

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

INTERNATIONAL ISOTOPES INC
Form 10QSB
May 05, 2004

FORM 10-QSB

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

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

For the quarterly period ended
March 31, 2004

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)

(zip code)

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 ☐

As of March 31, 2004 the number of shares of Common Stock, \$.01 par value, outstanding was 141,424,502.

INTERNATIONAL ISOTOPES INC.

TABLE OF CONTENTS

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

Page No.

PART I - FINANCIAL INFORMATION:

Item 1 - Financial Statements:

Condensed Consolidated Balance Sheets at
March 31, 2004 (unaudited) and December 31, 2003 3

Unaudited Condensed Consolidated Statements of
Operations for the Three Months Ended March 31, 2004
and 2003 4

Unaudited Condensed Consolidated Statements of Cash
Flows for the Three Months Ended March 31, 2004 and 2003 5

Notes to Unaudited Condensed Consolidated Financial
Statements 6

Item 2 - Management's Discussion and Analysis of Financial
Condition and Results of Operations 9

Item 3 - Controls and Procedures 10

PART II - OTHER INFORMATION:

Item 1 - Legal Proceedings 11

Item 6 - Exhibits and Reports on Form 8-K 11

SIGNATURES 12

2

Part I. Financial Statements

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets

	March 31, 2004 (unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 606,802	\$ 160,211
Accounts receivable	237,661	203,151
Inventories	2,187,897	2,283,751
Prepays and other current assets	174,379	190,971
Total current assets	3,206,739	2,838,084
Long-term assets		

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

Restricted certificate of deposit	151,155	150,57
Property, plant and equipment, net	736,940	617,28
Capitalized lease disposal costs, net of accumulated amortization of \$38,571 and \$35,604 respectively	110,761	113,72
Patents, net of accumulated amortization	105,000	--
	-----	-----
Total long-term assets	1,103,856	881,58
	-----	-----
Total assets	\$ 4,310,595	\$ 3,719,68
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities		
Accounts payable	\$ 293,495	\$ 320,55
Accrued liabilities	192,120	150,47
Current installments of mortgage and notes payable	754,980	756,72
	-----	-----
Total current liabilities	1,240,595	1,227,75
Long-term liabilities		
Obligation for lease disposal costs	149,332	149,33
Mortgage and notes payable, excluding current installments	1,545,529	898,66
Mandatorily redeemable preferred stock, \$0.01 par value; 850 shares outstanding	850,000	850,00
	-----	-----
Total long-term liabilities	2,544,861	1,897,99
Stockholders' equity		
Common stock, \$0.01 par value; 250,000,000 shares authorized; 141,424,502 and 139,363,046 shares issued and outstanding, respectively	1,414,245	1,393,63
Additional paid-in capital	87,241,031	87,168,95
Retained deficit	(88,130,137)	(87,968,65)
	-----	-----
Total stockholders' equity	525,139	593,93
	-----	-----
Total liabilities and stockholders' equity	\$ 4,310,595	\$ 3,719,68
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ended March 31,	
	2004	2003
	-----	-----
Sale of product	\$ 743,325	\$ 359,601
Cost of product	442,955	211,083

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

Gross profit	300,370	148,518
Operating costs and expenses:		
Salaries and contract labor	156,734	102,770
General, administrative and consulting	262,743	275,332
Research and development	13,567	10,680
Total operating expenses	433,044	388,782
Operating loss	(132,674)	(240,264)
Other income (expense)		
Other income	8,699	12,531
Interest income	750	1,104
Interest expense	(38,262)	(31,918)
Total other expense	(28,813)	(18,283)
Net loss	\$ (161,487)	\$ (258,547)
Net loss per common share - basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding - basic and diluted	140,061,587	95,579,761

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ended March 31, 2004	2003
Cash flows from operating activities:		
Net loss	\$ (161,487)	\$ (258,547)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	39,356	20,683
Loss on disposal of property, plant and equipment	186	99
Changes in operating assets and liabilities:		
Restricted certificate of deposit	(582)	--
Accounts receivable	(34,509)	54,496
Prepays and other assets	16,600	(122,724)
Inventories	95,855	9,477
Accounts payable and accrued liabilities	60,636	(41,523)
Deferred revenue	--	49,000

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

Net cash provided by (used in) operating activities	16,055	(289,039)
Cash flows from investing activities:		
Purchase of patents	(105,000)	--
Purchase of property, plant and equipment	(156,228)	--
Net cash used in investing activities	(261,228)	--
Cash flows from financing activities:		
Proceeds from exercise of warrants	92,689	--
Proceeds from issuance of debt	603,950	70,000
Principal payments on notes payable	(4,880)	--
Net cash provided by financing activities	691,759	70,000
Net increase (decrease) in cash and cash equivalents	446,586	(219,039)
Cash and cash equivalents at beginning of period	160,216	441,904
Cash and cash equivalents at end of period	\$ 606,802	\$ 222,865
Supplemental disclosure of cash flow activities:		
Cash paid for interest	\$ 16,011	\$ 15,350
Supplemental disclosure of noncash transactions:		
Note payable converted from interest payable	\$ 46,050	\$ 17,523
Sale of assets held for sale through assumption of debt	\$ --	\$ 345,296

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARY 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 Company owns 100% of the outstanding common shares of its only subsidiary, International Isotopes Idaho, Inc. (II).

Nature of Operations -The Company is a manufacturer of calibration and reference standards for nuclear medicine, offers a selection of radioisotopes (lutetium-177 and iodine-131) radiochemicals for various applications such as clinical research, supplies cobalt-60 isotope for use in the Leksell Gamma Knife, and provides general radiological measurement capability for processed gemstones. With the exception of cobalt-60, the Company's normal operating cycle is considered to be one year. Due to the time required to produce high specific

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

activity (HSA) cobalt-60, the Company's operating cycle for the cobalt-60 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. As of March 31, 2004, the Company had 12 full time employees.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary International Isotopes Idaho, 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 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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The accompanying financial statements should be read in conjunction with the Company's most recent audited financial statements.

Stock-based Compensation Plans - The Company accounts for stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 and related interpretations ("APB 25"). The Company accounts for options and warrants issued to non-employees at their fair value in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

No compensation cost has been recognized for its stock options in the accompanying consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net loss applicable to common shareholders would have been increased to the pro forma amounts indicated below for the three months ended March 31, 2004 and 2003:

	2004	2003
	-----	-----
Net loss applicable to common shareholders, as reported	\$ (161,487)	\$ (258,547)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(17,176)	(24,267)
	-----	-----
Pro forma net loss per common share	\$ (178,663)	\$ (282,814)
	=====	=====
Loss per share, basic and diluted:		
As reported	\$ --	\$ --
	=====	=====
Pro forma	\$ --	\$ --
	=====	=====

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

Business Condition - Since inception, the Company has suffered substantial losses. During the period ended March 31, 2004 the Company had a loss of \$161,487. During the period ended March 31, 2003, the Company had a loss of \$258,547. During the period ended March 31, 2004, the Company's operations provided cash in operating activities of \$16,055. During the period ended March 31, 2003, the Company's operations used cash in operating activities of \$289,039. Management expects to generate sufficient cash flows to meet operational needs during 2004 through financing and operating capital; however, there is no assurance that these cash flows will occur.

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

As of March 31, 2004 and 2003 there were 101,518,850 and 16,500,000 options and warrants outstanding respectively and 850 shares of Series B redeemable convertible preferred stock 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.

(4) Inventories

Inventories consist of the following at March 31, 2004 and December 31, 2003

	March 31, 2004	December 31, 2003
	-----	-----
Raw materials	\$ 268,265	\$ 268,265
Work in progress	1,913,274	2,007,066
Finished goods	6,358	8,421
	-----	-----
	\$ 2,187,897	\$ 2,283,752
	=====	=====

(5) Acquisition of license rights

During the three months ended March 31, 2004, the Company completed the purchase of certain assets, patents and intellectual property related to the fluorine extraction process. The patents were acquired for \$105,000 and the equipment for \$10,000. The patents and equipment will be amortized/depreciated over their estimated useful lives, which are 10 years for the patents and 5 years for the equipment.

(6) Notes Payable

The Company completed an unsecured note purchase agreement on January 21, 2004 with certain of the Company's principal shareholders and Directors totaling \$650,000. This is an unsecured note accruing interest at 6% per year with a maturity date of December 31, 2005. Interest is to be paid on this note on a semi-annual basis and the Company has the option to prepay the principal balance at any time prior to maturity. The principal of the note and any accrued interest is convertible into shares of the Company's common stock at any time at the option of the holder prior to maturity. The conversion price for this conversion option was \$0.18 per share, which was the market value of the common stock.

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

In January 2004, the Company renegotiated the terms of a line of credit with its bank and fixed the terms of the line of credit into a note. The new terms, other than fixing the line into a note, extended the due date of the note to July 1, 2004 and fixed the interest rate at 7.5% (\$733,595 outstanding at March 31, 2004). The Company also negotiated with the same bank an additional \$250,000 revolving line of credit with a due date of July 1, 2004 (\$0 outstanding at March 31, 2004). The Company anticipates renegotiating the revolving line of credit to extend the due date to December 31, 2004. Both lines are secured by inventory, accounts receivable and equipment.

(7) Stockholders' Equity and Warrants

During the quarter ended March 31, 2004, 2,061,456 warrants were exercised and exchanged for 2,061,456 shares of the Company's common stock. The Company received \$92,689 for the exercise of these warrants.

(8) Commitments and Contingencies

Litigation

During February 2004, a lawsuit was filed by Iso-Science Laboratories, Inc. dba Isotope Products Laboratories in the Superior Court of the State of California for the County of Los Angeles against the Company, the Company's President and CEO, a significant customer of the Company and certain officers of this significant customer. In March 2004, the Company filed a response to the lawsuit in which the Company denied all of the allegations made in the suit. In addition, the Company has filed a counterclaim against Isotope Products Laboratories on the basis that Isotope Products Laboratories filed the suit against the Company with the knowledge that it has no basis in law or fact and the lawsuit was calculated to interfere with the Company's contractual arrangements and prospective business between the Company and its customers. The Company will continue to vigorously defend itself in the lawsuit; however, an outcome favorable to the Company is not determinable at this time. Should this lawsuit be settled in a manner unfavorable to the Company, the Company could lose its major line of revenues and could be required to make substantial payments to the plaintiff. The Company has a manufacturing agreement in place with this significant customer, which indemnifies the Company and its officers from any loss arising from this suit. However, there is no guarantee that this significant customer can bear the financial burden arising from defending and possible settlement of this lawsuit.

Dependence on Third Parties

The production of HSA Cobalt is dependent upon the Department of Energy, and its prime-operating contractor, who controls the reactor and laboratory operations. The revenue associated with the sale of HSA Cobalt is largely dependent on General Electric, the Company's sole customer of this product. The gemstone production is tied to an exclusive agreement with Quali Tech Inc. who in turn has a contracts with several Gemstone companies, Medical flood source manufacturing is conducted under an exclusive contract with RadQual, LLC. who in turn has agreement in place with several companies for marketing and sales. A loss of any of these customers or vendors could adversely affect operating results by causing a delay in production or a possible loss of sales.

Contingencies

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

The Company conducts its operations in Idaho Falls, Idaho. Although the medical flood source and gemstone products appear diverse they share the common link as being radioactive materials. Therefore, the Company is required to have an operating license from the Nuclear Regulatory Commission ("NRC") and specially trained staff to handle these materials. The Company has an NRC operating license and has, in fact, continued to amend this license several times to increase the amount of material permitted within the facility. Additional processing capabilities and license amendments could be implemented that would permit processing of other products by the Company but at the present time this license does not restrict the volume of business operation performed or projected to be performed in the coming year. An irrevocable, automatic renewable letter of credit against a \$151,155 Certificate of Deposit at Texas State Bank has been used to provide the financial assurance required by the Nuclear Regulatory Commission for the Idaho facility license.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for historical information contained herein, the following contains forward-looking information that is subject to certain risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including those set forth in the "Risk Factors" section included in the Company's Form 10-KSB, filed with the Securities Exchange Commission (SEC) on March 24, 2004 ("Form 10-KSB"). The following discussion should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Form 10-KSB.

RESULTS OF OPERATIONS

Three-month periods ended March 31, 2004 and 2003. The Company's loss from continuing operations for the three-month period ended March 31, 2004 was \$161,487 compared to a loss of \$258,547 from continuing operations for the comparable period of 2003. The reduction in loss was attributable to increasing operational revenues, maintaining a consistent gross profit margin, and only having a 12% increase in operating expenses.

Revenues for the three-month period ended March 31, 2004 were \$743,325 as compared to \$359,601 for the same period in 2003, an increase of \$383,724 or approximately 106%. Increased revenues were primarily attributable to a single large cobalt sale that occurred during the period, but the Company also saw increases in sales of its nuclear medicine reference and calibration sources and of its new Iodine -131 product. Gross profit for the three-month period ended March 31, 2004 was \$300,370 as compared to \$148,518 for the same period in 2003, roughly unchanged at 41% of revenues.

Operating expenses increased to \$433,044 for the three-month period ended March 31, 2004 compared to \$388,782 for the same period of 2003, an increase of \$44,262 or 11%. Salaries and contract labor expenses for the three-month period ended March 31, 2004 was \$156,734 as compared to \$102,770 for the same period of 2003, an increase of \$53,964 or 52%. The increase was attributed to increased full time staff for operations and contract labor expense related to marketing new products such as Lutetium-177 and Iodine-131. General and administrative expenses totaled \$262,743 for the three-month period ended March 31, 2004 as compared to \$275,332 for the same period of 2003, a decrease of \$12,589 or 5%. The reduction in G&A expense was related primarily to reduced corporate

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

expenditures during the period.

Interest expense for the three-month period ended March 31, 2004 was \$38,262 as compared to \$31,918 for the comparable period in 2003. The increase was attributable to increased long-term debt in the form of a convertible unsecured note, and an increase in the interest rate of the Company's bank loan from 7% to 7.5%.

Liquidity and Capital Resources

On March 31, 2004 the Company had cash and cash equivalents of \$606,802 compared to \$160,216 at December 31, 2003. For the three months ended March 31, 2004, net cash provided by operating activities was \$16,055, investing activities used \$261,042, and financing activities provided \$691,759.

The Company has financed its operations since inception primarily by bank loans, product sales, sales of excess equipment, its initial public offering, sales of shares of common and preferred stock in private placements to investors, a rights offering to shareholders, and loans from stockholders and directors.

The Company's future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to: sales of Company products such as nuclear medicine reference and calibration standards and radiochemicals such as Iodine-131, contract manufacturing and marketing relationships; and technological and market developments.

Although there can be no assurance, the Company expects that revenues will continue to increase there can be no assurance, the Company expects that revenues will continue to increase based upon trends in sales performance. Although there can be no assurance, we believe these increased revenues will provide sufficient funds for operations and capital expenditures.

ITEM 3. CONTROLS AND PROCEDURES

(a) The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the principal financial officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

(b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During February 2004, a lawsuit was filed by Iso-Science Laboratories, Inc. dba Isotope Products Laboratories in the Superior Court of the State of California for the County of Los Angeles against the Company, the Company's President and

Edgar Filing: INTERNATIONAL ISOTOPES INC - Form 10QSB

CEO, a significant customer of the Company and certain officers of this significant customer. In March 2004, the Company filed a response to the lawsuit in which the Company denied all of the allegations made in the suit. In addition, the Company has filed a counterclaim against Isotope Products Laboratories on the basis that Isotope Products Laboratories filed the suit against the Company with the knowledge that it has no basis in law or fact and the lawsuit was calculated to interfere with the Company's contractual arrangements and prospective business between the Company and its customers. The Company will continue to vigorously defend itself in the lawsuit; however, an outcome favorable to the Company is not determinable at this time.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

- 31 Certification by the Chief Executive and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification by the Chief Executive and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Reports on Form 8-K:

None

11

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

International Isotopes Inc.
(Registrant)

By: /s/ Steve T. Laflin

Steve T. Laflin
President and Chief Executive Officer

Date: May 5, 2004

12

