

LIGHTBRIDGE Corp
Form 10-Q
November 07, 2013

**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: **September 30, 2013**

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: **001-34487**

LIGHTBRIDGE CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

*(State or other jurisdiction of
incorporation or organization)*

91-1975651

(I.R.S. Empl. Ident. No.)

1600 Tysons Boulevard, Suite 550

McLean, VA 22102

(Address of principal executive offices, Zip Code)

(571) 730-1200

(Registrant's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 (§

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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

The number of shares outstanding of each of the issuer's classes of common equity, as of October 30, 2013 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	15,057,243

LIGHTBRIDGE CORPORATION
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

PART I FINANCIAL INFORMATION

		Page
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Condensed Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012</u>	<u>3</u>
	<u>Condensed Statements of Operations for the three months and nine months ended September 30, 2013 and 2012(unaudited)</u>	<u>4</u>
	<u>Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)</u>	<u>5</u>
	<u>Notes to Condensed Financial Statements (unaudited)</u>	<u>6</u>
	<u>Forward - Looking Statements</u>	<u>18</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>30</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>30</u>

PART II OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>31</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>31</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>36</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>36</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>36</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>36</u>
<u>SIGNATURES</u>		<u>38</u>

PART I FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

Lightbridge Corporation
Condensed Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 362,597	\$ 2,197,555
Marketable securities	14,984	1,598,209
Restricted cash	554,731	553,682
Accounts receivable - project revenue and reimbursable project costs	628,789	601,803
Prepaid expenses & other current assets	448,759	574,590
Total Current Assets	2,009,860	5,525,839
Property Plant and Equipment -net	2,019	17,221
Other Assets		
Patent costs - net	672,405	600,596
Total Assets	\$ 2,684,284	\$ 6,143,656
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 282,339	\$ 385,223
Total Current Liabilities	282,339	385,223
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 authorized shares, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 500,000,000 authorized, 12,556,400 shares outstanding and 12,526,240 shares outstanding at September 30, 2013 and December 31, 2012, respectively	12,556	12,526
Additional paid in capital - stock and stock equivalents	72,224,284	71,955,631
Deficit	(69,834,895)	(66,212,849)
Common stock reserved for issuance, 2,264 shares at December 31, 2012	-	3,125
Total Stockholders' Equity	2,401,945	5,758,433
Total Liabilities and Stockholders' Equity	\$ 2,684,284	\$ 6,143,656

The accompanying notes are an integral part of these condensed consolidated financial statements

Lightbridge Corporation
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Consulting Revenue	\$ 169,156	\$ 591,355	\$ 1,343,964	\$ 2,829,893
Cost of Consulting Services Provided	128,780	370,415	778,821	1,747,880
Gross Margin	40,376	220,940	565,143	1,082,013
Operating Expenses				
General and administrative	804,907	1,082,644	2,358,769	3,274,240
Research and development expenses	557,729	542,664	1,816,284	1,557,732
Total Operating Expenses	1,362,636	1,625,308	4,175,053	4,831,972
Operating Loss	(1,322,260)	(1,404,368)	(3,609,910)	(3,749,959)
Other Income and (Expenses)				
Investment income	2,476	153,462	(9,277)	386,530
Other income (expenses)	505	3,258	(2,859)	4,312
Total Other Income and (Expenses)	2,981	156,720	(12,136)	390,842
Net loss before income taxes	(1,319,279)	(1,247,648)	(3,622,046)	(3,359,117)
Income taxes	0	0	0	0
Net loss	\$ (1,319,279)	\$ (1,247,648)	\$ (3,622,046)	\$ (3,359,117)
Net Loss Per Common Share, Basic and diluted				
	\$ (0.11)	\$ (0.10)	\$ (0.29)	\$ (0.27)
Weighted Average Number of shares outstanding				
	12,556,400	12,514,036	12,550,850	12,479,659

The accompanying notes are an integral part of these condensed consolidated financial statements

Lightbridge Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2013	
	2013	2012
Operating Activities:		
Net Loss	\$ (3,622,046)	\$ (3,359,117)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock based compensation	273,558	831,063
Depreciation and amortization	15,202	21,584
(Gains) loss on marketable securities	49,116	(141,893)
Changes in non-cash operating working capital items:		
Accounts receivable - fees and reimbursable project costs	(26,986)	(143,329)
Prepaid expenses and other assets	125,831	(316,466)
Accounts payable, accrued liabilities and other current liabilities	(102,884)	(586,078)
Net Cash Used In Operating Activities	(3,288,209)	(3,694,236)
Investing Activities:		
Proceeds from the sale of marketable securities	1,572,242	997,926
Purchase of Marketable securities	(38,133)	(242,074)
Patent costs	(71,809)	(43,502)
Property and equipment	0	(18,100)
Net Cash Provided By Investing Activities	1,462,300	694,250
Financing Activities:		
Proceeds from the issuance of common stock	0	1,733
Stock offering costs	(8,000)	0
Restricted cash	(1,049)	(1,385)
Net Cash Provided By (Used In) Financing Activities	(9,049)	348
Net Decrease In Cash and Cash Equivalents	(1,834,958)	(2,999,638)
Cash and Cash Equivalents, Beginning of Period	2,197,555	3,569,098
Cash and Cash Equivalents, End of Period	\$ 362,597	\$ 569,460
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest paid	\$ 0	\$ 0
Income taxes paid	\$ 0	\$ 0

The accompanying notes are an integral part of these condensed consolidated financial statements

LIGHTBRIDGE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation, Summary of Significant Accounting Policies and Nature of Operations

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Lightbridge Corporation and its subsidiaries have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC, including the instructions to Form 10-Q and Regulation S-X. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements and should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In the opinion of the management of the Company, all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the three month and nine month periods have been made. Results for the interim periods presented are not necessarily indicative of the results that might be expected for the entire fiscal year. When used in these notes, the terms "Company", "we", "us" or "our" mean Lightbridge Corporation and all entities included in our consolidated financial statements.

We were incorporated in the state of Delaware on January 8, 1992, and changed our name to Thorium Power, Inc. (TPI) in April 2001. On February 14, 2006, Novastar Resources Ltd., a Nevada corporation (Novastar), and TPI entered into an Agreement and Plan of Merger and merged on October 6, 2006. After the merger, we were known as Thorium Power, Ltd. and TPI became our wholly-owned subsidiary. On September 29, 2009, we changed our name from Thorium Power, Ltd. to Lightbridge Corporation (Lightbridge or the Company). We are engaged in two operating business segments: our Technology Business Segment and our Consulting Business Segment (see Note 9-Business Segment Results).

Technology Business Segment

Our primary business segment, based on future revenue potential, is to develop innovative, proprietary nuclear fuel designs which we expect will significantly enhance the nuclear power industry's economics and increase power output by: (1) Providing an increase in power output of up to 10% while simultaneously extending the operating cycle length from 18 to 24 months in existing pressurized water reactors (which are currently limited to an 18-month operating cycle); alternatively, the power can be increased up to 17% while retaining an 18-month operating cycle; (2) Enabling increased reactor power output (up to 30% increase) without changing the core size in new build PWRs; and (3) Reducing the volume of used fuel per kilowatt-hour as well as enhancing proliferation resistance of spent fuel. There are significant technology synergies among our primary fuel products due to utilization of the proprietary metallic fuel rod technology that is at the core of each of them. As a result, once completed, full-scale demonstration and qualification of the metallic fuel rod technology will simultaneously advance all of our product families currently under development. In addition, as a result of the significantly lower temperature during operation, our metallic nuclear fuel rods are expected to have improved safety margins during anticipated off-normal events. Preliminary analytical modeling shows that under a large break loss-of-coolant (LOCA) scenario, unlike conventional uranium dioxide fuel, the cladding of the Lightbridge-designed metallic fuel rods stays at least 200 degrees below 850-900 degrees Celsius which is the temperature at which steam begins to react with zirconium in the cladding generating hydrogen gas.

We are currently focusing our development efforts primarily on the metallic fuel with a power uprate of up to 10% and a 24-month operating cycle in existing Westinghouse-type four-loop pressurized water reactors. Those reactors represent the largest segment of our global target market.

Consulting Business Segment

Our business model expanded with the establishment of a consulting business segment in 2007, through which we provide consulting and strategic advisory services to companies and governments planning to create or expand electricity generation capabilities using nuclear power plants. On August 1, 2008, we signed separate consulting services agreements with two government entities: Emirates Nuclear Energy Corporation (ENEC) formed by Abu Dhabi, one of the member Emirates of the United Arab Emirates (UAE), and the Federal Authority for Nuclear Regulation (FANR) formed by the government of the UAE. Under these two original agreements, we have provided consulting and strategic advisory services over a contract term of five years starting from June 23, 2008. The contract with ENEC has been extended to December 31, 2013, and the FANR contract has been extended to December 31, 2014. These contracts can continue to be extended upon agreement by both parties.

On Oct. 7, 2013 we were selected as technical advisor to provide independent re-verification of equipment and material procurement processes related to construction and maintenance of nuclear power plants operated by Korea Hydro and Nuclear Power Company (KHNP). As a subcontractor to London-based Lloyd's Register Group Limited, we will focus on the environmental and seismic qualification, and commercial grade dedication aspects of a two-year Lloyd's Register/KHNP contract.

Accounting Policies and Pronouncements

Basis of Consolidation

These financial statements include the accounts of Lightbridge, a Nevada corporation, and our wholly-owned subsidiaries, TPI, a Delaware corporation, Lightbridge International Holding LLC, a Delaware limited liability company and our foreign branch offices.

All significant intercompany transactions and balances have been eliminated in consolidation. We registered a branch office in the United Kingdom in 2008 called Lightbridge Advisors Limited (currently inactive) and we also established a branch office in Moscow, Russia, in July 2009, both of which are wholly owned by Lightbridge International Holding LLC. Translation gains and losses for the three months and nine months ended September 30, 2013 and September 30, 2012 were not significant.

Use of Estimates and Assumptions

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Estimates

These accompanying consolidated financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to valuation of stock grants and stock options, the valuation allowance on deferred tax assets and various contingent liabilities. It is reasonably possible that these above-mentioned estimates and others may be adjusted as more current information becomes available, and any adjustment could be significant in future reporting periods.

Certain Risks, Uncertainties and Concentrations

Management anticipates, based on our current working capital, including the proceeds of an equity financing in October 2013, (see Note 10) and our current projected working capital requirements, that we will have enough working capital funds to sustain our current operations at our current operating level until early 2015. We will need to raise additional capital by way of an offering of equity securities, an offering of debt securities, a financing through a bank, or a strategic alliance with another entity. We may need to raise additional capital for research and development expenses in 2014. Currently, we are working on consulting revenue opportunities with the overall goal of increasing our profitability and cash flow.

We participate in a government regulated industry. Our operating results are affected by a wide variety of factors including decreases in the use or public favor of nuclear power, the ability of our technology, the ability to safeguard the production of nuclear power and safeguarding our patents and intellectual property from competitors. Due to these factors, we may experience substantial period-to-period fluctuations in our future operating results. Potentially, a loss of a key officer, key management, and other personnel could impair our ability to successfully execute our business strategy, particularly when these individuals have acquired specialized knowledge and skills with respect to nuclear power and our operations.

Our future operations and earnings currently depend on the results of the Company's operations outside the United States. There can be no assurance that the Company will be able to successfully continue to conduct such operations, and a failure to do so would have a material adverse effect on the Company's research and development activities, financial position, results of operations, and cash flows. Also, the success of the Company's operations will be subject

to other numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, competition, changes in regulations, changes in accounting and taxation standards, inability to achieve our overall long-term goals, future impairment charges and global or regional catastrophic events. Because the Company is dependent on its international operations for almost all its revenue, the Company may be subject to various additional political, economic, and other uncertainties.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities and accounts receivable. Cash equivalents and marketable securities consist of money market funds and mutual bond funds held with one major financial institution with a high credit standing. The underlying fixed-income investments of the money market and bond mutual funds are either United States Treasury securities or represent a diversified portfolio of investments.

Accounts receivable are typically unsecured and are primarily derived from revenues earned from customers located in the Middle East. We perform ongoing evaluations to determine customer credit and we limit the amount of credit we extend, but generally we do not require collateral from our customers. We maintain reserves for estimated credit losses; however, no reserve has been set up for 2013 and 2012, as we have not incurred any credit losses from our customers, to date. Substantially all of our consulting revenues were from our Middle East contracts for the three months and nine months ended September 30, 2013 and 2012. One consulting firm accounted for 0% and 80% of our total cost of consulting services provided, for the three months ended September 30, 2013 and September 30, 2012, and 24% and 78% for the nine months ended September 30, 2013 and 2012 respectively.

Revenue Recognition

Consulting Business Segment

At the present time we are deriving all of our revenue from our consulting and strategic advisory services business segment, by offering consulting services to governments outside the United States planning to create or expand electricity generation capabilities using nuclear power plants. Our fee structure for each client engagement is dependent on a number of variables, including the size of the client, the complexity, the level of the opportunity for us to improve the client's electrical generation capabilities using nuclear power plants, and other factors. The accounting policy we use to recognize revenue depends on the terms and conditions of the specific contract.

Revenues from the Executive Affairs Authority (EAA) of Abu Dhabi, one of the member Emirates of the UAE, and the related entities, ENEC and FANR, are billed and recognized on a time and expense basis and the related costs are recognized as services are provided. Cost of consulting services includes labor, travel expenses and other related consulting costs.

Where revenue is recognized upon the delivery and acceptance of defined contractual milestones or deliverables by our customer, all costs directly related to producing work are first capitalized as deferred project costs. Deferred project costs are then recognized or amortized to an expense captioned "cost of consulting services provided" on the accompanying consolidated statement of operations, when the revenue is recognized upon the delivery and acceptance of the defined contractual milestones or deliverables.

Technology Business Segment

Once our nuclear fuel designs have advanced to a commercially usable stage by either a fuel fabricator or nuclear plant owner/operator, we will seek to license our technology to them or to major government contractors working for the U.S. or other governments. We expect that our revenue from these license fees will be recognized on a straight-line basis over the expected period of the related license term.

Stock-Based Compensation

The stock-based compensation expense incurred by Lightbridge for employees and directors in connection with its stock option plan is based on the employee model of ASC 718, and the fair market value of the options is measured at the grant date. Under ASC 718 employee is defined as "An individual over whom the grantor of a share-based compensation award exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. tax regulations". Our advisory board members and consultants do not meet the employer-employee relationship as defined by the IRS and therefore are accounted for under ASC 505-50.

ASC 505-50-30-11 (previously EITF 96-18) further provides that an issuer shall measure the fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of the following dates, referred to as the measurement date:

- i. The date at which a commitment for performance by the counterparty to earn the equity instruments is reached (a performance commitment); and
- ii. The date at which the counterparty's performance is complete.

We have elected to use the Black-Scholes-Merton pricing model to determine the fair value of stock options on the measurement date. Restricted stock units are measured based on the fair market values of the underlying stock on the measurement date. Shares that are issued to officers on the exercise dates of their stock options may be issued net of the statutory withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of

shares issued will be fewer than the actual number of shares exercised under the stock option. We recognize stock-based compensation using the straight-line method.

For the three months ended September 30, 2013 and 2012, we recognized stock-based compensation of approximately \$60 thousand and \$200 thousand, respectively. For the nine months ended September 30, 2013 and 2012, we recognized stock-based compensation of approximately \$270 thousand and \$830 thousand, respectively. Related income tax benefits were not recognized, as we incurred a tax loss for both years.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value because of their generally short maturities. We carry marketable securities at fair value.

Cash and Cash Equivalents, Restricted Cash and Marketable Securities

We invest our excess cash in money market mutual funds, and mutual bond funds. We classify all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months as marketable securities. We hold cash balances in excess of the federally insured limits of \$250,000 with two prominent financial institutions. We deem this credit risk not to be significant as our cash is held by major prominent financial institutions. Total cash and cash equivalents held in checking accounts and a money market core cash account, as reported on the accompanying consolidated balance sheets, totaled approximately \$0.4 million and \$2.2 million at September 30, 2013 and December 31, 2012, respectively.

Restricted cash represents cash being held by one prominent financial institution that is being used as collateral for our corporate credit cards and our letters of credit issued to some of our customers. There was approximately \$24,000 of outstanding letters of credit as of September 30, 2013. The total balance of our restricted cash at September 30, 2013 and December 31, 2012, was approximately \$0.6 million.

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified and accounted for our marketable securities as available-for-sale, however we carry these securities at fair value (see below election made to value these financial instruments at fair market value). The fair value of all securities is determined by quoted market prices.

All marketable securities are classified as available-for-sale securities and are reported at their fair value (level 1). A level 1 measurement under the FASB pronouncements is the first tier of a three tier hierarchy for fair value measurements used in valuation methodologies. This valuation level allows for fair value measurements where the inputs are the quoted prices for the assets in the active markets. All of our marketable securities have quoted market prices and these quoted prices are used to determine the cost basis and fair value of our marketable securities.

The total quoted fair value of our marketable securities at September 30, 2013 and December 31, 2012 was approximately \$0.0 million and \$1.6 million, respectively. This amount was held in the following mutual funds at December 31, 2012: (1) Doubleline Total Return Bond Fund (Symbol - DLTNX) -\$0.8 million; (2) Vanguard High Yield Corp Investor Fund (Symbol - VWEHX) - \$0.1 million; and (3) Vanguard GNMA Investor Fund (Symbol - VFIIX) - \$0.7 million at December 31, 2012. The cost basis of these above investments was approximately \$1.1 million.

The amount recorded as unrealized gain (loss), realized capital gain or loss, interest and dividends received, as reported to us from the financial institutions in which they were reinvested, and that we reported under the caption of investment income (loss) in the accompanying consolidated statement of operations, totaled approximately \$2,000 and \$153,000 for each of the three month periods ended September 30, 2013 and 2012, respectively and \$(9,000) and \$387,000 for each of the nine months ended September 30, 2013 and September 30, 2012, respectively. We elected the fair value option permitted under FASB ASC 825 to report the unrealized gains and losses from our marketable securities in our accompanying consolidated statement of operations instead of other comprehensive income and loss. Management believes the fair value option provides a better indication of the Company's performance.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with United States generally accepted accounting principles. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in

income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance to the extent that the recoverability of the asset is unlikely to be recognized. We did not provide any current or deferred income tax provision or benefit for any periods presented to date because we have continued to experience a net operating loss since inception and therefore provide a 100% valuation allowance against all of our deferred tax assets (see Note 5-Income Taxes).

The Company adopted the FASB ASC accounting guidance for recognizing and measuring uncertain tax positions, as defined in the FASB ASC Topic *"Income Taxes"*. This guidance prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. This guidance also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company has not recognized any interest and penalties in 2013 or 2012.

Research, Development and Related Expenses

These costs from our Technology business segment are charged to operations in the year incurred and are shown on a separate line on the accompanying Consolidated Statement of Operations.

Segment Reporting

We use the management approach in determining reportable operating segments. The management approach considers the internal organization and reporting used by our chief decision makers for making operating decisions and assessing performance, as the source for determining our reportable segments. We have determined that we have two operating segments as defined by the FASB accounting pronouncement, *Disclosures about Segments of an Enterprise and Related Information*. As discussed above, our two reporting business segments are our technology business and our consulting services business.

Recent Accounting Pronouncements

The Company does not expect the adoption of any recent accounting pronouncements to have a material impact on its financial statements.

Note 2. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the reporting period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, warrants, restricted shares, and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options, restricted stock units, and warrants is not reflected in diluted earnings per share because we incurred net losses for the three months and nine months ended September 30, 2013 and 2012, and the effect of including these potential common shares in the diluted earnings per share calculations would be anti-dilutive and are therefore not included in the calculations.

Note 3. Accounts Receivable - Project Revenue and Project Costs

ENEC and FANR Projects

The total accounts receivable from the ENEC and FANR contracts was approximately \$0.6 million at September 30, 2013 and December 31, 2012. These amounts due from ENEC and FANR represent approximately all of the total accounts receivable reported at September 30, 2013 and December 31, 2012.

Total unbilled accounts receivable included in the accompanying consolidated balance sheets and reported in accounts receivable of approximately \$0.1 million and \$0.2 million at September 30, 2013 and December 31, 2012 is for work that was billed to our clients in October 2013 and January 2013, respectively. Foreign currency transaction exchange gains (losses) were not significant for the three and nine months ended September 30, 2013 and 2012, respectively, which is reported in the caption other income and expenses on the accompanying consolidated statement of operations.

Travel costs and other reimbursable costs under these contracts are reported in the accompanying statement of operations as both revenue and cost of consulting services provided, and totaled approximately \$0.0 million and \$0.2 million for the three month periods ended September 30, 2013 and 2012 and approximately \$0.1 million and \$0.4 million for the nine months ended September 30, 2013 and September 30, 2012, respectively. The total travel and other reimbursable expenses that have not been reimbursed to us and are included in total accounts receivable reported above from our consulting contracts were not significant.

We expect to continue to provide strategic advisory services to ENEC and FANR and we also expect the variation of revenue we earn from these contracts to continue. Under these agreements, revenue will be recognized on a time and expense basis. We periodically discuss our consulting work with ENEC and FANR, who review the work we perform and our reimbursable travel expenses, and accept our monthly invoicing for services and reimbursable expenses.

Note 4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued expenses (in millions) consisted of the following:

	2013	2012
Trade payables	\$ 0.1	\$ 0.2
Accrued expenses and other	0.2	0.2
Total	\$ 0.3	\$ 0.4

Note 5. Income Taxes

Our tax provision is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The 2013 and 2012 annual effective tax rate is estimated to be a combined 40% for the U.S. federal and state statutory tax rate. We review tax uncertainties in light of changing facts and circumstances and adjust them accordingly. As of September 30, 2013 and December 31, 2012, there were no tax contingencies recorded.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting, and the amounts recognized for income tax purposes. The significant components of deferred tax assets (at a 40% effective tax rate) as of September 30, 2013 and December 31, 2012, respectively, are as follows:

Deferred Tax Assets (in millions)

	Total 2013	Total 2012	Deferred Tax Asset	
			2013	2012
Capitalized start-up costs	\$ 4.7	\$ 5.1	\$ 1.9	\$ 2.0
Stock-based compensation	21.9	21.7	8.8	8.7
Net operating loss carry-forward	38.2	34.4	15.3	13.8
Less: valuation allowance	(64.8)	(61.2)	(26.0)	(24.5)
	\$ -	\$ -	\$ -	\$ -

We have a net operating loss carry-forward for federal and state tax purposes of approximately \$38 million at September 30, 2013, that is available to offset future taxable income, which will begin to expire in the year 2022. For financial reporting purposes, no deferred tax asset was recognized because at September 30, 2013 and December 31, 2012, management estimates that it is more likely than not that substantially all of the net operating losses will expire unused. As a result, the amount of the deferred tax assets considered realizable was reduced 100% by a valuation allowance. The change in the valuation allowance was approximately \$1.5 million for the nine months ended September 30, 2013 and 2012, respectively. Many of the Company's operating expenses in its 2007 and 2006 tax years were classified under the Internal Revenue Code as capitalized Startup Costs, which did not begin to be deductible for tax purposes until 2008. The Company files a consolidated tax return with its subsidiaries. The Company is no longer subject to U.S. federal, state, or non-U.S. income tax examinations by tax authorities for tax years before 2010. The tax returns from prior years to 2009 are subject to examination for the limited purpose of challenging the net operating losses carried forward from those periods.

Note 6. Commitments and Contingencies*Employment Agreements*

We have employment agreements with our executive officers and some consultants, the terms of which expire at various times. Such agreements provide for minimum compensation levels, as well as incentive bonuses that are payable if specified management goals are attained. Under each of the agreements, in the event the officer's employment is terminated (other than voluntarily by the officer or by us for cause, or upon the death of the officer), if all provisions of the employment agreements are met, we are committed to pay certain benefits, including specified monthly severance.

Operating Leases

We entered into an agreement to lease office space under the terms of a sublease with a term of 65 months commencing August 1, 2008. Under the terms of the sublease for our office in Virginia, the lease payments are inclusive of pass-through costs. We are not charged additional amounts for real estate taxes and standard operating expenses. We paid the security deposit related to this sublease agreement in the amount of approximately \$120,000 (security deposit balance approximately \$40,000 at September 30, 2013). We pay monthly rental fees in the amount of approximately \$49,000 in accordance with the sublease agreement plus parking fees. We pay rent for our Moscow office of approximately \$12,000 per month. The monthly straight-line rental expense from August 1, 2008 to December 1, 2013, is approximately \$45,000 under our Virginia sublease agreement. As a result of the straight-line rent calculation generated by the one free rent period and rent escalation, we have recorded in accrued liabilities a deferred rent credit of approximately \$11,000 and \$33,000 at September 30, 2013 and December 31, 2012, respectively. Total rent expense was approximately \$0.2 million for each of the three months periods ended September 30, 2013 and 2012 and approximately \$0.5 million for each of the nine months periods ended September 30, 2013 and 2012.

Estimated annual minimum rental payments (in millions) under our operating leases are as follows:

	Total	
Year ending - December 31, 2013	\$	0.2
Total minimum lease payments	\$	0.2

Note 7. Research and Development Costs*Research and Development Costs*

Research and development costs, included in the accompanying consolidated statement of operations amounted to approximately \$0.6 million and \$0.5 million for the three month periods ended September 30, 2013 and 2012, respectively and \$1.8 million and \$1.6 million for the nine months ended September 30, 2013 and 2012, respectively.

On August 15, 2013, Lightbridge entered into a Professional Services Agreement with Prof. Jean Ragusa to continue the neutronic modeling work that was completed by Prof. Ragusa under Task Order No. 1 issued under our Master Research Services Agreement with Texas A&M University. The initial statement of work (SOW-1) under the Professional Services Agreement with Prof. Ragusa has a fixed price of \$40,000 and is expected to be completed by February 15, 2014. The results of this work will be used to enhance our neutronic modeling capability using industry standard computer codes.

In addition, we have consulting agreements with several consultants working on various projects for us, which total approximately \$10,000 per month.

Note 8. Stockholders Equity

At September 30, 2013, there are 500,000,000 shares of authorized common stock. Total common stock outstanding at September 30, 2013 and December 31, 2012, was 12,556,400 and 12,526,240 shares, respectively. At September 30, 2013, there were no shares reserved for future issuance, 1,034,996 stock warrants, 1,630,925 stock options outstanding and 15,136 total unvested shares of restricted stock, all totaling 15,237,457 of total stock and stock equivalents outstanding at September 30, 2013.

*Stock-based Compensation Stock Options and Restricted Stock**Stock Plan*

We have a stock-based compensation plan to reward for services rendered by officers, directors, employees and consultants. On July 17, 2006, we amended this stock plan. We have reserved 2,500,000 shares of common stock of our unissued share capital for the stock plan. Other limitations are as follows:

- (i) No more than an aggregate of 1,250,000 shares can be granted for the purchase of restricted common shares during the term of the stock plan;
- (ii) The maximum number of shares of common stock with respect to which options may be granted to any one person during any fiscal year may not exceed 266,667 shares; and
- (iii) The maximum number of restricted shares that may be granted to any one person during any fiscal year may not exceed 166,667 common shares.

Total stock options outstanding at September 30, 2013 and December 31, 2012, were 1,630,925 and 1,639,842 of which 1,594,126 and 1,523,536 of these options were vested at September 30, 2013 and December 31, 2012, respectively. Stock option expense was approximately \$45 thousand and approximately \$145 thousand for the three months ended September 30, 2013 and 2012, respectively. Stock option expense was approximately \$190 thousand and approximately \$560 thousand for the nine months ended September 30, 2013 and 2012, respectively.

Stock option transactions to the employees, directors, advisory board members and consultants are summarized as follows for the nine months ended September 30, 2013:

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	Options Outstanding	Weighted Average Exercise Price	Weighted Average Fair Value
Beginning of the year	1,639,842	\$ 11.46	\$ 10.85
Granted	-	-	-
Exercised	-	-	-
Forfeited	(7,250)	6.04	5.51
Expired	(1,667)	\$ 8.55	\$ 8.01
End of the period	1,630,925	\$ 11.49	\$ 10.88
Options exercisable	1,594,126	\$ 11.62	\$ 11.01

Stock option transactions to the employees, directors, advisory board members and consultants are summarized as follows for the year ended December 31, 2012:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Fair Value
Beginning of the year	1,674,065	\$ 11.37	\$ 10.74
Granted	-	-	-
Exercised	-	-	-
Forfeited	(167)	\$ 6.30	\$ 5.67
Expired	(34,056)	\$ 9.42	\$ 7.48
End of the year	1,639,842	\$ 11.46	\$ 10.85
Options exercisable	1,523,536	\$ 11.82	\$ 11.22

The above tables include options issued and outstanding as of September 30, 2013 as follows:

- i) A total of 229,558 non-qualified 8-10 year options have been issued, and are outstanding, to our consultants at exercise prices of \$5.70 to \$19.20 per share.
- ii) A total of 1,129,498 non-qualified 8-10 year options have been issued, and are outstanding, to our directors, officers and employees at exercise prices of \$5.42 to \$23.85 per share. From this total, 665,088 options are outstanding to the Chief Executive Officer who is also a director, with remaining contractual lives of 2.2 years to 7.5 years. All other options issued to directors, officers and employees have a remaining contractual life ranging from 2.8 years to 7.5 years.
- iii) A total of 271,869 non-qualified 10 year options have been issued, and are outstanding, to our advisory board members at exercise prices of \$4.50 to \$14.40 per share.

The following table provides certain information with respect to the above-referenced stock options that are outstanding and exercisable at September 30, 2013:

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	Stock Options Outstanding			Stock Options Vested		
	Weighted Average Remaining Contractual Life - Years	Number of Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life - Years	Number of Awards	Weighted Average Exercise Price
Exercise Prices						
\$4.50 - \$8.70	5.53	835,884	\$ 6.33	5.46	799,085	\$ 6.36
\$9.00 - \$12.90	4.20	130,037	\$ 10.46	4.20	130,037	\$ 10.46
\$13.50 - \$18.90	2.56	358,336	\$ 14.17	2.56	358,336	\$ 14.17
\$19.20 - \$23.85	1.90	306,668	\$ 22.84	1.90	306,668	\$ 22.84
Total	4.09	1,630,925	\$ 11.49	4.02	1,594,126	\$ 11.62

The following table provides certain information with respect to the above-referenced stock options that are outstanding and exercisable at December 31, 2012:

	Stock Options Outstanding			Stock Options Vested		
	Weighted Average Remaining Contractual Life - Years	Number of Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life - Years	Number of Awards	Weighted Average Exercise Price
Exercise Prices						
\$4.50 - \$8.70	6.27	844,801	\$ 6.33	6.04	728,495	\$ 6.27
\$9.00 - \$12.90	4.94	130,037	\$ 10.46	4.94	130,037	\$ 10.46