating in the mobile, wireless, telecommunication industry announced between April 2004 and October 2007. The majority of the transactions identified represent acquisitions of privately held companies, whereby access to the transaction details are limited
In evaluating the guideline transactions, AEI applied multiples in line with the median of the implied multiples of the selected guideline transactions. AEI utilized the revenue multiple in determining an indication of value as this data was consistently available throughout the guideline transaction sample.

AEI concluded a business enterprise value of $8.2 million (rounded) for Clarity as of the Valuation Date using the guideline transaction method of the market approach.

Summary of Equity Value

Based upon the income approach, the indicated business enterprise value of Clarity as of the valuation date is $7.3 million. The income approach is a forward-looking analysis based upon industry data and expectations of company performance. Prospective investors in the company typically analyze the prospective income and cash flows available from such an investment. While AEI considered the results from the two market approaches, it relied more heavily upon the income approach as the guideline companies and the guideline transactions in the market approach vary from Clarity, primarily in terms of its relative size.

INDICATED FAIR MARKET VALUE OF EQUITY

(Amounts in Thousands of U.S. Dollars)

	Indicated BEV	**Applied Weight**	**Weighted BEV**
Guideline Company Approach	$5,200	0.25	$1,300
Guideline Transaction Approach	8,200	0.25	2,050
Income Approach	7,300	0.50	3,650
Concluded business enterprise value (BEV)		1.00	$7,000
Less: Assumed interest bearing debt at closing			1,000

Fair market value	$6,000

As a result of its analysis, AEI concluded that a fair market value of Clarity's equity of $6.0 million as of the Valuation Date

Consideration to be Paid by ISCO

The following figure outlines the purchase price terms of the proposed transaction, which AEI concluded as $6.4 million as of the Report Date. Details of AEI's analysis for both the Time-Based Equity Consideration and Market Cap-Based Equity Consideration follow.

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TRANSACTION ANALYSIS
(Amounts in Thousands of U.S. Dollars, Except Share Amounts)

	Share Amount (Millions)	Total Equity Value as of the Report Date
Closing Consideration	20	$4,200
Time-Based Equity Consideration	5	790
Market Cap Based-Equity Consideration	15	1,460
Total Equity Consideration		6,450
Total Equity Consideration (rounded)		$6,400

AEI's Closing Consideration Analysis

As of the Report Date, 20 million shares represent a total equity value of $4.2 million at a price of $0.21 per share. This share price was the closing market price for a share of ISCO stock on the Report Date and about the median share price during the prior 90 trading days.

AEI's Time-Based Equity Consideration Analysis

As of the Report Date, the 5 million shares at a price of $0.21 per share represent a total equity value of $1.05 million, prior to a discount for lack of marketability. The Time-Based Equity Consideration is similar to restricted shares prior to reaching the vesting periods (one year from closing of the proposed Transaction for 2.5 million shares and two years from closing of the proposed Transaction for 2.5 million shares). AEI reviews published studies on discounts for lack of marketability of common stocks as an indication of a reasonable marketability discount for the equity. These studies are grouped into two categories: restricted stock studies and private-to-public stock studies.

The restricted stock studies report the discounts observed on restricted stock of companies that also had otherwise identical publicly traded stock. The only difference between the two classes of stock is a restriction prohibiting transfer for periods of up to two years. The private-to-public studies consider the discounts observed between transactions in stocks of various companies before and after the companies' stocks became publicly traded. The discounts observed in these studies range from 20 percent to 51 percent, with a median across all studies of approximately 34 percent.

Based on its analysis and consideration of the marketability studies, AEI selected a marketability discount of 25 percent for the equity value of the Time-Based Equity Consideration, resulting in a value of $790 thousand as of the Report Date.

AEI's Market Cap-Based Equity Consideration Analysis

AEI used a Monte Carlo analysis to simulate the expected value of the Market Cap-Based Equity Consideration. Each trial of its analysis represents the simulated results for each tranche from closing.

The expected payout to the Market Cap-Based Equity Consideration is estimated by simulating the ISCO's risk-neutral price drift on a weekly basis (that is, over 52 simulated periods per year) during the three-year term of the Market Cap-Based Equity Consideration.

Each tranche is dependent on whether ISCO's market cap exceeds a certain threshold. In AEI's Monte Carlo analysis, the stock price prevailing as of the Report Date ($0.21) was used as the "baseline" from which to calculate the implied stock prices and corresponding market cap as the target thresholds are met for each tranche. Subsequent to the Report Date, the AEI analysis simulates stock price returns on a weekly basis, which are then used to calculate the indicated fair market value for each tranche.

The simulation was performed for 100,000 trials. For each trial, the indicated value of the Market-Cap Based Equity Consideration was recorded using the following steps. First, the simulation determined when each tranche vests. When each tranche does vest, the payoff to that tranche was computed based on the projected share price on that vesting date. Once the simulation determines the payoff for each tranche, AEI computed the present value of the payoff for each tranche using the risk-free rate.

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Based on its analysis, AEI concluded the fair market value of each tranche of the Market Cap-Based Equity Consideration as of the Report Date, as shown in the following figure, resulting in a total fair market value of $1.46 million.

FAIR MARKET VALUE SUMMARY
(Amounts in Millions of U.S. Dollars, Except Share Amounts)

	Market Cap Threshold	**Vested Shares** (Millions)	**Fair Market Value/Share**	**Total Fair Market Value** (Millions)
Tranche 1	$125	3.75	$0.13	$0.49
Tranche 2	175	3.75	0.1	0.37
Tranche 3	225	3.75	0.09	0.34
Tranche 4	275	3.75	0.07	0.26
				$1.46

Conclusion

Relative to the concluded fair market value of Clarity's equity of $6.0 million as of the Valuation Date, AEI deemed the total equity consideration of $6.4 million as a fair purchase price for Clarity's total equity. As a result, AEI believes the total consideration to be paid by ISCO in this transaction is fair, from a financial point of view, to ISCO stockholders.

Interests of Directors and Officers in the Merger

Mr. Fuentes, the sole shareholder of Clarity and a party to the Merger Agreement is a member of ISCO's Board of Directors. Mr. Fuentes was elected to the Board in November 2003 and served as Chairman of the Board from January 2006 until June 2007, when Mr. Ralph Pini became Chairman of the Board. Mr. Fuentes will be issued approximately 65% of the 40,000,000 shares of Common Stock issuable in connection with the Merger. 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. In addition, Mr. Fuentes is expected to become an employee of the Company upon the consummation of the Merger pursuant to an employment agreement (please see the Section entitled "Employment Agreement with Jim Fuentes" below). Further, Mr. Fuentes will be released from his obligation to guaranty up to $1,500,000 drawn under Clarity's line of credit arrangement. In his current capacity as a non-employee director, Mr. Fuentes receives compensation from the Company as consideration for his service on the Board. For specific terms of Mr. Fuentes' compensation, please see the Director Compensation section of the Company's Proxy Statement pursuant to Section 14(a), filed on April 27, 2007. As of November 30, 2007, Mr. Fuentes beneficially owned 296,250 shares of Common Stock, including a restricted stock grant of 28,750 shares that were not vested and outstanding options to purchase 160,000 shares of Common Stock which were currently exercisable, representing less than 1% of our outstanding Common Stock as of the date of the mailing of this Proxy Statement. Mr. Fuentes intends to continue to serve on ISCO's Board at least for the remainder of his term, though he will not be considered independent under AMEX rules and no longer serve on any Board committees.

No other director or officer of ISCO will have any personal interest in the Merger.

Accounting Treatment of the Transaction

The Merger is expected to be accounted for as a business combination utilizing the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations." Under the purchase

method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. ISCO's management has made a preliminary allocation of the estimated purchase price based on preliminary estimates of fair values as set forth in the ISCO unaudited pro forma condensed combined financial statements. Any excess of the estimated purchase price over the fair value of net assets acquired will be accounted for as goodwill.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if indicators of impairment are present).

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Ownership of ISCO After the Merger

Based on the number of shares of ISCO common stock issued and outstanding on November 30, 2007, and assuming the combined entity achieves all milestones in order for Mr. Fuentes and the Rightsholders to receive all of the 40,000,0000 Shares they are eligible to receive in connection with the Merger, Mr. Fuentes and the Rightsholders will own an aggregate of approximately between 11% and 17% of the issued and outstanding ISCO Common Stock following the Merger, depending on whether all Time-Based and Market-Based Shares are issued.

Dissenters' Rights

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

Material United States Federal Income Tax Consequences of the Merger

The following is a discussion of the material U.S. federal income tax consequences of the Merger to Mr. Fuentes with respect to his exchange of shares of Clarity common stock for shares of ISCO Common Stock and the right to receive the Time-Based Shares and the Market-Based Shares, if any, (collectively, the "Additional Shares"). This discussion assumes that Mr. Fuentes is a citizen or resident of the United States for U.S. federal income tax purposes and that he holds his Clarity common stock as a capital asset. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to Mr. Fuentes in light of his individual circumstances or address any such consequences with respect to shares of Clarity common stock received by Mr. Fuentes as compensation, if any. This discussion does not address the tax consequences of any consideration or payment received by Mr. Fuentes in connection with the Merger other than the receipt of shares of our Common Stock and the rights to the Additional Shares in exchange for Mr. Fuentes' Clarity common stock.

This discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this document and all of which are subject to change, possibly with retroactive effect. This discussion is not binding on the Internal Revenue Service, or the IRS, and there can be no assurance that the IRS or a court will agree with the conclusions stated herein. No ruling has been or will be sought from the IRS, and no opinion has been or will be sought from counsel, as to the U.S. federal income tax consequences of the Merger. In addition, this discussion does not address any state, local, foreign, or other tax consequences of the Merger.

Mr. Fuentes is urged to consult his tax advisors as to the specific tax consequences to him of the Merger in light of his particular circumstances, including the applicability and effect of U.S. federal, state, local, and foreign income and other tax laws.

Tax Consequences

The Merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Code. Assuming the Merger qualifies as such a reorganization, the following are the material U.S. federal income tax consequences of the Merger to Mr. Fuentes.

Exchange of Clarity Common Stock for ISCO Common Stock and the Right to the Additional Shares

Except as discussed below with respect to any portion of the Additional Shares that may be treated as imputed interest, Mr. Fuentes will generally not recognize gain or loss for U.S. federal income tax purposes on his receipt of ISCO Common Stock or the rights to receive the Additional Shares in exchange for his Clarity common stock in the Merger.

Basis and Holding Period

The aggregate tax basis of the ISCO Common Stock and the rights to the Additional Shares received by Mr. Fuentes pursuant to the Merger will be the same as the aggregate tax basis of the Clarity common stock exchanged therefor. The tax basis will be allocated among the ISCO Common Stock and the rights to the Additional Shares as though Mr. Fuentes received the maximum number of shares that can be issued under the rights to receive the Additional Shares.

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An adjustment to the basis in the ISCO Common Stock received and the rights to receive the Additional Shares might be made once it becomes known how many shares, if any Mr. Fuentes is entitled to receive under the rights to receive the Additional Shares. It is unclear how this adjustment should be made, or that any adjustment is required. The IRS has not issued guidelines on how a stockholder should make this adjusment. Mr. Fuentes is urged to consult his own tax advisor as to his allocation of tax basis.

The holding period of the ISCO Common Stock and the rights to receive the Additional Shares in the hands of Mr. Fuentes will include the holding period of the Clarity common stock exchanged therefor.

Conversion of the Rights to Receive the Additional Shares into Shares of ISCO Common Stock

Upon the conversion of the rights to receive the Additional Shares:

- no gain or loss would be recognized, except that any portion of such Additional Shares that is treated as imputed interest (as described below) will be taxed as ordinary interest income;

- the tax basis in the ISCO Common Stock received on conversion will be determined initially as set forth above under the section titled “Basis and Holding Period” and will be increased by the portion of such stock treated as imputed interest; and

- the holding period of the ISCO Common Stock received will include the holding period of the rights to receive the Additional Shares, except that the portion of the additional shares of ISCO Common Stock received which represents the receipt of imputed interest, as described below, will begin a new holding period upon receipt of such additional shares.

When Mr. Fuentes sells or otherwise disposes of the ISCO Common Stock received upon the closing of the Merger or upon conversion of the rights to receive the Additional Shares, he generally will recognize capital gain or loss in an amount equal to the difference between the amount he realizes for the shares and his tax basis in the shares. Individuals generally are entitled to a reduced rate of tax on capital gains with respect to property held for more than one year.

Imputed Interest on the Additional Shares

Under current law, the deferred receipt of additional shares in a reorganization, such as the Additional Shares, requires that a portion of the additional shares may be treated as interest income. Where there is no express provision for interest, as is the case here, under the current regulations interest may be imputed under Section 483 of the Code. Thus, if additional shares become payable more than one year after the Merger, a portion of any shares payable more than six months after the date of the Merger will constitute ordinary interest income. The amount of such interest income will be calculated by taking the fair market value of any additional shares issued and discounting such amount from the date of issuance back to the time of the Merger using the imputed interest rate under the Code. The imputed interest rate will be the “applicable federal rate” provided under Section 1274(d) of the Code as of the time of the Merger. Thus, the longer the period of time until the additional shares are received, the greater the proportion of such shares that will be treated as ordinary interest income. Each additional share received will be deemed to represent its pro rata share of the interest income. Upon the issuance of any additional shares, ISCO will report to Mr. Fuentes and to the IRS the amount of such interest income as required by the Code.

Reporting Requirements

Mr. Fuentes will be required to retain records pertaining to the Merger and will be required to file with his U.S. federal income tax return for the year in which the Merger takes place a statement setting forth certain facts relating to the Merger.

THE DISCUSSION OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS NOT INTENDED TO BE A COMPLETE ANALYSIS OR DESCRIPTION OF ALL POTENTIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER. MOREOVER, THE DISCUSSION SET FORTH ABOVE DOES NOT ADDRESS TAX CONSEQUENCES THAT MAY VARY WITH, OR ARE CONTINGENT UPON, INDIVIDUAL CIRCUMSTANCES. IN ADDITION, THE DISCUSSION SET FORTH ABOVE DOES NOT ADDRESS ANY NON-INCOME TAX OR ANY FOREIGN, STATE, LOCAL, OR OTHER TAX CONSEQUENCES OF THE MERGER AND DOES NOT ADDRESS THE TAX CONSEQUENCES OF ANY TRANSACTION OTHER THAN THE MERGER.

MR. FUENTES IS URGED TO CONSULT HIS TAX ADVISOR AS TO THE U.S. FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF THE MERGER.

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Differences in the Rights of Security Holders

Mr. Fuentes, the sole stockholder of Clarity, is already a stockholder of ISCO. In the Merger, his shares of Clarity common stock, which represent all of the issued and outstanding shares of Clarity capital stock, will be converted into the right to receive shares of ISCO's Common Stock. Clarity Rightsholders do not hold any shares of Clarity's capital stock and will not vote to approve the Merger or the transactions contemplated thereby. After the Merger, the Rightsholders will become stockholders of ISCO.

The following description of ISCO's Common Stock is qualified in its entirety by reference to ISCO's Certificate of Incorporation and Bylaws, copies of which have been filed with the Securities and Exchange Commission.

Our Certificate of Incorporation currently authorizes 250,000,000 shares of Common Stock and 300,000 shares of preferred stock. As of November 30, 2007, there were approximately 201,000,000 shares of Common Stock outstanding and no shares of preferred stock outstanding. Holders of Common Stock will be entitled to one vote per share on all matters submitted to a vote of stockholders.

Subject to the rights of holders of any outstanding shares of our preferred stock, the holders of outstanding shares of our Common Stock will be entitled to the dividends and other distributions as may be declared from time to time by our Board of Directors from legally available funds. Holders of our Common Stock do not have preemptive, subscription, redemption or conversion rights. Subject to the rights of holders of any shares of our outstanding preferred stock, upon our liquidation, dissolution or winding up and after payment of all prior claims, the holders of shares of our Common Stock outstanding at that time will be entitled to receive pro rata all of our assets. All shares of our Common Stock currently outstanding are fully paid and nonassessable.

Our Board of Directors, without further stockholder approval, may issue our preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of our preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Our Board of Directors may authorize the issuance of our preferred stock which ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation. In addition, our Board of Directors can fix limitations and restrictions, if any, upon the payment of dividends on our common stock to be effective while any shares of our preferred stock are outstanding. Our Board of directors, without stockholder approval, can also issue our preferred stock with voting and conversion rights which could adversely affect the voting power of the holders of common stock. Our issuance of our preferred stock may delay, defer or prevent a change in our control. We have no present intention to issue shares of our preferred stock.

Regulatory Matters Related to the Merger

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.

Listing of Common Stock on AMEX

The Company's shares are currently listed on AMEX. Pursuant to the Agreement, ISCO will use commercially reasonable efforts to cause the Shares to be approved for listing on AMEX, subject to official notice of issuance.

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THE MERGER AGREEMENT

The descriptions contained in this Proxy Statement regarding the material terms of the Merger Agreement are qualified in their entirety by reference to the full text of the Merger Agreement attached hereto as Appendix Aand incorporated herein by reference. You should carefully read the full text of the Merger Agreement for a more complete understanding of the Merger Agreement and the transactions contemplated thereby.

Effective Time of Merger

The Merger Agreement provides that the closing of the Merger will take place within three business days after the date on which all conditions to closing set forth in the Merger Agreement have been met or waived. On the Closing Date, Merger Subsidiary will cause the Merger to be consummated under Illinois Law by filing articles of merger in customary form and substance with the Secretary of State of the State of Illinois and make all other filings or recordings required by Illinois law in connection with the Merger. The Merger will become effective at such time (the “Effective Time”) as the articles of merger are accepted by the Illinois Secretary of State or at such later time as is specified in the articles of merger. Following the closing, Merger Subsidiary will cease to exist and Clarity will continue to operate its business as a wholly-owned subsidiary of ISCO.

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 on Clarity’s closing balance sheet, subject to certain exceptions, 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 pursuant to the Merger Agreement), 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 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. Any Suspended Salary owing to a Rightsholder pursuant to the At-Risk Plan will be paid by Clarity through its line of credit prior to closing of the Merger. ISCO will pay off the amount of Clarity’s outstanding line of credit at the closing of the Merger, which is expected to be approximately $1,000,000.

In addition, ISCO has agreed to reimburse certain professional advisors of Clarity up to an aggregate of $375,000 for fees and expenses related to the Merger.

Representations and Warranties

The Merger Agreement contains customary representations and warranties made by Clarity to us and to Merger Subsidiary, and by us and Merger Subsidiary to Clarity for the purpose of allocating certain risks associated with the acquisition. The representations and warranties of Clarity include, but are not limited to, representations and warranties relating to:

- due organization, standing and power, and other corporate matters;
- capitalization and ownership of Clarity and absence of restrictions or encumbrances with respect to capital stock;
- completeness and correctness of financial statements;

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- taxes;
- litigation and compliance with laws;
- employee benefit plans, labor and employees;
- business activities, restrictions and governmental authorizations;
- authorization, execution and delivery of the Merger Agreement;
- absence of any conflicts or violations under organizational documents, contracts with third parties or law as a result of entering into and carrying out the obligations contained in the Merger Agreement;
- required consents and approvals;
- licenses and permits;
- the assets, real property and contracts of Clarity;
- intellectual property;
- environmental matters;
- insurance;
- brokers' fees;
- customers; suppliers; products and warranties;
- conduct of the business and the absence of certain changes or events; and
- accuracy of information and undisclosed liabilities.

Our representations and warranties and the representations and warranties of Merger Subsidiary include, but are not limited to, representations and warranties relating to:

- due organization, standing and power, and other corporate matters;
- authorization, execution and delivery of the Merger Agreement;
- funds or borrowing capability available to consummate the merger;
- conflicts or violations under organizational documents, contracts or law;

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- SEC filings;
- required consents and approvals;
- acknowledgement regarding forward-looking statements;
- brokers' fees;
- reservation of sufficient shares; and
- litigation.

These representations and warranties are made by the parties to each other, are qualified by specific disclosures made to the other parties in connection with the Merger Agreement, may not survive the closing or survive for a limited period of time and may not form the basis for any claims under the Merger Agreement after the acquisition is completed. Moreover, the representations and warranties are subject to materiality and knowledge qualifiers contained in the Merger Agreement, and are made only as of the date of the Merger Agreement and the closing date of the acquisition.

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 offerings that are expected to provide additional revenue opportunities. Further, as a condition to the 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. As of the time of mailing of the Proxy Statement, we have not completed arrangements for this financing. 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 Eto this Proxy Statement.

Other Conditions

The consummation of the Merger will depend on the satisfaction or waiver of a number of closing conditions, including, but not limited to, the following:

- there being no legal prohibition to the merger;
- the Merger and the issuance of the Shares will have been approved by our stockholders;
- the Shares will have been approved for listing on AMEX; and
- we will have entered into definitive loan documents to fund the initial operations of the combined entity in the aggregate amount of $1,500,000.

In addition, the following closing conditions must be met prior to our obligation to close:

- the accuracy of Clarity's representations and warranties;

- Clarity must have in all material respects performed or complied with all agreements and covenants as required by the Merger Agreement;

- Clarity has not experienced a material adverse effect on its business, financial condition or prospects;

- each Clarity employee who will continue employment with ISCO after the closing of the Merger having entered into a non-competition and non-solicitation agreement;

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- full payment or release and forgiveness of all Clarity indebtedness, subject to certain exceptions;
- Clarity will have made arrangements with its professional advisors to reduce the amount of its transaction costs to $375,000 or Clarity will agree to pay any transaction costs in excess of $375,000;
- ISCO having received all Rule 145 Affiliate Letters;
- receipt of resignations of all Clarity officers and directors;
- none of Clarity's Key Employees (as defined in the Merger Agreement) have terminated their employment with Clarity or have refused employment following the closing of the Merger;
- ISCO will have received acknowledgments from all Rightsholders;
- all documents to be delivered by Clarity at the closing of the transaction have been received; and
- Clarity's delivery of other certificates, documents and other instruments as we may reasonably request.

In addition, the following closing conditions must be met prior to Clarity's obligation to close:

- the accuracy of our and Merger Subsidiary's representations and warranties;
- we and Merger Subsidiary must have in all material respects performed all material agreements and covenants as required by the Merger Agreement;
- we have delivered all certificates and payments, including reimbursement of up to $375,000 of Clarity's transaction costs;
- we have delivered the payoff amount to American Chartered Bank to pay Clarity's line of credit;
- all documents to be delivered by us and Merger Subsidiary at the closing of the Merger have been received; and
- we have delivered all other certificates, documents and instruments as Clarity may reasonably request.

In addition to the above conditions, the stockholders are required to approve the following three proposals as set forth in this Proxy Statement in order to carry out the intent of the Merger Agreement:

- the entering into the Merger and the issuance of the Shares pursuant to the Merger Agreement;
- amendment of our certificate of incorporation to increase the number of shares of Common Stock we are authorized to issue and to enable us to issue the Shares; and
- the amendment of our 2003 Equity Incentive Plan to increase the number of shares of Common Stock available for issuance and enable us to issue Shares to Rightsholders who will become our employees following the Merger, to receive registered shares of Common Stock.

Each of the conditions listed above may be waived by the party or parties whose obligation to complete the acquisition of the assets are so conditioned. At present, we have not considered waiving any specific closing conditions and we do not anticipate that it will be necessary for us to waive any of the obligations of Clarity that are a condition to our obligation to complete the acquisition. However, we reserve the right to waive any such closing conditions in our sole

discretion. Furthermore, we do not believe that there is any material uncertainty as to the satisfaction of any of the closing conditions to the Merger Agreement. In the event that we or Clarity waive any conditions, we do not intend to re-solicit stockholder votes to approve the acquisition. Accordingly the waiver of any of the conditions by us could give rise to additional business or other risks.

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Covenants and Other Agreements

Except as otherwise expressly contemplated by the Merger Agreement or as required by applicable law, or to the extent that ISCO otherwise consents in writing, from and after the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the effective time of the Merger, Clarity will carry on its business in the usual, regular and ordinary course and in material compliance with all applicable laws, pay its debts and taxes when due, pay or perform other material obligations when due, and use commercially reasonable efforts consistent with past practices and policies to preserve substantially intact its present business organization, keep available the services of its present executive officers and employees and consultants, and preserve its relationships with its employees, consultants, customers, suppliers, licensors, licensees, lessors and others with which it has significant business dealings.

In addition, without the prior written consent of ISCO, subject to certain exceptions, which consent will not be unreasonably withheld or delayed, Clarity has agreed that from and after the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the effective time of the Merger, Clarity will not do any of the following:

- enter into any new line of business material to Clarity;
- declare, set aside or pay any dividends on or make any other distributions in respect of any capital stock, or combine, split or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock;
- authorize for issuance, issue, deliver, sell, pledge or otherwise encumber (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights (including stock appreciation rights or phantom stock rights), rights to purchase or otherwise) any securities of Clarity or rights to acquire such securities, or enter into any other agreements or commitments of any character obligating it to issue any such securities or rights, or enter into any amendment of any term of any currently outstanding securities of Clarity or rights to acquire such securities;
- purchase, redeem or otherwise acquire or offer to redeem, purchase, or otherwise acquire, directly or indirectly, any securities of Clarity;
- cause, permit or propose to adopt any amendments to Clarity's charter documents;
- adopt or implement any stockholder rights plan, "poison pill," or other anti-takeover plan, arrangement or mechanism that, in each case, is applicable to ISCO or Merger Subsidiary or the transactions contemplated by the Merger Agreement;
- acquire or agree to acquire by merging or consolidating with, or by purchasing any equity or voting interest in or purchasing a material portion or all of the assets of, or by any other manner, any business or any person or any division thereof, or otherwise acquire or agree to acquire any assets that are or are expected to be material, individually or in the aggregate, to the business of Clarity, or solicit or participate in any negotiations with respect to any of the foregoing;
- enter into, modify or amend in a manner materially adverse to Clarity, or terminate any material contract or waive, release or assign any material rights or claims thereunder, in each case, in a manner materially adverse to Clarity;
- enter into any binding agreement, agreement in principle, letter of intent, memorandum of understanding or similar agreement with respect to any material joint venture, strategic partnership or alliance;

- sell, lease, license, mortgage, pledge, encumber or otherwise dispose of any properties or assets except for the sale, lease, license, encumbrance or disposition of property or assets that are not material, individually or in the aggregate, to the business of Clarity, in each case, in the ordinary course of business and in a manner consistent with past practices, including with respect to the terms and conditions of any such sale, lease, license, encumbrance or other disposition;

- with the exception of the Merger, adopt a plan of complete or partial liquidation dissolution, merger, consolidation, recapitalization, reorganization, or other restructuring of Clarity, or organize or form any subsidiary or similar entity over which Clarity will have control;

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- except as required by the Merger Agreement, incur, assume or prepay any indebtedness for borrowed money or assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for, any such indebtedness of another person, guarantee any debt securities of another person, or enter into any arrangement having the economic effect of any of the foregoing, other than in connection with the financing of ordinary course trade payables consistent with past practices;

- make any payments, loans, extensions of credit or financing, advances or capital contributions to, or investments in, any other person, other than (i) employee loans, advances, or payments for bona fide travel and entertainment expenses reimbursement made in the ordinary course of business consistent with past practices or (ii) extensions of credit or financing to, or extended payment terms for, customers made in the ordinary course of business consistent with past practices;

- sell, transfer or lease any properties or assets (whether real, personal or mixed, tangible or intangible) to, or enter into any contract, arrangement or understanding with or on behalf of, any officer, director or employee of Clarity or any affiliate of any of Clarity, or any business entity in which Clarity or any such affiliate, or any relative of any such person, has any material, direct or indirect interest;

- commit any capital expenditure or expenditures in excess of $10,000 in the aggregate above the capital expenditures set forth in Clarity’s fiscal 2007 budget forecasts;

- except as required by changes in GAAP or applicable law requirements, and as concurred by ISCO’s independent auditors, (i) make any change in Clarity’s methods or principles of accounting or (ii) revalue any of Clarity’s assets, including writing down the value of inventory or writing-off notes or accounts receivable;

- (i) fail to file on a timely basis, including allowable extensions, with the appropriate governmental authorities, all tax returns required to be filed, (ii) fail to timely pay or remit (or cause to be paid or remitted) any taxes due in respect of such tax returns, (iii) adopt or change any accounting method in respect of taxes, (iv) enter into any agreement or arrangement, or settle or compromise any claim or assessment in respect of, taxes, or make or change any election with respect to taxes, (v) file any amended tax return or (vi) consent to any extension or waiver of the statutory period of limitations period applicable to any claim or assessment in respect of taxes;

- commence, settle or compromise any pending or threatened legal proceeding, or pay, discharge or satisfy or agree to pay, discharge or satisfy any claim, liability, obligation (whether absolute, accrued, asserted or unasserted, contingent or otherwise) by or against Clarity or relating to any of its businesses, properties or assets (whether real, personal or mixed, tangible or intangible), other than the settlement, compromise, payment, discharge or satisfaction of legal Proceedings, claims or other liabilities (i) reflected or reserved against in full in Clarity’s financial statements or (ii) the settlement, compromise, discharge or satisfaction of which does not include any obligation (other than the payment of money) to be performed by Clarity following the effective time of the Merger and that does not involve the payment, individually or in the aggregate, of an amount exceeding $10,000;

- except as required by applicable law or any contract or agreement currently binding on the Company, (i) adopt, amend, modify, or increase in any manner the amount of compensation or fringe benefits of, pay or grant any bonus, change of control, severance or termination pay to any officer, employee or director of Clarity, (ii) adopt or amend in any manner, any Clarity benefit plan, including without limitation the Clarity Phantom Plan, (iii) fail to make any required contribution to any Clarity benefit plan, (iv) make any contribution, other than regularly scheduled contributions, to any Clarity benefit plan, (v) authorize cash payments in exchange for any benefits or rights, (vi) allocate bonus awards under a Clarity benefit plan in a manner or amount not consistent with past practices, (vii) enter into or amend any employment agreement, arrangement or understanding with any employee or director or any indemnification agreement or arrangement with any employee or director, (viii) enter into any collective bargaining or amend or extend any existing collective bargaining agreement, or (ix) hire any employees

or retain any consultant other than in the ordinary course of business consistent with past practices or hire, elect or appoint any officers or directors;

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- (i) grant any exclusive rights with respect to any Clarity intellectual property, (ii) divest any Clarity intellectual property, except if such divestiture or divestures, individually or in the aggregate, are not material to Clarity, (iii) enter into any material contract, agreement or license that adversely affects, or could reasonably be expected to adversely affect, any patents or applications therefor, in each case, of Clarity or any of its affiliates, or (iv) abandon or permit to lapse any rights to any United States patent or patent application;

- enter into any contract, agreement, arrangement or understanding with a customer that contains any material non-standard terms, including but not limited to, non-standard discounts, provisions for unpaid future deliverables, non-standard service requirements or future royalty payments, other than as is consistent with past practices;

- enter into any contract, arrangement or understanding to do any of the foregoing or authorize, recommend, take, commit, or agree in writing or otherwise to take, or announce an intention to take, any of the actions described above, or any other action that results or is reasonably likely to (i) result in any of the conditions to the Merger set forth in the Merger Agreement not being satisfied, (ii) result in any representation or warranty of Clarity contained in the Merger Agreement that is qualified as to materiality becoming untrue or incorrect or any representation or warranty not so qualified becoming untrue or incorrect in any material respect (provided that representations made as of a specific date shall be required to be so true and correct, subject to qualifications, as of such date only), (iii) prevent Clarity from performing, or cause Clarity not to perform, its covenants or agreements hereunder, or (iv) otherwise materially impair the ability of Clarity to consummate the transactions contemplated hereby in accordance with the terms hereof or materially delay such consummation; or

- take, or agree or fail to take, any action that would reasonably be expected to cause the Merger to fail to qualify as a reorganization pursuant to Section 368(a) of the Internal Revenue Code.

Clarity has agreed that from and after the date of the Merger Agreement until the earlier to occur of the termination of the Merger Agreement or the effective time of the Merger, Clarity will not, nor will it authorize or knowingly permit any of its directors, officers or other employees, affiliates, or any investment banker, attorney or other advisor or representative retained by it or any of them to, directly or indirectly, (i) solicit, initiate, knowingly encourage, or induce the making, submission or announcement of, an “Acquisition Proposal”, (ii) furnish to any person any non-public information relating to Clarity or afford access to the business, properties, assets, books or records of Clarity to any person (other than ISCO, Merger Subsidiary or any of their respective designees) in connection with an Acquisition Proposal, (iii) participate or engage in discussions or negotiations with any person with respect to an Acquisition Proposal (other than to notify such person as to the existence of these non-solicitation provisions), (iv) approve, endorse or recommend an Acquisition Proposal, (v) enter into any letter of intent, memorandum of understanding or other agreement, contract or arrangement contemplating or otherwise relating to an Acquisition Proposal, or (vi) terminate, amend or waive any rights under any “standstill” or other similar agreement between Clarity and any person (other than ISCO). Furthermore, Clarity has terminated any and all pending discussions or negotiations relating to any Acquisition Proposal and represents and warrants that it had the legal right to terminate such negotiations without the payment of any fee or penalty or the incurrence of any continuing liability on Clarity’s behalf.

For purposes of the Merger Agreement, “Acquisition Proposal” means, whether directly or indirectly solicited or unsolicited by Clarity or Mr. Fuentes, any offer, proposal or any third party indication of interest or intent relating to any transaction or series of related transactions involving a merger, consolidation, share exchange, business combination, sale of a majority or all the assets of, sale of shares of Clarity’s capital stock or similar transaction or any combination of the foregoing involving Clarity (other than the transactions contemplated by the Merger Agreement and the issuance of shares of capital stock pursuant to the Rights outstanding on the date of the Merger Agreement).

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access by ISCO to the business, properties, personnel and other information of Clarity prior to the closing of the Merger;

- Clarity maintaining the confidentiality of all non-public information of Clarity and ISCO and their respective operations;

  - consultations between the parties with respect to any public statements regarding the Merger;

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- obligations to provide prompt notice to the other party of the following:
- material breaches of representations, warranties or covenants contained in the Merger Agreement;
- legal proceedings that seek to prohibit or materially impair the consummation of the Merger and
- with respect to Clarity, any material adverse effect;
- ISCO using its commercially reasonable efforts to cause its Common Stock to be issued or issuable pursuant to the Merger Agreement to be approved for listing on AMEX;
- ISCO taking all action necessary to hold the Special Meeting;
- ISCO taking commercially reasonable efforts to file a registration statement on Form S-8 prior to the closing of the Merger;
- Clarity taking commercially reasonable efforts to obtain by December 1, 2007 acknowledgements and releases from the Rightsholders regarding their share allocations; and
- responsibilities with respect to filing tax returns and allocations of taxes.

Termination of the Merger Agreement

The Merger Agreement may be terminated by either party upon the occurrence of any of the following events:

- the mutual written consent of both us and Clarity;
- by either us or Clarity if the merger shall not have been consummated by January 31, 2008 with specified exceptions;
- by either us or Clarity upon specified adverse actions by governmental authorities; or
- by either us or Clarity if the special meeting of our stockholders is held but we do not obtain our Stockholders' approval of the Merger Proposal, the Charter Amendment and the Plan Amendment.

The Merger Agreement may be terminated by us upon the occurrence of any of the following events:

- any material adverse effect against Clarity; and
- if Clarity has breached any of its covenants of obligations under the Merger Agreement or if any of Clarity's representations or warranties have become untrue or incorrect and cannot be cured by the closing date, upon certain circumstances.

The Merger Agreement may be terminated by Clarity upon the occurrence of any of the following events:

- if we or Merger Subsidiary have breached any of our covenants or obligations under the Merger Agreement or if any of our representations or warranties were untrue or incorrect and cannot be cured by the closing date, upon certain circumstances.

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Indemnification

ISCO, its officers, directors, employees, stockholders, advisers, agents, affiliates (including the surviving corporation), successors, heirs, permitted assigns and representatives (each, an “ISCO Indemnified Party”) 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 Indemnified Party will not be entitled to indemnification until the cumulative amount of all losses exceed $150,000, after which such ISCO Indemnified Party will only be entitled to any amounts that exceed $150,000. For purposes of determining indemnification amounts, the parties will give effect to applicable materiality and knowledge qualifiers and for purposes of indemnification for breaches of representations and warranties in which materiality is readily quantifiable, materiality is defined as any fact or occurrence, or series of related facts and occurrences, with a dollar value in excess of $20,000.

The length of time in which to bring an indemnification claim and the amount by which an ISCO Indemnified Party may be indemnified are subject to certain caps as follows:

(i) for breaches of representations (the “General Representations”) other than Two-Year Representations or Three Year Representations (as those terms are defined below), any losses entitling an ISCO Indemnified Party will be satisfied out of up to an aggregate of 2,000,000 Time-Based Shares. After the Time-Based Shares that vest one year after Closing (the “First Time-Based Shares”) are distributed, the ISCO Indemnified Parties will have no further right to receive indemnification with respect to General Representations;

(ii) ISCO Indemnified Parties’ right to receive indemnification for breaches of representations relating to due organization, no conflict with law, no conflict with agreements, necessary consents and brokers (collectively, the “Two-Year Representations”) will be satisfied out of the Time-Based Shares; provided that (x) a portion of the First Time-Based Shares will also be available to satisfy other indemnification rights of the ISCO Indemnified Parties, (y) once the First Time-Based Shares are distributed, the ISCO Indemnified Parties will have no further right to use such First Time-Based Shares to satisfy indemnification claims with respect to the Two-Year Representations, and (z) once the Time-Based Shares are fully distributed, the ISCO Indemnified Parties will have no further right to receive indemnification with respect to the Two-Year Representations;

(iii) ISCO Indemnified Parties’ right to receive indemnification for (x) breaches of representations relating to Clarity’s capitalization, authority, no conflict with charter documents, and taxes, (y) claims by current and former security holders, and (z) tax obligations will be satisfied first out of the Time-Based Shares. If the Time-Based Shares are not sufficient to satisfy these claims, Mr. Fuentes will be obligated to satisfy the remaining amounts of any such claims (A) brought in the first year after closing of the Merger up to an aggregate liability equal to the lesser of $3,000,000 and 75% of Mr. Fuentes’ Share Value (as defined in the Merger Agreement) less the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims (the “First Year Cap”), (B) brought in the second year after closing of the Merger up to an aggregate liability equal to the lesser of $2,000,000 and 50% of Mr. Fuentes’ Share Value less the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims (the “Second Year Cap”) and (C) brought in the third year after closing of the Merger up to an aggregate liability equal to the lesser of $1,000,000 and 25% of Mr. Fuentes’ Share Value less the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims (the “Third Year Cap”). If and to the extent that any of the First Year Cap, the Second Year Cap or the Third Year Cap are met, then ISCO Indemnified Parties will not be entitled to any further indemnification.

“Share Value” is defined in the Merger Agreement as the sum of (a) “Liquidated Value” plus (b) “Held Value”. “Liquidated Value” is defined in the Merger Agreement as the net (i.e. after taxes and commissions) proceeds received by Mr. Fuentes from the sale of any Shares actually received by him in connection with the Merger. “Held Value” is defined in

the Merger Agreement as the value of Shares actually received by Mr. Fuentes in that he holds at the time of the indemnification claim, as valued based on the average 10-day closing price for the Shares at the time the claim was finally resolved and paid.

Amendments

The Merger Agreement may be amended or waived in writing and signed by all parties to the agreement either before or after its approval by ISCO stockholders. However, the Merger Agreement may not be amended after its approval by ISCO stockholders if, under applicable law, such amendment would require further approval by ISCO stockholders, unless such approval is obtained.

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Representative

Pursuant to the Merger Agreement, Mr. Fuentes was appointed, authorized and empowered to act as the representative of the Rightsholders in connection with, and to facilitate the consummation of the Merger and the other transactions contemplated thereby. The authority of the representative will include the power and authority to (a) take all action necessary in connection with the defense, payment and/or settlement of any claims for indemnification pursuant to the Merger Agreement, (b) take such actions and to execute and deliver such amendments, modifications, waivers and consents in connection with the Merger Agreement and the other transactions contemplated thereby as the representative, in his reasonable discretion, may deem necessary or desirable to give effect to the intentions of the Merger Agreement, (c) give and receive all notices required to be given under the Merger Agreement, (d) take any and all additional action as is contemplated to be taken by the representative by the terms of the Merger Agreement and (e) take all actions necessary or appropriate in the judgment of the representative for the accomplishment of any of the foregoing. The representative will receive no compensation for his services as the representative, however the reasonable costs and expenses of the representative in addressing indemnification or other matters on behalf ot he Rightsholders will be reimbursed by using Time-Based Shares up to an aggregate value of $10,000.

Expenses

The reasonable costs and expenses of the Representative in addressing indemnification or other matters on behalf of the Rightsholders will be reimbursed by using Time-Based Shares up to an aggregate value of $10,000. Otherwise, each party to the Merger Agreement will bear its own costs and expenses in connection with the Merger.

Related Agreements

Employment Agreement with Jim Fuentes

In connection with the Merger, ISCO intends to enter into certain other transaction documents, including employment and registration rights agreements with Mr. Fuentes. Pursuant to the proposed employment agreement, Mr. Fuentes will report to ISCO's Chief Executive Officer ("CEO") to assist the CEO in the coordination and integration of the surviving corporation's operations with the combined entity and perform such other duties as the CEO may assign to Mr. Fuentes. During the term of the employment agreement, Mr. Fuentes' base salary will be $240,000 per year. The term of the employment agreement is for two years; provided, however, that upon the eighteen-month anniversary of the start of his employment and each day thereafter, the term of the agreement will be extended for one additional day unless and until ISCO provides written notice to Mr. Fuentes that such extension will not occur. If Mr. Fuentes' employment ceases due to a termination by ISCO other than for Cause or by Mr. Fuentes for Good Reason (as those terms are defined in the employment agreement), then subject to Mr. Fuentes' compliance with certain covenants, Mr. Fuentes will receive (i) monthly severance payments equal to 1/12th of his annual base salary for the lesser of: (x) three months or (y) the number of whole months remaining in the term of the agreement as of the date of his termination and (ii) any accrued but unpaid base salary and any accrued but unused vacation as of the date of Mr. Fuentes' termination. Mr. Fuentes will continue to serve on ISCO's Board at least for the remainder of his term as director. A copy of the form of employment agreement is attached as Exhibit B to the Merger Agreement, which is attached to this Proxy Statement as Appendix A.

In addition, ISCO intends to enter into a registration rights agreement with Mr. Fuentes and certain Clarity Rightsholders pursuant to which ISCO will agree to register the Shares 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 ISCO within 30 days after the closing of the Merger, subject to certain conditions. A copy of the form of registration rights agreement is attached as Exhibit C to the Merger Agreement, which is attached to this Proxy Statement as Appendix A.

Vote and Recommendation

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the Merger Proposal is required for approval of this proposal.

Our Board of Directors recommends a vote "FOR" the approval of the Merger Proposal.

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PROPOSAL 2 – AMENDMENT OF THE CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES

The Board of Directors has adopted a resolution approving and recommending to the Company's stockholders for their approval, a proposal to amend (the "Charter Amendment") the Company's certificate of incorporation (the "Certificate of Incorporation") to increase the number of authorized shares the Company is permitted to issue to 500,000,000 shares of Common Stock. The Certificate of Incorporation currently permits the Company to issue up to 250,000,000 shares of Common Stock. The Charter Amendment is necessary to provide us with sufficient shares of Common Stock to issue up to the 40,000,000 shares of Common Stock issuable in connection with the Merger described in the Merger Proposal above and up to the 58,492,461 shares of Common Stock issuable upon conversion the Amended and Restated Notes in connection with our June 2007 debt restructuring described in the Note Issuance Proposal below. In addition, the Charter Amendment will provide us with additional shares of Common Stock to use for general corporate purposes. A copy of the full text of the Charter Amendment is attached to this Proxy Statement as Appendix C.

Reasons for the Proposal to Increase the Authorized Shares of Stock

It is important to the Company's future that the amendment to the Certificate of Incorporation be approved. Without the approval of the Charter Amendment, the Company will not be able to complete the Merger or issue shares of Common Stock upon conversion of the Amended and Restated Notes. Stockholders are urged to consider the following:

- Approval of the proposed Charter Amendment will allow the Company to use its Common Stock to undertake future financings and pursue strategic business opportunities, including the Merger with Clarity. The Board of Directors believes that the flexibility to engage in such transactions is essential to the Company's growth and viability; and

- Equity-based compensation is a key aspect of the Company's hiring and retention strategy. The additional shares of capital stock authorized by the proposed Charter Amendment may be used by the Company to attract and retain qualified directors, officers and other employees.

As of November 30, 2007, there were 250 million shares of Common Stock authorized for issuance under the Certificate of Incorporation, of which approximately 201 million shares of Common Stock were issued and outstanding. In addition, as of such date, not including any shares of Common Stock issuable pursuant to the Merger or to the Note Issuance, there were 13,752,351 shares of Common Stock reserved for issuance as follows:

- 4,871,643 authorized but unissued shares of Common Stock have been reserved for future issuance upon exercise of outstanding options; and

- 8,880,708 shares of Common Stock are reserved for issuance under the Plan pursuant to future awards.

In June 2007, the Company entered into an agreement with its Lenders to restructure the Company's outstanding debt. At the time of the restructuring, the Company owed the Lenders $10.2 Million in principal and accrued interest. Pursuant to the restructuring, all then outstanding notes issued to the Lenders were amended and restated (the "Amended and Restated Notes") into notes convertible into shares of our Common Stock. As part of our obligations under the Amended and Restated Notes, we are obligated to seek stockholder approval to amend our Certificate of Incorporation to increase our authorized capital stock because we did not then have enough shares of Common Stock authorized for issuance if the Lenders converted the Amended and Restated Notes.

Assuming the Amended and Restated Notes are not converted until maturity, approximately 58,492,461 shares of Common Stock would be required to be issued upon conversion, for both principal and interest. This amount represents approximately 28% of the approximately 201 million shares of Common Stock currently issued and outstanding and would be approximately 19% of our Common Stock on a fully-diluted basis if we issue all of the Shares issuable in connection with the Merger.

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Failure to approve the Charter Amendment could have a material adverse effect on the Company. The terms of the restructuring provide that if the Company does not increase its authorized capital stock by June 26, 2008, the interest rate on the Amended and Restated Notes will increase to an annual rate of 15%. Further, obtaining approval of the Charter Amendment is a precursor to being able to register the shares issuable upon conversion (the "Conversion Shares") of the Amended and Restated Notes for resale under the Securities Act. If we are unable to register the Conversion Shares by the 15 month anniversary of the issuance date of the Amended and Restated Notes, the then-current interest rate will increase by a rate of 1% per annum each month thereafter until the Conversion Shares are registered, up to the default rate of the lower of 20% per annum or the highest amount permitted by law. If we are unable to issue the Conversion Shares, then we will need to be able to repay the Amended and Restated Notes, including all accrued but unpaid interest thereon, upon maturity. There is no assurance that we will have sufficient cash resources to repay the Amended and Restated Notes in such circumstance. 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.

In addition, if stockholders do not approve the Charter Amendment we will not be able to complete the Merger. Further, without the Charter Amendment, the Company does not have enough authorized shares of Common Stock available for issuance in connection with future business purposes, including future financing transactions, acquisitions, strategic business alliances and equity incentive awards for our employees. Approval of the Charter Amendment will provide the Company with the flexibility to consummate potential financings or strategic business opportunities involving the issuance of additional shares of Common Stock, or securities convertible into shares of Common Stock, in a timely manner and to take advantage of other favorable financial or strategic business opportunities. If the Company's stockholders fail to approve the Charter Amendment, the Company will be limited in its ability to act promptly with respect to potential financing or strategic business opportunities when such opportunities are presented.

Effect of Increase

The additional shares of Common Stock (other than the shares described above that have been reserved for issuance) may be issued, subject to certain exceptions, by the Board of Directors at such times, in such amounts and upon such terms as the Board of Directors may determine without further approval of the stockholders. Stockholders will not realize any dilution in their percentage of ownership of our Company or their voting rights as a result of the foregoing change.

However, issuances of significant numbers of additional shares of Common Stock in the future, such as pursuant to the Merger and/or the Note Issuance, (i) will dilute stockholders' percentage ownership of our Company and, (ii) if such shares are issued at prices below what current stockholders paid for their shares, may dilute the value of current stockholders' shares. If the Proposal is approved, it will become effective upon filing a certificate of amendment to our certificate of incorporation with the Secretary of State of the State of Delaware.

Vote and Recommendation

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the Charter Amendment is required for approval of this proposal.

Our Board of Directors recommends a vote "FOR" the approval of the Charter Amendment.

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PROPOSAL 3 – INCREASE IN THE NUMBER OF SHARES AVAILABLE FOR DISTRIBUTION UNDER THE 2003 EQUITY INCENTIVE PLAN

Stockholders are being asked to approve an amendment (the "Plan Amendment") to ISCO's 2003 Equity Incentive Plan, as amended, (the "Plan"), which was adopted, subject to stockholder approval, by the Board of Directors to increase the number of shares of Common Stock reserved for issuance under the Plan to 47,011,468 shares of Common Stock for which options and stock grants may be granted under the Plan.

Pursuant to Rule 711 of the AMEX Company Guide, the Company is required to obtain the consent of the Stockholders prior to amending the Plan to increase the number of shares available for issuance. The Board approved an amendment to the Plan to fix the number of shares reserved under the Plan at 47,011,468 shares, subject to stockholder approval. By approving this Plan Amendment Proposal, we would be able to issue to current employees of Clarity, who will become employees of our Company after the Merger, registered shares of our Common Stock on a Form S-8, as satisfaction of the Shares issuable to such employees in connection with the Merger. Without the approval of the Plan Amendment, we will not be able to issue shares of Common Stock registered under 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. In addition, if the Plan Amendment is approved, we will be able to issue the portion of the consideration in connection with the Merger to such new employees of ISCO pursuant to terms and conditions governed by the Plan.

Purpose of the Plan

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

The following is a summary of the material terms and conditions of the Plan, as proposed to be amended, and is qualified in its entirety by the provisions contained in the Plan, as amended, a copy of which is attached to this Proxy Statement as Appendix D.

Description of Amendment

The proposed Plan amendment to the Plan would fix the number of shares of Common Stock for which options or stock grants can be granted under the Plan at 43,398,673 (47,011,468 if one were to include those shares granted under the predecessor 1993 Plan). Prior to the proposed amendment, the maximum number of shares that could be issued under the Plan was 28,398,673. The proposed Plan Amendment would help the Company to continue to realize the purpose for which the Plan was adopted, especially in regards to attracting and retaining key personnel needed for the integration of Clarity's business with ours. The proposed amendment would also permit us to issue shares of Common Stock pursuant to the Merger Agreement that are registered under the Securities Act and upon terms and conditions governed by the Plan. Extending the Plan to those employees joining the Company pursuant to the Clarity Merger for possible future grants also aligns their interests in the success of the Company with ours. The text of the Plan Amendment is as follows:

"(a) Shares Subject to the Plan. The Shares to be subject to or related to Awards under the Plan will be authorized and unissued Shares of the Company, whether or not previously issued and subsequently acquired by the Company. The

maximum number of Shares that may be subject to Options or Restricted Shares under the Plan is 38,398,673, plus an additional number of Shares not to exceed 5,000,000, which additional number will be equal to the number of Shares subject to options granted under the ISCO International, Inc. Amended and Restated 1993 Stock Option Plan that expire, are forfeited, or are cancelled after the date of the Company's 2005 Annual Meeting. The Company shall reserve for purposes of the Plan out of its authorized and unissued Shares that total number of Shares. No Participant may receive an award of Options or SARs under the Plan with respect to more than 2,000,000 Shares in any calendar year."

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The following table shows the amounts that will be received by or allocated to each of the following under the Proposal being acted upon:

New Plan Benefits

ISCO INTERNATIONAL
2003 EQUITY INCENTIVE PLAN

Name and Position	Dollar Value ($)[1]	Number of Units[2]
Ralph Pini (Interim Chief Executive Officer)	$ — [3]	—
Executive Group[4]	—	—
Non-Executive Director Group[5]	— [5]	— [5]
Non-Executive Officer Employee Group[3]	—	—

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(1) The value of an award is based on the closing price of the Company's Commons Stock on AMEX on the date of grant.

(2) The number of shares of restricted Common Stock that the listed persons may receive may be subject to certain time-based and market capitalization-based requirements.

(3) The Compensation Committee of the Board of Directors has indicated its intent to grant Mr. Pini the equivalent of $500 per week in restricted stock upon the conclusion of his service as Interim Chief Executive Officer.

(4) Awards under the Plan are discretionary and no awards are currently planned with respect to any other employee or director, other than awards pursuant to the non-employee director compensation policy described below and elsewhere in this Proxy Statement. Therefore, new plan benefits to anyone are not determinable.

(5) Pursuant to the Company's Non-Employee Director compensation policy, Non-Employee Directors will receive on an annual basis, in addition to certain cash payments, a grant of 25,000 restricted shares of the Company's common stock for service on the Board, a grant of 12,500 restricted shares of common stock for service as the chairman of the Board of Directors or one of the Board's three committees, and a grant of 7,500 restricted shares of Common Stock for service on a Board committee. Awards for service in 2007 have already been made and no new awards are expected to existing members of the Board until the next Annual Meeting of Stockholders.

In addition, if all time and market capitalization milestones in connection with the contingent consideration issuable in the Merger are issued, the Clarity Rightsholders who become employees of ISCO will receive an aggregate of 13,132,991 shares of Common Stock.

The maximum number of shares of Common Stock with respect to which awards may be made under the Plan is currently 28,398,673. In the event of any stock split, reverse stock split, stock dividend, recapitalization, reclassification or other similar event, adjustments may be made in the Board's discretion to the number of shares reserved for issuance under the Plan and to the number, kind and price of shares covered by outstanding awards. Shares subject to forfeited, cancelled or expired awards granted under the Plan will again become available for issuance under the Plan. In addition, shares surrendered in payment of any exercise price or in satisfaction of any withholding obligation arising in connection with an award granted under the Plan will again become available for issuance under the Plan.

Administration

The Board may administer the Plan either directly or through appointment of a committee of two or more Non-Employee Directors. Presently, the Compensation Committee of the Board administers the Plan. The Board or

the appointed committee interprets the Plan, selects award recipients, determines the number of shares subject to each award and establishes the price, vesting and other terms of each award. While there are no predetermined performance formulas or measures or other specific criteria used to determine recipients of awards under the Plan, awards are based generally upon consideration of the grantee's position and responsibilities, the nature of services provided, the value of the services to us, the present and potential contribution of the grantee to our success, the anticipated number of years of service remaining and other factors which the Board or the appointed committee deems relevant.

The number of currently eligible participants in the Plan is approximately 53. If the Merger is consummated, it is expected that the total number of persons eligible to participate in the Plan will be approximately 96.

The Plan has no specified term, although incentive stock options will not be granted more than 10 years after the most recent increase in the number of shares subject to the Plan.

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Stock Options

The Plan permits the grant of incentive stock options to our employees and the employees of our subsidiaries. The Plan also provides for the grant of non-qualified stock options to our employees, directors, and consultants and other individuals who perform services for us (as well as to employees, directors, consultants and service providers of our subsidiaries). The exercise price of any incentive stock options granted under the Plan may not be less than 100% of the fair market value of our Common Stock on the date of grant. Options granted under the Plan may be exercised by payment in cash, through an exchange for shares of Common Stock owned by the option holder for more than six months, that have a fair market value on the date of exercise equal to the option exercise price or through such other means as the Board or the appointed committee may accept.

Under the Plan, each option is exercisable at such time and to such extent as specified in the pertinent option agreement between the Company and the option recipient. However, no option shall be exercisable with respect to any shares of Common Stock more than ten years after the date of grant of such award. Unless otherwise specified by the Board or the appointed committee with respect to a particular option, all options are non-transferable, except upon death.

Upon or in anticipation of a change of control of the Company, the Board or the appointed committee, may: (i) cause outstanding options to become immediately exercisable, (ii) provide for the cancellation of options in exchange for comparable options to purchase shares in a successor corporation, and/or (iii) provide for the cancellation of options in exchange for a cash and/or other substitute consideration.

Stock Appreciation Rights

The Plan also provides for the grant of stock appreciation rights, either alone or in tandem with stock options. A stock appreciation right entitles its holder to a cash payment of the excess of the fair market value of our Common Stock on the date of exercise, over the fair market value of our Common Stock on the date of the grant. A stock appreciation right issued in tandem with a stock option will have the same term as the stock option. The term of a stock appreciation right granted alone, without an option, will be established by the Board or the appointed committee, in the award agreement governing the stock appreciation right.

Upon, or in anticipation of a change of control of the Company, the Board or the appointed committee, may: (i) cause outstanding stock appreciation rights to become immediately exercisable, and/or (ii) provide for the cancellation of stock appreciation rights in exchange for a cash and/or other substitute consideration.

Restricted Shares

The Plan also provides for the grant of restricted shares. Restricted shares are shares of our Common Stock issued to an individual that will be forfeited if certain vesting conditions established by the Board or the appointed committee at the time of grant (such as a specified period of continued employment or the fulfillment of specified individual or corporate performance goals) are not met. Restricted shares may be sold under the Plan (at their full value or at a discount), or may be granted solely in consideration for services.

Upon, or in anticipation of an event of a change of control of the Company, the Board or the appointed committee may: (i) cause restrictions on restricted shares to lapse, (ii) cancel restricted shares in exchange for restricted shares of a successor corporation, and/or (iii) redeem restricted shares for cash or other substitute consideration.

Amendment of Plan

The Board may amend, alter or discontinue the Plan at any time, but, for certain actions with respect to a change in control of the Company, no amendment, alteration or discontinuation will be made which would impair the rights of a participant with respect to an award under the Plan, without such participant’s consent, or which, without the approval of such amendment within one year (365 days) of its adoption by the Board, by a majority of the votes cast at a duly held stockholder meeting at which a quorum representing a majority of the Company’s outstanding voting shares is present (either in person or by proxy), would: (i) increase the total number of shares reserved for the purposes of the Plan (except for certain event of any recapitalization, stock split or combination, stock dividend or other similar event or transaction affecting the shares), or (ii) change the persons or class of persons eligible to receive equity awards under the Plan.

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Effect of Federal Income Taxation

The following summary of tax consequences with respect to stock options, stock appreciation rights and restricted shares that may be granted under the Plan is not comprehensive and is based upon laws and regulations in effect on the date of this proxy. Such laws and regulations are subject to change.

Stock options granted under the Plan may be either incentive stock options intended to qualify under Section 422 of the Code ("ISOs") or non-qualifying stock options ("NQSOs"). There are generally no federal income tax consequences either to the option holder or to the Company upon the grant of a stock option. On exercise of an ISO, the option holder will not recognize any income, and the Company will not be entitled to a deduction for tax purposes, although such exercise may give rise to liability for the option holder under the alternative minimum tax provisions of the Internal Revenue Code. Generally, if the option holder disposes of shares acquired upon exercise of an ISO within two years of the date of grant or one year of the date of exercise, the option holder will recognize ordinary income and the Company will then be entitled to a tax deduction equal to the excess of the fair market value of the shares on the date of exercise over the option exercise price (or the gain on sale, if less). Otherwise, the Company will not be entitled to any tax deduction upon disposition of such shares, and the entire gain realized by the option holder will be treated as a long term capital gain.

On exercise of a NQSO, the amount by which the fair market value of the shares on the date of exercise exceeds the option exercise price will generally be taxable to the option holder as ordinary income and will generally be deductible by the Company.

Under federal tax law, there are generally no federal income tax consequences to an employee of the Company due to the grant of stock appreciation rights. The employee will generally recognize ordinary income upon exercise of a stock appreciation right in an amount equal to the amount of cash, or the fair market value of the shares (determined at the time of exercise), the employee receives upon exercise.

Under federal tax law, in the absence of an election made under section 83(b) of the Internal Revenue Code, there are generally no federal income tax consequences to an employee of the Company due to the grant of restricted shares. The employee will generally recognize ordinary income upon the date on which the shares are no longer subject to a substantial risk of forfeiture. The amount of income recognized by the employee will be equal to the excess of the fair market value of the shares on the date on which they are first free from the substantial risk of forfeiture over the amount, if any, the employee paid for the shares. The Company will be entitled to a deduction in the same amount at that time. The employee will have a basis in the shares equal to the amount, if any, he or she paid for the shares plus the amount of income he or she recognized in respect of the shares. The later disposition of restricted shares will generally result in a capital gain or loss for the employee. Such a disposition will have no tax consequences for the Company.

The tax treatment of restricted shares is different if the employee makes an election under section 83(b) of the Internal Revenue Code with respect to the restricted shares. If an employee makes such an election, he will recognize compensation income, and the Company will be entitled to a deduction at the time the employee receives the restricted shares, even though the shares remain subject to a substantial risk of forfeiture. The amount of income to be recognized by the employee, and deducted by the Company, will be the excess of the fair market value of the restricted shares determined at the time of the employee's receipt of the shares, (without regard to the restrictions to which the shares are subject), over the amount, if any, the employee paid for the shares. The employee will have a basis in the shares equal to the sum of the amount of income recognized in respect of the shares plus the amount, if any, the employee paid for the shares. The subsequent vesting or forfeiture of restricted shares with respect to which an 83(b) election has been made will have no tax consequence for the Company or the employee. An election under section 83(b) must be made by the employee no later than 30 days after the employee first receives the restricted

shares.

Section 162(m) of the Internal Revenue Code limits the deductibility of compensation in excess of $1,000,000 paid to the chief executive officer of the Company or to one of the next-four highest paid executive officers of the Company, unless the excess compensation is considered to be “performance-based”. Among other requirements contained in Section 162(m), the material terms of a compensation plan in which such officers participate, including the number of shares available for grant and the number of shares that may be issued to one person, must be approved by stockholders for awards or compensation provided under the plan to be considered “performance-based”. The Company intends that its deductions for amounts paid pursuant to ISOs, NQSOs and stock appreciation rights granted under the Plan will not be limited by Section 162(m) because such awards qualify as performance-based compensation. However, restricted shares awarded under the Plan may not qualify as performance-based compensation for purposes of 162(m) and therefore, may be subject to the limits of Section 162(m).

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Equity Compensation Plan Information

The following table gives information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under the Company's 1993 Plan and under the 2003 Equity Incentive Plan as of November 30, 2007. The table does not include the additional shares requested for issuance under the Plan in this Plan Amendment Proposal.

Plan Category	Number of Securities to be issued upon exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans approved by security holders	7,529,768	$ 0.37	8,880,780 (1)
Equity compensation plans not approved by security holders	1,100,000	0.43	(2)
Total	8,629,768	$ 0.38	8,880,708 (1)

(1) The 1993 Plan terminated in August 2003 and was replaced by the Plan. At the Annual Meeting of Stockholders held December 2005, the Company's stockholders voted to approve the allocation of 12 million shares of Common Stock to the plan, included above, and also clarified the use of up to 5 million shares in the Plan that were allocated to the 1993 Plan but were ultimately unused.

(2) These securities represent shares of Common Stock issuable upon exercise of stock options granted to John Thode pursuant to a letter agreement dated January 6, 2006. Such options were issued outside the Plan.

Vote and Recommendation

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the Plan Amendment is required for approval of this proposal.

Our Board of Directors recommends that you vote "FOR" the approval of the Plan Amendment.

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PROPOSAL 4 – APPROVAL OF ISSUANCE OF SHARES TO LENDERS UPON CONVERSION OF NOTES

On June 26, 2007, the Company, Manchester, Alexander, Spectral Solutions, Inc. and Illinois Superconductor Canada Corporation entered into an amendment to the November 10, 2004 Third Amended and Restated Loan Agreement, as amended, with corresponding amendments to the Fourth Amended and Restated Guaranties and the Fourth Amended and Restated Security Agreement and notes issued by the Company in favor of the Lenders (the "Notes" and together with the Third Amended and Restated Loan Agreement, the Fourth Amended and Restated Guaranties and the Fourth Amended and Restated Security Agreement, the "Loan Documents") in conjunction with the restructuring of the Notes (the "Restructuring"). The transaction was conducted pursuant to Section 3(a)(9) of the Securities Act, as amended (the "Securities Act"). Pursuant to Rule 713 of the AMEX Company Guide, we are seeking the approval of our stockholders for the issuance of up to 58,492,461 shares of Common Stock issuable upon conversion of the Amended and Restated Notes, plus any additional shares of Common Stock issuable upon conversion as a result of certain anti dilution adjustments.

The Company issued amended and restated Notes (the "Amended and Restated Notes") in an aggregate principal amount, including accrued interest on the Notes, of approximately $10.2 Million to replace all of the existing Notes under the Company's line of credit arrangement and reflect the amendments to the Loan Documents, including: (i) the extension of the termination dates and maturity dates for all the Notes from August 1, 2007 to August 1, 2009; (ii) the reduction of the interest rate on each of the Notes from 9% to 7% per annum; (iii) provision for the conversion of the aggregate principal amount outstanding on each of the Amended and Restated Notes at the election of the Lenders, together with all accrued and unpaid interest thereon into shares (the "Conversion Shares") of the Company's Common Stock at an initial conversion price of $0.20 per share. In addition, pursuant to the amendments to the Loan Documents, each of Manchester and Alexander has immediately converted $750,000 in principal amount and accrued interest outstanding under the Notes each lender held prior to the Restructuring, into shares (the "Initial Conversion Shares") of Common Stock at a conversion price of $0.18, the 10 day volume weighted average closing price of the Company's Common Stock on the AMEX as of June 21, 2007.

Before the Lenders may exercise their respective rights to convert the Amended and Restated Notes into the Conversion Shares, the Company is required to seek the approval of its stockholders to (i) increase the number of authorized shares of Common Stock available for issuance under its Certificate of Incorporation, as amended and (ii) approve the issuance of the Conversion Shares pursuant to Rule 713 of the AMEX Company Guide as well as to obtain the approval of AMEX to list the Initial Conversion Shares and the Conversion Shares on AMEX. The Company is required to obtain these approvals within one year of the issuance date of the Amended and Restated Notes. In the event that these required approvals are not obtained by that time, then the interest rate on the Amended and Restated Notes will increase to a rate of 15% per annum. Pursuant to the Registration Rights Agreement, as described below, if the Initial Conversion Shares and Conversion Shares are not registered for resale under the Securities Act by the 15 month anniversary of the issuance date of the Amended and Restated Notes, then the then-current interest rate will increase by a rate of 1% per annum each month thereafter until the Initial Conversion Shares and Conversion Shares are registered, up to the default rate of the lower of 20% per annum or the highest amount permitted by law. If we are required to repay the Amended and Restated Notes in cash at maturity, we may not have sufficient cash resources to do so, which would result in a default on the Amended and Restated Notes. 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.

The conversion rate of the Amended and Restated Notes is subject to customary anti-dilution protections, which could increase the number of shares issuable upon conversion. The Amended and Restated Notes do not contain market or trading-based ratchet or reset provisions. The Company has the right to redeem the Amended and Restated Notes in full in cash at any time beginning June 26, 2009.

The Amended and Restated Notes are secured on a first priority basis by all of the Company's intangible and tangible property and assets. Payment of the Amended and Restated Notes is guaranteed by the Company's two subsidiaries, Spectral Solutions, Inc. and Illinois Superconductor Canada Corporation.

In connection with the Restructuring, the Company entered into a Registration Rights Agreement with Manchester and Alexander. Pursuant to the Registration Rights Agreement, the Company is required to file a registration statement under the Securities Act covering the resale of the shares of Initial Conversion Shares and the Conversion Shares with the Securities and Exchange Commission within 30 days after both of the stockholders' approvals and AMEX approval have occurred. The Registration Rights Agreement contains customary covenants, including registration delay payments, in addition to certain interest rate increases under the Amended and Restated Notes, under certain events, for failing to maintain the effectiveness of a registration statement covering the resale of the Initial Conversion Shares and the Conversion Shares.

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Assuming the Amended and Restated Notes are not converted until maturity, approximately 58,492,461 shares of Common Stock would be required to be issued upon conversion, for both principal and interest. This amount is approximately 27.9% of the approximately 201,000,000 shares of Common Stock currently issued and outstanding as of November 30, 2007. As of November 30, 2007, the Lenders, including their affiliates, beneficially owned in the aggregate approximately 106,492,839, or 48%, of the Company's outstanding shares, including the Initial Conversion Shares. As a result of this transaction, the combined holdings of the Lenders would be approximately 60% of the outstanding Common Stock as of November 30, 2007 on a fully converted basis (excluding the Shares issuable in conjunction with the Merger). The number of shares issuable upon conversion of the Amended and Restated Notes is subject to certain anti-dilution adjustments, which may increase the number of shares issuable upon conversion.

Copies of the full text of the amendments to the Loan Documents, the Registration Rights Agreement and the Amended and Restated Notes are attached as to exhibits 10.1 to 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which is attached to the Proxy Statement as Appendix E.

Interest of Certain Persons in Issuance of Shares

The Lenders, to whom the shares would be issued upon conversion of the Amended and Restated Notes, each own in excess of 5% of the issued and outstanding shares of the Company and are considered affiliates of the Company. Pursuant to Rule 713 of the AMEX Company Guide, stockholder approval is required before the Company can issue stock upon the conversion of the Amended and Restated Notes as described above. In addition, as a result of their current combined ownership of the Company's outstanding Common Stock, if all shares of Common Stock issued and outstanding as of November 30, 2007 vote on the Note Issuance, a total of approximately 13,500,001 shares of Common Stock, or 6.7% of the number of shares of Common Stock issued and outstanding as of November 30, 2007, will be required to approve the Note Issuance.

Effect of Issuance

The Company's current stockholders will suffer a dilution of voting rights and tangible book value per share of the Common Stock as the result of any such issuance of Common Stock upon conversion of the Amended and Restated Notes. The extent of dilution of voting rights and the per share book value will depend on the number of shares issued. However, the ability to issue shares of Common Stock upon the Conversion of the Amended and Restated Notes will allow the Company to use its cash resources for other purposes rather than for repayment of principal and interest on the Amended and Restated Notes.

Vote and Recommendation

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the Note Issuance is required for approval of this proposal.

Our Board of Directors recommends that you vote FOR the approval of the Note Issuance.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership of ISCO Common Stock Prior to the Merger

At the close of business on the ISCO record date, directors and executive officers of ISCO and their affiliates collectively, beneficially owned approximately 6,141,702 shares of issued and outstanding Common Stock, collectively representing approximately 3.0% of the shares of Common Stock outstanding on that date. In addition, ISCO's two largest stockholders together beneficially own approximately 106,492,839 shares of Common Stock, or 48% of the shares of Common Stock outstanding on that date. 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.

The first table below sets forth information regarding the beneficial ownership of Common Sock as of November 30, 2007 prior to the Merger, except as otherwise indicated in the relevant footnote, by (1) each person or group that the Company knows beneficially owns more than 5% of Common Stock, (2) each of the Company's directors and director nominees, (3) the Named Executive Officers, and (4) all current Executive Officers and directors as a group. The second table below sets forth the information regarding beneficial ownership of Common Stock immediately after giving effect to the Merger. Unless otherwise indicated, the address of each person identified below is c/o the Company at its principal executive offices.

The percentages of beneficial ownership shown in the first table below are based on approximately 201,000,000 shares of Common Stock outstanding as of November 30, 2007 and in the second table are based on approximately 224,000,000 shares of Common Stock that would be outstanding immediately after giving effect to the 20,000,000 shares issuable at the closing of the Merger and approximately 3,000,000 Time-Based Shares to be issued to Mr. Fuentes in connection with the Merger (excluding shares of Common Stock issuable upon conversion of the Amended and Restated Notes pursuant to the Notes Issuance), in each case unless otherwise stated. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes those securities over which a person may exercise voting or investment power. In addition, shares of Common Stock which a person has the right to acquire upon the exercise of stock options and/or warrants within 60 days of the date of this table are deemed outstanding for the purpose of computing the percentage ownership of that person, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated in the footnotes to this table or as affected by applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.

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At the close of business on November 30, 2007, a single stockholder owned 1000 shares of issued and outstanding Clarity common stock, representing 100% of the shares of Clarity common stock outstanding on that date.

Name	**Number of Shares of Common Stock Beneficially Owned**		**Percent of Class**
Alexander Finance L.P.	84,064,846	(1)	**35.5%**
Elliott Associates L.P.	55,523,835	(2)	**23.5%**
Elliott International L.P.	19,904,159	(2)	**8.4%**
John Thode	2,157,500	(3)	**1.1%**
Amr Abdelmonem	1,349,499	(4)	*
George Calhoun	1,086,083	(5)	*
Frank Cesario	751,370	(6)	*
Mike Fenger	232,000	(7)	*
Jim Fuentes	296,250	(8)	*
Ralph Pini	239,000	(9)	*
John Owings	30,000	(10)	*
All Directors and Officers as a Group (8 persons)	6,141,702	(11)	**3.0%**

* Less than 1%.

(1) Includes affiliates. As reflected in an SEC filing dated June 2007. The address for Alexander Finance, L.P. is 1560 Sherman Avenue Evanston, IL 60201. Also presumes conversion of 36 million shares in convertible debt.

(2) Includes affiliates. As reflected in SEC filings dated June 2007 for Elliott Associates, L.P. and Elliott International, L.P. Also presumes conversion of 36 million shares in convertible debt. The address of Elliott Associates, L.P. is 712 Fifth Avenue, New York, New York 10019 and the address of Elliott International, L.P. is c/o Elliott International Capital Advisors, Inc. 712 Fifth Avenue New York, New York 10019.

(3) Includes outstanding options to purchase 1,100,000 shares of common stock that were vested as of November 30, 2007.

(4) Includes outstanding options to purchase 262,499 shares which were exercisable as of November 30, 2007.

(5) Includes a restricted stock grant of 22,500 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 920,833 shares which were exercisable as of November 30, 2007.

(6) Includes a restricted stock grant of 187,500 shares that were not vested as of November 30, 2007, or within 60 days of such date.

(7) Includes a restricted stock grant of 20,000 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 110,000 shares which were exercisable as of November 30, 2007.

(8) Includes a restricted stock grant of 28,750 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 160,000 shares which were exercisable as of November 30, 2007.

(9) Includes a restricted stock grant of 26,250 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 110,000 shares which were exercisable as of November 30, 2007.

(10) Includes a restricted stock grant of 30,000 shares that were not vested as of November 30, 2007, or within 60 days of such date.

(11) Includes outstanding restricted stock grants and options as described above.

Beneficial Ownership of ISCO Common Stock Immediately After Giving Effect to the Merger

Name	Number of Shares of Common Stock Beneficially Owned		Percent of Class
Alexander Finance L.P.	84,064,846	(1)	**32.3%**
Elliott Associates L.P.	55,523,835	(2)	**21.3%**
Elliott International L.P.	19,904,159	(2)	**7.7%**
John Thode	2,157,500	(3)	**1.0%**
Amr Abdelmonem	1,349,499	(4)	*
George Calhoun	1,086,083	(5)	*
Frank Cesario	751,370	(6)	*
Mike Fenger	232,000	(7)	*
Jim Fuentes	16,784,059	(8)	**7.5%**
Ralph Pini	239,000	(9)	*
John Owings	30,000	(10)	*
All Directors and Officers as a Group (8 persons)	22,629,511	(11)	**10.0%**

* Less than 1%.

(1) Includes affiliates. As reflected in an SEC filing dated June 2007. The address for Alexander Finance, L.P. is 1560 Sherman Avenue Evanston, IL 60201. Also presumes conversion of 36 million shares in convertible debt.

(2) Includes affiliates. As reflected in SEC filings dated June 2007 for Elliott Associates, L.P. and Elliott International, L.P. Also presumes conversion of 36 million shares in convertible debt. The address of Elliott Associates, L.P. is 712 Fifth Avenue, New York, New York 10019 and the address of Elliott International, L.P. is c/o Elliott International Capital Advisors, Inc. 712 Fifth Avenue New York, New York 10019.

(3) Includes outstanding options to purchase 1,100,000 shares of common stock that were vested as of November 30, 2007.

(4) Includes outstanding options to purchase 262,499 shares which were exercisable as of November 30, 2007.

(5) Includes a restricted stock grant of 22,500 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 920,833 shares which were exercisable as of November 30, 2007.

(6) Includes a restricted stock grant of 187,500 shares that were not vested as of November 30, 2007, or within 60 days of such date.

(7) Includes a restricted stock grant of 20,000 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 110,000 shares which were exercisable as of November 30, 2007.

(8) Includes a restricted stock grant of 28,750 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding

options to purchase 160,000 shares which were exercisable as of November 30, 2007. Includes 16,487,809 shares from the proposed merger with Clarity out of the 20 million shares that are to be provided up front and 3.3 million of the shares that vest based solely on the passage of time, and excluding the remaining 1.7 million shares that have additional performance requirements and the 15 million performance shares that vest upon attainment of certain market capitalization goals in the future.

(9) Includes a restricted stock grant of 26,250 shares that were not vested as of November 30, 2007, or within 60 days of such date, as well as outstanding options to purchase 110,000 shares which were exercisable as of November 30, 2007.

(10) Includes a restricted stock grant of 30,000 shares that were not vested as of November 30, 2007, or within 60 days of such date.

(11) Includes outstanding restricted stock grants and options as described above.

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CLARITY BUSINESS

History

Clarity was founded in 1998 by its current president, CEO and sole shareholder, Jim Fuentes. Mr. Fuentes acquired licenses to technology assets from Lucent Technologies (now Alcatel-Lucent Technologies) and built a company on providing highly effective, low cost handset applications for mobile devices in the wireless telecommunications sector. Building on success in creating over the air functionality applications for mobile devices, Clarity leveraged its proprietary product and development methodologies into new applications, including Push-To-Talk (PTT) and Location-Based Services (LBS). Today Clarity offers a unique product that combines both technologies into a single application – Where2Talk. Clarity's facilities and executive offices are located at 2640 White Oak Circle, Aurora, IL 60502. The main telephone number is (630) 499-1234, and website is *http://www.claritycsi.com*. The information contained therein is not incorporated into this report.

Business Strategy and Technology Summary

Clarity's strategic goal is to become a leader in creating mobile device applications for the wireless telecommunications industry. Clarity built platform assets in the very young fields of PTT and LBS, but Clarity's core competency lies in the methodology for developing and delivering applications in this environment. Clarity created the Clarity Application Server Suite (CLASS) as a product foundation of both hardware and middleware for developing high availability applications that meet the exacting standards of the telecommunications industry. CLASS offers a reusable platform for many of the elements of a completed product. In addition, Clarity developed the Rapid Application Deployment in Client Languages (RADiCL) as a foundation for mobile device applications themselves. This open architecture supports third party plug-in applications as needed in the development process, and isolates device hardware from the execution environment, thus enabling more rapid application development and easier porting between devices.

Clarity expects to leverage these design assets to quickly allow for new application development, and thus able to quickly adapt to changing technologies, environments, and customer requirements. Clarity believes that it can deliver highly valuable solutions to both OEMs and operators.

As Clarity primarily sells software (excluding very limited hardware support in the form of preconfigured network servers as needed), Clarity has little current need for extensive manufacturing capabilities. Instead, Clarity's products are preloaded on handsets or provided via download. As such, Clarity does not typically carry any meaningful amount of inventory, nor has Clarity been forced to invest in significant manufacturing assets.

Industry Demands and Clarity Solutions

The demand for faster, more robust applications within mobile devices has been growing substantially, and is expected to continue for the foreseeable future. Mobile devices offer tremendous convenience in delivering value added applications. The number of mobile devices shipped annually has been quoted by industry experts to exceed one billion units per year, and the growth of various technologies for delivering services to such devices (traditional wireless such as cellular and including next generation data application architectures such as WCDMA, WiFi, WiMax, and others) has created a very large and dynamic industry.

With the proliferation of data applications, consumers grow increasingly reliant on their mobile devices for a variety of tasks. From child protection to fleet tracking, LBS services can improve our lives, safety and efficiency. Clarity therefore offers its Whereabouts application, which allows real time tracking of devices that are set up on the system. Until now, customers have been forced to choose between carrying around an additional GPS (global positioning system) device and pay an additional cost or accepted limited features being offered through less robust

offerings. Today Clarity offers the capability of using the GPS device imbedded in the mobile device with the connection and reporting tools already imbedded in that device as an optional service. Clarity believes this convenience will provide substantial value to customers.

Despite Nextel's previous success (now part of Sprint Nextel) with respect to PTT features, the market has been slow to provide substantial PTT features through mobile devices in any scale. Clarity believes that a limitation of deploying PTT more broadly is less an issue of competition among rival companies offering PTT applications than an issue of operator acceptance and end user demand, particularly a concern about potential costs to overall operator networks. In response to Clarity's perception that end user demand is unsatisfied, Clarity offers the InTouch solution. The InTouch platform interfaces with the existing packet data network, without requiring a costly overhaul, and thus allows PTT to be added at little cost and with limited maintenance requirements.

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Clarity realized that the combination of these technologies might be precisely what the market wanted, creating the Where2Talk platform. Combining PTT and LBS technologies, Where2Talk allows for a geographically-based call to be conducted from the handset. This feature allows a person at a console to locate emergency workers in the vicinity of an event using advanced mapping technologies, who then can be quickly connected and organized. The initial trial of this solution is expected to occur during early 2008 with the Department of Homeland Security ("DHS"), and Clarity believes this feature has significant application throughout the field of public safety as well as in commercial applications.

Competitive Landscape and Barriers

Push-to-Talk (PTT)

Nextel proved value in providing PTT to consumers, and the basic technology is broadly available. However, relatively few PTT applications are currently offered to consumers. Clarity views the primary limitation in providing PTT to consumers is from the network operators themselves who would have to support such a system. Clarity offers a solution to this problem by providing a fully hosted service, in which it maintains the network servers required for the applications to function and connect to the mobile devices using VOIP (voice over internet protocol). Larger operators may choose not to allow applications outside of their immediate control and thus may not enable PTT features via this hosted approach.

Location-Based Services (LBS)

The primary suppliers of LBS services are specific devices that are used within the vehicle to provide real time LBS applications (such as maps, directions, and fleet tracking). There have recently been increases in limited mobile device applications offering some form of LBS-based features, but the industry remains relatively young. The primary barrier to providing LBS applications on a mobile device is to prove a need for the application and then prove that the application will not otherwise interfere with the network or device. This can be a time-consuming process, particularly for a small company.

Combined Solution

Clarity does not believe there are significant combinations of the LBS and PTT technologies on the market today. DHS indicated that it selected Clarity for its 2008 trial because DHS could not find another solution in the marketplace that offered this combination of technologies in a single platform. Proving a new technology to the wireless telecommunications industry can be a very long process that may never succeed, particularly for a small company. Clarity believes that it needs to parlay success from early adopters and look for opportunities to partner with other entities to maximize the opportunity for this type of platform to be adopted.

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Company Highlights

Sales and Marketing

Clarity has historically focused its sales and marketing efforts on serving the needs of OEMs by offering outsourced engineering services in the form of custom product development. Over the past year, Clarity has broadened its scope by selling products and hosted services directly to operators, and is now making inroads into the field of public safety.

Because Clarity is relatively new to providing solutions to operators, sales to three customers accounted for nearly 100% of its total revenues for 2006. Those customers were Alcatel-Lucent Technologies, Autodesk, and Lockheed Martin, respectively. In addition, a significant amount of Clarity's technical and managerial resources have been focused on working with these and a limited number of other operators and OEMs.

Research and Development

Clarity is currently developing related products that are synergistic with its core offerings and which utilize Clarity's core technical competencies in quickly and efficiently producing applications that meet the very high quality standard required by the telecommunications industry.

Intellectual Property and Patents

Clarity has only two patent applications today, relying on Clarity's proprietary processes for developing applications as its primary competitive advantage. In addition, Clarity's PTT solutions incorporates licensed technology from Alcatel-Lucent Technologies. As Clarity launches applications commercially, it expects to file more patent applications to protect those distinct applications and processes. Clarity believes that its success will depend in part upon the protection of its proprietary information and the ability to operate without infringing on the proprietary rights of others.

Government Regulations

Although Clarity believes that its wireless telecommunications products themselves are not licensed or governed by approval requirements of the Federal Communications Commission ("FCC"), the operation of the radio equipment into which Clarity products would be incorporated is subject to FCC approval. In order to be acceptable to OEMs and to operators, the characteristics, quality, and reliability of Clarity's products must enable them to meet FCC technical standards.

As a company that does not have significant manufacturing needs, Clarity believes it is in material compliance with all environmental regulations and to date has not had to incur significant expenditures for preventive or remedial action with respect to the use of hazardous materials.

Employees

As of November 15, 2007, Clarity had a total of 38 employees. Clarity also periodically employs other consultants and independent contractors on as as-needed basis. None of Clarity's employees are covered by a collective bargaining agreement. Clarity believes that its relationship with its employees is good.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OFFINANCIAL CONDITIONS AND RESULTS OF OPERATIONS OF CLARITY

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements for Clarity beginning on page 80 of this Proxy Statement. These Condensed Consolidated Financial Statements present the results of operations and financial position of Clarity for the three-month period ended September 30, 2007 and the full year ended December 31, 2006. In addition to historical information, the following discussion may contain forward looking information that involves risks and uncertainties. All amounts presented, except share data, are rounded to the nearest thousand dollars.

General

Clarity has shifted from being an almost exclusively custom product development engineering services firm for mobile device applications to an entity that provides both custom engineering services and direct solutions and services to OEM and wireless operator customers. The latter category includes Clarity's push-to-talk, location-based services, and combined offerings.

The wireless telecommunications industry is subject to risks beyond Clarity's control that can negatively impact customer capital spending budgets and/or spending patterns. In addition, Clarity does not have significant history in providing products and hosted services directly to customers, an area of Clarity's business where, assuming adequate resources are available, Clarity expects significant growth and future revenue regardless of whether the Merger is consummated. However, Clarity has an immediate need for an infusion of new capital. Further, Clarity currently lacks sufficient sales and operations personnel in order achieve these goals and will be unable to hire sufficient personnel unless Clarity receives additional resources or consummates the Merger with ISCO. For these and other reasons, Clarity's financial statements have been prepared assuming Clarity will continue as a going concern.

During October 2007, Clarity announced that it signed a letter of intent to merge with ISCO International, Inc. ISCO has significant experience in providing products and services directly to operators in the wireless field and would expand Clarity's product offerings to include hardware. Clarity views significant synergies in the combined company's product platforms, customer bases, and sales channels.

Clarity was founded in 1998 as a private entity, has a single shareholder, and files tax returns as a subchapter S corporation. Clarity's facilities and principal executive offices are located at 2640 White Oak Circle, Aurora, IL 60504 and telephone number is (630) 499-1234.

Results of Operations

Three Months Ended September 30, 2007 and 2006

Net sales decreased $494,000 or 39%, to $762,000 for the three months ended September 30, 2007 from $1,256,000 for the same period in 2006. Custom product development for handset applications was significantly lower during 2007 than any of the past several years as customers decide what to outsource and what to keep, and the rate of acceptance for products and hosted services offered directly to customers has taken longer than Clarity expected.

Cost of sales decreased by $296,000, or 43%, to $385,000 for the three months ended September 30, 2007 from $681,000 for the same period in 2006. The decrease in cost of sales was due to the reduction in sales volume.

Research and development ("R&D") expenses decreased by $479,000 or 44%, to $609,000 for the three months ended September 30, 2007, from $1,088,000 for the same period in 2006. This decrease was due to the substantial

completion of Clarity's Whereabouts and WhereToTalk products during the period, as well as spending limits imposed by weaker revenue during 2007.

Selling and marketing expenses decreased by $22,000, or 31%, to $48,000 for the three months ended September 30, 2007, from $70,000 for the same period in 2006. The decrease in expense was attributable to the loss of one person in this area between the relevant time periods. As selling end products and services to customers remains new to Clarity, this area is still very lightly staffed.

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General and administrative expenses decreased by $129,000, or 38%, to $209,000 for the three months ended September 30, 2007, from $338,000 for the same period in 2006. This decrease was attributable to a decrease in a number of areas of cost and not any one item in particular. During 2007, Clarity implemented significant spending reduction and delay efforts to compensate for lower revenue, including the two-and-half month suspension of salary for certain Clarity employees, including for Mr. Fuentes, Clarity's chief executive officer.

Nine Months Ended September 30, 2007 and 2006

Net sales decreased $4,839,000, or 63%, to $2,853,000 for the nine months ended September 30, 2007 from $7,692,000 for the same period in 2006. Custom product development for handset applications was significantly low for Clarity during 2007 than any of the past several years as customers decide what to outsource and what to keep, and the rate of acceptance for products and hosted services offered directly to customers has taken longer than Clarity expected.

Cost of sales decreased by $1,286,000, or 52%, to $1,181,000 for the nine months ended September 30, 2007 from $2,467,000 for the same period in 2006. The decrease in cost of sales was due to the reduction in revenue, above, and combined with relative inefficiencies of underutilized staff related to significantly lower revenue.

Our R&D expenses decreased by $696,000 or 23%, to $2,331,000 for the nine months ended September 30, 2007, from $3,027,000 for the same period in 2006. This decrease was due to the substantial completion of Clarity's Whereabouts and WhereToTalk products during the period, as well as spending limits imposed by weaker revenue during 2007.

Selling and marketing expenses decreased by $4,000, or 1%, to $269,000 for the nine months ended September 30, 2007, from $273,000 for the same period in 2006. The decrease in expense was negligible during the nine month period but included a relatively higher level of spending early during the period that has decreased as 2007 has continued, related to the need to conserve cash and lower staffing levels.

General and administrative expenses decreased by $134,000 or 13%, to $930,000 for the nine months ended September 30, 2007, from $1,064,000 for the same period in 2006. decrease was attributable to a decrease in a number of areas of cost and not any one item in particular. During 2007, Clarity implemented significant spending reduction and delay efforts to compensate for lower revenue, including the two-and-half month suspension of salary for certain Clarity employees during the third quarter of 2007, including for Mr. Fuentes, Clarity's chief executive officer.

Liquidity and Capital Resources

As of September 30, 2007, Clarity's cash and cash equivalents were $0.2 million, a decrease of $1.3 million from the balance at December 31, 2006 of $1.5 million.

During the nine month period ended September 30, 2007, Clarity utilized approximately $0.9 million in cash from the realization of receivables and unbilled revenue, net. In addition, Clarity increased its accrued payables and expenses by $0.3 million, net of additions.

The continuing development of, and expansion in, sales of Clarity's product lines will require a commitment of funds. The actual amount of Clarity's future funding requirements will depend on many factors, including: the closing of the Merger with ISCO and successful integration of the combined company, the amount and timing of future revenues, the level of product marketing and sales efforts to support commercialization plans, the magnitude of research and product development programs, the ability to improve or maintain product margins, and the costs involved in protecting patents or other intellectual property.

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In addition, Clarity is required to make regular monthly payments of all accrued and unpaid interest due as of each payment date. However, if the Merger occurs, ISCO will pay off any outstanding amounts under the line of credit. Clarity has no other available sources of funds. The interest rate may vary over time pursuant to The Wall Street Journal Prime Index (the "Index") such that the interest rate for the line of credit will be 0.5% less than the Index. The minimum interest rate permitted under the line of credit is 5.25% and the maximum interest rate is the maximum rate allowed by law. In the event of default, the interest rate under the line of credit will increase by 5.0% above the then current rate. Clarity will pay outstanding amounts under the line of credit in one payment of all outstanding principal plus all accrued and unpaid interest on July 16, 2008. In addition, Clarity is required to make regular monthly payments of all accrued and unpaid interest due as of each payment date. However, if the Merger occurs, ISCO will pay off any outstanding amounts under the line of credit. Clarity has no other available sources of funds.

MARKET PRICE OF AND DIVIDENDS ON CLARITY'S COMMON EQUITYAND RELATED STOCKHOLDER MATTERS

Clarity has 1,000 shares of common stock issued and outstanding as of November 30, 2007 and such shares are held by a single shareholder, Jim Fuentes. There are no other shares of common stock available for issuance under Clarity's articles of incorporation. As a result, there is no established public trading market for Clarity's common stock.

Under Clarity's line of credit arrangement, Clarity may not, without the prior written consent of its lender, pay any dividends on Clarity's stock (other than dividends payable in stock) provided, however that, so long as no event of default under the line of credit has occurred and is continuing or would result from the payment of dividends, if Clarity is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Clarity may pay cash dividends on its stock to its shareholder from time to time in amounts necessary to enable the shareholder to pay income taxes and make estimated income tax payments to satisfy the shareholder's liabilities under federal and state law which arise solely from the shareholder's status as shareholder of a Subchapter S Corporation because of the shareholder's ownership of shares of Clarity's stock, or purchase or retire any of Clarity's outstanding shares or alter or amend Clarity's capital structure.

EQUITY COMPENSATION PLAN INFORMATION OF CLARITY

The following table gives information about Clarity's common stock that may be issued upon the exercise of options, warrants and rights under any equity compensation plan as of November 30, 2007.

Plan Category	Number of Securities to be issued upon exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans	533	$ N/A	0

approved by security holders				
Equity compensation plans not approved by security holders	N/A	N/A	N/A	
Total	533	$ N/A	0	)

Note: This table represents the equivalent of 533 shares of Clarity common stock issuable upon a change in control of Clarity to Rightsholders under the Phantom Stock Plan and to certain Rightsholders and Mr. Fuentes pursuant to the At-Risk Compensation Plan based on 1,000 shares of Clarity common stock issued and outstanding. These equivalent shares of Clarity common stock would never be issued since pursuant to the terms of the Phantom Stock Plan and the At-Risk Compensation Plan, shares of a company acquiring Clarity are to be issued to satisfy the obligations under these plans.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Clarity Communication Systems Inc.

We have audited the accompanying balance sheets of Clarity Communication Systems Inc., an Illinois S-Corporation (the "Company") as of December 31, 2006 and December 31, 2005, and the related statement of operations, changes in stockholder equity (deficit) and cash flows for the year ended December 31, 2006 . These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarity Communication Systems Inc. as of December 31, 2006 and 2005 and the related results of their operations and their cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B, the Company incurred a net loss of $1.8 million during the nine month period year ended September 30, 2007, and, during 2006 and 2007 the Company incurred debt that cannot be satisfied with existing funding commitments. These factors, among others, as discussed in Note B to the financial statements, raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Grant Thornton LLP

Chicago, Illinois
November 30, 2007

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FINANCIAL INFORMATION FOR CLARITY COMMUNICATION SYSTEMS INC. FOR THE YEAR ENDED DECEMBER 31, 2006

Clarity Communication Systems, Inc.
BALANCE SHEETS
December 31,

ASSETS		2006		2005
CURRENT ASSETS				
Cash and cash equivalents	$	1,547,831	$	3,592,770
Accounts receivable		734,014		1,667,519
Prepaid expenses and other current assets		107,802		166,780
Total current assets		2,389,647		5,427,069
PROPERTY AND EQUIPMENT, NET		245,425		241,861
INTANGIBLE ASSETS, net of accumulated amortization		95,000		125,000
TOTAL ASSETS	$	2,730,072	$	5,793,930

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Clarity Communication Systems, Inc.
BALANCE SHEETS - CONTINUED
December 31,

LIABILITIES AND STOCKHOLDER (DEFICIT) EQUITY	2006	2005
CURRENT LIABILITIES		
Accounts payable	$ 82,280	$ 162,365
Accrued expenses	302,505	824,748
Deferred revenue and other accrued liabilities	611,976	1,528,408
Note payable to sole stockholder	2,000,000	-
Total current liabilities	2,996,761	2,515,521
Total liabilities	2,996,761	2,515,521
STOCKHOLDER (DEFICIT) EQUITY		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	1,000	1,000
Additional paid-in capital	9,000	9,000
Retained (deficit) earnings	(276,689)	3,268,409
Total stockholder (deficit) equity	(266,689)	3,278,409
TOTAL LIABILITIES AND STOCKHOLDER (DEFICIT) EQUITY	$ 2,730,072	$ 5,793,930

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Clarity Communication Systems, Inc.
STATEMENT OF OPERATIONS
Year ended December 31,

	2006
Net sales	$ 8,983,165
Operating expenses	
Cost of sales	3,025,314
Development	4,131,878
Selling and marketing	383,774
General and administrative	1,402,909
Total operating expenses	8,943,875
Net operating income	39,290
Other income (expense)	
Interest income	29,324
Other income (expense), net	-
Other income, net	29,324
NET INCOME	$ 68,614

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Clarity Communication Systems, Inc.
STATEMENT OF CHANGES IN STOCKHOLDER (DEFICIT) EQUITY
Year ended December 31, 2006

	Common stock	Additional paid-in capital	Retained (deficit) earnings	Total stockholder (deficit) equity
Balance at January 1, 2006	$ 1,000	$ 9,000	$ 3,268,409	$ 3,278,409
Stockholder distributions	-	-	(3,613,712)	(3,613,712)
Net income			68,614	68,614
Balance at December 31, 2006	$ 1,000	$ 9,000	$ (276,689)	$ (266,689)

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Clarity Communication Systems, Inc.
STATEMENT OF CASH FLOWS
Year ended December 31,

	2006	
Cash flows from operating activities		
Net income	$	68,614
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization		105,327
Changes in assets and liabilities		
Accounts receivable		933,505
Prepaid expenses and other assets		58,978
Accounts payable		(80,085)
Accrued expenses		(522,243)
Deferred revenue		(916,431)
Net cash used in operating activities		(352,335)
Cash flows from investing activities		
Purchases of property and equipment		(78,892)
Net cash used in investing activities		(78,892)
Cash flows from financing activities		
Distributions to stockholder		(3,613,712)
Proceeds from note payable		2,000,000
Net cash used in financing activities		(1,613,712)
Net decrease in cash and cash equivalents		(2,044,939)
Cash and cash equivalents at beginning of year		3,592,770
Cash and cash equivalents at end of year	$	1,547,831
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Income taxes	$	-
Interest		-

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NOTES TO FINANCIAL INFORMATION FOR CLARITY COMMUNICATION SYSTEMS INC. FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE A - DESCRIPTION OF BUSINESS

Clarity Communication Systems, Inc. ("Clarity" or the "Company") develops communications products within wireless communication systems. The Company provides solutions to OEMs and wireless operators on a contract basis and also develops unique products, including Push-to-Talk and/or location-based solutions. Its products and services are typically client applications downloaded onto wireless handsets, as well as the infrastructure to support such applications in certain circumstances. The Company has historically marketed its products and services to cellular and wireless telecommunications service providers and OEM's located primarily in the United States.

NOTE B – REALIZATION OF ASSETS

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. Based upon unaudited financial information, the Company has sustained substantial losses in the nine months ending September 30, 2007, of $1.8 million and has negative working capital and a retained deficit $2.4 million and $2.1 million, respectively, as of September 30, 2007. In addition, the Company has used, rather than provided, cash in its operations.

The Company continues to seek alternative financing solutions and is evaluating strategic alternatives, including the potential sale of the Company.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Interest income is earned on the certificates of deposit for the benefit of the Company.

Concentration of Credit Risk

One customer (a Fortune 500 company in the telecommunications industry) accounted for 100% of accounts receivable as of December 31, 2006 and 2005. Sales to the one customer for the year ended December 31, 2006 was 94% of total revenues.

Accounts Receivable

The majority of the Company's accounts receivable is due from companies in the telecommunications industry. Credit is extended based on evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 days or 45 days and are stated at amounts due from customers, net of an

allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms, are considered past due. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The allowance could be materially different if economic conditions change or actual results deviate from historical trends. As of December 31, 2006 and 2005, accounts receivable were fully collectible and no allowance for doubtful accounts was required.

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Revenue recognition

The Company recognizes revenue for contract product development arrangements when certain performance milestones are achieved, as determined by the buyer.

Certain of the Company's customer arrangements encompass multiple deliverables. Accounting for these arrangements is in accordance with Emerging Issues Task Force ("EITF") No. 00-21,*"Accounting for Revenue Arrangements with Multiple Deliverables"* ("EITF 00-21"). If the deliverables meet the criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their relative fair values. The criteria specified in EITF 00-21 are that the delivered item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. Applicable revenue recognition criteria is considered separately for each separate unit of accounting.

Management applies judgment to ensure appropriate application of EITF 00-21, including value allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements and timing of revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and recognized over the term of the arrangement.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and are depreciated over the estimated useful lives of the assets using both straight line and accelerated methods. The accelerated method used is the double declining balance method. Software is amortized over 3 years utilizing the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the asset or the term of the lease. The useful lives assigned to property and equipment for the purpose of computing depreciation follow:

Automobiles	5 years
Office equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	Life of lease

Expenditures for major additions improvements are capitalized while maintenance and repairs are expensed as incurred.

Long-Lived Assets and Long-Lived Assets to Be Disposed Of

In accordance with FAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* the Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Income Taxes

The Company, with the consent of its stockholder, has elected, under the Internal Revenue Code, to be taxed as an S-Corporation. The stockholder of an S-Corporation is taxed on the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in the Company's financial statements.

Advertising Costs

Advertising costs are charged to expense in the period incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Fair Value of Financial Instruments

Cash and cash equivalents are reported at their fair values in the balance sheets. The carrying amounts reported in the balance sheets for accounts receivable, accounts payable, and accrued expenses approximate their fair values due to the short-term nature of these financial instruments. Notes payable have an interest rate that approximates current market values; therefore, the carrying value approximate fair value.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159. "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are recorded on different bases. This statement is effective for the Company beginning January 1, 2008. The Company does not expect SFAS 159 to have a material impact on the financial statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt the provisions of SFAS 157 on January 1, 2008. We are evaluating the potential impact of SFAS 157, but at this time do not anticipate that it will have an impact on the financial statements when adopted.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment as of December 31 is as follows:

	2006	2005
Equipment	$ 406,275	$ 353,067
Furniture and Fixtures	164,272	164,273
Leasehold Improvements	124,008	124,008
Automobiles	99,183	99,182
Construction in progress	25,683	-
Less accumulated depreciation and amortization	(573,996)	(498,669)
Net property and equipment	$ 245,425	$ 241,861

Depreciation and amortization expense for the year ended December 31, 2006 was $75,327.

NOTE E - INTANGIBLES

In 2004, the Company entered into an agreement to license the rights to certain software equipment developed and manufactured by another company. The purchase price paid for the license was $150,000, which represented its fair value. This amount was recorded as an intangible asset and is being amortized over the period of its estimated benefit life of 5 years. At December 31, 2006 and 2005, accumulated amortization was $55,000 and $25,000. Amortization expense recognized for the year ended December 31, 2006 is $30,000.

NOTE F - COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and office space, as well as some testing and office equipment. Under the terms of its lease in Aurora, IL, which expires July 2009, the Company is responsible for proportionate real estate taxes and operating expenses.

Future minimum payments under non-cancelable leases are as follows:

Years ending December 31,	
2007	$ 172,226
2008	177,393
2009	105,267

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NOTE G – PHANTOM STOCK PLAN

In February 2004, the Company established the Clarity Communication Systems, Inc. Phantom Stock Plan (“Plan”). Eligibility and the granting of awards in the Plan are at the discretion of the sole stockholder. Rights under the Plan only vest in the event of a change in control, as defined in the Plan. In the event of employment termination with the Company, or death, the rights granted to the employee under the Plan also terminate and are forfeited. As of December 31, 2006, a change in control event was not probable, and as such, no expense has been recognized in the financial statements.

NOTE H – NOTE PAYABLE TO SOLE STOCKHOLDER

On December 31, 2006, the Company received $2,000,000 of debt financing in the form of a note with its sole stockholder. Interest is stated at 4.7% per annum and the note and accrued interest is due upon demand. There are no financial covenants or collateral associated with this note.

NOTE I – EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan covering all employees who meet prescribed service requirements. The plan provides for deferred salary contributions by the plan participants and the opportunity for a Company contribution. During 2006, the Company made no contribution to employee accounts under the plan.

NOTE J – SUBSEQUENT EVENT

On November 13, 2007, the Company and ISCO International, Inc. (“ISCO”), entered into a Plan of Merger, pursuant to which ISCO would acquire the Company (the “Merger”).

Pursuant to the Merger Agreement, ISCO would issue up to an aggregate of 40.0 million shares of ISCO common stock (closing common stock price was $0.24 as of November 13, 2007) in exchange for all of the Company’s stock. Of the total number of shares ISCO may issue in the merger, 20.0 million shares would be issuable upon closing (subject to adjustment if the amount of total liabilities on Clarity’s closing balance sheet, subject to certain exceptions, exceeds $1.5 million), 2.5 million shares would be issuable on each of the first and second anniversaries of closing (subject any indemnification claims pursuant to the Merger Agreement) 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.

In the event the Merger is completed, the participants in the Phantom Stock Plan are eligible to receive benefits. The sole stockholder would receive approximately 65% of the shares issued in connection with the Merger while the Phantom Stock Plan participants would receive approximately 35% of the shares issued in connection with the Merger.

During 2007, the Company entered into a credit line arrangement with American Chartered Bank. The first draw on this credit line took place during October 2007. As of November 30, 2007, approximately $0.6 million had been drawn on this credit line.

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UNAUDITED FINANCIAL INFORMATION FOR CLARITY COMMUNICATION SYSTEMS INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

Clarity Communication Systems, Inc.
BALANCE SHEETS

ASSETS	September 30, 2007	December 31, 2006
CURRENT ASSETS		
Cash and cash equivalents	$ 199,537	$ 1,547,831
Accounts receivable	274,524	734,014
Prepaid expenses and other current assets	74,925	107,802
Total current assets	548,986	2,389,647
PROPERTY AND EQUIPMENT, NET	231,118	245,425
INTANGIBLE ASSETS, net of accumulated amortization	72,500	95,000
TOTAL ASSETS	$ 852,604	$ 2,730,072

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Clarity Communication Systems, Inc.
BALANCE SHEETS - CONTINUED

LIABILITIES AND STOCKHOLDER (DEFICIT) EQUITY	September 30, 2007	December 31, 2006
CURRENT LIABILITIES		
Accounts payable	$ 172,543	$ 82,280
Accrued expenses	350,635	302,505
Deferred revenue and other accrued liabilities	350,191	611,976
Note and accrued interest payable to sole stockholder	2,074,712	2,000,000
Total current liabilities	2,948,081	2,996,761
Total liabilities	2,948,081	2,996,761
STOCKHOLDER (DEFICIT) EQUITY		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	1,000	1,000
Additional paid-in capital	9,000	9,000
Retained (deficit) earnings	(2,105,477)	(276,689)
Total stockholder (deficit) equity	(2,095,477)	(266,689)
TOTAL LIABILITIES AND STOCKHOLDER (DEFICIT) EQUITY	$ 852,604	$ 2,730,072

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Clarity Communication Systems, Inc.
STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2007

Net sales	$	2,852,911
Operating expenses		
Cost of sales		1,180,516
Development		2,330,075
Selling and marketing		269,185
General and administrative		930,088
Total operating expenses		4,709,864
Net operating income		(1,856,953)
Other income (expense)		
Interest income (expense), net		(58,578)
Other income (expense), net		91,806
Other income, net		33,228
NET INCOME	$	(1,823,725)

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Clarity Communication Systems, Inc.
STATEMENT OF CHANGES IN STOCKHOLDER (DEFICIT) EQUITY
Nine Months Ended September 30, 2007

	Common stock	Additional paid-in capital	Retained (deficit) earnings	Total stockholder (deficit) equity
Balance at January 1, 2006	$ 1,000	$ 9,000	$ (276,689)	$ (266,689)
Stockholder distributions	-	-	(5,063)	(5,063)
Net income			(1,823,725)	(1,823,725)
Balance at December 31, 2006	$ 1,000	$ 9,000	$ (2,105,477)	$ (2,095,477)

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Clarity Communication Systems, Inc.
STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2007

Cash flows from operating activities		
Net income	$	(1,823,725)
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization		36,807
Changes in assets and liabilities		443,687
Net cash used in operating activities		(1,343,231)
Cash flows from investing activities		
Purchases of property and equipment		-
Net cash used in investing activities		-
Cash flows from financing activities		
Distributions to stockholder		(5,063)
Other financing activities		-
Net cash used in financing activities		(5,063)
Net decrease in cash and cash equivalents		(1,348,294)
Cash and cash equivalents at beginning of year		1,547,831
Cash and cash equivalents at end of year	$	199,537
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Income taxes	$	-
Interest		-

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NOTES TO UNAUDITED FINANCIAL INFORMATION FOR CLARITY COMMUNICATION SYSTEMS INC.
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

NOTE A - DESCRIPTION OF BUSINESS

Clarity Communication Systems, Inc. ("Clarity" or the "Company") develops communications products within wireless communication systems. The Company provides solutions to OEMs and wireless operators on a contract basis and also develops unique products, including Push-to-Talk and/or location-based solutions. Its products and services are typically client applications downloaded onto wireless handsets, as well as the infrastructure to support such applications in certain circumstances. The Company has historically marketed its products and services to cellular and wireless telecommunications service providers and OEM's located primarily in the United States.

NOTE B – REALIZATION OF ASSETS

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. Based upon unaudited information, the Company has sustained substantial losses in the nine months ending September 30, 2007, of $1.8 million and has negative working capital and a retained deficit $2.4 million and $2.1 million, respectively, as of September 30, 2007. In addition, the Company has used, rather than provided, cash in its operations.

The Company continues to seek alternative financing solutions and is evaluating strategic alternatives, including the potential sale of the Company.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Interest income is earned on the certificates of deposit for the benefit of the Company.

Concentration of Credit Risk

One customer (a Fortune 500 company in the telecommunications industry) accounted for 100% of accounts receivable as of December 31, 2006. Sales to three customers (Alcatel-Lucent Technologies, Autodesk, and Lockheed Martin) accounted for nearly 100% of total revenue during 2006.

Accounts Receivable

The majority of the Company’s accounts receivable is due from companies in the telecommunications industry. Credit is extended based on evaluation of a customers’ financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 days or 45 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms, are considered past due. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the Company’s previous loss history, the customer’s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The allowance could be materially different if economic conditions change or actual results deviate from historical trends. As of September 30, 2007 and December 31, 2006, accounts receivable were fully collectible and no allowance for doubtful accounts was required.

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Revenue recognition

The Company recognizes revenue for contract product development arrangements when certain performance milestones are achieved, as determined by the buyer.

Certain of the Company's customer arrangements encompass multiple deliverables. Accounting for these arrangements is in accordance with Emerging Issues Task Force ("EITF") No. 00-21,*"Accounting for Revenue Arrangements with Multiple Deliverables"* ("EITF 00-21"). If the deliverables meet the criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their relative fair values. The criteria specified in EITF 00-21 are that the delivered item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. Applicable revenue recognition criteria is considered separately for each separate unit of accounting.

Management applies judgment to ensure appropriate application of EITF 00-21, including value allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements and timing of revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and recognized over the term of the arrangement.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and are depreciated over the estimated useful lives of the assets using both straight line and accelerated methods. The accelerated method used is the double declining balance method. Software is amortized over 3 years utilizing the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the asset or the term of the lease. The useful lives assigned to property and equipment for the purpose of computing depreciation follow:

Automobiles	5 years
Office equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	Life of lease

Expenditures for major additions improvements are capitalized while maintenance and repairs are expensed as incurred.

Long-Lived Assets and Long-Lived Assets to Be Disposed Of

In accordance with FAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* the Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Income Taxes

The Company, with the consent of its stockholder, has elected, under the Internal Revenue Code, to be taxed as an S-Corporation. The stockholder of an S-Corporation is taxed on the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in the Company's financial statements.

Advertising Costs

Advertising costs are charged to expense in the period incurred.

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Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Cash and cash equivalents are reported at their fair values in the balance sheets. The carrying amounts reported in the balance sheets for accounts receivable, accounts payable, and accrued expenses approximate their fair values due to the short-term nature of these financial instruments. Notes payable have an interest rate that approximates current market values; therefore, the carrying value approximate fair value.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 159. “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”) provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are recorded on different bases. This statement is effective for the Company beginning January 1, 2008. The Company does not expect SFAS 159 to have a material impact on the financial statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt the provisions of SFAS 157 on January 1, 2008. We are evaluating the potential impact of SFAS 157, but at this time do not anticipate that it will have an impact on the financial statements when adopted.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment as of September 30 is as follows:

	2007
Property and Equipment	$ 819,421
Less accumulated depreciation and amortization	(588,303)
Net property and equipment	$ 231,118

NOTE E – NOTE PAYABLE TO SOLE STOCKHOLDER

On December 31, 2006, the Company received $2,000,000 of debt financing in the form of a note with its sole stockholder. Interest is stated at 4.7% per annum and the note and accrued interest is due upon demand. There are no financial covenants or collateral associated with this note.

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NOTE F – SUBSEQUENT EVENT

On November 13, 2007, the Company and ISCO International, Inc. (“ISCO”), entered into a Plan of Merger, pursuant to which ISCO would acquire the Company (the “Merger”).

Pursuant to the Merger Agreement, ISCO would issue up to an aggregate of 40.0 million shares of ISCO common stock (closing common stock price was $0.24 as of November 13, 2007) in exchange for all of the Company’s stock. Of the total number of shares ISCO may issue in the merger, 20.0 million shares would be issuable upon closing (subject to adjustment if the amount of total liabilities on Clarity’s closing balance sheet, subject to certain exceptions, exceeds $1.5 million), 2.5 million shares would be issuable on each of the first and second anniversaries of closing (subject any indemnification claims pursuant to the Merger Agreement) 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.

In the event the Merger is completed, the participants in the Phantom Stock Plan are eligible to receive benefits. The sole stockholder would receive approximately 65% of the shares issued in connection with the Merger while the Phantom Stock Plan participants would receive approximately 35% of the shares issued in connection with the Merger.

During 2007, the Company entered into a credit line arrangement with American Chartered Bank. The first draw on this credit line took place during October 2007. As of November 30, 2007, approximately $0.6 million had been drawn on this credit line.

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MISCELLANEOUS AND OTHER MATTERS

Solicitation

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

Stockholder Proposals for 2008 Annual Meeting

With respect to ISCO's 2008 Annual Meeting of Stockholders, ISCO intends to mail next year's Proxy Statement to our stockholders on or about April 30, 2008. Applicable law requires any stockholder proposal intended to be presented at our 2008 Annual Meeting of Stockholders to be received by us at our executive offices in Elk Grove Village, Illinois on or before January 30, 2008 in order to be considered for inclusion in our Proxy Statement and form of proxy for that annual meeting.

With respect to ISCO's 2008 Annual Meeting of Stockholders, if ISCO is not provided notice of a stockholder proposal, which the stockholder has not previously sought to include in ISCO's Proxy Statement, by January 30, 2008 then the management proxies will be allowed to use their discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the Proxy Statement.

The total amount estimated to be spent in connection with the solicitation of security holders is approximately $100,000.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room located at: Judiciary Plaza Room 1024, 450 Fifth Street, N.W., Washington, DC 20549. You can request copies of these documents by writing to the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available at the SEC's website at http://www.sec.gov. This website address is included in this document as an inactive textual reference only.

You may also obtain information about us, including copies of our SEC reports, through our website at http://www.iscointl.com. This website address is included in this document as an inactive textual reference only. Any documents, references, links or other materials of any kind contained or referred to on such website are not part of this Proxy Statement.

You should rely on the information contained in this Proxy Statement to vote on the Proposals. We have not authorized anyone to provide you with information that is different from what is contained in this Proxy Statement. You should not assume that the information contained in the Proxy Statement is accurate as of any date other than the date hereof, and the mailing of this proxy statement to our stockholders shall not create any implication to the contrary.

In addition, if you have questions about the Special Meeting or would like additional copies of this Proxy Statement or any of our other filings with the SEC at no cost to you, you should contact our Corporate Secretary, Frank Cesario,

1001 Cambridge Drive, Elk Grove Village, Illinois 60007, telephone (847) 391-9400.

Other Matters

Our Board of Directors does not intend to bring any other matters before the Special Meeting and has no reason to believe any other matters will be presented. If other matters properly do come before the Special Meeting, however, it is the intention of the persons named as proxy agents in the enclosed proxy card to vote on such matters as they deem appropriate.

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ISCO INTERNATIONAL, INC.

þPlease mark your votes as in this example.	**FOR**	**AGAINST**	**ABSTAIN**
1. To approve the merger of ISCO International, Inc. with Clarity Communication Systems Inc. and the issuance of shares of our common stock to Jim Fuentes and the issuance of shares of our common stock from our 2003 Equity Incentive Plan, as amended 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.			
In their discretion, the proxies are authorized to vote on such other business as may properly come before the meeting or any adjournments 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 undersigned hereby appoints Mr. Ralph Pini and Mr. Frank Cesario and either of them as proxies, each with power of substitution, and hereby authorizes them to represent the undersigned and to vote, as designated below, all the shares of common stock held of record by the undersigned on November 30, 2007 at the Special Meeting of Stockholders of ISCO International, Inc. described in the Proxy Statement, or at any adjournment or postponement thereof, upon the matters set forth in the Notice of Special Meeting of Stockholders and Proxy Statement, receipt of which is hereby acknowledged.

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

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

SIGNATURE
______________________________ DATE:
____

SIGNATURE
______________________________ DATE:

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

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

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PROXY

ISCO INTERNATIONAL, INC.
1001 CAMBRIDGE DRIVE – ELK GROVE VILLAGE, ILLINOIS 60007

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY FOR _____________, _____________, 200_, SPECIAL MEETING OF STOCKHOLDERS

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 Thursday, 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.

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

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE AS TO ANY PARTICULAR ITEM, THIS PROXY WILL BE VOTED "FOR" THE PROPOSALS LISTED ON THIS PROXY CARD.

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.

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Appendix B –Opinion of Appraisal Economics Inc.

Appendix C –Form of Amendment to Certificate of Incorporation

Appendix D –ISCO International, Inc. 2003 Equity Incentive Plan, as amended

Appendix E –ISCO International, Inc. Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007

Appendix F –ISCO International, Inc. Annual Report on Form 10-K for the Year Ended December 31, 2006

APPENDIX A

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

ISCO INTERNATIONAL, INC.

ISCO ILLINOIS, INC.

CLARITY COMMUNICATION SYSTEMS INC.

AND

JAMES FUENTES

(FOR HIMSELF AND AS REPRESENTATIVE OF THE RIGHTSHOLDERS)

DATED AS OF NOVEMBER 13, 2007

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Exhibit H	Financial Statements Certificate

Schedule 2.3(c)(v) delivered prior to Closing

Company Disclosure Letter
Parent Disclosure Letter

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into as of November 13, 2007, by and among ISCO International, Inc., a Delaware corporation ("Parent"), ISCO Illinois, Inc., an Illinois corporation and a direct wholly-owned subsidiary of Parent ("Merger Subsidiary"), Clarity Communication Systems Inc., an Illinois corporation (the "Company"), and for the purposes described herein, James Fuentes ("Seller"), for himself and as the representative (the "Representative") of the Rightsholders (as defined herein).

RECITALS

WHEREAS, Seller is the sole holder of all the shares of the Company's issued and outstanding capital stock;

WHEREAS, the Company has implemented (i) a Nonqualified Phantom Stock Plan (the "Company Rights Plan") pursuant to which holders (individually, a "Rightsholder" and collectively, the "Rightsholders") of rights ("Rights") are each entitled to receive upon a change of control of the Company a payout of such consideration received by the Company or its affiliates in such change of control in the allocations set forth next to each such Rightsholder's name listed on the Allocation Schedule and (ii) an At-Risk Compensation Plan (the "At-Risk Plan") pursuant to which Seller and certain Rightsholders have each agreed to suspend receipt of their respective salaries for employment with the Company in exchange for an amount equal to their accrued suspended salary (the "Suspended Salary") in cash plus an equal amount to be paid in equity securities (the "Enhanced Benefit") received in an acquisition of the Company in the amounts set forth next to Seller and each such Rightsholder's name listed on the Allocation Schedule;

WHEREAS, it is proposed that the acquisition of the Company by Merger Subsidiary be accomplished by the merger of Merger Subsidiary with and into the Company, with the Company being the Surviving Corporation, in accordance with the applicable provisions of Illinois Law;

WHEREAS, the Company, prior to the Closing Date, may issue a note to each Rightsholder (the "Rightsholder Notes") in partial satisfaction of their respective Rights under the Company Rights Plan and in full satisfaction of their respective Enhanced Benefits under the At-Risk Plan (to the extent applicable).

WHEREAS, each share of the capital stock and all other outstanding securities of the Company will thereupon be cancelled and converted into the right to receive the consideration as set forth herein, all upon the terms and subject to the conditions set forth herein;

WHEREAS, Parent, Merger Subsidiary, the Company and Seller desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

WHEREAS, the boards of directors of Parent, Merger Subsidiary and the Company deem it advisable and in the best interest of their respective stockholders to consummate the transactions contemplated by this Agreement on the terms and subject to the conditions provided for herein and have each approved, in accordance with applicable provisions of Applicable Law, this Agreement and the transactions contemplated hereby, including the acquisition of the Company by Parent through the Merger;

WHEREAS, Seller, as the Company's sole stockholder, upon recommendation of the board of directors of the Company, has approved this Agreement and the Merger;

WHEREAS, Seller is a also a director of Parent and as a result, Parent has created a special committee that has reviewed, negotiated and recommended to the full board of directors of Parent that Parent approve the terms and conditions of the Merger set forth in this Agreement and the transactions contemplated hereby;

WHEREAS, in accordance with AMEX rules on related party transactions, the Audit Committee of the board of directors of Parent has approved the Merger and the transactions contemplated hereby and recommended to the full board of directors of Parent that Parent approve the terms and conditions of the Merger set forth in this Agreement and the transactions contemplated hereby;

WHEREAS, in accordance with AMEX rules, as well as Parent's charter documents and equity incentive plan documents, the board of directors of Parent has resolved to submit to Parent's stockholders for their approval (i) an increase in the number of shares of Parent Common Stock available for issuance under its certificate of incorporation, as amended, (ii) an increase in the number of shares available for issuance under Parent's 2003 Equity Incentive Plan, as amended, (iii) this Agreement and the Merger and the issuance of the shares of Parent Common Stock to make the Payments pursuant to the Agreement (collectively, the "Parent Stockholder Approval"); and

WHEREAS, the Merger is intended to constitute a "reorganization" within the meaning of Code Section 368(a), and this Agreement sets forth a "plan of reorganization" within the meaning of Treas. Reg. §§ 1.368-2(g) and 1.368-3.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements set forth herein, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, and intending to be legally bound hereby, Parent, Merger Subsidiary, the Company and Seller hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1. Certain Definitions. For all purposes of and under this Agreement, the following capitalized terms shall have the following respective meanings:

"Acquisition Proposal" shall mean, whether directly or indirectly solicited or unsolicited by the Company or Seller, any offer, proposal or any third party indication of interest or intent relating to any transaction or series of related transactions involving a merger, consolidation, share exchange, business combination, sale of a majority or all the assets of, sale of shares of capital stock of the Company or similar transaction or any combination of the foregoing involving the Company (other than the transactions contemplated by this Agreement and the issuance of shares of capital stock pursuant to the Rights outstanding on the date of this Agreement).

"Affiliate" shall mean, with respect to any Person, any other Person which directly or indirectly controls, is controlled by or is under common control with such Person. For purposes of the immediately preceding sentence, the term "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Allocation Schedule" shall mean a schedule, attached hereto as Exhibit A, setting forth (a) the amount of Suspended Salary owing to each beneficiary under the At-Risk Plan, (b) the number of shares of Parent Common Stock to be paid to satisfy the Enhanced Benefits owing to each beneficiary under the At-Risk Plan, (c) the number of Shares of Parent Common Stock allocated to Seller and each Rightsholder at Closing, (d) the number of First Time-Based Shares allocated to Seller and each Rightsholder, (e) the number of Second Time-Based Shares allocated to Seller and each Rightsholder, (f) the number of Market-Based Shares allocated to Seller and each Rightsholder, and (g) Seller's and each Rightsholder's Indemnification Percentage (in each case, as such amounts and percentages may be updated from time to time in accordance with Section 2.6(h)).

"AMEX" shall mean the American Stock Exchange.

"Applicable Law" shall mean any and all applicable federal, state, local, municipal, foreign or other law, statute, treaty, constitution, principle of common law, ordinance, code, edict, decree, directive, published guidance, order, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Authority.

"Business Day" shall mean any day, other than a Saturday, Sunday and any day which is a legal holiday under the laws of the State of Illinois.

"Change of Control" shall mean, except as to a transaction or series of transactions relating to or involving Parent's existing lenders or any Affiliates thereof, any of the following:

(a) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of Parent and its Subsidiaries, taken as a whole, to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act);

(b) any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above), becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition), directly or indirectly, of more than 50% of the capital stock of Parent (measured by voting power rather than number of shares); or

(c) the consolidation of Parent with, or merging of Parent with or into, any Person, or the consolidation of any Person with, or the merging of any Person with or into, Parent, in any such event pursuant to a transaction in which any of the outstanding capital stock of Parent is converted into or exchanged for cash, securities or other property, other than any such transaction where the capital stock of Parent outstanding immediately prior to such transaction is converted into or exchanged for capital stock of the surviving or transferee Person constituting a majority of the outstanding shares of such capital stock of such surviving or transferee Person (immediately after giving effect to such issuance).

"Closing Balance Sheet" shall mean a balance sheet of the Company dated as of the Closing Date prepared in a manner consistent with the Company's past accounting practices and will be accompanied by a certification of the Company's Chief Executive Officer that the Closing Balance Sheet presents fairly, completely and accurately the Company's assets, liabilities and working capital of the Company as of the Closing Date.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company Common Stock" shall mean the class of common stock, par value $1.00 per share, of the Company.

"Company Material Adverse Effect" shall mean any change, circumstance, development, effect, event, fact or occurrence that, individually, or when taken together with all such other changes, circumstances, developments, effects, events, facts or occurrences that exist or have occurred prior to the date of determination of the Company Material Adverse Effect, has caused, resulted in or had, or is reasonably likely to cause, result in or have, a material and adverse effect on the assets (whether real, personal or mixed, tangible or intangible), business, financial condition or results of operations of the Company excluding changes, circumstances, developments, effects, events, facts or occurrences directly or indirectly resulting from (a) matters generally affecting the businesses in which the Company

operates, (b) matters generally affecting the economy of the United States and/or any country in which the Company sells products or services, (c) military action or any act of terrorism, (d) the disclosure of the transactions contemplated by this Agreement, (e) changes in Applicable Law, (f) changes in accounting rules or requirements or the interpretation thereof, or (g) compliance with terms of this Agreement or the consummation of the transactions contemplated by this Agreement (including the taking of any action expressly required by this Agreement or acts or omissions of the Company or Seller or any of their Affiliates taken with the prior written consent of Parent).

"Contract" shall mean any contract, subcontract, agreement, commitment, note, bond, mortgage, indenture, lease, license, sublicense, permit, franchise or other instrument, obligation or binding arrangement or understanding of any kind or character, whether oral or in writing.

"Credit Line" shall mean that certain line of credit by and between the Company and American Chartered Bank dated July 16, 2007.

"Delaware Law" shall mean the General Corporation Law of the State of Delaware and any other applicable law of the State of Delaware.

"Employees" shall mean all employees of the Company as of the date hereof and at the Closing Date.

"Environmental Law" shall mean any and all Applicable Law relating to occupational safety and health, the environment, or emissions, discharges or releases of Hazardous Substances into the environment, including ambient air, surface water, groundwater or land, or otherwise relating to the handling of Hazardous Substances or the investigation, clean-up or other remediation thereof.

"Environmental Matters" shall mean any liability or obligation arising under Environmental Law, whether arising under theories of contract, tort, negligence, successor or enterprise liability, strict liability or other legal or equitable theory, including (i) any failure to comply with an applicable Environmental Law or Environmental Permit and (ii) any liability or obligation arising from the manufacture, processing, distribution, treatment, storage, disposal, transport, presence of, release or threatened release of, or exposure of persons or property to, Hazardous Substances.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"First Year Cap" shall mean (a) the lesser of (x) $3,000,000 and (y) 75% of Seller's Total Share Value, minus (b) the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims by Parent Indemnified Parties pursuant to the terms of this Agreement.

"Governmental Authority" shall mean any supranational, national, state, municipal, local or foreign government, any instrumentality, subdivision, court, administrative agency or commission or other governmental authority or instrumentality, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority.

"Hazardous Substance" shall mean any "hazardous substance," "hazardous waste," "pollutant," "contaminant" or "toxic substa (as defined or regulated by any Environmental Law, including the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Resources Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., or the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., and regulations promulgated thereunder, or any analogous state and local laws and regulations), petroleum and petroleum products, polychlorinated biphenyls or asbestos.

"Illinois Law" shall mean the Business Corporation Act of Illinois and any other applicable law of the State of Illinois.

“Indebtedness” shall mean an amount equal to, as of the Closing Date, the then outstanding principal of, and accrued and unpaid interest on, and any premiums, prepayment fees and penalties due upon prepayment and full satisfaction of, all bank or other third party indebtedness for borrowed money of the Company, including the Seller’s Note, indebtedness under any bank credit agreement and any other related agreements but excluding all amounts due after the Closing Date under capital and operating leases and trade payables.

“Indemnification Percentage” shall mean, with respect to Seller and each Rightsholder, a percentage equal to (a) the number of Time-Based Shares allocated to such Person pursuant to the Allocation Schedule as of the Closing, divided by (b) 5,000,000; provided, however, that if Seller or one or more Rightsholders forfeit shares of Parent Common Stock pursuant to the terms set forth herein, with respect to Seller or of such Rightsholders’ Restricted Stock Agreement, then the Indemnification Percentage for Seller and each remaining Rightsholder shall be adjusted so that it equals (1) the number of Time-Based Shares allocated to Seller or such Rightsholder as set forth on the Allocation Schedule that have not then (x) vested in accordance with Section 2.6 or (y) been used to satisfy indemnification claims in accordance with Section 9.2(b), divided by (2) the total number of Time-Based Shares that have not then (x) vested in accordance with Section 2.6, (y) been used to satisfy indemnification claims in accordance with Section 9.2(b) or (z) been forfeited by Seller or a Rightsholder, as applicable.

“Key Employee” shall mean Seller, Bill Jenkins and Dennis Hansen.

“Knowledge” shall mean with respect to the Company, with respect to any matter in question, the actual knowledge of James Fuentes or any other Key Employee.

“Legal Proceedings” shall mean any action, claim, suit, litigation, proceeding (public or private), criminal prosecution, audit or investigation by or before any Governmental Authority.

“Liability” or “Liabilities” shall mean all indebtedness, obligations and other liabilities, whether direct or indirect, and any loss, damage (including direct, incidental, consequential and special damages), cost, deficiency, Lien, penalty, fine, cost or expense (including any litigation expenses), or any diminution in value of any real or personal property (excluding any depreciation), or contingent liability, loss contingency, unpaid expense, claim, guaranty or endorsement (other than endorsements for deposits or collection of checks in the ordinary course of business).

“Lien” shall mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, option, right of first refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

“Market Price” shall mean the price per share of Parent Common Stock determined as follows:

(a) If the Parent Common Stock is listed for trading on one or more securities exchanges, the closing price or last price per share of the Parent Common Stock on the principal securities exchange on which the Parent Common Stock is then listed for trading.

(b) If the Parent Common Stock is not listed for trading on a securities exchange on such date but is traded in the over-the-counter market, then the average of the closing bid and ask prices per share for the Parent Common Stock in the over-the-counter market as reported by Bloomberg or, if no closing bid and ask prices are reported for the Parent Common Stock by Bloomberg, the average of the bid and ask prices per share of the market makers for such security as reported in the “pink sheets” by Pink Sheets LLC or its successor.

(c) If the Parent Common Stock is not publicly traded on such date, then as the Representative and Parent agree, or in the absence of such an agreement, by arbitration in accordance with the rules then standing of the American Arbitration Association, before a single arbitrator to be chosen by the Representative and Parent from a panel of persons qualified by education and training to pass on the matter to be decided.

"Non-Continuing Rightsholders" shall mean the following Rightsholders who will not be continuing employment with Parent or the Surviving Corporation following the Closing Date: Dennis Johnson, Dan Kennelly, Gerald L. Zielinski, Jo-Fang Hsueh, Terry Piatak, and Mike Foley.

"Parent Common Stock" shall mean the class of common stock, par value $0.001 per share of Parent.

"Parent's Total Equity Market Capitalization" as of any date shall mean the product of (A) the Market Price multiplied by (B) the sum of (i) the total number of shares of Parent Common Stock issued and outstanding on such date plus (ii) the total number of shares of Parent Common Stock issuable upon the conversion or exercise of options or warrants convertible into or exercisable for Parent Common Stock.

"Payments" shall mean the Initial Merger Consideration, the Contingent Merger Consideration, the Initial Rights Payments, the Contingent Rights Payments, and the Enhanced Benefits, as may be adjusted from time to time pursuant to the terms of this Agreement.

"Person" shall mean any individual, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization, entity or Governmental Authority.

"Pre-Closing Tax Period" shall mean all taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any taxable period that includes (but does not end on) the Closing Date.

"Related Party Transaction" shall mean any transaction, agreement, relationship, arrangement, or understanding between the Company and any stockholder, director, officer or other Affiliate of the Company, or any immediate family member of a stockholder, director, officer or Affiliate of the Company with respect to or involving (a) any property, real or personal, or right, tangible or intangible (including Company Intellectual Property), which is used in the business of the Company, (b) any money owed to the Company or money owed by the Company or any Affiliate, (c) any contract or other arrangement, written or oral, with the Company, other than as an at-will employee, or (d) any direct or indirect interest in any Company Material Contract.

"Restricted Stock Award Agreements" shall mean the Restricted Stock Award Agreements to be executed after the Closing by each Rightsholder in substantially the form attached hereto as Exhibit G in connection with the issuance of the Contingent Rights Payments.

"SEC" shall mean the United States Securities and Exchange Commission, or any successor thereto.

"Second Year Cap" shall mean (a) the lesser of (x) $2,000,000 and (y) 50% of Seller's Total Share Value, minus (b) the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims by Parent Indemnified Parties pursuant to the terms of this Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Seller's Liquidated Share Value" shall mean the aggregate amount of net proceeds (i.e. after applicable taxes and commissions, if any) received by Seller from the sale of any shares of Parent Common Stock actually received by

Seller pursuant to the terms of this Agreement.

"Seller's Held Share Value" shall mean the aggregate value of the shares of Parent Common Stock actually received by Seller pursuant to the terms of this Agreement that are held by Seller at the time a Three-Year Indemnification Matter is finally resolved in accordance with the terms of this Agreement, as valued in accordance with Section 9.2(c) hereof.

"Seller's Note" shall mean that certain Promissory Note in the aggregate principal amount of Two Million Dollars ($2,000,000) by and between Seller and the Company dated as of December 31, 2006.

"Seller's Total Share Value" shall mean (a) Seller's Liquidated Share Value, plus (b) Seller's Held Share Value. For purposes of example only, if (x) Seller receives 12,000,000 shares of Parent Common Stock pursuant to this Agreement, Seller sells 2,000,000 shares for net proceeds of $500,000 (z) Seller's remaining 10,000,000 shares of Parent Common Stock are worth $3,000,000 at the time the indemnification claim in question is finally resolved as determined in accordance with this Agreement, then Seller's Total Share Value shall equal $3,500,000 (i.e. $500,000 of Seller's Liquidated Share Value and $3,000,000 of Seller's Held Share Value).

"Subsidiary" shall mean, with respect to any Person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at any time directly or indirectly owned by such Person.

"Third Year Cap" shall mean (a) the lesser of (x) $1,000,000 and (y) 25% of Seller's Total Share Value, minus (b) the aggregate value of Time-Based Shares already used to satisfy prior indemnification claims by Parent Indemnified Parties pursuant to the terms of this Agreement.

"Three-Year Company Representations" shall mean the representations and warranties of the Company set forth in Sections 3.2, 3.3(a), 3.3(b)(i), 3.6, and 3.30.

"Time-Based Shares" shall mean, collectively, the First Time-Based Shares and the Second Time-Based Shares.

"Transaction Documents" shall mean this Agreement, the Phantom Stock Plan/At-Risk Acknowledgements, the Non-Competition Agreements, the Employment Agreement, the Restricted Stock Award Agreements, the Registration Rights Agreement, the Allocation Schedule, and the Affiliate Letter.

"Two-Year Company Representations" shall mean the representations and warranties of the Company set forth in Sections 3.1, 3.3(b)(ii), 3.3(b)(iii), 3.3(c) and 3.14.

1.2. List of Additional Defined Terms. The following capitalized terms shall have the respective meanings ascribed thereto in the respective sections of this Agreement set forth opposite each of the capitalized terms identified below:

Term	***Defined in Section***
Affiliate Letter	6.17
Agreement	Preamble
Articles of Incorporation	2.4
Articles of Merger	2.2(a)
At-Risk Plan	Recitals
Certificate	2.6(g)
Change of Control Valuation	2.6(m)
Claim Notice	9.4(a)
Closing	2.3(a)
Closing Date	2.3(a)

Closing Reimbursement	2.2(c)(v)
Company	Preamble
Company Balance Sheet	3.4
Company Benefit Plan	3.16(a)
Company Bylaws	3.1(b)
Company Charter	3.1(b)
Company Charter Documents	3.1(b)
Company Disclosure Letter	Preamble to Art. III
Company Financials	3.4
Company Intellectual Property	3.8(a)
Company Material Contract	3.17(a)
Company Permits	3.10
Company Products and/or Services	3.8(a)
Company Registered Intellectual Property	3.8(a)
Company Rights Plan	Recitals
Company Source Code	3.8(i)
Company Survival Date	9.1
Company Transaction Expenses	2.3(c)(v)
Contingent Merger Consideration	2.6(d)(ii)
Contingent Rights Payments	2.6(e)(iii)
Customer Information	3.8(k)
Effective Time	2.2(a)
Employment Agreement	2.3(b)(ii)
End Date	8.1(b)
Enhanced Benefit	Recitals
Environmental Permits	3.13
ERISA	3.16(a)
ERISA Affiliate	3.16(a)
Export Approvals	3.24
FCPA	3.25
Financial Statements Certificate	7.2(l)
Financials	3.4
First Time-Based Shares	2.6(d)(ii)(A)
401(k) Plan	6.16(c)
Fraud Claim Exception	9.3(d)
GAAP	3.4
Illinois Secretary of State	2.2(a)
Indemnity Claim Dispute Notice	9.4(b)
Indemnified Party	9.4(a)
Indemnitor	9.4(b)
Identified Payments	2.10
Initial Merger Consideration	2.6(d)(i)
Initial Rights Payments	2.6(e)(i)
Intellectual Property	3.8(a)
Intellectual Property Rights	3.8(a)
Interim Financials	3.4
Losses	9.2
Lease Documents	3.7(b)
Market-Based Shares	2.6(d)(ii)(B)
Merger Subsidiary	Preamble
Merger	2.1

Necessary Governmental Consents	3.3(c)
Non-Competition Agreements	7.2(d)
Notice of Third Party Claim	9.5
Open Source	3.8(h)
Other Company Representations	9.3(c)(i)
Parent	Preamble
Parent Disclosure Letter	Preamble to Art. IV
Parent-Filed Returns	6.15(a)
Parent’s 401(k) Plan	6.16(c)
Parent Indemnified Party	9.2
Parent Indemnified Parties	9.2
Parent SEC Reports	4.6
Parent Stockholder Approval	Recitals
Parent Stockholders’ Meeting	6.11
Pay-Off Amount	2.3(b)(vi)
Phantom Stock Plan/At-Risk Acknowledgements	7.2(j)
Plan	3.16(a)
Proxy Statement	6.13
Real Property	3.7(a)
Related Party Transactions	3.15
Relevant Group	3.6(a)(i)
Representative	Preamble
Required Consents	6.6
Rights	Recitals
Rightsholder(s)	Recitals
Rightsholder Notes	Recitals
Second Time-Based Shares	2.6(d)(ii)(A)
Seller	Preamble
Seller Cap	9.3(a)
Seller-Filed Returns	6.15(a)
Seller Threshold Amount	9.3(a)
Shrink-Wrapped Code	3.8(a)
Significant Customer	3.21
Significant Supplier	3.22
Source Code	3.8(a)
Surviving Corporation	2.1
Suspended Salary	Recitals
Tax or Taxes	3.6(a)(ii)
Tax Benefit	9.6
Tax Return	3.6(a)(iii)
Third Party Claim	9.5
Three-Year Indemnification Matters	9.3(c)(iii)
Threshold Amount	9.3(a)
Threshold Claim Exceptions	9.3(b)
Title Claim Exception	9.3(d)
Transfer Taxes	6.15(e)
WARN Act	3.23(d)

ARTICLE II

THE MERGER

2.1. The Merger.Upon the terms and subject to the conditions set forth in this Agreement and the applicable provisions of Illinois Law, at the Effective Time, Merger Subsidiary shall be merged with and into the Company (the "Merger"), whereupon the separate corporate existence of Merger Subsidiary shall thereupon cease and the Company shall continue as the surviving corporation of the Merger and a wholly-owned subsidiary of Parent. (The Company as the surviving corporation of the Merger, is sometimes hereinafter referred to as the "Surviving Corporation"). At the Effective Time, the effect of the Merger shall be as provided in this Agreement and the applicable provisions of Illinois Law. Without limiting the generality of the foregoing, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Merger Subsidiary shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Subsidiary shall become the debts, liabilities and duties of the Surviving Corporation.

2.2. Effective Time of the Merger.

(a) Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, Merger Subsidiary shall cause the Merger to be consummated under Illinois Law by filing articles of merger ("Articles of Merger") in customary form and substance with the Secretary of State of the State of Illinois (the "Illinois Secretary of State") and make all other filings or recordings required by Illinois Law in connection with the Merger. The Merger shall become effective at such time (the "Effective Time") as the Articles of Merger are accepted by the Illinois Secretary of State or at such later time as is specified in the Articles of Merger.

(b) Pursuant to the transactions contemplated by this Agreement and subject to the terms and conditions set forth herein, including Sections 2.6(d) and 2.6(e), and in any applicable Transaction Document, Parent shall issue up to an aggregate of 40,000,000 shares of Parent Common Stock, including 20,000,000 shares of Parent Common Stock at Closing, up to an aggregate of 5,000,000 Time-Based Shares (as defined in Section 2.6(d)(ii)(A)) and up to an aggregate of 15,000,000 shares of Market-Based Shares (as defined in Section 2.6(d)(ii)(B)).

2.3. Closing; Closing Deliveries.

(a) Closing Date. The consummation of the Merger (the "Closing") shall take place at a closing to occur at the offices of Pepper Hamilton LLP, 600 Fourteenth Street, N.W., Washington, D.C. 20005, within three Business Days after the date on which all conditions to Closing set forth in Article VII have been met or waived (to the extent that any such condition may be waived under this Agreement and Applicable Law, and other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver, to the extent permitted by this Agreement and Applicable Law, of such conditions), or at such other location, date and time as Parent, Merger Subsidiary and the Company shall mutually agree upon in writing, with the date upon which the Closing shall actually occur pursuant hereto being referred to in this Agreement as the "Closing Date."

(b) Closing Obligations and Deliveries – the Company. At the Closing, the Company shall:

(i) deliver to Parent a certificate, duly executed by the corporate secretary of the Company, dated the Closing Date, to the effect that: (A) the Company Charter Documents attached to such certificate are true, complete and correct, and were in full force and effect in the form as attached to such certificate on the date of this Agreement and on the Closing Date, (B) a copy of the resolutions of the board of directors and Seller, as the Company's sole stockholder, as attached to such certificate are true, complete and correct on the date of this Agreement and on the Closing Date, (C) Seller is the sole holder of record of the shares of capital stock of the Company, (D) the number of Rights and Enhanced Benefits, as applicable, set forth next to the name of each Rightsholder and Seller, as applicable, set forth on the Allocation Schedule correctly represent the number of Rights and/or Enhanced Benefits held of record

by such Rightsholder or by Seller, as applicable, on the date of this Agreement and on the Closing Date, and there are no other Rights or Enhanced Benefits outstanding, (E) the Allocation Schedule accurately represent the amounts payable to each holder of capital stock of the Company, Rights, or Enhanced Benefits in connection with the transactions contemplated by the Merger based upon the rights and privileges of the shares of capital stock of the Company, Rights, or Enhanced Benefits held by such holder as reflected in the Company Charter Documents (as defined herein) and other instruments or agreements defining the rights of holders of securities of the Company, Rights, or Enhanced Benefits, and (F) the officers or officers of the Company executing this Agreement and the other documents delivered in connection with the transactions contemplated by this Agreement to be executed and delivered by the Company are incumbent officers and the signatures on this Agreement and such documents are their genuine signatures;

(ii) deliver, or cause to be delivered to Parent, the Employment Agreement (the “Employment Agreement”) executed by Seller in substantially the form attached hereto as Exhibit B;

(iii) deliver, or cause to be delivered to Parent the certificate representing all of the issued and outstanding shares of the Company’s capital stock owned by Seller;

(iv) deliver, or cause to be delivered to Parent, all of the other certificates, resignations, agreements and releases and other documents and instruments set forth in Article VII;

(v) deliver, or cause to be delivered to Parent, the Registration Rights Agreement executed by Seller; and

(vi) deliver, or cause to be delivered to Parent, a pay-off letter from American Chartered Bank setting forth the amount necessary to pay off the Credit Line in full at Closing (the “Pay-Off Amount”).

(c) Closing Obligations and Deliveries - Parent. At the Closing, Parent shall:

(i) deliver to Seller certificates representing the Initial Merger Consideration (as defined herein) in partial consideration for the exchange of all of the shares of Company Common Stock in the amounts set forth on the Allocation Schedule;

(ii) deliver to Seller, certificates representing the Enhanced Benefit (less any withholding) in the amount set forth on the Allocation Schedule;

(iii) deliver to the Rightsholders, certificates representing the Initial Rights Payment (as defined herein) (less any withholding) to the Rightsholders in the amounts set forth on the Allocation Schedule;

(iv) deliver to the Rightsholders receiving Enhanced Benefits, certificates representing the Enhanced Benefits (less any withholding) to certain Rightsholders in the amounts set forth on he Allocation Schedule;

(v) deliver to the parties identified on Schedule 2.3(c)(v) pursuant to instructions set forth thereon an amount in cash up to a maximum of Three Hundred Seventy-Five Thousand Dollars ($375,000) (the “Closing Reimbursement”) to cover certain of the Company’s transaction fees and expenses solely and directly related to the Merger (“Company Transaction Expenses”);

(vi) deliver, or cause to be delivered to Seller the Employment Agreement executed by Parent;

(vii) deliver to Seller a certificate, duly executed by the corporate secretary of Parent, dated the Closing Date, to the effect that: (A) the copy of the resolutions of the board of directors of Parent, the board of directors or managers, as applicable, of the Merger Subsidiary and Parent, as the sole stockholder or member, as applicable, of the Merger Subsidiary, attached to such certificate with respect to the Merger are true, complete and correct and in effect on the

Closing Date and (B) the officer or officers of Parent executing this Agreement and the other documents delivered in connection with the transactions contemplated by this Agreement to be executed and delivered by Parent are incumbent officers and the signatures on this Agreement and such documents are their genuine signatures;

(viii) deliver to Seller the Registration Rights Agreement executed by Parent; and

(ix) pay to American Chartered Bank the Pay-Off Amount and deliver to Seller a full and unconditional release of Seller's personal obligations under the Credit Line, such release to be in form and substance reasonably satisfactory to Seller and Parent.

2.4. Articles of Incorporation and Bylaws of the Surviving Corporation.

At the Effective Time, (i) the articles of incorporation (the "Articles of Incorporation") of the Surviving Corporation as in effect immediately prior to the Effective Time shall be amended and restated in their entirety to be identical to the Articles of Incorporation of Merger Subsidiary as in effect immediately prior to the Effective Time, until thereafter amended as provided under Illinois Law and such Articles of Incorporation; provided that Article I of the Articles of Incorporation of the Surviving Corporation shall be amended to read as follows: "The name of the corporation is Clarity Communication Systems Inc.", and (ii) the bylaws of Merger Subsidiary as in effect immediately prior to the Effective Time shall be the bylaws of the Surviving Corporation (other than any express references to the name of Merger Subsidiary in such bylaws, which shall be amended to refer to the Surviving Corporation) until thereafter amended in accordance with Illinois Law and as provided in the Articles of Incorporation of the Surviving Corporation and such bylaws.

2.5. Directors and Officers.

The directors and officers of Merger Subsidiary immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation, each to hold such office in accordance with the provisions of Illinois Law and the Articles of Incorporation and bylaws of the Surviving Corporation. Notwithstanding the above, other than James Fuentes, no current officer or director of the Company as of the date hereof shall remain an officer and/or director of the Company as of and after the Effective Time.

2.6. Effect on Capital Stock and Rights and Enhanced Benefits. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, and without any action on the part of Parent, Merger Subsidiary, the Company or the holders of any shares of capital stock, other securities, Rights or Enhanced Benefits of the Company:

(a) Treasury Stock. All shares of capital stock of the Company, if any, held in the Company's treasury shall be cancelled and cease to exist and no cash or other consideration shall be delivered in exchange therefore.

(b) Subsidiary and Parent-Owned Stock. All shares of capital stock of the Company, if any, held by any direct or indirect wholly-owned Subsidiary of the Company shall be cancelled and cease to exist and no cash or other consideration shall be delivered in exchange therefor. All shares of capital stock of the Company, if any, held by Parent, or any direct or indirect wholly-owned Subsidiary of Parent shall be canceled and cease to exist and no cash or other consideration shall be delivered in exchange therefore.

(c) Merger Subsidiary Shares. At the Effective Time, each share of common stock of Merger Subsidiary outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock of the Surviving Corporation with the same rights, powers and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation, and all of such shares shall be held by Parent.

(d) Conversion of Company Securities. In exchange for the cancellation of shares of Company Common Stock, such shares shall be converted into the right by Seller to receive in the Merger the shares of Parent Common Stock allocated to Seller on the Allocation Schedule (as updated in accordance with the terms hereof) as follows:

(i) Initial Merger Consideration. Subject to the conditions to Closing set forth herein, at the Effective Time, Seller shall receive the shares of Parent Common Stock (the “Initial Merger Consideration”) allocated to Seller on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “Closing Shares”.

(ii) Contingent Merger Consideration. Seller shall be eligible to receive future consideration in the Merger (the “Contingent Merger Consideration”) as follows:

(A) Time-Based. Subject to the conditions set forth herein, on the first anniversary of the Closing Date, Seller shall receive the shares of Parent Common Stock allocated to Seller on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “First Time-Based Shares” representing his portion of first time-based shares (the “First Time-Based Shares”) and on the second anniversary of the Closing Date, Seller shall receive the shares of Parent Common Stock allocated to Seller on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “Second Time-Based Shares” representing his portion of second time-based shares (the “Second Time-Based Shares”).

(B) Market-Based. Subject to the conditions set forth herein, Seller shall receive the shares of Parent Common Stock allocated to Seller on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “Market-Based Shares” representing his portion of shares of Parent Common Stock issuable if the thresholds set forth in this Section 2.6(d)(ii)(B) are met (the “Market-Based Shares”). Twenty-Five Percent (25%) of Seller’s Market-Based Shares shall become issuable on the first date on which Parent’s Total Equity Market Capitalization first equals or exceeds each of the following thresholds within a three year period from the Closing Date for at least Forty (40) of the Forty-Five (45) consecutive trading days (and such Market-Based Shares shall be issued to Seller within Twenty (20) Business Days of such date):

(1) One Hundred Twenty-Five Million Dollars ($125,000,000);

(2) One Hundred Seventy-Five Million Dollars ($175,000,000);

(3) Two Hundred Twenty-Five Million Dollars ($225,000,000); and

(4) Two Hundred Seventy-Five Million Dollars ($275,000,000).

(e) Further Obligations With Respect to Rights and Enhanced Benefits. Subject to the conditions set forth herein and in Restricted Stock Award Agreements or Phantom Stock Plan/At-Risk Acknowledgements, as applicable, executed by Parent and Rightsholders pursuant to which:

(i) Subject to the conditions to Closing set forth herein, at the Effective Time, each Rightsholder shall receive at Closing the shares of Parent Common Stock allocated to such Rightsholder on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “Closing Shares” in satisfaction of a portion of their respective Rights (the “Initial Rights Payments”) in accordance with the Company Rights Plan the number of shares of Parent Common Stock equal to such Rightsholder’s portion of the Initial Rights Payment set forth next to such Rightsholders name on the Allocation Schedule.

(ii) at Closing, Seller and the Rightsholders listed on the Allocation Schedule shall receive the shares of Parent Common Stock in the amount set forth next to Seller’s and such Rightsholder’s name on the Allocation Schedule (as updated in accordance with the terms hereof) under the heading “At-Risk Shares” in full satisfaction of the Company’s obligation to Seller and such Rightsholder for Enhanced Benefits under the At-Risk Plan. For purposes of valuing the

shares to be received by an applicable Rightsholder in satisfaction of Enhanced Benefits, the value of each of such shares of Parent Common Stock shall be equal to the average Market Price of Parent Common Stock for the consecutive ten day trading period ending the second trading day prior to the Closing Date.

(iii) after Closing, each Rightsholder shall be eligible to receive from Parent contingent Rights payments ("Contingent Rights Payments") consisting of the Time-Based Shares and the Market-Based Shares allocated to such Rightsholder on the Allocation Schedule (as updated in accordance with the terms hereof) under the headings "Time-Based Shares" and "Market-Based Shares" (respectively) in full satisfaction of the remainder of such Rightsholder's Rights, which Contingent Rights Payments shall be based on, and subject to, the same time and market capitalization thresholds and related mechanics, as applicable, set forth in Section 2.6(d)(ii).

(f) Adjustment to Initial Merger Consideration and Rights Payment. Notwithstanding anything to the contrary herein and unless waived by Parent in its sole discretion, if the amount of total liabilities, except for the Rightsholder Notes, if any, on the Closing Balance Sheet delivered to Parent at Closing as an exhibit to the Financial Statements Certificate pursuant to Section 7.2(l) exceeds One Million Five Hundred Thousand Dollars ($1,500,000), the sum of the number of shares of Parent Common Stock comprising the Initial Merger Consideration and the Initial Rights Payments at Closing shall be reduced on a pro-rata basis among Seller and the Rightsholders by an amount equal to (i) the amount by which such total liabilities exceed One Million Five Hundred Thousand Dollars ($1,500,000), divided by (ii) the average Market Price of Parent Common Stock for the consecutive ten day trading period ending the date immediately prior to the Closing Date. For the avoidance of doubt, it is understood and agreed that (i) the liabilities set forth on the Closing Balance Sheet shall include the amount outstanding under the Credit Line and (ii) prior to the Closing, the Company shall use the Credit Line to pay the Suspended Salary, including any withholding amounts, portion of the At-Risk Plan in accordance with the terms of this Agreement.

(g) Cancellation; Right to Consideration/Payments. All shares of capital stock, other securities of the Company, Rights, and Enhanced Benefits when converted or exchanged as provided in this Article II, shall be retired, shall cease to be outstanding and shall automatically be cancelled, and the holder of a certificate or other instrument evidencing such security of the Company, Rights, or Enhanced Benefits ("Certificate") that, immediately prior to the Effective Time represented such shares of capital stock, other security of the Company, Rights, or Enhanced Benefits shall cease to have any rights with respect thereto, except the right to receive the Payments, in accordance with Article II, applicable to the shares, other securities, Rights, or Enhanced Benefits represented by such Certificate. The Payments set forth in this Article II and paid in accordance with the terms herein shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares, other securities, Rights, or Enhanced Benefits, and there shall be no registration of transfers on the records of the Surviving Corporation of any shares of capital stock, other securities of the Company, Rights, or Enhanced Benefits that were outstanding immediately prior to the Effective Time.

(h) Allocation Schedule. Attached hereto as Exhibit A is the current draft of the Allocation Schedule based on currently available information. One Business Day prior to the Closing, the Company shall deliver to Parent an updated Allocation Schedule, which Allocation Schedule shall be updated to reflect (a) the final number of shares under the heading "At-Risk Shares" and (b) the final number of shares of Parent Common Stock to be issued at Closing, the final number of Time-Based Shares and the final number of Market-Based Shares (and, in each case, the related allocations thereof), which numbers and related allocations shall be adjusted to reflect (i) the final number of shares under the heading "At-Risk Shares", (ii) certain expenses incurred by the Company in connection with the transactions contemplated hereby, (iii) any adjustment pursuant to Section 2.7(f) and (iv) any Rightsholders or Non-Continuing Rightsholder ceasing to be eligible to receive Payments hereunder pursuant to the terms of the Company Rights Plan and/or the At-Risk Plan between the date hereof and the Closing. Subsequent to the Closing, if Seller or one or more Rightsholders forfeit shares of Parent Common Stock pursuant to the terms hereof, in the case of Seller, or of such Rightsholders' Restricted Stock Award Agreement, in the case of such Rightsholder, then the Representative shall as soon as reasonably practicable prepare a revised Allocation Schedule reflecting the forfeited shares of Parent Common Stock as well as revised Indemnification Percentages (if applicable). The Company represents, warrants and agrees that (i) the Allocation Schedule, as updated in accordance with this Section 2.6(h), complies with (and will comply

with) and does not (and will not) violate any provision of the Company Charter Documents, the Company Rights Plan, the At-Risk Plan or any other agreement, arrangement or understanding to which the Company and any holder or holders of capital stock, other securities of the Company, Rights or Enhanced Benefits are parties, in each case as in effect as of the Closing Date, and (ii) the Allocation Schedule will be used by Parent and the Representative for all purposes of determining the amounts to which any holder of capital stock, other securities of the Company, Rights, or Enhanced Benefits is entitled with respect to the Payments and each of Parent and the Representative shall be entitled to assume the accuracy of such Allocation Schedule at and after the Closing.

(i) Exchange Procedures. As soon as reasonably practicable after execution of this Agreement, the parties hereto shall mutually agree to the exchange procedures in connection with the surrender of Certificates. Upon surrender of a Certificate or Certificates for cancellation to the Company prior to the Effective Time (who shall deliver such Certificates to Parent), or Parent after the Effective Time or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto and such other documents as may reasonably be required by Parent, the holder of such Certificate, subject to Section 2.6(j), shall be entitled to receive upon the Effective Time in exchange therefor the portion of the Payments applicable to the shares of capital stock, other securities of the Company, Rights, or Enhanced Benefits represented by such Certificate as indicated in the Allocation Schedule, as applicable, and upon the Effective Time the Certificate so surrendered shall forthwith be cancelled. Until so surrendered, outstanding Certificates will be deemed from and after the Effective Time, for all corporate purposes, to evidence the ownership of the Payments into which such shares of the capital stock, other securities of the Company, Rights, or Enhanced Benefits shall have been so converted.

(j) Required Withholding. Notwithstanding anything to the contrary set forth in this Agreement, each of Parent, Merger Subsidiary, the Company, the Surviving Corporation and any of their agents shall be entitled to deduct and withhold from any consideration or other payments deliverable pursuant to this Agreement such amounts as may be required to be deducted or withheld therefrom under Applicable Law and to request any necessary Tax forms, or Tax information, from the holder or former holder of shares of capital stock, other securities of the Company, Rights, Enhanced Benefits or Suspended Salary and any other recipients of payments hereunder. To the extent that such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(k) No Liability. Notwithstanding anything to the contrary set forth in this Agreement, neither the Surviving Corporation nor any other party hereto shall be liable to a holder of shares of capital stock, other securities of the Company, Rights, or Enhanced Benefits for any amount properly paid to a public official pursuant to any Applicable Laws.

(l) Adjustments. The shares of Parent Common Stock issued to Seller and the Rightsholders pursuant to the terms set forth herein shall be equitably adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into Parent Common Stock), reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Parent Common Stock occurring between the date hereof and the date on which applicable shares of Parent Common Stock shall vest in accordance with the terms and conditions set forth herein or in such other applicable Transaction Document.

(m) Acceleration. If at any time after the Closing Date, and while any Time-Based Shares or Market-Based Shares are unvested and not forfeited, a Change of Control occurs with respect to Parent, then prior to such Change of Control, (i) Parent shall issue to Seller and applicable Rightsholders any Time-Based Shares that have not been issued, and (ii) if the Change of Control would result in a valuation of Parent and its Subsidiaries, determined in good faith by Parent's board of directors (the "Change of Control Valuation"), that equals or exceeds any of the thresholds set forth in Section 2.6(d)(ii)(B) with respect to the Market-Based Shares, Parent shall issue to Seller and applicable Rightsholders the number of Market-Based Shares that would have been issued to Seller and applicable Rightsholders

if Parent's Total Equity Market Capitalization had equaled the Change of Control Valuation for a period of at least Forty (40) of the Forty Five (45) consecutive days within the three-year period following the Closing Date.

2.7. At-Risk Plan.

Prior to the Effective Time, the Company shall use the Credit Line to pay the amount of Suspended Salary (including any applicable withholdings for Taxes) then-owing to each beneficiary under the At-Risk Plan as set forth on the Allocation Schedule (as such Allocation Schedule may be updated in accordance with Section 2.6(h)). At the Effective Time, Parent shall issue the shares representing the Enhanced Benefits to the Company on behalf of and for delivery to such individuals and in such amounts as set forth on the Allocation Schedule (as such Allocation Schedule may be updated in accordance with Section 2.6(h)).

2.8. Further Action. At and after the Effective Time, the officers and directors of Parent and the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company and Merger Subsidiary, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of Company and Merger Subsidiary, any other actions and things necessary to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

2.9. Reorganization Status.The Merger is intended to constitute a "reorganization" within the meaning of Section 368(a) of the Code and this Agreement sets forth a "plan of reorganization" within the meaning of Treas. Reg. §§ 1.368-2(g) and 1.368-3.

2.10. Rightsholder Notes. Notwithstanding anything to the contrary contained in this Agreement or in any Transaction Document, it is understood and agreed that (a) any shares of Parent Common Stock received by a Rightsholder pursuant to Section 2.6(e)(i) or Section 2.6(e)(ii) (the "Identified Payments") shall be deemed to have first been paid to the Company, and then paid by the Company to the applicable Rightsholder in satisfaction of such Rightsholder's Rightsholder Note, if any, (b) upon the receipt of each of the Identified Payments by such Rightsholder, such Rightsholder's Rightsholder Note, if any, will be paid in full and the Company shall have no further liability with respect thereto and (c) the Company shall be permitted to issue the Rightsholder Notes and pay off the Rightsholder Notes in connection with the transactions contemplated by this Agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF

THE COMPANY

The Company, through its officers, director and sole stockholder, represents and warrants to Parent and Merger Subsidiary, including the information disclosed in the disclosure letter (referencing the appropriate section or subsection of this Agreement, as applicable) supplied by the Company to Parent dated as of the date hereof (the "Company Disclosure Letter"), as follows in this Article III.

3.1. Organization.

(a) Organization; Good Standing; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under Illinois Law with full corporate power and authority to conduct its business as it is currently being conducted and to own or lease, as applicable, its assets as currently owned or leased. The Company is duly qualified to do business as a foreign entity and is in good standing in each jurisdiction where the character of its

properties owned or leased or the nature of its activities make such qualification necessary, except where the failure to be so qualified or in good standing would not have a Company Material Adverse Effect.

(b) Charter Documents. The Company has delivered or made available to Parent a true and correct copy of the articles of incorporation, including all certificates of designation thereto (the “Company Charter”), and bylaws of the Company (the “Company Bylaws”), each as amended and or restated to date (collectively, the “Company Charter Documents”).

(c) Subsidiaries. The Company currently has no Subsidiaries and except as set forth in Section 3.1(c) of the Company Disclosure Letter never has had Subsidiaries and does not own or control, directly or indirectly, any equity, participation or similar interest in any Person.

3.2. Capitalization.

(a) Capital Stock. The authorized capital stock of the Company consists of 1,000 shares of Company Common Stock and no other shares of capital stock. All 1,000 shares of Company Common Stock are issued and outstanding and are beneficially owned by Seller. All outstanding shares of Company Common Stock are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance with federal and state securities laws and are not subject to preemptive rights created by statute, the Company Charter Documents, or any agreement to which the Company is a party or by which it is bound.

(b) Rights. The Allocation Schedule sets forth a true, complete and correct list of all Rights issued and outstanding. Since October 15, 2007 no Rights have been granted to any Person.

(c) Other Securities. Except as described in this Section 3.2, as of the date hereof, there are no securities, options, warrants, calls, rights, contracts, commitments, agreements, instruments, arrangements, understandings, obligations or undertakings of any kind to which the Company is a party or by which any of them is bound obligating the Company to (including on a deferred basis) issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock, or other voting securities of the Company, or obligating the Company to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, instrument, arrangement, understanding, obligation or undertaking. The Company is not in violation of any provisions granting holders of Company securities or Rights preemptive, purchase or similar rights in any of the agreements listed in Section 3.2(c) of the Company Disclosure Letter. There are no outstanding Contracts of the Company to repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company. The Company is not a party to any voting agreement with respect to shares of the capital stock of, or other equity or voting interests in, the Company nor are there any irrevocable proxies, voting trusts, rights plans, anti-takeover plans or registration rights agreements with respect to any shares of the capital stock of, or other equity or voting interests in, the Company.

3.3. Authority; No Conflict; Necessary Consents.

(a) Authority. The Company has all requisite power and authority to enter into this Agreement and to consummate the Merger and the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the Merger and the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no further action is required on the part of the Company to authorize the execution and delivery of this Agreement or to consummate the Merger and the other transactions contemplated hereby, subject only to the filing of the Articles of Merger pursuant to Applicable Law. This Agreement has been duly executed and delivered by the Company and assuming due authorization, execution and delivery by Parent, and Merger Subsidiary, constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors’ rights generally and except insofar as the availability of

equitable remedies may be limited by Applicable Law.

(b) No Conflict. The execution and delivery by the Company of this Agreement, and the consummation of the transactions contemplated hereby, will not (i) conflict with or violate any provision of the Company Charter Documents, (ii) conflict with or violate any Applicable Law, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair the Company's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any of the properties or assets of the Company pursuant to, any Company Material Contract except, in the case of each of the preceding clauses (i), (ii) and (iii) for any conflict, violation, beach, default, impairment, alteration, giving of rights or Lien which would not reasonably be expected to result in a Company Material Adverse Effect or materially and adversely affect the ability of the Company to consummate the Merger within the time frame in which the Merger would otherwise be consummated in the absence of such conflict, violation, beach, default, impairment, alteration, giving of rights or Lien.

(c) Necessary Consents. The execution and delivery by the Company of this Agreement and the consummation of the Merger and the other transactions contemplated hereby, do not require the Company to obtain any consent, approval or action of, or make any filing with or give notice to, any Person, except (i) as set forth in Section 3.3(c) of the Company Disclosure Letter, (ii) the filing of the Articles of Merger with the Illinois Secretary of State and appropriate documents with the relevant authorities of other states in which the Company and/or Parent are qualified to do business (the "Necessary Governmental Consents") and (iii) such other consents, waivers, approvals, orders, authorizations, registrations, declarations and filings which if not obtained or made would not be material to the Company or materially adversely affect the ability of the parties hereto to consummate the Merger within the time frame in which the Merger would otherwise be consummated in the absence of the need for such consent, waiver, approval, order, authorization, registration, declaration or filing. Subject to the exceptions set forth in the preceding sentence, Section 3.3(c) of the Company Disclosure Letter provides a list of all Persons, other than Governmental Authorities, whose consent is required to be obtained by the Company in connection with the execution and delivery of this Agreement or the consummation of the Merger and other transactions contemplated hereby and thereby except as Parent and the Company may mutually agree on alternative timing arrangements.

3.4. Financial Statements. The Company has delivered to Parent true, complete and correct copies of the Company's unaudited balance sheets as of December 31, 2006, 2005 and 2004 and unaudited statements of operations, cash flows and stockholders' equity of the Company for the years ended December 31, 2006, 2005 and 2004 (the "Financials") and the unaudited balance sheet of the Company as of September 30, 2007 (the "Company Balance Sheet") and unaudited statements of operation, cash flows and stockholders' equity for the nine-month period then ended (the "Interim Financials," and together with the Financials, collectively, the "Company Financials"). The Company Financials were prepared consistent with past Company accounting practices and present fairly and accurately the financial condition and operating results of the Company as of the dates and for the periods indicated therein in all material respects, and are consistent with the books and records of the Company, subject, in the case of Interim Financials, to year-end audit adjustments and the absence of notes. The Financials for the year ended December 31, 2006 and the nine-month period ended September 30, 2007 were audited by Grant Thornton, LLP, an independent registered public accounting firm, who will deliver its report to (a) the Company's Board of Directors prior to Parent's filing of the preliminary copy of Parent's Proxy Statement in connection with the Parent Stockholders' Meeting pursuant to SEC rules, and (b) Parent for inclusion in Parent's Proxy Statement. Except as set forth in the Company Financials or any notes thereto, the Company has (i) no liabilities, contingent or otherwise, other than (A) liabilities incurred in the ordinary course of business subsequent to any such Company Financials, (B) obligations incurred in the ordinary course of business and not required under United States generally accepted accounting principles ("GAAP") to be reflected in the Company Financials, and (C) expenses in connection with the negotiation and consummation of the transactions contemplated hereby which, in all cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company and (ii) no Indebtedness (other than the Credit Line and the Seller's Note). The Company is not a party to any off-balance sheet transactions that could have a current or future effect upon the Company's financial condition, cash flows or results of operations.

3.5. Absence of Certain Changes or Events. Except as set forth in Section 3.5 of the Company Disclosure Letter, from September 30, 2007 through the date of this Agreement, there has not been, accrued or arisen:

(a) any Company Material Adverse Effect;

(b) any acquisition by the Company of, or agreement by the Company to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any business or corporation, partnership, association or other business organization or division thereof, or other acquisition or agreement to acquire any assets or any equity securities;

(c) any Contract, agreement in principle, letter of intent, memorandum of understanding or similar agreement with respect to any material joint venture, strategic partnership or alliance;

(d) any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of the Company's capital stock, or any purchase, redemption or other acquisition by the Company of any of the Company's capital stock or any other securities of the Company or any options, warrants, calls except for the Rights, or rights to acquire any such shares or other securities;

(e) any split, combination or reclassification of any of the Company's capital stock;

(f) any granting by the Company, whether orally or in writing, of any increase in compensation or fringe benefits or any payment by the Company of any bonus or any change by the Company of severance, termination or bonus policies and practices or any amendment or entry by the Company into any employment, severance, incentive, termination, indemnification or other agreement, except pursuant to the Company Rights Plan;

(g) any amendment, termination or consent with respect to any Company Material Contract or, any adoption, amendment or termination of any Company Benefit Plan;

(h) any termination of employment of any employee of the Company;

(i) any material change by the Company in its accounting methods (including Tax accounting), principles or practices;

(j) any making of or change in any Tax election, closing agreement, settlement or compromise of any Tax claim or assessment, extension or waiver of the limitation period applicable to any Tax claim or assessment, or entering into any other agreement or arrangement with respect to Taxes;

(k) any debt, capital lease or other debt or equity financing transaction by the Company or entry into any agreement by the Company in connection with any such transaction, except for capital lease and receivables financings entered into in the ordinary course of business consistent with past practices which are not individually or in the aggregate material to the Company;

(l) any sale, lease, mortgage, pledge, license, encumbrance or other disposition of any properties or assets except the sale, lease, mortgage, pledge license, encumbrance or disposition of property or assets which are not material, individually or in the aggregate to the business of the Company other than Company Intellectual Property licenses included in the Company's form customer agreements entered into in the ordinary course for the purchase of Company Products or Services;

(m) any purchases of fixed assets, spares or other long-term assets other than in the ordinary course of business and in a manner consistent with past practices;

(n) any revaluation by the Company of any of its assets, including, writing down the value of capitalized inventory, spares, long term or short-term investments, fixed assets, goodwill, intangible assets, deferred tax assets, or writing off notes or accounts receivable other than in the ordinary course of business consistent with past practices;

(o) any damage, destruction or other casualty loss (whether or not covered by insurance) with respect to any assets that, individually or in the aggregate, are material to the Company;

(p) any sale, assignment or transfer of any of the Company Intellectual Property other than Company Intellectual Property licenses included in the Company's form customer agreements entered into in the ordinary course for the purchase of Company Products or Services;

(q) receipt of notice that there has been a loss of, or order cancellation or reduction by, any customer of the Company that has or would result in a Company Material Adverse Effect;

(r) any loans or guarantees made by the Company to or for the benefit of its employees, stockholders, officers or directors or any members of their immediate families, other than travel advances made in the ordinary course of its business; or

(s) any agreement or commitment by the Company to do any of the things described in this Section 3.5(a)-(r).

3.6. Taxes.

(a) For purposes of this Agreement:

(i) “Relevant Group” means any affiliated, combined, consolidated, unitary or similar group of which the Company is or was a member.

(ii) “Tax” or “Taxes” means all federal, state, local or foreign, net or gross income, gross receipts, net proceeds, sales, use, ad valorem, value added, franchise, bank shares, withholding, payroll, employment, excise, property, deed, stamp, alternative or add-on minimum, environmental, profits, windfall profits, transaction, license, lease, service, transfer, occupation, severance, energy, unemployment, social security, worker’s compensation, capital, premium, or other taxes, assessments, customs, duties, fees, levies, or other governmental charges, whether disputed or not, together with any interest, penalties, additions to tax, or additional amounts with respect thereto.

(iii) “Tax Return” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

(b) All Tax Returns required to have been filed by or with respect to the Company have been duly and timely filed, and each such Tax Return correctly and completely reflects liability for Taxes and all other information required to be reported thereon. All Taxes owed by the Company (whether or not shown on any Tax Return) have been timely paid. The Company has adequately provided for liabilities for all unpaid Taxes in the Company Financials, and will so adequately provide in the Company Balance Sheet delivered as an exhibit to the Financial Statements Certificate, which liabilities represent current Taxes not yet due and payable. The Company has never been a member of a Relevant Group.

(c) There is no action, audit, dispute or claim currently asserted, or to the Company’s Knowledge, proposed, pending, or threatened against the Company, or any matters under discussion with any Governmental Authority, in respect of any Taxes. The Company is not the beneficiary of any extension of time within which to file any Tax Return, nor has it made any requests for such extensions. No written claim has ever been made by a Governmental Authority in a jurisdiction where the Company does not file Tax Returns that the Company is or may be subject to

taxation by that jurisdiction or that the Company must file Tax Returns in that jurisdiction. There are no Liens, other than for Taxes not yet due and payable, on any of the stock or assets of the Company with respect to Taxes.

(d) Since November 1, 2000, the Company has been a validly electing S corporation, within the meaning of Sections 1361 and 1362 of the Code (and for all state and local income Tax purposes). The Company has not, in the past 10 years, acquired assets from another corporation in a transaction in which the Company's Tax basis of the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or other property) in the hands of the transferor. Except as set forth in Section 3.6(d) of the Company Disclosure Letter, the Company has no potential liability for any Tax under Section 1374 of the Code.

(e) The Company has withheld and timely paid all Taxes required to have been withheld and paid, and has collected and remitted all Taxes (including all sales and use Taxes) required to be collected and remitted, and has complied with all information reporting and backup withholding requirements.

(f) Section 3.6(f) of the Company Disclosure Letter: (i) lists all federal, state, local, and foreign Tax Returns filed with respect to the Company for taxable periods ended on or after December 31, 2002, (ii) indicates those Tax Returns that have been audited, and (iii) indicates those Tax Returns that currently are the subject of audit. The Company has delivered or made available to Parent correct and complete copies of all federal Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by to the Company since January 1, 2002. The Company is not subject to a waiver of any statute of limitations in respect of Taxes and is not subject to any extension of time with respect to a Tax assessment or deficiency.

(g) The Company has never been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code.

(h) The Company has not agreed to nor is it required to make by reason of a change in accounting method or otherwise, nor could it be required to make by reason of a proposed change in accounting method by virtue of the transactions contemplated by this Agreement or otherwise, any adjustment under Section 481(a) of the Code. The Company has not been the "distributing corporation" or the "controlled corporation" with respect to a transaction described in Section 355 of the Code. The Company has not received (and is not subject to) any private ruling from any taxing authority and has not entered into (and is not subject to) any agreement with a taxing authority. The Company has not engaged in a "reportable transaction" as defined in Treasury Regulation Section 1.6011-4.

(i) The Company is not a party to any Tax allocation or sharing agreement. The Company has no liability for the Taxes of any Person (i) as a transferee or successor, (ii) by Contract, or (iii) any Applicable Law. The Company is not a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income Tax purposes.

(j) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (i) installment sale or open transaction disposition made on or prior to the Closing Date, (ii) prepaid amount received on or prior to the Closing Date, or (iii) closing agreement with a Governmental Authority.

(k) The Company has complied with all transfer pricing laws, rules, regulations and interpretations thereof by Governmental Authorities including Section 482 of the Code and has engaged in all transactions with Affiliates on arms-lengths terms.

(l) The Company uses the accrual method of accounting for Tax purposes.

(m) The Company has not taken, or agreed or failed to take, any action, and does not know of any fact, that would prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

3.7. Title to Properties.

(a) Owned and Leased Properties. The Company has never owned any real property. Section 3.7(a) of the Company Disclosure Letter sets forth a separate list of all real property currently leased, licensed or subleased by the Company or otherwise used or occupied by the Company (the "Real Property"), the name of the lessor, licensor, sublessor, master lessor and/or lessee and the date of the lease, license, sublease or other occupancy right and each amendment thereto. All such current leases are in full force and effect, are valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing default or event of default (or event, which with notice or lapse of time, or both, would constitute a default) by the Company, or, to the Company's Knowledge, by any other party thereto. The Company currently occupies all of the Real Property for the operation of its business. No parties other than the Company have a right to occupy any material Real Property, except for subleases described in the Company Disclosure Letter pursuant to which third parties have the right to occupy Real Property. The Real Property and the physical assets of the Company are, in all material respects, in satisfactory condition and, to the Company's Knowledge, the Real Property is in compliance, in all materials respects, with Applicable Laws.

(b) Lease Documents. The Company has made available to Parent true, complete and correct copies of all current leases, lease guaranties, agreements for the leasing, use or occupancy of, or otherwise granting to the Company a right to occupy the Real Property, including all amendments, terminations and modifications thereof (the "Lease Documents"); and there are no other Lease Documents affecting the Real Property or to which the Company is bound, other than those identified in Section 3.7(a) of the Company Disclosure Letter.

(c) Title. The Company has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its material tangible properties and assets, real, personal and mixed, used or held for use in its business, free and clear of any Liens except (i) as reflected in the Company Balance Sheet, (ii) Liens for Taxes not yet due and payable or delinquent or being contested in good faith by appropriate proceedings for which reserves have been established, (iii) Liens imposed by Applicable Law, such as carrier's, warehousemen's and mechanic liens and other similar Liens, which arise in the ordinary course of business with respect to obligations not yet due, and (iv) easements, covenants, conditions and restrictions and such other imperfections of title and encumbrances, if any, which do not in any material respect detract from the value or interfere with the present use of the property subject thereto or affected thereby and (v) Liens under the Credit Line. The rights, properties and assets presently owned, leased or licensed by the Company include all rights, properties and assets necessary to permit the Company to conduct its business in all material respects in the same manner as its business has been conducted prior to the date hereof.

3.8. Intellectual Property.

(a) Definitions. For all purposes of this Agreement, the following terms shall have the following respective meanings:

"Company Intellectual Property" shall mean any and all Intellectual Property that is owned by, or licensed to, the Company.

"Company Products and/or Services" shall mean all products and services that have been developed by or on behalf of the Company and/or are owned, made, provided, distributed, imported, sold or licensed to third Persons by or on behalf of the Company.

"Company Registered Intellectual Property" shall mean the applications, registrations and filings for Intellectual Property Rights that are owned by the Company or that have been registered, filed, certified or otherwise perfected or recorded with or by any Governmental Authority by or in the name of the Company.

"Intellectual Property" shall mean any or all of the following (i) works of authorship including computer programs, source code, and executable code, whether embodied in software, firmware or otherwise, architecture, documentation, designs, files, and records, (ii) inventions (whether or not patentable), discoveries, improvements, and technology, (iii) proprietary and confidential information, trade secrets and know how, (iv) proprietary databases, and technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) proprietary tools, methods and processes, (viii) devices, prototypes, schematics, breadboards, netlists, maskworks, test methodologies, verilog files, emulation and simulation reports, test vectors and hardware development tools, and (ix) any and all instantiations of the foregoing in any form and embodied in any medium.

"Intellectual Property Rights" shall mean worldwide common law and statutory rights associated with (i) patents, patent applications and inventors' certificates, (ii) copyrights, copyright registrations and copyright applications, "moral" rights and mask work rights, (iii) the protection of trade and industrial secrets and confidential information ("Trade Secrets"), (iv) trademarks, trade names and service marks, (vi) divisions, continuations, renewals, reissuances, extensions and any foreign equivalents of any of the foregoing (as applicable) and (vii) analogous rights to those set forth above, including the right to enforce and recover remedies for infringement or misappropriation of any of the foregoing.

"Shrink-Wrapped Code" means (a) generally commercially available binary code (other than development tools and development environments) where available for a cost of not more than U.S. $15,000 for a perpetual license for a single user or work station (or $25,000 in the aggregate for all users and work stations), and (b) generally commercially available software programs that are not Company Products and are used internally by the Company in the ordinary course of business.

"Source Code" shall mean computer software and code, in form other than object code form, including, to the extent currently prepared and in existence, any related programmer comments and annotations, help text, data and data structures, instructions and procedural, object-oriented and other code, which may be printed out or displayed in human readable form.

(b) No Infringement. The operation of the business of the Company as it is currently conducted or proposed to be conducted, including the design, development, use, import, branding, advertising, promotion, marketing, licensing, manufacture and sale of any Company Product or Service, has not and does not infringe or misappropriate any copyright, trade secret right, trademark or, to the Company's Knowledge, any other Intellectual Property Rights of any third Person, or constitute unfair competition or trade practices under the laws of any jurisdiction.

(c) Notice. The Company has not received written notice from any third Person claiming that any Company Product or Service or the operation of the business of the Company infringes or misappropriates any Intellectual Property Rights of any third Person or constitutes unfair competition or trade practices under the laws of any jurisdiction, and the Company has no knowledge of any information that would reasonably be expected to result in such a notice. The Company has not received written notice from any third Person challenging the complete and exclusive ownership of or right to use the Company Intellectual Property, or suggesting that any third Person has any claim of legal or beneficial ownership with respect thereto, and the Company has no Knowledge of any information that would reasonably be expected to result in such a notice. The Company has not received written notice challenging, terminating, amending or affecting the interest of the Company, in the Company Intellectual Property, and the Company has no Knowledge of any information that would reasonably be expected to result in such a notice.

(d) Employees, Contractors and Confidentiality With Respect to Intellectual Property. The Company has taken commercially reasonable steps to perfect, maintain and protect the Company Intellectual Property. Without limiting the foregoing, the Company has implemented a policy requiring each current and former employee, consultant and contractor who develops Company Intellectual Property for the Company to execute agreements to keep the Company's confidential information confidential and to assign to the Company all right, title and interest in and to, or otherwise provide Company the right to use, all of the Company Intellectual Property and, except as set forth in Section 3.8(d) of the Company Disclosure Letter, all current and former employees, consultants and contractors of the

Company that have created any material Company Intellectual Property owned or purportedly owned by the Company have executed such agreements and either: (i) is a party to a "work made for hire" agreement or arrangement under which the Company is deemed to be the original owner/author of all right, title and interest in the Company Intellectual Property; or (ii) has executed a valid, enforceable and irrevocable assignment of or a valid and enforceable agreement to irrevocably assign in favor of the Company all right, title and interest in the Company Intellectual Property.

(e) Third Party Intellectual Property. The Company owns all right, title and interest in and to, or otherwise has the right to use, all Intellectual Property used in the Company Products and Services, subject only to the terms of the Contracts set forth on Section 3.8(d) of the Company Disclosure Letter to which the Company is a party and under which the Company has been granted or provided with any rights to Intellectual Property or Intellectual Property Rights by a third party other than as has been granted or provided to the Company in the ordinary course of business consistent with past practices, free and clear of all Liens or claims of others.

(f) Company Intellectual Property. Section 3.8(f) of the Company Disclosure Letter lists (i) all Company Registered Intellectual Property; and (ii) all other Company Intellectual Property comprising (A) logos, trade names, trade dress, trademarks or service marks and (B) domain names, web addresses and sites. The Company is current in (1) the payment of all necessary registration, maintenance and renewal fees owing in connection with such Company Intellectual Property and (2) the filing of documents that are required to be filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of obtaining and maintaining such Company Intellectual Property. Section 3.8(f) of the Company Disclosure Letter lists all actions, including the making of any payments that need to be taken with the applicable registering governmental agency within 120 days of the date hereof to maintain, renew or preserve the rights of the Company in any of the Company Intellectual Property. All of the Company Intellectual Property is valid and subsisting. The Company has not taken or failed to take any action, including with respect to disclosure of information in the application for or prosecution of any Company Intellectual Property that would render such Company Intellectual Property invalid or unenforceable. No Company Intellectual Property is involved in any interference, reissue, reexamination, opposition or cancellation proceeding or any other material Legal Proceeding of any kind in the United States or in any other jurisdiction.

(g) No Order. The Company has not received any written notice that any Company Intellectual Property or Company Product or Service is subject to any proceeding or outstanding decree, order, judgment, settlement agreement, forbearance to sue, consent, stipulation or similar obligation that restricts in any manner the use, transfer or licensing thereof by the Company or may affect the validity, use or enforceability of such Company Intellectual Property or Company Product or Service.

(h) Open Source. The Company is not obligated under any of its licenses of Open Source (as defined below) to disclose to any third Person the Source Code for any Company Product or Service that is owned by the Company. Section 3.8(h) of the Company Disclosure Letter sets forth a list of the Company's licenses of Open Source. As used herein, "Open Source" shall mean software that is distributed under conditions that include: (i) licensees of such software being authorized to access, modify and make derivative works of the source code for the software; (ii) licensees of source code of such software not being obligated to maintain the confidentiality of such source code; and (iii) licensees of such software being required, even under limited circumstances, to grant licenses to the source code or derivative works thereof, which licenses include rights under the licensee's intellectual property or that is licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (1) GNU's General Public License (GPL) or Lesser/Library GPL (LGPL), (2) The Artistic License (e.g., PERL), (3) the Mozilla Public License, (4) the Netscape Public License, (5) the Berkeley software design (BSD) license including Free BSD or BSD-style license, (6) the Sun Community Source License (SCSL), (7) an Open Source Foundation License (e.g., CDE and Motif UNIX user interfaces) and (8) the Apache Server license.

(i) Source Code. The Company has not disclosed, delivered or licensed to any third Person, agreed to disclose, deliver or license to any third Person, or permitted the disclosure or delivery to any escrow agent or other third Person of, any Source Code for any Company Product or Service that is owned by the Company ("Company Source Code"). No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure or delivery by the Company or any third Person acting on its behalf to any third Person of any Company Source Code. Section 3.8(h) of the Company Disclosure Letter identifies each written Contract pursuant to which the Company has deposited, or is or may be required to deposit, Company Source Code with an escrow agent or any other Person. The execution of this Agreement or any of the other transactions contemplated by this Agreement will not result in the release from escrow of any Company Source Code.

(j) Licenses-In. Other than (i) licenses to Shrink-Wrapped Code, (ii) licenses to Open Source as set forth in Section 3.8(h) of the Company Disclosure Letter and (iii) non-disclosure agreements entered into in the ordinary course of business, Section 3.8(j) of the Company Disclosure Letter lists all written Contracts that are material to the business of the Company to which the Company is a party and under which the Company has been granted or provided any rights to Intellectual Property or Intellectual Property Rights by a third party.

(k) Customer Information. The Company has taken commercially reasonable steps to protect the confidentiality of customer contact information, customer correspondence and customer licensing and purchasing histories held by the Company (the "Customer Information"). To the Knowledge of the Company, the Company is in compliance, in all material respects, with the Company's privacy policies and all Applicable Laws, regulations and Contracts with respect to the use and disclosure of Customer Information and the consummation of the transactions contemplated by this Agreement will not violate such privacy policies, laws, regulations and contracts with respect to such Customer Information.

(l) Third Person Infringement. No third Person has been put on written notice by the Company, nor, to Company's Knowledge, are there any facts which would indicate a likelihood that a third Person has, will be, or currently is infringing, misappropriating, diluting or otherwise misusing any of the Company Intellectual Property. The Company has no Knowledge of any circumstance that would justify the Company's putting any third Person on such written notice.

3.9. Restrictions on Business Activities. Except as set forth in Section 3.9 of the Company Disclosure Letter, the Company is not a party to or bound by any Contract containing any covenant (a) limiting in any respect the right of the Company to engage in any line of business, to make use of any Company Intellectual Property or Company Products or Services or compete with any Person in any line of business, (b) granting any exclusive distribution rights, (c) providing "most favored nations" or other preferential pricing terms for current Company Products and Services or (d) otherwise limiting or restricting the right of the Company to sell, distribute or manufacture any Company Products or Services or Company Intellectual Property or to purchase or otherwise obtain any software, components, parts or subassemblies.

3.10. Governmental Authorizations. Each material consent, license, permit, grant or other authorization (i) pursuant to which the Company currently operates or holds any interest in any of its properties or assets, or (ii) which is required for the operation of the Company's business as currently conducted or the holding of any such interest (collectively, "Company Permits") has been issued or granted to the Company, as the case may be. Each Company Permit is in full force and effect. As of the date hereof, no suspension or cancellation of any Company Permit is pending or, to the Knowledge of the Company, threatened. The Company is in compliance in all material respects with the terms of all Company Permits.

3.11. Litigation. Except as set forth in Section 3.11 of the Company Disclosure Letter, there is no Legal Proceeding pending or, to the Company's Knowledge, threatened against the Company or any of its properties or assets (whether real, personal or mixed, tangible or intangible). There is no investigation or other proceeding pending or, to

the Company’s Knowledge, threatened against the Company or any of its properties or assets (whether real, personal or mixed, tangible or intangible) by or before any Governmental Authority. There has not been since January 1, 2003, nor are there currently, any internal investigations or inquiries being conducted by the Company, the Company’s board of directors (or any committee thereof) or, to the Knowledge of the Company, any third party at the request of any of the foregoing concerning any financial, accounting, tax, conflict of interest, illegal activity, fraudulent or deceptive conduct or other misfeasance or malfeasance issues by the Company or any of its directors or officers in their capacities as such. As of the date of this Agreement, there is no Legal Proceeding pending, or to the Company’s Knowledge, threatened in writing against, relating to or affecting the Company that seeks to restrain or enjoin the consummation of the Merger or seek other relief or remedy related thereto. The Company is not subject to any judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator which prohibits or restricts the consummation of the transactions contemplated by this Agreement.

3.12. Compliance with Laws. The Company has neither been nor is it in violation or default in any material respect of any Applicable Law. There is no judgment, injunction, order or decree binding upon the Company which has or would reasonably be expected to have the effect of prohibiting or impairing any business practice of the Company in such a way as has resulted or would reasonably be expected to result in a Company Material Adverse Effect.

3.13. Environmental Matters. The Company has never held any material Company Permit issued under Environmental Laws (the “Environmental Permits”) and no such Environmental Permits are required with respect to the Company’s business as it has been and is now conducted. The Company is now and for the last five years has been in material compliance with all Environmental Laws. There are no past or present conditions, events, circumstances, facts, activities, practices, incidents, actions, omissions or plans (i) that have given rise or could reasonably be expected to give rise to any material Liabilities of the Company under any Environmental Laws or (ii) that have required or could reasonably be expected to require the Company to incur any material cleanup, remediation, removal or other response costs (including the cost of coming into compliance with Environmental Laws), investigation costs (including fees of consultants, counsel and other experts in connection with any environmental investigation, testing, audits or studies), losses, Liabilities, payments, damages (including any actual, punitive or consequential damages under any Environmental Laws or to third parties for personal injury or property damage), civil or criminal fines or penalties, judgments or amounts paid in settlement under Environmental Laws. The Company has not received any written notice or other written communication: (x) that it is or may be a potentially responsible Person or otherwise materially liable in connection with any waste disposal site or other location allegedly containing any Hazardous Substances; (ii) of any failure by it to materially comply with any Environmental Laws; or (iii) that it is requested or required by any Governmental Authority to perform any material investigatory or remedial activity or other action in connection with any actual or alleged release of Hazardous Substances or any other Environmental Matters.

3.14. Brokers’ and Finders’ Fees. Except as set forth in Section 3.14 of the Company Disclosure Letter, the Company has not (i) incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders’ fees or agents’ commissions, fees related to investment banking or similar advisory services or any similar charges in connection with this Agreement or any transaction contemplated hereby, nor (ii) entered into any indemnification agreement or arrangement with any Person in connection with this Agreement and the transactions contemplated hereby.

3.15. Related Party Transactions. Except as set forth in Section 3.15 of the Company Disclosure Letter, neither the Company nor, to the Company’s Knowledge, any director, officer or Affiliate of the Company owns, nor to the Company’s Knowledge, any immediate family member of a director, officer or Affiliate of the Company owns, directly or indirectly, any interest in any corporation or other business that engages in a business similar or competitive to the business of the Company, other than ownership of one percent (1%) or less of the outstanding equity securities of a publicly-traded company. Section 3.15 of the Company Disclosure Letter describes all Related Party Transactions.

3.16. Employee Benefit Plans and Compensation.

(a) Definitions. For all purposes of this Agreement, the following terms shall have the following respective meanings:

"Company Benefit Plan" means any Plan established, sponsored or maintained by the Company or any ERISA Affiliate thereof, to which the Company or any of its ERISA Affiliates contributes or is obligated to contribute to or with respect to which the Company or any of its ERISA Affiliates has any Liability.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means, as to any person, any trade or business, whether or not incorporated, which together with such person would be deemed, at any time through the Closing Date, a single employer within the meaning of Section 4001 of ERISA or Section 414(b), (c), (m) or (o) of the Code.

"Plan" means any bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation or holiday pay, day or dependent care, legal services, cafeteria, life, health, accident, sickness, disability, workmen's compensation, medical, life, dental or other insurance, severance, separation or other employee benefit, fringe benefit, plan, program, trust, contract, practice, policy or arrangement of any kind, whether written or oral, including any "employee benefit plan" within the meaning of Section 3(3) of ERISA whether or not in the nature of formal or informal understandings and whether or not included in or described in any employment manual or handbook.

(b) Section 3.16(b) of the Company Disclosure Schedule is a current, correct and complete list of all Company Benefit Plans.

(c) The Allocation Schedule sets forth a current, correct and complete list of all Rightsholders to whom the Company owes Suspended Salary and/or Enhanced Benefits under the At-Risk Plan and sets forth next to such Rightsholder's name the amount of Suspended Salary and/or Enhanced Benefits owed by the Company to such Rightsholder.

(d) All the Company Benefit Plans conform (and at all times have conformed) in all material respects to, and are being administered and operated (and have at all times been administered and operated) in material compliance with, the requirements of ERISA, the Code and all other Applicable Laws. All returns, reports and disclosure statements required to be made under ERISA and the Code with respect to all such Company Benefit Plans have been timely filed or delivered. There have not been any "prohibited transactions" (as such term is defined in Section 4975 of the Code or Section 406 of ERISA) involving any of the Company Benefit Plans that could subject the Company or any of its ERISA Affiliates to any material penalty or tax.

(e) Each Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code has been determined by the Internal Revenue Service to be so qualified and exempt. Any such Internal Revenue Service determination remains in effect and has not been revoked. Nothing has occurred that is reasonably likely to adversely affect such qualification or exemption, or result in the imposition of an excise, income or unrelated business income taxes under the Code or ERISA with respect to any such Company Benefit Plan.

(f) The Company and its ERISA Affiliates do not sponsor, participate in or contribute to, and have not in the past sponsored, participated in or contributed to, and have no current or contingent obligation with respect to: (i) any defined benefit pension plan subject to Title IV of ERISA, (ii) any "multiemployer plan" (as defined in Section 3(37) of ERISA), (iii) any plan or arrangement that provides medical benefits, death benefits or other welfare benefits

following cessation of employment, except to the extent required by Part 6 of Title I of ERISA or any similar Applicable Law, or (iv) any "welfare benefit fund" (within the meaning of Section 419 of the Code). Without limiting the generality of any other provision of this Agreement, there exists no Lien on any asset of the Company or any Subsidiary of the Company arising under Section 412(n) of the Code or Section 4068 of ERISA.

(g) The Company has delivered or made available to Parent current, correct and complete copies of the following documents: (i) all plan documents, amendments and trust agreements relating to each Company Benefit Plan; (ii) the most recent annual and periodic accountings of plan assets relating to each Company Benefit Plan; (iii) the most recent Internal Revenue Service determination or notification letter for each Company Benefit Plan that is an "employee pension benefit plan" (as that term is defined in ERISA Section 3(2)) and a list identifying any amendment not covered by such determination or notification letter; (iv) annual reports filed on Form 5500 (including accompanying schedules) for each Company Benefit Plan for the last three (3) years, if such reports were required to be filed; (v) the current summary plan description, if any is required by ERISA, for each Company Benefit Plan; (vi) all insurance contracts, annuity contracts, investment management or advisory agreements, administration contracts, service provider agreements, audit reports, fidelity bonds and fiduciary liability policies relating to any Company Benefit Plan; and (vii) all material written correspondence with any Governmental Authority relating to any Company Benefit Plan.

(h) To the Company's Knowledge, all written communications regarding each Company Benefit Plan by the Company or by an Employee or agent of the Company reflect and have always reflected accurately the material terms of that Company Benefit Plan.

(i) There are no pending or, to the Company's Knowledge, threatened claims by or on behalf of any Company Benefit Plan, or by or on behalf of any individual participants or beneficiaries of any Company Benefit Plan, alleging any violation of ERISA or any other Applicable Laws with respect to Company Benefit Plans, or claiming payments (other than benefit claims made in the ordinary course of the operation of such plans), nor is there, to the Company's Knowledge, any basis for such claim. No Company Benefit Plan is the subject of any pending (or, to the Company's Knowledge, any threatened) investigation or audit by the Internal Revenue Service, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation or any other regulatory agency, foreign or domestic.

(j) All required payments and contributions under the Company Benefit Plans, including the payment of all insurance premiums, have been timely made. All such payments and contributions have been fully deducted by the Company for federal income tax purposes. Such deductions have not been challenged or disallowed by any Governmental Authority and the Company has no reason to believe that such deductions are not properly allowable. The Company and its ERISA Affiliates have not incurred any Liabilities for any tax, excise tax, penalty or fee with respect to any Company Benefit Plan, and no event has occurred and no circumstance exists or has existed that could give rise to any such Liabilities.

(k) Except for the distribution of Payments to satisfy the Company's obligations under the Company Rights Plan and the At-Risk Plan, the execution and performance of the transactions contemplated by this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) result in any payment, acceleration, vesting or increase in benefits with respect to any current or former employee or other service provider of the Company or its ERISA Affiliates.

(l) The execution of and performance of the transactions contemplated by this Agreement (either alone or upon the occurrence of any subsequent event) will not cause any payment or benefit to constitute a "parachute payment" within the meaning of Section 280G of the Code.

(m) There has been no amendment to, written interpretation or announcement (whether or not written) relating to, or change in employee participation or coverage under, any Company Benefit Plan which would increase materially the expense of maintaining such Company Benefit Plan above the level of the expense incurred in respect

thereof for the fiscal year of the Company ending immediately prior to the date hereof. Each Company Benefit Plan may be terminated, with thirty (30) days or less prior notice, by the Company in its sole discretion.

(n) The Company and its ERISA Affiliates do not maintain (and have not maintained), and are not (and have not been) a party to, any plan, agreement or arrangement that could cause (or has caused) any employee or service provider to become subject to any Tax under Section 409A of the Code.

3.17. Contracts.

(a) Material Contracts. For purposes of this Agreement, "Company Material Contract" shall mean any of the following to which the Company is a party or by which it or its assets are bound:

(i) any agreement, understanding or other arrangement pursuant to which the Company has continuing obligations to jointly develop any Intellectual Property or Intellectual Property Rights that will not be owned, in whole or in part, by the Company;

(ii) any agreement, understanding or other arrangement granting, licensing, sublicensing or otherwise transferring any Intellectual Property Rights of the Company other than Company Intellectual Property licenses included in the Company's form customer agreements entered into in the ordinary course for the purchase of Company Products and Services, or to which the Company is a party and pursuant to which the Company licenses, purchases or acquires any Intellectual Property (including any parts, supplies and components) that is material to the design, manufacture or support of the Company Products and Services;

(iii) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other agreements relating to the borrowing of money or extension of credit;

(iv) all employment and consulting agreements to which the Company is a party;

(v) any material settlement agreement entered into within three years prior to the date of this Agreement or under which the Company has outstanding obligations;

(vi) any agreement, understanding or other arrangement, or group of agreements, understandings or other arrangements with a Person (or group of affiliated Persons), the termination or breach of which could reasonably be expected to have an adverse effect on any Company Product or Service or otherwise have a Company Material Adverse Effect;

(vii) all of the Company's agreements with Significant Customers and any other agreements, understanding or arrangements providing for obligations (contingent or otherwise) of, or payments to, the Company of $25,000 or more within a 12-month period.

(viii) any written arrangement concerning noncompetition (other than the Company's standard form of nonsolicitation and non-competition agreement with its employees);

(ix) any material agreement, understanding or other arrangement involving the grant of rights to manufacture, produce, assemble, license, market, or sell Company Products and/or Services to any other person; or

(x) any agreement, understanding or other arrangement which affect the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell Company Products and/or Services.

(b) Schedule of Material Contracts. Section 3.17(b) of the Company Disclosure Letter sets forth a list of all Company Material Contracts to which the Company is a party or by which any of them is bound as of the date hereof

which are described in Section 3.17(a). True, complete and correct copies of all Company Material Contracts have been provided, or made available, to Parent.

(c) No Default/No Conflict. All Company Material Contracts are valid and in full force and effect, and enforceable in accordance with their terms, assuming due execution by the other parties thereto, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and except insofar as the availability of equitable remedies may be limited by Applicable Law. The consummation of the transactions contemplated by this Agreement will neither violate nor by their terms result in the breach, modification, cancellation, termination, suspension of, or acceleration of any payments with respect to, such Company Material Contracts, subject to obtaining any consents and approvals as are set forth in Section 3.17(c) of the Company Disclosure Letter. The Company is in material compliance with, and has not materially breached any term of any Company Material Contracts or committed or failed to perform any act which, with or without notice, lapse of time or both would constitute a material default under the provisions of any such Company Material Contract and, to the Company's Knowledge, all other parties to such Company Material Contracts are in compliance with, and have not materially breached any term of, such Company Material Contracts. Following the Closing Date, and subject to obtaining any consents and approvals as are set forth in Section 3.17(c) of the Company Disclosure Letter, the Surviving Corporation will be permitted to exercise all of the Company's rights under all Company Material Contracts to the same extent the Company would have been able to had the transactions contemplated by this Agreement not occurred and without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Company would otherwise be required to pay.

(d) Transaction. Neither this Agreement nor the transactions contemplated by this Agreement, including any assignment to Merger Subsidiary or the Surviving Corporation by operation of law as a result of the Merger of any Company Material Contracts, will result in Parent, any of its Subsidiaries or the Surviving Corporation being obligated under such Company Material Contracts to pay any royalties or other material amounts, or offer any discounts, to any third party in excess of those payable by, or required to be offered by, the Company or any of them, respectively, in the absence of this Agreement or the transactions contemplated hereby, subject to obtaining any consents and approvals required to be obtained in connection with any such written contracts and agreements.

3.18. Insurance. Section 3.18 of the Company Disclosure Letter sets forth a list of all material insurance policies, including worker's compensation, title, fire, general liability, fiduciary liability, directors' and officers' liability, malpractice liability, theft and other forms of property and casualty insurance held by the Company. Each of the insurance policies set forth in Section 3.18 of the Company Disclosure Letter is in full force and effect. To the Company's Knowledge, there is no existing default or event which, with the giving of notice, lapse of time or both, would constitute a default, by any insured under any policy listed in Section 3.18 of the Company Disclosure Letter, except where the existence of such default would not be reasonably likely to be material to the Company. All premiums and other amounts due on such policies have been paid, and the Company has complied in all material respects with the provisions of such policies. The Company has reported to its insurers all claims and pending circumstances that could potentially result in a claim, except where the failure to report such a claim would not be reasonably likely to be material to the Company.

3.19. Accounts Receivable. The Company has delivered or made available to Parent a list of all accounts receivable of the Company as of September 30, 2007, together with a range of days elapsed since invoice. All of the Company's accounts receivable arose in the ordinary course of business, are carried at values determined in a manner consistent with the Company's past accounting practices, and are reasonably believed by the Company to be collectible except to the extent of reserves therefor set forth in the Company Financials, or, for receivables arising subsequent to September 30, 2007, as reflected on the books and records of the Company. No Person has any Lien on any of the Company's accounts receivable, and no request or agreement for deduction or discount has been made with respect to any of the Company's accounts receivable.

3.20. &