

ISCO INTERNATIONAL INC  
Form 10-Q  
November 19, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-22302

ISCO INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

36-3688459  
(I.R.S. Employer  
Identification No.)

1001 CAMBRIDGE DRIVE  
ELK GROVE VILLAGE, ILLINOIS  
(Address of principal executive offices)

60007  
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 12, 2008
Common Stock, par value \$0.001 per share	228,471,174

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

ISCO INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	September 30, 2008	December 31, 2007
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 789,986	\$ 1,789,953
Inventory, net	2,686,143	3,043,230
Accounts Receivable, net	1,001,327	2,311,110
Prepaid Expenses and Other	228,807	149,659
Total Current Assets	4,706,263	7,293,952
Property and Equipment	1,735,964	1,437,030
Less: Accumulated Depreciation and Amortization	(1,182,546)	(940,328)
Net Property and Equipment	553,418	496,702
Restricted Certificates of Deposit	132,372	129,307
Other Assets	-	587,824
Goodwill	13,370,000	13,370,000
Intangible Assets, net	2,732,360	850,811
Total Assets	\$ 21,494,413	\$ 22,728,596
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts Payable	\$ 522,855	\$ 904,910
Inventory-related Material Purchase Accrual	45,952	240,126
Employee-related Accrued Liability	276,127	331,522
Accrued Professional Services	23,530	106,921
Other Accrued Liabilities and Current Deferred Revenue	1,013,858	452,581
Current-portion of Notes Payable	12,703,612	
Total Current Liabilities	14,585,934	2,036,060
Deferred Facility Reimbursement	80,000	87,500
Deferred Revenue - Non Current	115,280	104,940
Notes and Related Accrued Interest with Related Parties, Net of Current-portion	8,598,323	15,939,229
Stockholders' Equity:		

Preferred Stock; 300,000 shares authorized; No shares issued and outstanding at September 30, 2008 and December 31, 2007

Common Stock (\$.001 par value); 500,000,000 shares authorized; and 224,684,526 and 202,259,359 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	229,685	202,260
Additional Paid-in Capital	182,516,090	175,281,340
Treasury Stock	(139,345)	(95,050)
Accumulated Deficit	(184,491,554)	(170,827,683)
Total Stockholders' Equity	(1,885,124)	4,560,867
Total Liabilities and Stockholders' Equity	\$ 21,494,413	\$ 22,728,596

See the accompanying Notes which are an integral part of the Condensed Consolidated Financial Statements.

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ISCO INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 1,867,170	\$ 1,924,401	\$ 7,109,977	\$ 6,300,357
Costs and Expenses:				
Cost of Sales	1,000,779	1,220,913	3,857,749	3,633,283
Research and Development	1,075,353	721,241	3,949,444	2,004,003
Selling and Marketing	795,086	554,494	2,429,186	1,808,800
General and Administrative	985,906	1,003,762	3,430,620	3,185,141
Goodwill Impairment	6,195,268	-	6,195,268	-
Total Costs and Expenses	10,052,392	3,500,410	19,862,267	10,631,227
Operating Loss	(8,185,222)	(1,576,009)	(12,752,290)	(4,330,870)
Other Income (Expense):				
Interest Income	3,899	34,182	14,097	70,387
Interest (Expense)	(343,954)	(248,712)	(926,456)	(759,501)
Other Income	210	-	778	-
Other Income (Expense), net	(339,845)	(214,530)	(911,581)	(689,114)
Net Loss	\$ (8,525,067)	\$ (1,790,539)	\$ (13,663,871)	\$ (5,019,984)
Basic and diluted loss per share	\$ (0.04)	\$ (0.01)	\$ (0.06)	\$ (0.03)
Weighted average number of common shares outstanding	222,246,000	200,154,000	215,814,000	193,433,000

See the accompanying Notes which are an integral part of the Condensed Consolidated Financial Statements.

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ISCO INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (13,663,871)	\$ (5,019,984)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	539,799	138,488
Stock-based compensation charges	499,525	1,217,769
Goodwill Impairment	6,195,268	-
Changes in operating assets and liabilities	3,281,204	3,750,119
Net cash provided by (used in) operating activities	(3,148,075)	86,392
<b>INVESTING ACTIVITIES</b>		
Increase in restricted certificates of deposit	(3,065)	(8,208)
Payment of patent costs	(42,882)	(47,722)
Acquisition of property and equipment, net	(17,118)	(69,577)
Acquisition of Clarity	(2,193,432)	-
Net cash provided by (used in) investing activities	(2,256,497)	(125,507)
<b>FINANCING ACTIVITIES</b>		
Issuance of common stock	12,650	-
Proceeds from loan	2,200,000	-
Proceeds from note payable	3,250,000	-
Payment of loan	(1,013,750)	-
Treasury stock purchased	(44,295)	(64,600)
Net cash provided by (used in) financing activities	4,404,605	(64,600)
(Decrease)/Increase in cash and cash equivalents	(999,967)	(103,715)
Cash and cash equivalents at beginning of period	1,789,953	2,886,476
Cash and cash equivalents at end of period	\$ 789,986	\$ 2,782,761

See the accompanying Notes which are an integral part of the Condensed Consolidated Financial Statements.





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ISCO INTERNATIONAL  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

Ended September 30, 2008

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total
Balance as of December 31, 2005	183,252,036	\$183,252	\$170,387,752	\$	-\$ (160,040,288)	\$ 10,530,716
Exercise of Stock Options	2,582,826	2,583	427,330	-	-	429,913
Equity Financing	3,787,271	3,787	(3,787)	-	-	-
Section 16b recovery	-	-	3,124	-	-	3,124
Stock-Based Compensation	-	-	1,565,423	-	-	1,565,423
Net Loss	-	-	-	-	(4,364,984)	(4,364,984)
Balance as of December 31, 2006	189,622,133	\$189,622	\$172,379,842	\$	-\$ (164,405,272)	\$ 8,164,192
Vesting of Restricted Stock	4,303,893	4,304	(4,304)	-	-	-
1.5M Accrued Interest Converted to Equity	8,333,334	8,334	1,491,666	-	-	1,500,000
Stock-Based Compensation	-	-	1,414,136	-	-	1,414,136
Purchase of Treasury Shares	-	-	-	(95,050)	-	(95,050)
Net Loss	-	-	-	-	(6,422,411)	(6,422,411)
Balance as of December 31, 2007	202,259,360	\$202,260	\$175,281,340	\$(95,050)	\$(170,827,683)	\$4,560,867
Vesting of Restricted Stock	2,310,168	2,310	(2,310)	-	-	-
Exercised of Stock Options	115,000	115	12,535	-	-	-