INTERNATIONAL ISOTOPES INC
Form 10-Q
November 07, 2008

UNITED STATES

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 September 30, 2008

OR

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

For the transition period from _____________ to _______________

Commission file number:

0-22923

INTERNATIONAL ISOTOPES INC.

(Exact name of registrant as specified in its charter)

Texas	**74-2763837**
(State of incorporation)	*(IRS Employer Identification Number)*

4137 Commerce Circle

Idaho Falls, Idaho, 83401

(Address of principal executive offices)

(208) 524-5300

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý Yes ¨ No

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

Large accelerated filer ¨

Accelerated Filer ¨

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

Smaller Reporting Company ý

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

¨ Yes ý No

As of November 7, 2008 the number of shares of Common Stock, $.01 par value, outstanding was 280,403,608.

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Statements

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

Assets	September 30, 2008	December 31, 2007
Current assets		
Cash and cash equivalents	$ 660,361	$ 121,887
Accounts receivable	627,528	518,464
Inventories	2,551,292	2,502,266
Prepaids and other current assets	151,247	94,936
Total current assets	3,990,428	3,237,553
Long-term assets		
Restricted certificate of deposit	258,767	184,937
Property, plant and equipment, net	2,947,225	2,095,610
Capitalized lease disposal costs, net	90,682	83,271
Investment	1,290,000	330,000
Patents, net	111,300	91,857
Total long-term assets	4,697,974	2,785,675
Total assets	$ 8,688,402	$ 6,023,228
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 385,626	$ 441,910
Accrued liabilities	563,119	402,950
Current installments of capital leases	32,236	29,648
Current installments of notes payable	1,435,328	937,969
Total current liabilities	2,416,309	1,812,477

Long-term liabilities		
Obligation for lease disposal costs	258,461	221,742
Capital leases, excluding current installments	55,627	80,138
Notes payable, excluding current installments	100,776	669,859
Mandatorily redeemable convertible preferred stock	850,000	850,000
Total long-term liabilities	1,264,864	1,821,739
Total liabilities	3,681,173	3,634,216
Stockholders' Equity		
Common stock, $0.01 par value; 500,000,000 shares authorized; 280,403,608 and 250,481,324 shares issued and outstanding respectively	2,804,036	2,504,811
Additional paid-in capital	96,207,714	92,436,907
Accumulated deficit	(94,004,521)	(92,552,706)
Total stockholders' equity	5,007,229	2,389,012
Total liabilities and stockholders' equity	$ 8,688,402	$ 6,023,228

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	**2007**	**2008**	**2007**
Sale of product	$ 1,245,164	$ 1,486,112	$ 4,429,144	$ 3,592,049
Cost of product	647,882	796,263	2,182,789	1,973,170
Gross profit	597,282	689,849	2,246,355	1,618,879
Operating costs and expenses:				
Salaries and contract labor	510,908	406,783	1,531,385	1,101,605
General, administrative and consulting	806,888	536,502	2,087,470	1,608,698
Research and development	6,470	26,830	28,588	45,749
Total operating expenses	1,324,266	970,115	3,647,443	2,756,052
Operating loss	(726,984)	(280,266)	(1,401,088)	(1,137,173)
Other income (expense):				
Other income	16,951	39,661	37,353	108,531
Interest income	6,578	1,967	19,934	5,985
Interest expense	(35,706)	(37,649)	(108,014)	(123,624)
Total other income (expense)	(12,177)	3,979	(50,727)	(9,108)
Net loss	$ (739,161)	$ (276,287)	$ (1,451,815)	$ (1,146,281)
Net loss per common share basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)
Weighted average common shares outstanding -basic and diluted	280,402,224	247,646,540	273,051,820	235,378,328

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months ended September 30, 2008	2007
Cash flows from operating activities:		
Net loss	$ (1,451,815)	$ (1,146,281)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	294,631	250,481
Accretion of obligation for lease disposal costs	18,184	11,468
Compensation expense related to issuance of options	267,925	229,852
Changes in operating assets and liabilities:		
Accounts receivable	(109,064)	(646,661)
Prepaids and other assets	(56,311)	(20,027)
Inventories	(49,026)	44,275
Accounts payable and accrued liabilities	103,885	337,236
Net cash used in operating activities	(981,591)	(939,657)
Cash flows from investing activities:		
Restricted certificate of deposit	(73,830)	(5,929)
Purchase of patents	(30,466)	(23,510)
Purchase of RadQual interest	-	(275,000)
Purchase of property, plant and equipment	(1,124,099)	(251,341)
Net cash used in investing activites	(1,228,395)	(555,780)
Cash flows from financing activities:		
Proceeds from exercise of warrants	2,799,997	468,048
Proceeds from sale of stock	42,110	1,205,369
Principal payments on notes payable and capital leases	(93,647)	(173,931)
Net cash provided by financing activities	2,748,460	1,499,486
Net increase in cash and cash equivalents	538,474	4,049

Cash and cash equivalents at beginning of period		121,887		169,702
Cash and cash equivalents at end of period	$	660,361	$	173,751
Supplemental disclosure of cash flow activities:				
Cash paid for interest	$	124,818	$	140,947
Supplemental disclosure of noncash transactions:				
Conversion of note payable and accrued interest into common stock	$	-	$	673,614
Issuance of note payable for property and equipment	$	-	$	42,499
Issuance of 392,620 shares of common stock at $0.14 per share to acquire investment	$	-	$	55,000
Increase in lease disposal costs	$	18,535	$	-
Acquisition of interest in RadQual LLC in exchange for issuance of 1,370,753 shares of stock.	$	960,000	$	-

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(1)

The Company and Basis of Presentation

International Isotopes Inc. (the Company) was incorporated in Texas in November 1995. The consolidated financial statements include all the accounts of the Company and its wholly owned subsidiaries, International Isotopes Idaho Inc., International Isotopes Fluorine Products Inc., and International Isotopes Transportation Services Inc., all of which are Idaho corporations. The Company s headquarters and all operations are located in Idaho Falls, Idaho.

Nature of Operations The Company s business consists of six major business segments which include: Nuclear Medicine Standards, Cobalt Products, Radiochemical Products, Fluorine Products, Radiological Services, and Transportation.

With the exception of certain unique products, the Company s normal operating cycle is considered to be one year. Due to the time required to produce some cobalt products, the Company s operating cycle for those products is considered to be three years. All assets expected to be realized in cash or sold during the normal operating cycle of business are classified as current assets.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries International Isotopes Idaho Inc., International Isotopes Fluorine Products Inc., and International Isotopes Transportation Services Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Interim Financial Information The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments and reclassifications considered necessary in order to make the financial statements not misleading and for a fair and comparable presentation have been included and are of a normal recurring nature. Operating results for the three and nine-month periods ending September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The accompanying financial statements should be read in conjunction with the Company s most recent audited financial statements.

Recent Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of the portions of SFAS No. 157 that were not postponed by (FSP FIN) No. 157-2 did not have a material impact on our consolidated financial statements. The Company does not expect the adoption of the postponed portions of SFAS No. 157 to have a material impact on our consolidated financial statements.

(2)

Current Developments and Liquidity

Business Condition Since inception, the Company has suffered substantial losses. During the nine-month period ended September 30, 2008, the Company had a loss of $1,451,815 and operations used cash of $981,591. During the same period in 2007, the Company had a loss of $1,146,281 and operations used cash of $939,657. During the three-month period ended September 30, 2008, the Company had a loss of $739,161 as compared to a loss of $276,287 for the similar period in 2007. The Company believes that continued growth in its current business segments will continue to improve revenue and cash flow for the Company. However, the Company will continue to invest in development of the fluorione extraction process (FEP) technology as well as design and licensing of a larger scale uranium de-conversion and fluorine extraction facility. Management expects to generate sufficient cash flows from the existing business segments to meet operational needs during 2008; however, there is no assurance that these cash flows will occur. In addition, the Company will likely require additional capital to support ongoing efforts to expand the Company business to include the envisioned large scale uranium de-conversion processing and fluorine extraction plant. Site studies as well as initial design and licensing activities for that new facility will continue through the remainder of 2008 and a significant portion of 2009.

(3)

Net Loss Per Common Share - Basic and Diluted

At September 30, 2008, and 2007, the Company had the following common stock equivalents outstanding that were not included in the computation of diluted net loss per common share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share:

	September 30,	
	2008	**2007**
Stock options	18,780,000	22,150,000
Class C warrants	-	13,333,331
Class D warrants	-	13,333,331
Class E warrants	13,333,331	-
850 shares of Series B redeemable convertible preferred stock	425,000	425,000
	32,538,331	49,241,662

(4)

Inventories

Inventories consist of the following at September 30, 2008, and December 31, 2007:

	September 30, 2008	**December 31, 2007**
Raw materials	$ 254,343	$ 260,611
Work in progress	2,296,949	2,241,655
	$ 2,551,292	$ 2,502,266

(5)

Asset Acquisition

In May 2008, the Company entered into an Asset Purchase Agreement with Sequoyah Fuels Corporation pursuant to which the Company purchased certain tangible and intangible assets related to Sequoyah s depleted uranium hexafluoride to depleted uranium tetrafluoride conversion facility located in Gore, Oklahoma. On May 30, 2008, the Company and Sequoyah entered into a Technical Support Services Agreement pursuant to which Sequoyah will perform up to 500 hours of certain technical services to support the Acquired Assets. As consideration for the acquired assets and the service agreement, the Company paid Sequoyah $900,000 cash. The Company is currently considering how to allocate the purchase price among tangible assets, intangible assets and the service agreement and currently has the entire $900,000 recorded as production equipment. These assets are not being depreciated until such time as the assets are placed into service.

(6)

Stockholders   Equity and Warrants

<u>Options</u>

During the nine months ended September 30, 2008, certain option holders exercised 470,000 options under cashless exercises and the Company issued 366,568 shares of common stock. Certain option holders also exercised 1,500,000 options at $0.20 per share for $30,000 and the Company issued 1,500,000 shares of common stock.

<u>Warrants</u>

During January 2008, 13,333,331 Series D warrants were exercised for cash totaling $1,466,666. In April 2008, the holders of all Class C warrants agreed to amend the terms of the Class C warrant to allow for the Company s call of those warrants. Subsequent to completing this modification, all 13,333,331 Class C warrants were exercised for cash totaling $1,333,333 and the Company issued 13,333,331 exchange (Class E) warrants in accordance with the terms of the Class C warrant. Class E warrants entitle the holder to purchase shares of common stock, $0.01 par value per share, at an exercise price equal to $0.869 per share. Class E warrants expire March 20, 2011.

Employee Stock Purchase

During the nine months ended September 30, 2008, the Company issued 18,302 shares of common stock to employees for proceeds of $12,110. All of these shares were issued in accordance with the Company s employee stock purchase plan.

Stock-based Compensation Plans

The Company accounts for issuances of stock-based compensation to employees under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R). SFAS 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period).

The Company accounts for its issuances of stock-based compensation to non-employees for services using the measurement date guidelines enumerated in SFAS 123(R) and EITF 96-18. Accordingly, the value of any awards that were vested and non forfeitable at their date of issuance were measured based on the fair value of the equity instruments at the date of issuance. The non-vested portion of awards that are subject to the future performance of the counterparty are adjusted at each reporting date to their fair values based upon the then current market value of the Company s stock and other assumptions that management believes are reasonable. The fair value of the stock options granted was calculated using the Black-Scholes option pricing model.

In January 2008, the Company granted stock options to a consultant to purchase 400,000 shares of common stock, with an exercise price of $0.77 per share. The options vest at the rate of 25% each year over four years beginning one year from the date granted. The options had a grant date fair value of $258,012 or $0.65 per share as calculated using the Black-Scholes option pricing model.

The weighted average assumptions for options granted during the nine months ended September 30, 2008 used an expected dividend yield of zero and a risk-free interest rate of 3.33%. The expected volatility factor used was 110.92% with an expected life of 6.26 years. Weighted average fair value per share was assumed to be $0.56.

In accordance with EITF 96-18, as of September 30, 2008, the options awarded to consultants were re-valued using the Black-Scholes option pricing model and had a fair value of $225,181 or $0.56 per share with the following assumptions: volatility of 90.68%, remaining expected life of six years, risk free interest rate of 3.18% and no dividends.

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of the Company s common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents the anticipated cash dividend over the expected life of the stock options.

Compensation expense charged against income for stock based awards during the nine months ended September 30, 2008 was $267,925, as compared to $229,852 for the nine months ended September 30, 2008 and 2007, respectively, and is included in general and administrative expense in the accompanying financial statements.

A summary of the status of the stock options as of September 30, 2008, and changes during the nine months ended September 30, 2008, is as follows:

Fixed Options	**Shares**		**Weighted Average Exercise Price**	**Weighted Average Remaining Term**		**Aggregate Intrinsic Value**
Outstanding at December 31, 2007	21,350,000	$	0.05			
Granted	400,000		0.77			
Exercised	(1,970,000)		0.07		$	1,521,500
Forfeited	(1,000,000)		0.17			
Outstanding at September 30, 2008	18,780,000		0.09	4.9	$	7,829,800
Exercisable at September 30, 2008	16,580,000		0.04	4.5	$	7,419,800

The intrinsic value of outstanding and exercisable shares is based on a September 30, 2008, closing price of the Company s common stock of $0.50 per share.

As of September 30, 2008, there was approximately $348,198 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.1 years.

(7)

Acquisition of Interest in RadQual, LLC

During April 2007, the Company acquired 6% of the equity interests of RadQual, LLC for a cash payment of $330,000. In May 2008, the Company acquired an additional 18.5% interest by issuing 1,370,753 shares of common stock valued at $960,000 or $0.70 per share. The remaining 75.5% ownership of RadQual is concentrated among a very small group of investors and due to this concentration the Company is unable to exert significant control or influence over the operations and policies of RadQual, LLC. Accordingly, the investment in RadQual will continue to be recorded at the lower of cost or fair value in accordan