

INTERNATIONAL ISOTOPES INC  
Form 10-Q  
May 18, 2011

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

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

Commission file number:

0-22923

**INTERNATIONAL ISOTOPES INC.**

*(Exact name of registrant as specified in its charter)*

**Texas**  
*(State of incorporation)*

**74-2763837**  
*(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.  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 the 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

(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  No

As of May 13, 2011, the number of shares of Common Stock, \$.01 par value, outstanding was 323,604,727.



**INTERNATIONAL ISOTOPES INC.**

**For The Quarter Ended March 31, 2011**

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## Part I. Financial Information

## Item 1. Financial Statements

**INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Balance Sheets**

<b>Assets</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Current assets		
Cash and cash equivalents	\$ 2,907,220	\$ 4,237,303
Accounts receivable	1,169,462	844,258
Inventories	1,692,810	1,681,840
Due from related party	54,518	87,500
Prepays and other current assets	83,861	122,016
Total current assets	5,907,871	6,972,917
Long-term assets		
Restricted certificate of deposit	428,568	428,365
Property, plant and equipment, net	2,069,686	2,090,781
Capitalized lease disposal costs, net	127,296	140,934
Investment	1,402,752	1,365,851
Patents and other intangibles, net	229,540	228,745
Total long-term assets	4,257,842	4,254,676
Total assets	\$ 10,165,713	\$ 11,227,593
<b>Liabilities and Stockholders Equity</b>		
Current liabilities		
Accounts payable	\$ 971,206	\$ 717,363
Accrued liabilities	710,713	623,111
Convertible debentures, net of beneficial conversion feature of \$175,722 and \$292,863	2,899,278	2,782,137
Current installments of notes payable	424,399	454,811
Current installments of capital leases	3,341	9,930
Total current liabilities	5,008,937	4,587,352
Long-term liabilities		
Obligation for lease disposal costs	455,510	446,578
Notes payable, excluding current installments	501,361	505,382
Mandatorily redeemable convertible preferred stock	850,000	850,000
Total long-term liabilities	1,806,871	1,801,960
Total liabilities	6,815,808	6,389,312
Stockholders Equity		
Common stock, \$0.01 par value; 750,000,000 shares authorized; 323,232,868 and 323,032,866 shares issued and outstanding respectively	3,232,329	3,230,328

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Additional paid-in capital	107,669,387	107,462,007
Accumulated deficit	(107,759,067)	(106,044,054)
Equity attributable to International Isotopes Inc. stockholders	3,142,649	4,648,281
Equity attributable to noncontrolling interest	207,256	190,000
Total equity	3,349,905	4,838,281
Total liabilities and stockholders' equity	\$ 10,165,713	\$ 11,227,593

*See accompanying notes to condensed consolidated financial statements.*

**INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Operations**

	<b>Three Months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Sale of product	\$ 2,413,315	\$ 1,109,551
Cost of product	1,494,278	733,870
Gross profit	919,037	375,681
Operating costs and expenses:		
Salaries and contract labor	568,923	519,081
General, administrative and consulting	520,252	371,365
Research and development	1,407,711	656,165
Total operating expenses	2,496,886	1,546,611
Net operating loss	(1,577,849)	(1,170,930)
Other income (expense):		
Other income (expense)	3,145	(3,040)
Equity in net income of affiliate	44,856	-
Interest income	1,850	1,047
Interest expense	(169,758)	(91,939)
Total other expense	(119,907)	(93,932)
Net loss	(1,697,756)	(1,264,862)
Less income attributable to noncontrolling interest	(17,256)	-
Net loss attributable to International Isotopes Inc.	\$ (1,715,012)	\$ (1,264,862)
Net loss per common share basic and diluted	\$ (0.01)	\$ (0.00)
Weighted average common shares outstanding - basic and diluted	323,199,534	293,873,152

*See accompanying notes to condensed consolidated financial statements.*



**INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Cash Flows**

	<b>Three Months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net loss	\$ (1,697,756)	\$ (1,264,862)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net income in equity method investment	(44,856)	-
Depreciation and amortization	102,063	106,475
(Gain)/Loss on disposal of property, plant and equipment	(3,145)	14,635
Accretion of obligation for lease disposal costs	8,932	8,252
Accretion of beneficial conversion feature	117,141	58,571
Equity based compensation	205,918	224,585
Changes in operating assets and liabilities:		
Accounts receivable	(325,204)	(82,716)
Prepays and other assets	38,155	27,923
Inventories	(10,970)	(48,375)
Accounts payable and accrued liabilities	341,445	(81,129)
Net cash used in operating activities	(1,268,277)	(1,036,641)
Cash flows from investing activities:		
Restricted certificate of deposit	(203)	(762)
Due from related party	32,982	-
Dividends received from equity method investment	7,955	-
Proceeds from sale of property, plant and equipment	18,500	3,800
Purchase of property, plant and equipment	(83,480)	(7,207)
Net cash used in investing activities	(24,246)	(4,169)
Cash flows from financing activities:		
Proceeds from sale of stock	3,462	7,205
Proceeds from issuance of convertible debentures	-	3,075,000
Principal payments on notes payable and capital leases	(41,022)	(40,522)
Net cash provided by financing activities	(37,560)	3,041,683
Net increase (decrease) in cash and cash equivalents	(1,330,083)	2,000,873
Cash and cash equivalents at beginning of period	4,237,303	461,091
Cash and cash equivalents at end of period	\$ 2,907,220	\$ 2,461,964
Supplemental disclosure of cash flow activities:		
Cash paid for interest	\$ 47,525	\$ 12,486
Supplemental disclosure of noncash transactions:		

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Increase in equity for the beneficial conversion feature associated with the convertible debentures	\$	-	\$	702,857
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*See accompanying notes to condensed consolidated financial statements.*

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**INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**March 31, 2011**

(1)

The Company and Basis of Presentation

International Isotopes Inc. (the Company) was incorporated in Texas in November 1995. The Company has three wholly-owned subsidiaries: International Isotopes Idaho, Inc., a Texas corporation, International Isotopes Fluorine Products, Inc., an Idaho corporation, and International Isotopes Transportation Services, Inc., an Idaho corporation. The Company also owns a 50% interest in TI Services, LLC and a 24.5% interest in RadQual LLC. 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 condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its 50% owned joint venture TI Services, LLC. 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 (GAAP) for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP 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 month period ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. The accompanying financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 31, 2011.

(2)

#### Current Developments and Liquidity

*Business Condition* Since inception, the Company has suffered substantial losses. During the three-month period ended March 31, 2011, the Company reported net loss attributable to International Isotopes, Inc of \$1,715,012 and net cash used in operating activities of \$1,268,277. During the same period in 2010, the Company reported a loss of \$1,264,862 and net cash used in operating activities of \$1,036,641. The Company has made significant investments in, and will continue to invest in, the design, licensing, and construction of a large scale uranium de-conversion and fluorine extraction facility. The Company expects that such investments will exceed revenue from sales by a significant amount for the next several years. As a result, the Company expects to continue to incur significant losses until the planned uranium de-conversion facility commences commercial production, which the Company does not expect to occur until mid 2013 at the earliest. Current expenditures on that project include licensing, design, and related subcontractor project efforts. Management expects to generate sufficient cash flows from existing business segments to meet operational needs during 2011; however, there is no assurance that these cash flows will occur. In addition, the Company will require additional capital to support ongoing efforts to expand the Company's business to include the planned large scale uranium de-conversion processing and fluorine extraction plant. There can be no assurance that the Company will be able to secure additional capital or financing on terms acceptable to the Company or at all.

The Company's efforts to start the uranium de-conversion project began in 2004 with the acquisition of patents for its Fluorine Extraction Process (FEP). Since that time the Company has made significant investments in this major undertaking to construct the first commercial depleted uranium de-conversion and fluorine extraction facility in the U.S. The Company believes this will provide a commercial opportunity because there are several companies constructing, or planning to construct, new uranium enrichment facilities in the U.S. These facilities are expected to produce large amounts of depleted uranium hexafluoride (UF<sub>6</sub>) that must be de-converted for disposal. In the process of de-conversion the Company plans to use FEP to produce high-value, high-purity fluoride gases.

Additional design and licensing activities for this new facility will continue throughout the remainder of 2011. In April 2010, the Company entered into an agreement with URENCO U.S.A. (UUSA) a wholly owned subsidiary of URENCO, to provide depleted uranium de-conversion services for its enrichment facility located in Eunice, New Mexico. These services will begin once commercial operations of the Company's planned de-conversion facility, to be built in Lea County, near Hobbs, New Mexico, are underway. The term of the agreement extends through the first five years of the Company's operation of the planned uranium de-conversion facility. It will require significant capital and time to design, license, and construct such a uranium de-conversion facility before the Company can recognize revenue under this agreement.

The Company hopes to raise funds to support the construction and start-up of the project through debt financing and one or more registered offerings of securities over the next year.

(3)

Net Loss Per Common Share - Basic and Diluted

At March 31, 2011 and 2010, 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:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Stock options	26,700,000	26,700,000
Warrants	56,552,970	25,940,637
Restricted stock awards issued under the 2006 Equity Incentive Plan	370,917	638,291
850 shares of Series B redeemable convertible preferred stock	425,000	425,000
Convertible debentures and accrued interest	9,176,634	8,785,714

93,225,521

62,489,642

(4)

Investment