SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004.

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from ______ to ______

Commission file number 000-22302

ISCO INTERNATIONAL, INC.

(Name of Registrant as Specified in Its Charter)

Delaware	**36-3688459**
(State or Other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	**Identification No.)**
451 Kingston Court Mt. Prospect, Illinois **(Address of Principal Executive Offices)**	**60056** **(Zip Code)**

Registrant s Telephone Number, Including Area Code (847) 391-9400

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

Indicated by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	Outstanding at July 1, 2004
Common Stock, par value $0.001 per share	160,428,260
Preferred Stock Purchase Rights	

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ISCO INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004	December 31, 2003
	(unaudited)	
Assets:		
Current Assets:		
Cash and cash equivalents	$ 302,032	$ 346,409
Inventories	786,952	678,361
Accounts receivable, net	384,871	1,169,711
Prepaid expenses, settlement receivable, and other	181,941	321,147
Total current assets	1,655,796	2,515,628
Property and equipment:		
Property and equipment	8,905,009	8,957,866
Less: accumulated depreciation and amortization	(8,571,563)	(8,256,489)
Net property and equipment	333,446	701,377
Restricted certificates of deposit	40,527	40,527
Intangible assets, net	14,461,685	14,465,503
Other assets, net		
Total assets	$ 16,491,454	$ 17,723,035
Liabilities and Stockholders Equity:		
Current liabilities:		
Accounts payable	$ 105,267	$ 243,647
Accrued liabilities	1,082,971	1,536,141
Current debt	5,000,000	
Total current liabilities	6,188,238	1,779,788
Other long-term debt, less current portion		5,000,000
Stockholders equity:		
Preferred stock; 300,000 shares authorized; No shares issued and outstanding at June 30, 2004 and December 31, 2003		
Common stock ($.001 par value); 250,000,000 shares authorized; 160,428,260 and 150,149,927 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	160,428	150,150
Additional paid-in capital (net of unearned compensation)	163,483,666	160,889,202

Accumulated deficit	(153,340,878)	(150,096,105)
Total stockholders equity	10,303,216	10,943,247
Total liabilities and stockholders equity	$ 16,491,454	$ 17,723,035

NOTE: The condensed consolidated balance sheet as of December 31, 2003 has been derived from the audited financial statements for that date, but does not include all of the information and accompanying notes required by accounting principles generally accepted in the United States of America for complete financial statements.

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

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ISCO INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net sales	$ 843,300	$ 336,101	$ 1,265,250	$ 1,571,452
Costs and expenses:				
Cost of sales	458,547	332,426	767,142	961,947
Research and development	207,257	234,299	441,246	524,012
Selling and marketing	250,212	225,566	473,751	449,299
General and administrative	1,084,370	1,371,184	2,317,920	4,299,843
Total costs and expenses	2,000,386	2,163,475	4,000,059	6,285,101
Operating loss	(1,157,086)	(1,827,374)	(2,734,809)	(4,713,649)
Other income (expense):				
Interest income	1,416	1,108	3,223	3,164
Non-cash interest expense		(212,516)	(250,297)	(427,393)
Other interest expense	(131,445)	(74,404)	(262,890)	(126,403)
	(130,029)	(285,812)	(509,964)	(550,632)
Net loss	$ (1,287,115)	$ (2,113,186)	$ (3,244,773)	$ (5,264,281)
Basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.04)
Weighted average number of common shares outstanding	160,424,606	147,974,927	157,198,407	147,965,645

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

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ISCO INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Six Months ended June 30, 2004

(UNAUDITED)

	Common Stock		Additional Paid-In		
	Number of Shares	Amount	Capital	Accumulated Deficit	Total
Balance at December 31, 2003	150,149,927	$ 150,150	$ 160,889,202	$ (150,096,105)	$ 10,943,247
Exercise of Stock Options	278,333	278	41,539		41,817
Exercise of Warrants	10,000,000	10,000	1,990,000		2,000,000
Compensation Expense for Discount on Employee Stock Options / Variable Accounting for Stock Options			312,628		312,628
Non-cash Warrant Expense			250,297		250,297
Net Loss				(3,244,773)	(3,244,773)
Balance at June 30, 2004	160,428,260	$ 160,428	$ 163,483,666	$ (153,340,878)	$ 10,303,216

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

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ISCO INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Operating Activities:		
Net loss	$ (3,244,773)	$ (5,264,281)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization, excluding goodwill	420,425	418,343
Non-cash warrant expense	250,297	427,393
Non-cash compensation expense	312,628	617,100
Changes in operating assets and liabilities	223,906	2,937,736
Net cash used in operating activities	(2,037,517)	(863,709)
Investing Activities:		
Decrease in restricted certificates of deposit		23,684
Payment of patent costs	(27,937)	(56,019)
Acquisition of property and equipment, net	(20,740)	(4,857)
Net cash used in investing activities	(48,676)	(37,192)
Financing Activities:		
Exercise of warrants	2,000,000	
Proceeds from credit line		1,000,000
Exercise of stock options	41,816	
Net cash provided by financing activities	2,041,816	1,000,000
(Decrease)/Increase in cash and cash equivalents	(44,377)	99,099
Cash and cash equivalents at beginning of period	346,409	216,119
Cash and cash equivalents at end of period	$ 302,032	$ 315,218

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

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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, 2003 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter of for the entire year ending December 31, 2004. For further information, refer to the financial statements, including the notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), *Consolidation of Variable Interest Entities,* to expand upon existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. In December 2003, the FASB revised FIN No. 46 to provide more clarification. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 changes that by requiring a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. FIN No. 46, as revised, did not have a material impact on the Company s consolidated financial statements.

Note 2. Realization of Assets

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has sustained substantial losses from operations in recent years, and, although reduced, such losses have continued through the (unaudited) period ended June 30, 2004. 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

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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, 2003, 2002, and 2001, the Company incurred net losses of $7,156,075, $13,077,832, and $28,189,603, respectively. The Company incurred an additional net loss of $3,244,773 during the first six months of 2004. During the past few 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, expanding its outsourcing of manufacturing strategy, reducing professional fees and discretionary expenditures, and negotiating favorable payment arrangements with suppliers and service providers.

To date, the Company has financed its operations primarily through public and private equity and debt financings. During July 2004, the Company reported a subsequent event wherein it drew the remaining $1 million of the credit line and increased the available line by $0.5 million, drawing that amount as well. The Company believes that it has sufficient funds to operate its business as identified herein and to meet its obligations through 2004, and into 2005, depending in part on operating results. The Company intends to look into augmenting its existing capital position.

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:

	June 30, 2004	December 31, 2003
Raw materials		