INTERNATIONAL ISOTOPES INC
Form 10-Q
May 29, 2002

FORM 10-Q

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, 2002

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 x

As of May 21, 2002 the number of shares of Common Stock, $.01 par value, outstanding was 95,081,135.

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Statements

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

Assets	March 31, 2002 (unaudited)	Dec
Current assets:		
Cash and cash equivalents	$ 274,143	$
Accounts receivable	258,187	
Assets held for sale	729,531	
Inventories	2,440,405	
Prepaids and other current assets	66,991	
Total current assets	3,769,257	
Property, plant and equipment, net	270,248	
Total assets	$ 4,039,505	$

Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit

Current liabilities		
Accounts payable	$ 178,893	$
Checks written in excess of cash in bank	-	
Accrued liabilities	407,991	
Current portion of mortgage and notes payable to banks	2,700,313	
Total current liabilites	3,287,197	
Mortgage and notes payable to banks, excluding current portion	39,268	
Total liabilities	3,326,465	
Redeemable convertible preferred stock, net (liquidation value of $950,000)	950,000	1
Stockholders' deficit		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, 950 shares issued and outstanding at March 31, 2002 and 17,467 shares issued and outstanding at December 31, 2001	-	
Common stock, $0.01 par value; 250,000,000 shares authorized, issued and outstanding 95,081,135 shares at March 31, 2002 and 26,581,135 shares at December 31, 2001	950,812	
Additional paid-in capital	86,320,999	7
Accumulated deficit	(87,508,771)	(8
Total stockholders' deficit	(236,960)	(1
Total liabilities and stockholders' deficit	$ 4,039,505	$

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ended March 31, 2002	2001
Revenue:		
Sales of product	$ 526,311	$ 537,267
Cost of revenue:		
Cost of products	200,819	276,125
Gross profit	325,492	261,142

Operating costs and expenses:		
Salaries and contract labor	137,315	106,680
General, administrative and consulting	115,176	198,286
Total operating expenses	252,491	304,966
Operating profit (loss)	73,001	(43,824)
Other (expense):		
Interest income	1,881	-
Interest expense	(43,941)	(802)
Earnings (loss) from continuing operations	30,941	(44,626)
Discontinued operations:		
Loss on disposal of discontinued operations	-	(3,553,025)
Net earnings (loss)	30,941	(3,597,651)
Preferred stock dividend, deemed dividend and accretion of discount	(349,242)	(132,450)
Net earnings (loss) applicable to common shareholders	$ (318,301)	$(3,730,101)
Net loss per common share continuing operations - basic and diluted	$ (0.01)	$ (0.01)
Net loss per common share discontinued operations - basic and diluted	-	(0.32)
Net loss per common share - basic and diluted	$ (0.01)	$ (0.33)
Weighted average common shares outstanding - basic and diluted	60,789,468	11,370,968

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ende	
	2002	
Cash flows from operating activities:		
Net earnings (loss)	$ 30,941	$
Adjustments to reconcile net loss to net cash used in		

operating activities	
Depreciation and amortization	18,965
Changes in operating assets and liabilities:	
Accounts receivable	(119,656)
Prepaids and other assets	220,083
Inventories	97,114
Accounts payable	(2,800)
Checks written in excess of cash in bank	(101,714)
Accrued liabilities	(40,538)
Net cash provided by (used in) operating activities	102,395
Cash flows from investing activities:	
Purchase of property, plant and equipment	(9,177)
Proceeds from sale of assets held for sale	-
Net cash provided by (used in) investing activites	(9,177)
Cash flows from financing activities:	
Repurchase of preferred stock	(86,832)
Payments on capital leases	-
Proceeds from issuance of debt	-
Principal payments on notes payable	(26,212)
Net cash provided by financing activities	(113,044)
Net decrease in cash and cash equivalents	(19,826)
Cash and cash equivalents at beginning of period	293,969
Cash and cash equivalents at end of period	$ 274,143
Supplemental disclosure of cash flow activities:	
Cash paid for interest, net of amounts capitalized	$ 43,941
Supplemental disclosure of noncash transactions:	
Common stock issued for preferred stock dividend	$ -
Common stock issued in preferred stock conversion	$ 16,080,923

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 Company is focused primarily on generating revenues for contract manufacturing medical flood sources, processing Topaz Gemstones, and the production of High Specific Activity (HSA) cobalt-60 from a DOE test reactor (ATR). As of March 31, 2002, the Company had 10 full time employees.

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

(2) Current Developments and Liquidity

Business Condition - Since inception, the Company has suffered substantial losses. During the period ended March 31, 2002 the Company had earnings of $30,941, during the period ended March 31, 2001, the Company had losses before preferred dividends of $3,597,651. During the period ended March 31, 2002, the Company's operations provided cash in operating activities of $102,395, during the period ended March 31, 2001, the Company's operations used cash in operating activities of $3,237,561. The net loss for the period ended March 31, 2001 before preferred dividends includes discontinued operations of $3,553,025. Management expects to generate sufficient cash flows to meet operational needs during 2002 through financing and operating capital; however, there is no assurance that these cash flows will occur. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

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

Basic loss per share excludes dilution for potentially dilutive securities and is computed by dividing loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted loss per share, which is computed on the basis of the weighted average number of common shares and all potentially dilutive securities outstanding during the period, is the same as basic loss per share, as all potentially dilutive securities were anti-dilutive. Net loss per common share is calculated for both continuing and discontinued operations.

As of March 31, 2002 and 2001 there were 19,390,376 and 8,312,376 options and warrants outstanding respectively. And as of March 31, 2002 and 2001 there were a total of 950 and 17,467 shares of Series A and B redeemable convertible preferred stock that were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive, reducing the loss per share.

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(4) Inventories

Inventories consist of the following at March 31, 2002 and December 31, 2001:

	March 31, 2002	December 31, 2000
Raw materials	$ 304,984	$ 290,019

Work in progress	2,116,912	2,226,929
Finished goods	18,509	20,571
	$ 2,440,405	$ 2,537,519

(5) Stockholders' Equity and Redeemable Convertible Preferred Stock

Redeemable Convertible Preferred Stock

In January 2002 certain persons acting together as a group acquired all of the Company's outstanding shares of Series A 5% Convertible Redeemable Preferred Stock and certain common stock from its then current owners. The securities acquired consisted of all 10,000 shares of Series A Preferred Stock and 2,087,837 shares of common stock. Also in January 2002, the Company reacquired 2,817 shares (or 37.7%) of the Company's Series B 7% Convertible Redeemable Preferred Stock for $86,832.

In February and March 2002 the Company gained approval from 100% of the holders of Series A and 80% of the holders of Series B Preferred Stock to amend their respective Certificates of Designation to eliminate the Series A 5% dividend and the Series B 7% dividend, change the mandatory redemption date for all the Preferred Stock to May 2022, and remove certain default and penalty provisions. In addition, the Company's Board of Directors approved a purchase offer of the Series A and B Preferred Stock (5000 common shares for each one share of Series A or B Preferred Stock). The same percentages of Series A and B holders have agreed to sell their preferred shares for common stock.

In February 2002, all of the holders of the Series A Preferred Stock agreed to exchange their 10,000 preferred shares for 50,000,000 new shares of common stock of the Company at $0.20 per share, which was above market value. Holders of the Series B Preferred Stock agreed to exchange their 3,700 preferred shares for 18,500,000 new shares of common stock of the Company at $0.20 per share, which was above market value.

Effective March 2002, the Company amended and restated the 2000 Stock Incentive Plan. The 2002 Long-Term Incentive Plan (the Plan) authorizes grants of options to purchase up to 20,000,000 shares of authorized and unissued shares or issued and outstanding shares of common stock. The maximum number of options granted to each employee in one year is 10,000,000.

Stock Option Plan

In February 2002, the Company granted an additional 13,000,000 options to key employees to purchase shares of common stock with an exercise price of $0.02 per share, which was equal to the closing market price of the common stock on the date of grant. These options vest through February 2005.

(6) Commitments and Contingencies

In March 2002 the Company made a $20,000 payment to the former chairman of the board and put a new 10-year note in place for the remaining balance owed. The new note amount was set at $909,737 with annual income based payments fixed at 7% interest plus 30% of the Company's pretax net profits to be paid toward principal on the note. The former chairman agreed to declare any previous notes or agreements as null and void.

Employment Contract

The Company has a five-year employment contract with the Company's president. The employment agreement extends through February 2007.

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 gemstone production is tied to an exclusive agreement with Quali Tech Inc. who in turn has a contract with The Topaz Group, Inc. 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.

Contingencies

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 during 2001 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 reactor produced radioisotopes 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 $132,614 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-K/A, filed with the Securities Exchange Commission (SEC) on November 8, 2001 ("Form 10-K"). 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-K.

RESULTS OF OPERATIONS

Three-month periods ended March 31, 2002 and 2001. The Company's earnings from continuing operations for the three month period ended March 31, 2002 was $30,941 compared to loss from continuing operations of $44,626 the comparable period of 2001. The change was attributable to the focus on gemstone processing, contract manufacturing of medical flood sources and high specific activity cobalt-60. The change also reflects that the Company had operations in Texas for the same quarter of 2001 that were discontinued in 2001. The net loss per common share for the three-month period ended March 31, 2002 was $0.01, as compared to net loss per common share of $0.33 for the same period of 2001.

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Revenues for the three-month period ended March 31, 2002 were $526,311 as compared to $537,267 for the same period in 2001. Gross profit for the three-month period ended March 31, 2002 was $325,492 as compared to $261,142 for the same period in 2001. The increase in gross profit was primarily attributable to the termination of the commercial use subcontract agreement with Bechtel BWXT Idaho LLC during the first quarter of 2001.

Operating expenses decreased to $252,491 for the three-month period ended March 31, 2002 compared to $304,966 for the same period of 2001. Salaries and contract labor expenses for the three-month period ended March 31, 2002 was $137,315 as compared to $106,680 for the same period of 2001, an increase of $30,635. General and administrative expenses totaled $115,176 for the three-month period ended March 31, 2002 as compared to $198,286 for the same period of 2001, a decrease of $83,110. The decrease in total operating expense was primarily attributable to cost control of both costs of products and operating costs.

Interest expense for the three-month period ended March 31, 2002 was $43,941 as compared to $802 for the comparable period in 2001. The increase was attributable to the fact that in the prior year interest payments to Texas State Bank were suspended.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2002 the Company had cash and cash equivalents of $274,143 compared to $293,969 at December 31, 2001. For the three months ended March 31, 2002, net cash provided by operating activities was $102,395, investing activities used $9,177 and financing activities used $113,044.

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

The Company's future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to: sale of remaining assets of I3; 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, providing sufficient funds for operations and capital expenditures.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

In January 2002 certain persons acting together as a group acquired all of the Company's outstanding shares of Series A 5% Convertible Redeemable Preferred

Stock and certain common stock from its then current owners. The securities acquired consisted of all 10,000 shares of Series A Preferred Stock and 2,087,837 shares of common stock. Also in January 2002, the Company reacquired 2,817 shares (or 37.7%) of the Company's Series B 7% Convertible Redeemable Preferred Stock for $86,832.

In February 2002, all of the holders of the Series A Preferred Stock agreed to sell their 10,000 preferred shares for 50,000,000 shares of common stock at $0.20 per share. Holders of the Series B Preferred Stock agreed to sell their 3,700 preferred shares for 18,500,000 shares of common stock at $0.20 per share.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

NONE

Reports on Form 8-K:

The Company filed an 8-K January 16, 2002 with respect to a change in ownership of the Company's Series A Preferred Stock, partial acquisition of Series B Preferred Stock, and issuance of common stock as required dividend payment and filed an 8-K on April 5, 2002 with respect to a change in accountants.

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 29, 2002