METRO ONE TELECOMMUNICATIONS INC
Form S-3
July 06, 2007

As filed with the Securities and Exchange Commission on July 6, 2007

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

METRO ONE TELECOMMUNICATIONS, INC.

(Exact name of Registrant as Specified in its Charter)

Oregon	**93-0995165**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

11200 Murray Scholls Place
Beaverton, Oregon 97007
(503) 643-9500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

GARY E. HENRY
President and Chief Executive Officer
Metro One Telecommunications, Inc.
11200 Murray Scholls Place
Beaverton, Oregon 97007
(503) 643-9500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With a Copy to:

NEAL H. BROCKMEYER, Esq.
Heller Ehrman LLP
333 S. Hope Street, 39th Floor
Los Angeles, California 90071-3043
(213) 689-7507

Approximate Date of Commencement of Proposed Sale to the Public: For time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**Amount of Registration Fee**
Common Stock	1,235,955 shares	$2.08	$2,570,786	$79

(1) The number of shares being registered equals 1,235,955 shares of our common stock that may be sold upon the conversion of outstanding shares of series A convertible preferred stock issued at the initial closing of the Securities Purchase Agreement dated June 5, 2007. Pursuant to Rule 416 of the Securities Act of 1933, as amended, the number of shares registered hereby shall also include an indeterminate number of additional shares of common stock that may be issued upon conversion of the series A convertible preferred stock as a result of anti-dilution provisions thereof.

(2) Estimated solely for purposes of determining the registration fee pursuant to Rule 457 of the Securities Act of 1933, as amended. The maximum offering price per share was determined pursuant to Rule 457(c) to be the average of the high and low prices reported on the Nasdaq Capital Market on July 2, 2007, which average was equal to $2.08 per share.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED JULY 6, 2007

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

PROSPECTUS

1,235,955 Shares

Metro One Telecommunications, Inc.

Common Stock

This prospectus relates to the sale of up to an aggregate of 1,235,955 shares of common stock, no par value, of Metro One Telecommunications, Inc. issuable upon conversion of our series A convertible preferred stock (convertible preferred stock) that may be offered and sold from time to time by the selling shareholders named in this prospectus and the persons to whom such selling shareholders may transfer their shares. The selling shareholders may sell shares at prices and on terms determined at the time of the offering. The selling shareholders may sell our common stock through ordinary brokerage transactions, directly to market makers of our shares, directly to or with the assistance of broker-dealers, who may receive compensation in excess of their customary commissions, or through any other means described in the section entitled Plan of Distribution beginning on page 12.

We will not receive any proceeds from the sale of the shares of common stock covered by this prospectus.

Our common stock trades on the Nasdaq Capital Market under the symbol INFO. On July 3, 2007, the last reported sale price of our common stock on the Nasdaq Capital Market was $2.08 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 4 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2007.

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We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any accompanying prospectus supplements do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor does this prospectus and any accompanying prospectus supplements constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus and any accompanying prospectus supplement is correct on any date after their respective dates, even though this prospectus or any prospectus supplement is delivered or securities are sold on a later date

PROSPECTUS SUMMARY

This summary highlights only selected information contained elsewhere in this prospectus. It does not contain all of the information that is important to you before investing in our common stock. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors and financial statements included or incorporated by reference herein. Unless otherwise indicated or the context otherwise required, the terms Metro One, we, our, and us refer to Metro One Telecommunications, Inc.

Forward-Looking Statements

All statements and trend analyses contained in this prospectus relative to the future constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may, but do not necessarily, include words such as believes, expects, anticipates, intends, plans, estimates, may, will, should, could, continue or similar expressions. Forward- are not guarantees. They involve known and unknown business and economic risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include those discussed under Risk Factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Metro One

We are a provider of Enhanced Directory Assistance® and other information services delivered through live operators and by electronic means. We contract primarily with wireless carriers, Voice over Internet Protocol (VoIP) providers, cable companies, Competitive Local Exchange Carriers (CLEC), free directory assistance providers, prepaid carriers, and payphone operators to provide our services to their subscribers and users. Our proprietary Enhanced Directory Assistance platform provides comprehensive directory assistance listings and other informational content and services. Other non-directory assistance services and content include access to personal contacts and calendars, reservation services, movie listings and a variety of other unique services. Our special return-to-operator features, StarBack® and AutoBack®, make the telephone easier to use and are offered exclusively by Metro One. All of our services are provided by operators located only in the United States, or electronically. Many of our features or aspects thereof are the subject of patents or pending patent applications. Revenues are derived principally through fees charged to telecommunications carriers and other customers.

In addition to voice-based services, we also provide Enhanced Directory Assistance services in electronic format. These services are provided to customers who electronically issue directory assistance queries and use the returned information to complete and correct their own data records. We currently provide electronic directory assistance services in a number of delivery formats to meet customer needs including automated file processing and real-time individual look ups. We contract with a broad range of companies that require electronic directory assistance including companies in the service, marketing, and financial sectors. Our Data Services business represents an emerging business based on infrastructure originally developed to support our voice-based call center business.

We have been in business since 1989 when we began developing and testing provision of information services over the telephone. In 1991, we entered into our first contract with a wireless carrier to provide our services to that carrier s subscribers on a charge-per-call basis. Our customers include several wireless and other telecommunications carriers such as Cablevision, Jingle Networks (a provider of directory assistance services at no charge to the customer), Hawaiian Telecom, One Communications, SunCom, and XO Communications. We have expanded our customer base to include enterprise data services, specialized operator services, and information services to corporations with offices in the United States and Canada. We have also expanded into the landline telecommunications market and provide our services to regional CLECs and VoIP providers.

Our principal executive offices are located at 11200 Murray Scholls Place, Beaverton, Oregon 97007. Our telephone number is (503) 643-9500.

Recent Developments

Liquidity and Capital Resources

As a result of the termination of contracts with significant customers, including Nextel Communications, Inc. and AT&T Wireless, we have experienced significant operating losses and a reduction of cash flows over the last several years. To mitigate the loss of these customers, we have significantly reduced the direct costs of delivering our services as well as our general and administrative costs. In order to return to profitability, we will need to significantly increase our revenue base. While we have experienced successes during the past six months in acquiring significant customers, including Jingle Networks, Inc., One Communications and Hawaiian Telecom, Inc., our current liquidity position has continued to deteriorate and will restrict our ability to acquire new customers in the near future.

At March 31, 2007, we had cash and cash equivalents of approximately $7.2 million, down from approximately $12.0 million at December 31, 2006 (exclusive of approximately $4.7 million of restricted cash at each date). In the financing transaction described below, we received on June 5, 2007 gross proceeds of approximately $2.2 million from the sale of convertible preferred stock, together with warrants. We expect to continue to deplete these funds to finance our operations and will continue to incur operating losses for some period of time. This is attributable in large part to the long sales cycle that is typical in our industry for both new customer contracts and contract extensions. We will need the proceeds from the second closing of the financing transaction to address our critical liquidity issues, support our working capital requirements, strengthen our balance sheet and support our business development efforts to return to profitability. Unless a realistic alternative should materialize, our inability to obtain these additional funds will most likely lead to an eventual wind-down of the business and liquidation.

Financing Transaction

Our Board of Directors has approved the terms of a financing transaction (financing transaction) pursuant to a securities purchase agreement between us and Columbia Ventures Corporation (Columbia) and Everest Special Situations Fund L.P. (Everest), two private investment firms. Under the securities purchase agreement:

- At an initial closing on June 5, 2007, we issued (i) 220 shares of our newly authorized Series A convertible preferred stock (convertible preferred stock) at a purchase price of $10,000 per share, together with warrants to purchase an additional 77 shares of convertible preferred stock at an exercise price of $10,000 per share, for gross proceeds of $2.2 million; and (ii) senior secured convertible revolver bridge notes (convertible notes) drawable upon the satisfaction of certain conditions in an aggregate maximum principal amount of $7.8 million.

- Subject to shareholder approval and the satisfaction of certain closing conditions, we will issue at a second closing 780 shares of convertible preferred stock on funding and conversion of the convertible notes at a rate of $10,000 per share, and additional shares of convertible preferred stock for accrued interest on any amounts drawn by us on the convertible notes, together with warrants to purchase an additional 273 shares of convertible preferred stock at an exercise price of $10,000 per share.

The rights and preferences of the convertible preferred stock are summarized under Description of Capital Stock Series A Preferred Stock in this prospectus.

In order to maintain our listing on the Nasdaq Stock Market, we are seeking shareholder approval at our 2007 annual meeting of shareholders for any issuance of securities that could result in the number of shares of common stock issuable upon conversion of the convertible preferred stock, combined with all other issuances required to be aggregated with such issuance under the Nasdaq Marketplace Rules in determining the need for shareholder approval for listing, equaling or exceeding 19.9% of the total number of shares of common stock outstanding immediately before the issuance. This would include, for example, the issuance of convertible preferred stock at the second closing, the issuance of convertible preferred stock on exercise of the warrants issued at the initial closing and the second closing, the issuance of common stock on conversion of the convertible preferred stock issued at the second closing and the issuance of any additional shares under antidilution provisions of these securities. In addition, we are seeking shareholder approval for the issuance of common stock on conversion of the convertible preferred stock issued to Columbia in an amount that, when aggregated with the number of shares of common stock then held by Columbia, would exceed 19.9% of the number of shares of common stock then outstanding, and the issuance of common stock on conversion of the convertible stock issued to Everest. The vote required is a majority of the outstanding shares of common stock. The convertible preferred stock is not entitled to vote on that proposal. Pending shareholder approval, as to which there can be no assurance, only the shares of common stock issuable on the conversion of the convertible preferred stock issued at the initial closing are covered by this prospectus.

The Offering

Common stock offered by selling shareholders	1,235,955 shares
Common stock outstanding after offering, based on shares outstanding on June 5, 2007	7,469,281 shares
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling shareholders.
Nasdaq Capital Market Symbol	INFO
Risk Factors	Investing in our common stock is subject to risks that you should carefully consider before deciding to invest in our common stock. These risks are discussed more fully in Risk Factors beginning on page 4.

The total of 7,469,281 shares of common stock to be outstanding after this offering is based on 6,233,326 shares outstanding on June 5, 2007, and assumes conversion of 220 shares of our convertible preferred stock at the election of the selling shareholders, but excludes:

- 432,584 shares of common stock issuable upon conversion of an additional 77 shares of convertible preferred stock, which are subject to warrants that cannot be exercised until shareholder approval of the financing transaction involving the issuance of such securities at the 2007 annual meeting of shareholders;

- 4,382,022 shares of common stock issuable upon conversion of an additional 780 shares of convertible preferred stock to be issued subject to shareholder approval of the financing transaction involving the issuance of such securities at the 2007 annual meeting of shareholders;

- 1,533,707 shares of common stock issuable upon conversion of an aggregate of 273 shares of convertible preferred stock underlying additional warrants to be issued subject to shareholder approval of the financing transaction involving the issuance of such securities at the 2007 annual meeting of shareholders; and

- 544,337 shares of common stock issuable upon exercise of outstanding stock options.

RISK FACTORS

An investment in our common stock involves a high degree of risk, including the risks described below. These risks are not the only ones that we may face. Additional issues and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition, results of operations or cash flows could be materially and adversely affected. You should carefully consider these risk factors and the other information in this prospectus before making an investment decision.

Risks Related to Our Company

We have a history of losses and negative cash flows on a quarterly and annual basis, and may experience additional losses from operations, which raises doubt about our ability to continue as a going concern.

We have experienced net losses in each of the quarterly and annual periods since the first quarter of 2003. In the years ended December 31, 2006 and 2005, we incurred losses of $19.2 million and $39.8 million, respectively. In the first quarter of 2007, we incurred losses of $3.7 million. At December 31, 2006, we had working capital of approximately $13.3 million, and at March 31, 2007, we had working capital of approximately $10.1 million. Even if we obtain the full $10 million of gross proceeds from the financing transaction, to achieve profitability, we will need to generate additional revenue and continue to decrease our expenditures. We can give no assurance that we will achieve sufficient revenue or reduce expenditures to be profitable on a quarterly or annual basis in the future. These factors, among others, raise doubt about our ability to continue as a going concern. Even if we do ultimately achieve profitability, we may not be able to sustain profitability on a quarterly or annual basis.

We will likely need additional capital in the future, and it may not be available.

Our unrestricted cash balances at December 31, 2006 and March 31, 2007, were approximately $12.0 million and $7.2 million, respectively. Although we received gross proceeds of $2.2 million in the first closing of the financing transaction, there can be no assurance that our shareholders will approve the issuance of the additional shares in that financing transaction and that we will receive the additional $7.8 million. Unless a realistic alternative should materialize, our inability to obtain these additional funds will most likely lead to an eventual wind-down of the business and liquidation.

We need to expand call volume, increase our efficiencies and substantially lower the cost of delivery of our services in order to be successful.

In order to successfully execute our business strategies, we need to increase the volume of calls we service. We intend to increase call volume by seeking additional customers, including landline carrier customers, as well as seeking additional business from our existing customers and by offering our services to other types of customers. Because of increasing competitive pressures and declining per call pricing, we need to substantially reduce the cost of delivery of our directory assistance services in order to compete with automated services, offshore contractors, and other low-cost providers. If we are unable to expand our wireless business or attract significant landline business revenues on a cost effective basis or at all, or if we are unable to substantially reduce the cost of delivering our services, we may be unable to achieve and maintain profitability.

We have been restructuring our business to focus on providing directory assistance and information services on a wholesale basis. Even after giving effect to this restructuring, we may not have sufficient cash to execute on our current business plan.

We have taken steps to restructure certain aspects of our business, including closing call centers, reducing our work force, discontinuing our Infone retail service, and renegotiating existing agreements with customers. We may be forced to take additional steps to lower our costs. However, restructuring (for example severing employees and terminating leases) takes resources and time to implement. There can be no assurance that we will be successful in lowering our costs further or otherwise implementing the restructuring. There can also be no assurance that following any restructuring we will have sufficient cash reserves to achieve profitability. Furthermore, any restructuring could have a material adverse impact on our ability to execute on our business plan.

We have contracts with a limited number of customers. If we fail to extend these contracts or sign new ones, or if these contracts are terminated prior to their expiration, our business could be adversely affected.

A limited number of customers account for a large percentage of our continuing revenues. Some of our other contracts are non-exclusive, contain performance and other standards, and call volume may be transferred to alternative providers within the terms of the agreements. If we fail to extend or replace our contracts, or other contracts are terminated prior to their expiration, our business could be adversely affected. Although we seek to increase the number of our customers, opportunities to obtain customers with large call volumes are limited because a small number of companies dominate the telecommunications market. This limits the potential carrier customer base and our expansion opportunities through carrier relationships.

We have a long sales cycle which may cause delays that adversely affect our revenue growth and operating results.

A customer s decision to contract for our directory assistance and information services involves a significant commitment of technical and other resources. As a result, we have a long sales cycle for both new contracts and contract extensions, particularly with large customers. The selling process involves demonstrating the value-added benefits of outsourcing directory assistance and using our services rather than those of our competitors. Additionally, the effectiveness of our marketing to other types of customers, including businesses, governmental units or callers attracted through other means or affiliations, is difficult to predict at any given point in time, given a wide variety of potential business circumstances. Any delays due to lengthy sales cycles could significantly affect our revenue growth and operating results.

Our inability to achieve desired pricing levels could adversely affect our ability to return to profitability.

We are subject to competitive pressures with respect to pricing that have affected our operations and profitability and could adversely affect our ability to return to profitability. Generally, our pricing levels have declined and, in the future, may continue to decline in response to competition in the industry. The prices that we charge our carrier customers are subject to the terms of our contracts. The changing telecommunications market, the relative leverage of the negotiating parties and the overall competitive landscape can significantly impact contract pricing negotiations. In addition, other sources of directory assistance, such as automation and those provided by offshore call centers and the Internet provide low cost forms of competitive services. We charge our carrier customers on a per call basis, with prices varying in some cases based on call volume. If we continue to reduce our prices without a corresponding increase in call volume, there could be an adverse impact on our ability to achieve and maintain profitability.

Alternative methods for delivery of directory assistance and information services could reduce the demand for our services.

Our revenues continue to come primarily from providing Enhanced Directory Assistance and information services to telephone users. However, information can be transmitted in other ways, including more intelligent communications devices and other technologies and protocols, and over the Internet. For example, as the Internet continues to develop and becomes easier to use and access, technologies may be developed that decrease or eliminate the demand for telephone-based or voice-based directory or information services. Widespread acceptance of existing and developing technologies and protocols, such as voice recognition and wireless application protocol, could adversely affect our business. Our call volume could decline if telephone users change their usage habits and rely on the Internet or other alternatives as their primary source for information.

We face substantial competition from a number of other companies.

Many of our competitors in the directory assistance market, including the regional Bell operating companies, have far greater resources and better name recognition. The regional Bell operating companies also may have the advantage of being the local telephone carrier in their area of operation. Some of these companies are or may be developing their own versions of directory assistance services. We also face competition from a number of other independent directory assistance providers. Individual competitors may also seek to provide low cost domestic or offshore service or to provide automation of directory assistance services. If we are unable to compete successfully, it could have an adverse effect on our business, financial condition, results of operations or cash flows. Our ability to compete successfully depends, in part, on our ability to anticipate and appropriately respond to many factors, including pricing decisions by carriers, decisions by carriers to force consumers to accept lower-quality information services products, the introduction of new services and products by our competitors, changes in subscriber preferences, changes in economic conditions and discount pricing strategies by our competitors.

The rapidly changing telecommunications market could unfavorably affect us.

The telecommunications market is subject to rapid change and uncertainty that may result in competitive situations which could unfavorably affect us. These changes and uncertainties are due to, among other factors, the following:

- Mergers, acquisitions and alliances among carriers and among our competitors, which can result in fewer carriers in the marketplace, lost carrier customers, increased negotiating leverage for newly affiliated carriers and more effective competitors;

- Changes in the regulatory environment, which may affect us directly, by affecting our ability to access and update listings data at a reasonable cost, or indirectly, by restricting our carrier customers ability to operate or provide a competitive service;

- Increasing availability of alternative methods for delivery of directory assistance and other information services, including the Internet;

- Evolving industry standards, including frequent technological changes and new product introductions; and

- Changes in retail prices offered to consumers for our services or for services perceived to be substitutes for ours, in whole or in part.

Our quarterly and annual operating results may vary significantly in part due to factors outside our control.

In the future, as in the past, our quarterly and annual operating results may vary significantly as a result of a number of factors. We cannot control many of these factors, which include, among others:

- Changes in the telecommunications market, including the addition or withdrawal of carriers from the market, changes in technology and increased competition from existing and new competitors;

- The timing and expense of our call center network expansion or contraction, including changing staffing and infrastructure expenses related to anticipated call volume changes;

- The addition or expiration of contracts with carrier customers;

- Changes in our or our competitors , customers or suppliers pricing policies;

- Lengthy sales cycles for new and extended contracts;

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- The timing of the commencement of our services under new or existing contracts with our carrier customers, which depends in part on the customers ability to adapt their networks and billing systems to allow them to transfer calls to us;

- Lack of market acceptance or delays or increased development costs related to the introduction of our services or features; and

- General economic conditions.

For these reasons, investors should not rely on period-to-period comparisons of our financial results as an indication of any future results. Our future operating results could fall below the expectations of securities industry analysts or investors. Any such shortfall could result in a decline in the market price of our common stock. Fluctuations in our operating results and cash flows would likely increase the volatility of our common stock price.

Our operating results are significantly affected by our ability to accurately estimate the amount and timing of call volume, which is often subject to factors outside of our control.

Our operating results are significantly affected by costs incurred for expanding or contracting staffing and infrastructure. We incur significant staffing and general and administrative costs in contracting or expanding operations, as necessary, and in anticipation of additional or reduced call volume under our customer contracts. If such call volume does not depart or arrive as scheduled, in the amount anticipated, or at all, our operating results can be adversely affected. This could increase our operating expenses without a corresponding increase in revenues.

Regulations affecting our customers and suppliers and future regulations to which we may be subject may adversely affect our business.

While in the past, our principal business as a wholesale supplier of Enhanced Directory Assistance and information services for telecommunications common carriers has not been directly regulated, the offering of those services to the public by our customers is regulated by various federal and state regulatory authorities. The Federal Communications Commission (FCC) has jurisdiction over all U.S. telecommunications common carriers to the extent they provide interstate or international communications services, including, in our case, the use of our local networks to originate or terminate such services. The application of the FCC s current and/or future policies could have a material adverse effect on our business, operating results and financial condition.

Other aspects of our services may be subject to state or federal regulation, such as regulations relating to the confidentiality of data and communications, copyright issues, and taxation of services. We cannot predict the actions that federal, state, and local regulators may take or what impact such actions would have on our business.

If we are unable to anticipate changes in technology and industry standards and to develop new services and features, we may not succeed.

Our success depends, in part, on our ability to anticipate changes in technology and industry standards and to develop and introduce new services and features that are accepted by the marketplace and cost effective for us to provide as a part of our overall service offerings. The development of new services and features can be very expensive. Further, given rapid technological changes, frequent introduction of new products, services and features, and changing consumer demands that characterize our industry, it can be difficult to correctly anticipate future changes in technology and industry standards. If we fail to develop new services and features, encounter difficulties that delay the introduction of such services and features, or incorrectly anticipate future changes and develop services and features that are not accepted by the marketplace or are not cost effective for us to provide as a part of our overall service offerings, we may not succeed at our business.

Systems failures, delays and other problems could harm our reputation and business, cause us to lose customers and expose us to customer liability.

Our success also depends on our ability to provide reliable services. Our operations could be interrupted by significant damage to or failure of our network, our connections to third parties, our computer hardware or software or our customers or suppliers computer hardware or software. Any such significant damage or failure could disrupt the operations of our network and the provision of our services and result in the loss of current and potential customers. In addition, if call volume increases, we may need to expand and/or upgrade our technology and network hardware and software in order to provide services. Capacity limits on our technology and network hardware and software may make it difficult for us to expand and upgrade our systems in a timely and economical manner.

If we are unable to obtain or adequately update directory or information content at an economical cost, we may be unable to provide current levels of service or improve our service.

Our operations depend on our access to the names, telephone numbers and other information that we supply directly to callers or we use in providing our services. The availability, cost, quality and usefulness of such data varies widely across geographic regions. If we are unable to obtain or update directory or information content at an economical cost, we may be unable to provide current levels of service, improve our Enhanced Directory Assistance service, or provide new services and features. Ultimately, the satisfaction of callers and our carrier customers, and our ability to renew and extend our current customer contracts and enter into new customer contracts, depends on the quality of services we provide. The quality of our services is directly related to the quality of our listings data and other information content.

As we rely on a limited number of suppliers, an abrupt loss of any key supplier could adversely affect our business operations or delay our development efforts.

We rely on some key suppliers to provide us with programming and engineering services and to license us their technology. An abrupt loss of any current key supplier could cause a disruption in our operations or a delay in our development efforts and could adversely affect our business operations.

If we are unable to continue to attract and retain qualified senior management, sales and technical personnel and call center operators, or our call center staff is unionized, our operations could be adversely affected.

Our success depends to a significant extent on the efforts and abilities of our senior management, sales and technical personnel and call center operators. The loss of the services of our senior management and technical personnel could have a material adverse effect on our business and our ability to meet our strategic objectives. In addition, increasing our revenues is critical to our success. If we are unable to attract and retain qualified and productive sales personnel, we may not be able to increase our revenues which would have an adverse effect on our plans and our business. We also depend on the continued service of our call center operators, who we hire from the available labor pool. The ability to attract and retain qualified senior management, sales and technical personnel, operators and other skilled employees is extremely important to the operation of our business. If we are unable to attract and retain qualified individuals, or we are required to pay significantly higher wages and other benefits to such individuals, or if our call center staff is unionized, it could adversely affect our business operations. We find it more difficult to recruit and retain qualified individuals during periods of low unemployment and, therefore, may be subject to increasing pressure to offer higher wages and other benefits during such periods. In our call center hiring, we may also feel the effects of the telecommunications industry in general, which has widespread union membership among its operators and other workers.

If we are unable to use and protect our intellectual property, we may be unable to provide some of our Enhanced Directory Assistance and information services or profitably operate our business.

We regard aspects of our Enhanced Directory Assistance, and their features and processes, to be proprietary. If we are unable to use and protect our intellectual property, we may be unable to provide some of our Enhanced Directory Assistance and/or our personal assistant services or profitably operate our business. To a limited extent, we rely on a combination of trade secret, patent and other intellectual property law, nondisclosure agreements and other protective measures to protect our intellectual property. However, these measures may be difficult and costly to meaningfully enforce. In addition, attempts to enforce our intellectual property rights may bring into question the validity of these rights. Litigation with respect to patents or other intellectual property rights can result in substantial costs and diversion of management attention and other resources.

Risks Related to Our Common Stock

Our common stock may be delisted from the Nasdaq Capital Market if we are unable to maintain compliance with Nasdaq Capital Market continued listing requirements.

Failure to achieve continued listing on the Nasdaq Capital Market will likely impact our ability to raise additional capital. Our common stock listing was transferred from the Nasdaq National Market to the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) on February 22, 2006 because we had been unable to regain compliance with the $1.00 minimum bid price requirement for continued listing on the Nasdaq National Market. In July, 2006 we effected a one-for-four reverse stock split and regained compliance with the Nasdaq listing requirements. However, on June 27, 2007, we received a Nasdaq Staff Deficiency Letter informing us that we no longer comply with Nasdaq s audit committee requirements for continued listing as set forth in Marketplace Rules 4350. The resignation of Mr. Murray Swanson from the Audit Committee in connection with the financing transaction resulted in our Audit Committee having less than Nasdaq s audit committee requirement of three independent members. The letter stated that, consistent with Marketplace Rule 4350(d)(4), we will be provided a cure period until the earlier of our next annual shareholders meeting or June 5, 2008, or, if the next annual shareholders meeting is held before December 3, 2007, then no later than December 3, 2007, in order to regain compliance. The letter also stated that, in the event we do not regain compliance within this period, the Staff will provide written notification that our securities will be delisted. It is the intention of our Board of Directors to take the necessary action to appoint an independent member of the Audit Committee within the cure period provided so as to maintain continued Nasdaq listing. However, if we were unable to appoint an independent member of the Audit Committee within the cure period and our common stock were delisted from the Nasdaq Capital Market, the market liquidity of our common stock could be reduced and an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock.

Our common stock price is volatile.

The market price of our common stock has experienced volatility and is likely to continue to experience significant fluctuations in response to a number of factors. These factors include, among others, low trading volume, our quarterly and annual operating results and the following:

- Announcements of extensions, expirations or changes in our contracts and the effects on our call centers and infrastructure of such activities;
- Announcements relating to material events concerning our customers;
- Actual or anticipated variations in our results of operations and liquidity;
- Securities filings or other public announcements by our large shareholders;

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- Announcements of new product initiatives or growth strategies; and
- General market conditions.

From January 1, 2006 through December 31, 2006, our common stock price fluctuated, on a post one-for-four reverse stock split basis, from a low of $1.32 per share to a high of $3.77 per share, and has on several occasions fluctuated more than 10% during a trading day. From January 1, 2007 through March 31, 2007, our common stock price fluctuated, on a post one-for-four reverse stock split basis, from a low of $2.00 per share to a high of $2.51 per share. These trading prices may change significantly and arbitrarily. In addition, broad market factors affecting telecommunications or technology stocks may adversely affect the market price of our common stock. General economic, political and market conditions, including interest rate changes and recession, may also adversely affect our stock price.

The issuance of securities in the financing transaction will substantially reduce the relative equity ownership and influence of all other shareholders, which may put downward pressure on the trading price of our common stock.

On June 5, 2007, we closed the initial portion of a private financing transaction with Columbia and Everest. Each of the investors held shares of our common stock prior to this financing transaction. If our shareholders approve the issuance of additional shares in connection with the financing transaction, the investors will acquire a substantially greater equity ownership and the additional ownership will dilute our other existing shareholders. If all the convertible preferred stock issued in the initial portion of the financing transaction were to be converted into common stock at the initial conversion price of $1.78 per share, our existing shareholders (exclusive of the investors in the financing transaction) would hold approximately 41.8% of our common stock, and Columbia and Everest would hold approximately 44.4% and 3.8% of our common stock, respectively.

The holders of convertible preferred stock will have a claim against our assets senior to the claim of the holders of our common stock in the event of a liquidation and certain other events. Our existing shareholders will also have less influence on our affairs and the ability to control major corporate decisions. Columbia will be our largest shareholder with approximately 41.8% of the total voting power of our outstanding capital stock, before giving effect to the conversion of convertible preferred stock into common stock or the exercise of the warrants. As a result of the first closing and for so long as at least 203, but less than 540, shares of convertible preferred stock are outstanding, the holders of convertible preferred stock are entitled to elect two members of our Board. After the second closing and for so long as at least 540 shares of convertible preferred stock are outstanding, the holders of convertible preferred stock will be entitled to elect a majority of the members of our Board.

Accordingly, the investors in the financing transaction will have significant influence over matters submitted to our shareholders, including potential change-of-control transactions. Their interests may be different from your interests, and they may be in a position to influence us to act in a way inconsistent with the interests of public shareholders generally. This concentration of voting power may deter other companies from seeking to acquire us, which might depress the market price of our common stock.

The market price of our common stock may be reduced by future sales of our common stock in the public market.

Sales of substantial amounts of our common stock in the public market that are not currently freely tradable, or even the potential for such sales, could have an adverse effect on the market price for shares of our common stock and could impair the ability of purchasers of our common stock to recover their investment or make a profit.

USE OF PROCEEDS

The selling shareholders will receive all of the proceeds from the sale of shares of common stock under this prospectus. We will not receive any proceeds from these sales.

SELLING SHAREHOLDERS

The financing transaction pursuant to which the selling shareholders acquired the securities that are being sold under this prospectus is summarized above under Prospectus Summary Financing Transaction. In connection with the financing transaction, we entered into a registration rights agreement whereby we agreed to use our best efforts to register on Form S-3 under the Securities Act of 1933, as amended (the Securities Act), the shares of common stock issuable upon conversion of the convertible preferred stock (including the shares of convertible preferred stock issuable on exercise of warrants), and to file a registration statement covering these shares within 30 days of the date of the securities purchase agreement, subject to extension under certain conditions. The registration rights agreement also provides the investors with demand and piggyback registration rights with respect to these shares of common stock. The shares that are being sold under this prospectus are being registered under the Securities Act pursuant to the registration rights agreement.

The following table sets forth the name of the selling shareholders, the number of shares of common stock beneficially owned by them as of the date of this prospectus and the number of shares of our common stock which may be offered for sale pursuant to this prospectus by the selling shareholders. The table also sets forth any material relationship between Metro One and each selling shareholder based upon information currently available to Metro One and the number of shares beneficially owned and the percentage ownership of each selling shareholder after the offering. This table has been prepared based on 6,233,326 shares of common stock that were outstanding as of June 5, 2007, and on the assumption that the same number of shares will be outstanding as of the date of this prospectus.

Name	Number of Shares of Common Stock Beneficially Owned Before Offering(1)	Percentage Before Offering	Number of Shares Offered Hereby(1)	Number of Shares of Common Stock Beneficially Owned After Offering(1)	Percentage After Offering
Columbia Ventures Corporation 203 S.E. Park Plaza Drive Suite 270 Vancouver, Washington 98684	1,761,264 (2)				

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ISCO INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 - Basis of Presentation

The condensed consolidated financial statements include the accounts of ISCO International, Inc. and its wholly owned subsidiaries, Spectral Solutions, Inc. and Illinois Superconductor Canada Corporation (collectively referred to as the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of results for the interim periods have been included. These financial statements and notes included herein should be read in conjunction with the Company s audited financial statements and notes for the year ended December 31, 2004 included in the Company s Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (SEC). The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter for the entire year ending December 31, 2005. For further information, refer to the financial statements, including the notes thereto, included in the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) and requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. The statement also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (as of January 1, 2006 for the Company) and are to be applied prospectively. The Company does not expect adoption of SFAS No. 151 to have a material effect on its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). This statement requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management.

SFAS No. 123(R) replaces FASB Statement No. 123 (SFAS No. 123), Accounting for Share-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The provisions of SFAS No. 123(R) are required to be applied by public companies that do

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not file as small business issuers, as of the first interim or annual reporting period that begins after June 15, 2005, and all other public companies as of the first interim or annual reporting period that begins after December 15, 2005. On April 14, 2005, the SEC adopted a new rule amending the effective date for Statement 123(R). The amended rule allows registrants to implement Statement 123(R) as of the first annual period beginning after June 15, 2005, which is January 1, 2006 for the Company.

The Company intends to continue applying APB Opinion No. 25 to equity-based compensation awards until the effective date of SFAS No. 123(R). At the effective date of SFAS No. 123(R), the Company expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in the Company recognizing compensation cost based on the requirements of SFAS No. 123(R) for all equity-based compensation awards issued after the effective date of this statement with respect to the Company. For all equity-based compensation awards that are unvested as of that date, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the SFAS No. 123 pro forma footnote disclosure. The Company is currently evaluating the impact that adoption of SFAS No. 123(R) may have on its results of operations or financial position and expects that the adoption may have a material effect on the Company s results of operations depending on the level and form of future equity-based compensation awards issued. The Company believes that the adoption of this statement will not have a material impact on options or awards currently outstanding as of the date of this report.

The Company has a stock-based employee compensation plan, which is more fully described in Note 5. The Company currently accounts for its stock-based compensation plan under SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, which allows companies to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and provide pro forma net income and net income per share disclosures for employee stock option grants as if the fair value method defined in SFAS No. 123 had been applied. The Company applies the intrinsic value method for accounting for stock-based compensation as outlined in APB Opinion No. 25.

Stock expense for the three-month and nine-month periods ending September 30, 2005 and 2004, respectively, includes the result of options issued with an exercise price below the underlying stock s market price. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, using the assumptions described in Note 5, to its stock-based employee plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss, as reported	$ 596	$ 1,714	$ 1,889	$ 4,958
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	276	197	841	510
Less: Total stock-based employee compensation determined under fair value based method for awards granted, modified, or settled, net of related tax effects	254	315	1,054	709
Pro forma net loss	$ 574	$ 1,832	$ 2,159	$ 5,157
Loss per share:				
Basic as reported	$ 0.00	$ 0.01	$ 0.01	$ 0.03
Basic pro forma	$ 0.00	$ 0.01	$ 0.01	$ 0.03
Diluted as reported	$ 0.00	$ 0.01	$ 0.01	$ 0.03
Diluted pro forma	$ 0.00	$ 0.01	$ 0.01	$ 0.03

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Note 2. Realization of Assets

The accompanying financial statements have been prepared in conformity with US GAAP, which contemplate continuation of the Company as a going concern. However, the Company has sustained substantial losses from operations in recent years, and such losses have continued through the (unaudited) quarter ended September 30, 2005. In addition, the Company has used, rather than provided, cash in its operations.

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 operational and 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.

The Company has incurred, and continues to incur, losses from operations. For the years ended December 31, 2004, 2003, and 2002, the Company incurred net losses of $7 million, $7.2 million, and $13 million, respectively. Although financial performance has improved considerably, the Company incurred an additional net loss of $1.9 million during the first nine months of 2005. During recent years the Company implemented strategies to reduce its cash used in operating activities. The Company s strategy included the consolidation of its manufacturing and research and development facilities and a targeted reduction of the employee workforce, increasing the efficiency of the Company s processes, focusing development efforts on products with a greater probability of commercial sales, reducing professional fees and discretionary expenditures, and negotiating favorable payment arrangements with suppliers and service providers. More importantly, the Company configured itself along an outsourcing model, thus allowing for relatively large, efficient production without the associated overhead. The combination of these factors has been highly effective in bringing the Company closer to profitability (from a net loss as high as $28 million during 2001) while enabling it to deliver significant quantities of solutions.

To date, the Company has financed its operations primarily through public and private equity and debt financings, and in recent years through financings with affiliates of our two largest shareholders. As described more fully in subsequent footnotes, the Company completed a financing transaction with its two largest shareholders (including their affiliates) on August 2, 2005. These entities, including affiliates, are also the Company s lenders, with a total of $10.3 million in principal and interest outstanding as of September 30, 2005. In exchange for 20 million shares of common stock, the Company received $4.4 million. In addition, the debt, which was due April 1, 2006, is now due August 1, 2007. Finally, the lenders agreed to waive their right to be repaid with new financing proceeds, allowing the Company to utilize the funds for product development or otherwise as it chooses. Pursuant to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act) these entities also remitted approximately $0.6 million in profits from sales of Company common stock during the six months preceding this financing.

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Excluding working capital that may be required in order to support potentially significant increases in sales volume and/or potential outlays that may be used to support new product development efforts, the Company believes that, as the Company s business is currently operated, the Company has sufficient funds to operate its business through 2006. However, if the Company s product development and/or sales efforts expand at a substantially faster pace, or if customer orders increase to the point that it has to fund significantly more production, the Company may need additional financing to support such efforts. In addition, any potential defense of the Company s intellectual property or product line development or expansion, may require a commitment of funds. If one or more such events occurs, the Company will look into augmenting its existing capital position to evaluate potential short-term and long-term sources of capital whether from debt, equity, hybrid, or other methods. The actual amount of the Company s 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 the Company s commercialization plans, the magnitude of its research and product development programs, the ability of the Company to improve or maintain product margins, and the cost of protecting the Company s patents or other intellectual property.

Note 3 - Net Loss Per Share

Basic and diluted net loss per share is computed based on the weighted average number of common shares outstanding. Common shares issuable upon the exercise of options are not included in the per share calculations since the effect of their inclusion would be antidilutive.

Note 4 - Inventories

Inventories consisted of the following:

	September 30, 2005	December 31, 2004
Raw materials	$ 693,000	$ 268,000
Work in process	60,000	150,000
Finished product	1,024,000	551,000
	$ 1,777,000	$ 969,000

Cost of product sales for the nine months ending September 30, 2005, and the twelve months ending December 31, 2004, includes approximately $0 and $57,000, respectively, of costs in excess of the net realizable value of inventory (including obsolete materials).

Note 5 - Stock Options and Equity Transactions

On August 19, 1993, the Board of Directors adopted the 1993 Stock Option Plan (the 1993 Plan) for employees, consultants, and directors who are not also employees of the Company (outside directors). This plan reached its ten-year expiration during 2003. During the 2003 annual meeting of shareholders, the Company s shareholders approved a new 2003 Equity Incentive Plan (the 2003 Plan) to take the place of the expiring 1993 Plan. Unissued options from the 1993 Plan were used to fund the 2003 Plan. The maximum number of shares issuable under these plans was 14,011,468. The 1993 Plan and the 2003 Plan are collectively referred to as the Plan . During October 2005, the Company s Board

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of Directors approved amendments to the 2003 Plan, subject to approval by the Company s stockholders, that would: (i) increase by 12,000,000 the number of shares of common stock available for grant under the 2003 Plan and (ii) make shares allocated to the 1993 Plan but ultimately unused available for use under the 2003 Plan up to a maximum of 5,000,000 shares. The Board of Directors has recommended that the Company s stockholders vote to approve the amendments to the 2003 Plan at the Company s Annual Meeting of Shareholders scheduled for December 9, 2005.

For employees and consultants, the Plan provides for granting of Incentive Stock Options (ISOs) and Nonstatutory Stock Options (NSOs). In the case of ISOs, the exercise price shall not be less than 100% (110% in certain cases) of the fair value of the Company s common stock, as determined by the Compensation Committee or full Board as appropriate (the Committee), on the date of grant. In the case of NSOs, the exercise price shall be determined by the Committee, on the date of grant. The term of options granted to employees and consultants will be for a period not to exceed 10 years (five years in certain cases). Options granted under the Plan default to vest over a four-year period (one-fourth of options granted vest after one year from the grant date and the remaining options vest ratably each month thereafter), but the vesting period is determined by the Committee and may differ from the default period. In addition, the Committee may authorize option grants with vesting provisions that are not based solely on employees rendering of additional service to the Company.

For outside directors, the Plan provides that each outside director will be automatically granted NSOs on the date of their initial election to the Board of Directors. On the date of the annual meeting of the stockholders of the Company, each outside director who is elected, reelected, or continues to serve as a director, shall be granted additional NSOs, except for those outside directors who are first elected to the Board of Directors at the meeting or three months prior. Generally, these options vest ratably over a period of one year based on the date of grant, and expire after ten years from the grant date.

On May 10, 1999, the Board of Directors granted to each employee of the Company (other than the executive officers of the Company) (collectively, the Non-Executive Employees) the option to (i) reduce the exercise prices of up to a maximum of 15,000 of the unexercised stock options previously granted to such Non-Executive Employee under the Plan to $.5625 per share (the closing price of the Company s Common Stock on May 10, 1999) and (ii) cause all of such stock options not otherwise scheduled to become fully vested on or before May 10, 2000 to become fully vested on such date. As a result thereof, an aggregate of 279,550 stock options previously granted under the Plan were amended as described in the preceding sentence. In addition, on May 10, 1999 the Board of Directors granted to the executive officers and certain Non-Executive Employees of the Company additional non-statutory stock options to purchase an aggregate of

343,575 shares of the Company s Common Stock under the Plan. Such stock options became fully vested on the first anniversary of the date of grant, with exercise prices of $.5625 per share and expire 10 years from the date of grant.

On July 1, 2000, FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25 (FIN 44) was adopted by the Company. FIN 44 requires that stock options that have been modified to reduce the exercise price be subject to variable accounting. The Company accounts for employee stock options under APB Opinion No. 25 and non-employee stock options under Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123).

On May 10, 1999, as described above, the Company re-priced certain stock options granted to employees and in accordance with US GAAP, at that time, the Company accounted for the re-priced stock options as fixed . As a result of adopting FIN 44, the Company is required to apply variable accounting to these options. If the market price of the Company s common stock increases above the July 1, 2000 market price, the Company will have to recognize additional compensation expense equal to the increase in stock price multiplied by the number of re-priced options. No additional expense will be recognized if the stock does not exceed the July 1, 2000 value. However, the impact cannot be determined as it is

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dependent on the change in the market price of the common stock from July 1, 2000 until the stock options are exercised, forfeited, or expire unexercised. Because the stock price on September 30, 2005 was below that of July 1, 2000, no expense has been recognized during the period.

On February 5, 2001, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to employees during the calendar year of 2000 to the closing share price on such date, or $1.9375 per share. This re-pricing causes these options to be subject to variable accounting as described in FIN 44. Because the stock price on September 30, 2005, was lower than the re-priced strike price no gain or loss was recognized during the period.

On April 1, 2002, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to employees. A new strike price of $0.81 per share was established, provided the respective employees remain with the Company for at least six months following the re-pricing date. In addition, certain stock options granted to directors were repriced, with a new strike price of $1.00 per share. As the stock price on September 30, 2005, was lower than the re-priced strike price no gain or loss was recognized during the period.

On October 31, 2003, the Company s Board of Directors authorized the re-pricing of certain out of the money stock options granted to directors. A new strike price of $0.24 per share was established. Non-cash charge reversals of (none) and ($42,000) were recognized during the three month and nine month periods ending September 30, 2005, respectively, to reflect the $0.26 closing price of the Company s common stock on September 30, 2005.

On January 2, 2003, the Company s Board of Directors granted 2,800,000 new stock options to six of the Company s employees, including officers. 950,000 of these options vested immediately, while the remaining 1,850,000 vested monthly in 12 installments. All of the options granted on January 2, 2003 were granted at a discount based on 25% of the average closing price of the Company s common stock as reported on the American Stock Exchange over ten trading days and ultimately valued at a $0.22 discount to the closing price of the Company s common stock as of the date of the grant. During July 2003, the Board of Directors cancelled approximately 2.8 million outstanding options held by certain Company employees, including officers. During January 2004, a total of 3.7 million options were granted to the employees of the Company, including officers, at a similar 25% discount. Such options vested for 1 or 2 years.

Charges of $276,000 and $841,000 were recognized during the three month and nine month periods ending September 30, 2005, respectively, to recognize the value of the discounts above. Additionally, certain of these 2003 options were deemed to be properly accounted for using variable accounting. Despite the period of time involved, the Company determined that the lesser of those options granted or cancelled should receive variable accounting treatment as if the former option terms were adjusted prospectively. As such, a charge reversal of ($16,000) was recognized during the first quarter 2005 to reflect the $0.31 closing price of the Company s common stock as of March 31, 2005. No charge or charge reversal was recognized during the second quarter 2005 or third quarter 2005.

During 2004, in addition to the disclosure above, the Company s Board of Directors granted 854,000 stock options to the Company s employees and non-employee Board members. These grants were issued at the closing market price on the date of grant.

During the first nine months of 2005, the Company s Board of Directors granted 1,515,000 stock options to the Company s employees, and an additional 1,550,000 stock options that may vest as a result of certain performance objectives being met. All of these grants were issued at the closing market price on the date of grant.

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On August 2, 2005, the Company completed a financing transaction with its two largest shareholders (including their affiliates). These entities, including affiliates, are also the Company s lenders, with a total of $10.3 million in principal and interest due as of September 30, 2005. In exchange for 20 million shares of common stock, the Company received $4.4 million. In addition, the $10.3 million in debt, including accrued interest, which was due April 1, 2006, is now due August 1, 2007. Finally, the lenders agreed to waive their right to be repaid with new financing proceeds, allowing the Company to utilize the funds for product development or otherwise as it chooses. Pursuant to the provisions of Section 16 of the Exchange Act these entities also remitted approximately $0.6 million in profits from sales of Company common stock during the six months preceding this financing.

Note 6 - Debt and Financial Position

As of the reporting date, the Company has a total of $10.3 million in principal and interest outstanding from debt financing under a credit line, as described below. During October 2002, the Company entered into an Uncommitted Line of Credit with its two largest shareholders, an affiliate of Elliott Associates, L.P. (Manchester Securities Corporation) and Alexander Finance, L.P. This line provided up to $4 million to the Company. This line is uncommitted, such that each new borrowing under the facility is subject to the approval of the lenders. Borrowings on this line initially bore an interest rate of 9.5% and are collateralized by all the assets of the Company. Outstanding loans under this agreement are required to be repaid on a priority basis should the Company receive new funding from other sources. Additionally, the lenders were entitled to receive warrants to the extent funds were drawn down on the line. The warrants bore a strike price of $0.20 per share of common stock and were to expire on April 15, 2004. The credit line was to mature and be due, including accrued interest thereon, on March 31, 2004. Due to an agreement between the parties no warrants were issued with subsequent borrowings. During February 2004, the warrant holders exercised all of their warrants, contributing $2 million to the Company in exchange for 10 million shares of common stock.

According to existing accounting pronouncements and SEC guidelines, the Company allocated the proceeds of these borrowings between their debt and equity components. As a result of these borrowings during 2002, the Company recorded a non-cash charge of $1.2 million through the outstanding term of the warrants (April, 2004). $250,000 and $862,000 of that amount were recorded during 2004 and 2003, respectively. These warrants were valued at $1.2 million of the $2 million debt instrument based on a Black-Scholes valuation that included the difference between the value of the Company s common stock and the exercise price of the warrants on the date of each warrant issuance and a 30% discounted face value of the notes, leaving the remaining $0.8 million as the underlying value of the debt. This $1.2 million was amortized over the vesting period of the warrants (six quarters from the fourth quarter 2002 through the first quarter 2004).

During October 2003, the Company entered into an agreement with its lenders to supplement the credit line with an additional $2 million, $1 million of which was drawn immediately and $1 million subsequently drawn upon the Company s request and approved by the lenders. This supplemental facility bore a 14% rate of interest and was due October 31, 2004. The term of the previous credit line was not affected by this supplement, and as such the $4 million borrowed under that line, plus accrued interest, remained due March 31, 2004.

During February 2004, these credit lines were extended to a due date of April 2005, with interest after the initial periods to be charged at 14%. No warrants or other inducements were issued with respect to these extensions. Additionally, the lenders exercised their 10 million warrants during February 2004, agreeing to let the Company use the funds for general purposes as opposed to repaying debt.

During July 2004, the Company and its lenders agreed to increase the aggregate loan commitments under the credit line from $6,000,000 to $6,500,000. Simultaneously, the Company drew the remaining $1,500,000 of the financing.

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During November 2004, the Company and its lenders agreed to increase the line of credit to up to an additional $2 million to an aggregate loan commitment of $8,500,000, $1 million of which was drawn immediately by the Company with the remaining $1 million available to be drawn upon the Company s request and subject to the approval of the lenders, which occurred during January 2005.

During February 2005, the consolidated credit line was extended until April 1, 2006. Interest during the extension period is to be charged at 9%. No warrants or other inducements were issued with respect to this extension.

On August 2, 2005, in connection with the financing described previously in Note 2, the Company and its lenders agreed to extend the due date from April 1, 2006 until August 1, 2007. In addition, the lenders waived their right to be paid with proceeds of the financing, allowing the Company to utilize the funds for product development or otherwise as it chooses. No warrants or other inducements were issued as a result of this transaction.

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Item 2. Management s Discussion and Analysis of Financial Conditions and Results of Operations.

General

The following is a discussion and analysis of the historical results of operations and financial condition of the Company and factors affecting the Company s financial resources. This discussion should be read in conjunction with the financial statements, including the notes thereto, set forth herein under Part I. - Financial Information and Item 1. Financial Statements and in the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004. This discussion contains forward-looking statements which involve certain risks, uncertainties and contingencies which could cause the Company s actual results, performance or achievements to differ materially from those expressed, or implied, by such forward-looking statements. Such factors include those described in Risk Factors included in the Company s Annual Report on Form 10-K/A and in the attached exhibit to this report, which is incorporated herein by reference. The forward-looking statements included in this report may prove to be inaccurate. In light of the significant uncertainties inherent in these forward-looking statements, you should not consider this information to be a guarantee by the Company or any other person that our objectives and plans will be achieved.

The Company develops and sells solutions designed to optimize the Radio Frequency (RF) link within wireless networks. RF link, or Radio link, is the signal between the mobile device (e.g., mobile phone) and the base station (Link). Reverse link is the signal from the mobile device to the base station. Forward link is the signal from the base station to the mobile device. The Company s array of solutions includes its ANF product line (adaptive notch filter, ANF), the RF² product family (radio link radio frequency fidelity, RF²), services and other solutions, all focused on optimizing RF handling in order to improve system performance and integrate disparate technologies as required by operators.

The Company was founded in 1989 by ARCH Development Corporation, an affiliate of the University of Chicago, to commercialize superconductor technologies initially developed by Argonne National Laboratory. The Company was incorporated in Illinois on October 18, 1989 and reincorporated in Delaware on September 24, 1993. Its facilities and principal executive offices are located at 1001 Cambridge Drive, Elk Grove Village, IL 60007 and telephone number is (847) 391-9400.

Summary of Recent Developments

The Company has shifted from manufacturing in-house to an outsourced manufacturing model wherein the Company supplies raw materials to external parties and products are then completed. This system allows for the Company to outsource procurement in the future if it chooses to do so. Manufacturing partners then produce to specification with Company personnel on hand to assist with quality control. The Company s products are designed for efficient production in this manner, emphasizing solid-state electronics over mechanical devices with moving parts. The decrease in cost associated with these developments, coupled with enhanced product functionality, has allowed the Company to realize improved margins and significantly reduced overhead costs. Extensions of developed technology, based on substantial input from customers, have allowed the Company to launch the RF² product family and consider additional solutions while controlling total R&D cost.

The first quarter of 2005 provided the conclusion of the patent litigation appeal process, the addition of John Thode as President and CEO of the Company, and an overall increase in business activity from prior years as seen in increased revenues, product shipments, and the expansion of the Company s portfolio of RF solutions. The second and third quarters of 2005 focused on new product development and release, the pursuit of new customers, and continued progress relative to prior years.

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The wireless telecommunications industry continues to promote data services and consolidate with an increased requirement for disparate technologies to co-exist. These are trends that the Company looks to take advantage of with its RF management products. In addition, the Company seeks to broaden its customer base by expanding the Company s product solutions and geographical commercial efforts. Despite these improvements, the wireless telecommunications industry is subject to risks beyond the Company s control that can negatively impact customer capital spending budgets and/or spending patterns. For these and other reasons, the Company s financial statements have been prepared assuming the Company will continue as a going concern (see Note 2). Please note the financing event that occurred on August 2, 2005 as described in the Liquidity section below.

Results of Operations

Three Months Ended September 30, 2005 and 2004

The Company s net sales increased $1,330,000, or 188%, to $2,037,000 for the three months ended September 30, 2005 from $707,000 for the same period in 2004. This increase was due primarily to the shipment of more ANF products, as well as the expansion of the RF² product family, and related revenues during the third quarter of 2005 relative to the third quarter of 2004. The Company anticipates its unit volume and related revenue for both product families to increase during the fourth quarter of 2005 as compared to the fourth quarter of 2004, due to existing and/or anticipated customer orders. The Company s order backlog entering the fourth quarter is minimal, but it is pursuing substantial potential revenue.

Cost of sales increased by $308,000, or 66%, to $772,000 for the three months ended September 30, 2005 from $464,000 for the same period in 2004. The increase in cost of sales was due to the increase in sales volume partially offset by the more efficient allocation of fixed expenses, primarily due to the relocation of the Company s facilities during the third quarter of 2004, the expansion of the supply chain for the Company s products, including sourcing certain parts from Asia, and other efficiencies.

The Company s research and development (R&D) expenses increased by $100,000, or 31%, to $420,000 for the three months ended September 30, 2005, from $320,000 for the same period in 2004. The Company added a significant number of products to its RF² product family during 2005, including a PCS spectrum portfolio. The Company expects to continue to invest more in R&D during the fourth quarter of 2005 and into 2006 for both product families than during 2004 as it expands both its existing product families and develops two new product lines that it believes would be applicable beyond wireless cellular telecommunications.

Selling and marketing expenses increased by $120,000, or 36%, to $450,000 for the three months ended September 30, 2005, from $330,000 for the same period in 2004. The Company has continued to add personnel in this area as it pursues larger business opportunities and additional customers, and thus expects to continue to incur at least this level of selling and marketing expenses in future periods.

General and administrative expenses decreased by $222,000, or 21%, to $824,000 for the three months ended September 30, 2005, from $1,046,000 for the same period in 2004. This decrease was primarily attributable to an overall decrease in legal expenses related to the concluded patent litigation and the reduction in facility costs.

Nine Months Ended September 30, 2005 and 2004

The Company s net sales increased $5,843,000, or 296%, to $7,815,000 for the nine months ended September 30, 2005 from $1,972,000 for the same period in 2004. This increase was due primarily to the expansion of the RF^2 product family and related revenues, particularly from data network deployments. Also contributing to the improvement was the shipment of more ANF products during

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2005 then the comparable period of 2004. The Company anticipates its unit volume and related revenue to increase during the fourth quarter of 2005 as compared to the fourth quarter of 2004, due to existing and/or anticipated customer orders for both product families. The Company s order backlog entering the fourth quarter is minimal, but it is pursuing substantial potential revenue.

Cost of sales increased by $2,657,000, or 216%, to $3,888,000 for the nine months ended September 30, 2005 from $1,231,000 for the same period in 2004. The increase in cost of sales was due to the increase in sales volume partially offset by the more efficient allocation of fixed expenses and other efficiencies, primarily due to the relocation of the Company s facilities during the third quarter of 2004, the expansion of the supply chain for the Company s products, including sourcing certain parts from Asia, and other efficiencies.

The Company s R&D expenses increased by $561,000, or 74%, to $1,321,000 for the nine months ended September 30, 2005, from $760,000 for the same period in 2004. The Company expensed $200,000 of capitalized patent-related charges during the second quarter 2005, as it deemed such items to be unlikely to generate significant future revenues. The Company added a significant number of products to its RF^2 product family during 2005, including a multicoupler solution and a PCS spectrum portfolio. The Company expects to continue to invest more in R&D during the fourth quarter of 2005 and into 2006 for both product families than during 2004 as it expands both its existing product families and develops two new product lines that it believes would be applicable beyond wireless cellular telecommunications.

Selling and marketing expenses increased by $458,000, or 57%, to $1,262,000 for the nine months ended September 30, 2005, from $804,000 for the same period in 2004. The Company has continued to add personnel in this area as it pursues larger business opportunities and additional customers, and thus expects to continue to incur a higher level of selling and marketing expenses in future periods.

General and administrative expenses decreased by $776,000, or 23%, to $2,588,000 for the nine months ended September 30, 2005, from $3,364,000 for the same period in 2004. This decrease was primarily attributable to an overall decrease in legal expenses related to the concluded patent litigation and the reduction in facility costs.

Liquidity and Capital Resources

At September 30, 2005, the Company s cash and cash equivalents were $4,994,000, an increase of $4,592,000 from the balance at December 31, 2004 of $402,000.

During the third quarter 2005, the Company realized cash from the financing transaction and recovery of short-swing profits pursuant to Section 16 of the Exchange Act described below, offset in part by an increase in accounts receivable balance. The difference was roughly the same as the sum of the increase in net cash and the cash flow for the period.

The continuing development and expansion of sales of the Company s RF management solutions product lines will require a commitment of additional funds (see below). The actual amount of the Company s 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 the Company s commercialization plans, the magnitude of the Company s research and product development programs, the ability of the Company to improve product margins, and the costs involved in protecting the Company s patents or other intellectual property.

The Company completed a financing transaction with its two largest shareholders (including their affiliates) on August 2, 2005. These entities, including affiliates, are also the Company s lenders, with a total of $10.3 million in principal and interest due as of September 30, 2005. In exchange for 20 million

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shares of common stock, the Company received $4.4 million. In addition, the debt, which was due April 1, 2006, is now due August 1, 2007. Finally, the lenders agreed to waive their right to be repaid with new financing proceeds, allowing the Company to utilize the funds for product development or otherwise as it chooses. Pursuant to the provisions of Section 16 of the Exchange Act, these entities also remitted approximately $0.6 million in profits from sales of Company common stock during the six months preceding this financing.

Excluding working capital that may be required in order to support potentially significant increases in sales volume and/or potential outlays that may be used to support new product development efforts, the Company believes that, as the Company s business is currently operated, the Company has sufficient funds to operate its business through 2006. However, if the Company s product development and/or sales efforts expand at a substantially faster pace, or if customer orders increase to the point that it has to fund significantly more production, the Company may need additional financing to support such efforts. In addition, any potential defense of the Company s intellectual property or product line development or expansion, may require a commitment of funds. If one or more such events occurs, the Company will look into augmenting its existing capital position to evaluate potential short-term and long-term sources of capital whether from debt, equity, hybrid, or other methods. The actual amount of the Company s 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 the Company s commercialization plans, the magnitude of its research and product development programs, the ability of the Company to improve or maintain product margins, and the cost of protecting the Company s patents or other intellectual property.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company does not have any material market risk sensitive instruments.

Item 4. Controls and Procedures.

(a) An evaluation was performed under the supervision and with the participation of the Company s management, including its Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of September 30, 2005. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported as specified in Securities and Exchange Commission rules and forms.

(b) There were no significant changes in the Company s internal control over financial reporting identified in connection with the evaluation of such controls that occurred during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not a party to any current or pending litigation.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibits: A list of exhibits is set forth in the Exhibit Index found on page 19 of this report.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 14th day of November 2005.

ISCO International, Inc.

By: /s/ JOHN THODE
Mr. John Thode

President and Chief Executive

Officer (Principal Executive Officer)

By: /s/ FRANK CESARIO
Frank Cesario

Chief Financial Officer (Principal

Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Risk Factors.