INTERNATIONAL ISOTOPES INC
Form 10-Q
November 13, 2009

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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ 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 ¨	Smaller reporting company þ

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No

As of November 12, 2009 the number of shares of Common Stock, $.01 par value, outstanding was 293,348,473.

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Information

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

Assets		**September 30, 2009**		**December 31, 2008**
Current assets				
Cash and cash equivalents	$	1,098,123	$	2,149,340
Accounts receivable		597,222		521,908
Inventories		2,704,028		2,518,254
Prepaids and other current assets		167,192		117,621
Total current assets		4,566,565		5,307,123
Long-term assets				
Restricted certificate of deposit		263,898		260,517
Property, plant and equipment, net		2,584,469		2,748,023
Capitalized lease disposal costs, net		72,430		86,974
Investment		1,290,000		1,290,000
Patents and other intangibles, net		257,990		247,682
Total long-term assets		4,468,787		4,633,196
Total assets	$	9,035,352	$	9,940,319
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	$	760,040	$	430,457
Accrued liabilities		331,952		348,427
Deferred revenue		104,250		102,814
Current installments of capital leases		36,041		33,149
Current installments of notes payable		117,224		580,759
Total current liabilities		1,349,507		1,495,606
Long-term liabilities				
Obligation for lease disposal costs		275,380		261,721

Notes payable, excluding current installments		1,003,261		930,493
Capital leases, excluding current installments		19,586		46,991
Mandatorily redeemable convertible preferred stock		850,000		850,000
Total long-term liabilities		2,148,227		2,089,205
Total liabilities		3,497,734		3,584,811
Stockholders Equity				
Common stock, $0.01 par value; 500,000,000 shares authorized; 293,314,191 and 288,625,708 shares issued and outstanding respectively		2,933,142		2,886,257
Additional paid-in capital		100,179,355		98,188,924
Accumulated deficit		(97,574,879)		(94,719,673)
Total stockholders equity		5,537,618		6,355,508
Total liabilities and stockholders equity	$	9,035,352	$	9,940,319

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	
	2009	2008	2009	2008
Sale of product	$ 1,323,907	$ 1,245,164	$ 4,509,176	$ 4,429,144
Cost of product	859,479	647,882	2,374,956	2,182,789
Gross profit	464,428	597,282	2,134,220	2,246,355
Operating costs and expenses:				
Salaries and contract labor	478,207	510,908	1,533,295	1,531,385
General, administrative and consulting	622,603	806,888	1,512,117	2,087,470
Research and development	856,154	6,470	1,909,460	28,588
Total operating expenses	1,956,964	1,324,266	4,954,872	3,647,443
Operating loss	(1,492,536)	(726,984)	(2,820,652)	(1,401,088)
Other income (expense):				
Other income	9,144	16,951	46,460	37,353
Interest income	3,918	6,578	11,593	19,934
Interest expense	(29,171)	(35,706)	(92,607)	(108,014)
Total other expense	(16,109)	(12,177)	(34,554)	(50,727)
Net loss	$ (1,508,645)	$ (739,161)	$ (2,855,206)	$ (1,451,815)
Net loss per common share basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average common shares outstanding - basic and diluted	289,636,523	280,402,224	289,103,195	273,051,820

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,	
	2009	**2008**
Cash flows from operating activities:		
Net loss	$ (2,855,206)	$ (1,451,815)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	309,997	294,631
Loss on disposal of property, plant and equipment	2,756	-
Accretion of obligation for lease disposal costs	13,659	18,184
Equity based compensation	709,122	267,925
Changes in operating assets and liabilities:		
Accounts receivable	(75,314)	(109,064)
Prepaids and other assets	(49,571)	(56,311)
Deferred revenue	1,436	-
Inventories	(185,774)	(49,026)
Accounts payable and accrued liabilities	340,668	103,885
Net cash used in operating activities	(1,788,227)	(981,591)
Cash flows from investing activities:		
Restricted certificate of deposit	(3,381)	(73,830)
Purchase of patents	-	(30,466)
Proceeds from sale of property, plant and equipment	5,400	-
Purchase of patents, property, plant and equipment	(150,363)	(1,124,099)
Net cash used in investing activities	(148,344)	(1,228,395)
Cash flows from financing activities:		
Proceeds from exercise of warrants	-	2,799,997
Proceeds from sale of stock	959,881	42,110
Proceeds from issuance of debt	26,769	-
Principal payments on notes payable and capital leases	(101,296)	(93,647)
Net cash provided by financing activities	885,354	2,748,460
Net (decrease) increase in cash and cash equivalents	(1,051,217)	538,474
Cash and cash equivalents at beginning of period	2,149,340	121,887

Cash and cash equivalents at end of period	$	1,098,123	$	660,361
Supplemental disclosure of cash flow activities:				
Cash paid for interest	$	108,094	$	124,818
Supplemental disclosure of noncash transactions:				
Conversion of note $340,753 and interest of $41,439 to common stock	$	382,192	$	-
Retirement of 77,091 shares of common stock at $0.18 per share to cover certain payroll taxes of employees in connection with shares granted to employees for restricted stock awards	$	13,877	$	-
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, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The accompanying financial statements should be read in conjunction with the Company s most recent audited financial statements.

Research and Development For the three and nine months ended September 30, 2009, costs related to the work on the de-conversion and fluorine extraction project have been reported as research and development expense. These costs were reported as general and administrative expense for the period ended March 30, 2009; consequently, the year to date information has been reclassified to report these costs as if they had been previously reported as research and development expense.

Recent Accounting Pronouncements

In September 2006, the FASB issued a new accounting standard which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The new standard was effective for the Company as of January 1, 2008. In February 2008, the FASB issued a new standard which extended the effective date to fiscal years beginning after November 15, 2008. Adoption of this standard did not cause a material change in financial position or results of operations.

In December 2007, the FASB issued a new standard which requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. The FASB also issued a second new standard which seeks to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These two new standards were effective for fiscal years beginning on or after December 15, 2008. The adoption of these standards did not have a material effect on the Company s financial position or results of operations.

In April 2009, the FASB issued a new staff position, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. The staff position also amends a previous accounting standard to require those disclosures about the fair value of financial instruments in summarized financial information at interim reporting periods. Under the new staff position, the Company will be required to include disclosures about the fair value of its financial instruments whenever it issues financial information for interim reporting periods. In addition, the Company will be required to disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. The staff position is effective for periods ending after June 15, 2009 and the adoption of this standard did not have a material impact on the Company s financial position or results of operations.

In May 2009, the FASB issued a new standard which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new standard was effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s financial position or results of operations.

(2)
Current Developments and Liquidity

Business Condition Since inception, the Company has suffered substantial losses. During the nine-month period ended September 30, 2009, the Company had a loss of $2,855,206 and operations used cash of $1,788,227. During the same period in 2008, the Company had a loss of $1,451,815 and operations used cash of $981,591. 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 the design and licensing of a large 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 2009; 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 this new facility will continue through the remainder of 2009.

(3)
Net Loss Per Common Share - Basic and Diluted

At September 30, 2009, and 2008, 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,	
	2009	**2008**
Stock options	27,080,000	18,780,000
Warrants	25,940,637	13,333,331
Restricted stock awards issued under the 2006 Equity Incentive Plan	994,850	-
850 shares of Series B redeemable convertible preferred stock	425,000	425,000
	54,440,487	32,538,331

(4)
Investments

At September 30, 2009, the Company owned a 24.5% interest in RadQual, LLC, with which the Company has an exclusive manufacturing agreement for nuclear medicine products. The Company accounts for this investment at cost and has recorded $1,290,000 as an investment. At September 30, 2009, and December 31, 2008, the Company had receivables from RadQual, LLC in the amount of $461,160 and $399,140 respectively, which are recorded as part of accounts receivable. For the nine months ended September 30, 2009 and 2008, the Company had revenues from RadQual, LLC in the amount of $2,442,240 and $2,308,086 respectively, which are recorded as part of sale of product.

(5) Inventories

Inventories consist of the following at September 30, 2009, and December 31, 2008:

	September 30, 2009	December 31, 2008
Raw materials	$ 251,058	$ 256,576
Work in progress	2,452,970	2,261,678
	$ 2,704,028	$ 2,518,254

(6)
Notes Payable

In April 2009, the Company renewed a promissory note with Compass Bank. The new note bears interest at 7.25%, requires monthly installments of $9,090 and matures in April 2011. At September 30, 2009, the outstanding balance on the note was $501,374.

In September 2009, a portion of an unsecured note payable was converted into equity. The conversion was deemed a partial prepayment of principal and accrued interest under the original note. The terms and conditions of the original note remain in full force and effect with a stated annual interest rate of 7% on any unpaid principal balance and interest payments due each April 1st. The amount of principal converted was $340,753 and the amount of accrued interest converted was $41,439. The principal amount remaining on the note after the conversion is $500,000. The note conversion was pursuant to an Unsecured Note Conversion dated September 18, 2009, wherein the note was reduced by the conversion amount and 1,273,972 units consisting of one share of Common Stock, par value $0.01 per share, and one Class G Warrant to purchase an underlying share of Common Stock for a purchase price equal to $0.40 per share, were issued.

(7)
Stockholders Equity, Options and Warrants

Employee Stock Purchase

During the nine months ended September 30, 2009, the Company issued 109,557 shares of common stock to employees for proceeds of $19,881. Subsequent to September 30, 2009, the Company issued 34,282 shares of common stock to employees for proceeds of $7,285. All of these shares were issued in accordance with the Company s employee stock purchase plan.

Stock-based Compensation Plans

Employee/Director Grants - The Company accounts for issuances of stock-based compensation to employees under the provisions of Generally Accepted Accounting Principles (GAAP). GAAP 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. GAAP 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).

During May 2009, the Company issued 7,500,000 options to officers and directors under the 2006 Equity Incentive Plan. The options have an exercise price of $0.32 per share, vest 25% on the first anniversary of the grant date and 25% after each additional one-year period of continuous service and expire 10 years from the date of grant. These options had a fair value of $1,743,898 or $0.23 per share as estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.37%, expected dividend yield of 0%, expected volatility of 84.03% and an expected life of 6.25 years.

Non-Employee Grants - The Company accounts for its issuances of stock-based compensation to non-employees for services using the measurement date guidelines enumerated under Generally Accepted Accounting Principles. 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.

During May 2009, the Company issued 800,000 non-employee options under the 2006 Equity Incentive Plan. The options were issued to individuals providing consulting services for the depleted uranium de-conversion facility. These options have an exercise price of $0.32 per share, vest 20% on the first and second anniversary of the grant date and 30% per year thereafter and expire in May 2019. The options had a grant date fair value of $182,202 or $0.23 per share as calculated using the Black-Scholes option pricing model. In accordance with GAAP, these options will be revalued using the Black-Scholes option pricing model each reporting period.

At September 30, 2009, the Company had 1,200,000 options outstanding to non-employees with a fair value of $583,945 or $0.49 per share as estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 84.10% and an expected life of 5.95 years.

Option awards outstanding as of December 31, 2008, and September 30, 2009, and changes during the nine months ended September 30, 2009, were as follows:

Fixed Options	**Shares**		**Weighted Average Exercise Price**	**Weighted Average Remaining Term**		**Aggregate Intrinsic Value**
Outstanding at December 31, 2008	18,780,000	$	0.09			
Granted	8,300,000		0.32			
Exercised	-		-			
Forfeited	-		-			
Outstanding at September 30, 2009	27,080,000		0.16	5.7	$	13,832,000
Exercisable at September 30, 2009	17,880,000		0.06	3.7	$	11,132,000

The intrinsic value of outstanding and exercisable shares is based on a September 30, 2009, closing price of the Company s common stock of $0.68 per share.

As of September 30, 2009, there was approximately $1,792,472 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.26 years.

Restricted Stock Grants - During January 2009, the Company granted 1,243,563 shares of restricted stock to certain employees as part of their annual performance award and incentive under the 2006 Equity Incentive Plan. Each restricted stock award was 20% vested on the date of grant and an additional 20% of the award will vest on each anniversary thereof until fully vested. The restricted stock awards had a grant date fair value of $223,841. At the time of grant 20% of the shares, or 248,713 shares, were vested. Simultaneously, at the request of employees, 77,091 shares were withheld to pay taxes on deemed employee compensation.

Restricted stock awards outstanding as December 31, 2008, and September 30, 2009, and changes during the nine months ended September 30, 2009, were as follows:

Restricted Stock Awards	**Shares**
Non-vested at December 31, 2008	-
Granted	1,243,563
Vested	248,713
Forfeited	-
Non-vested at September 30, 2009	994,850

The value of non-vested stock under the 2006 Equity Incentive Plan at September 30, 2009 is $676,498 and is based on a September 30, 2009 value of $0.68 per share. As of September 30, 2009, there was approximately $91,827 of unamortized deferred compensation that will be recognized over a weighted average period of 2 years.

Compensation expense charged against income for stock based awards during the nine-month period ended September 30, 2009, was $709,122, of which $568,991 is included in general and administrative expense and $140,131 is included in research and development expense. Stock based compensation expense for this same period in 2008 was $267,925 and is included in general and administrative expense in the accompanying financial statements.

Warrants - The stated exercise price of the Class E Warrants was recalculated to reflect a decrease in average closing price since the previous anniversary date. The Class E Warrants