INTERNATIONAL ISOTOPES INC
Form 10-Q
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____________ to _______________

Commission file number:

0-22923

INTERNATIONAL ISOTOPES INC.

(Exact name of registrant as specified in its charter)

Texas	**74-2763837**
(State or other jurisdiction of	*(IRS Employer Identification Number)*
incorporation or organization)	

4137 Commerce Circle

Idaho Falls, Idaho, 83401

(Address of principal executive offices, including 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. ý Yes ¨ No

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

(Do not check if a smaller reporting company)

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

As of August 5, 2014, the number of shares of Common Stock, $.01 par value, outstanding was 369,453,526.

INTERNATIONAL ISOTOPES INC.

FORM 10-Q

For The Quarter Ended June 30, 2014

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Part I. Financial Information

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

Assets		**June 30, 2014**		**December 31, 2013**
Current assets				
Cash and cash equivalents	$	810,309	$	456,374
Accounts receivable		790,407		1,046,403
Inventories		1,080,587		1,478,349
Prepaids and other current assets		358,748		613,795
Total current assets		3,040,051		3,594,921
Long-term assets				
Restricted certificate of deposit		203,177		204,222
Property, plant and equipment, net		2,271,339		2,271,153
Capitalized lease disposal costs, net		84,049		90,199
Investment		1,361,966		1,368,808
Patents and other intangibles, net		4,446,644		4,478,711
Total long-term assets		8,367,175		8,413,093
Total assets	$	11,407,226	$	12,008,014
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	$	493,343	$	732,449
Accrued liabilities		834,602		610,759
Current installments of notes payable		207,288		341,373
Total current liabilities		1,535,233		1,684,581
Long-term liabilities				
Convertible debt, net of debt discount		3,864,622		3,806,452
Obligation for lease disposal costs		589,251		566,369
Notes payable, net of current portion and debt discount		250,403		254,198
Mandatorily redeemable convertible preferred stock		850,000		850,000
Total long-term liabilities		5,554,276		5,477,019

Total liabilities		7,089,509		7,161,600
Stockholders' equity				
Common stock, $0.01 par value; 750,000,000 shares authorized; 369,395,849 and 369,130,899 shares issued and outstanding respectively		3,693,958		3,691,314
Additional paid in capital		118,233,715		117,783,738
Accumulated deficit		(117,677,650)		(116,697,147)
Equity attributable to International Isotopes Inc. stockholders		4,250,023		4,777,905
Equity attributable to noncontrolling interest		67,694		68,509
Total equity		4,317,717		4,846,414
Total liabilities and stockholders' equity	$	11,407,226	$	12,008,014

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Sale of product	$ 1,808,581	$ 1,800,049	$ 3,757,437	$ 3,472,838
Cost of product	1,128,695	1,011,937	2,273,123	2,105,206
Gross profit	679,886	788,112	1,484,314	1,367,632
Operating costs and expenses:				
Salaries and contract labor	374,366	415,777	761,724	868,237
General, administrative and consulting	420,395	455,028	927,617	936,550
Research and development	130,537	210,850	212,484	443,669
Total operating expenses	925,298	1,081,655	1,901,825	2,248,456
Net operating loss	(245,412)	(293,543)	(417,511)	(880,824)
Other income (expense):				
Other income (expense)	10,345	(32,297)	15,628	(28,132)
Equity in net income of affiliate	19,006	28,887	40,586	31,633
Interest income	98	38	393	426
Interest expense	(310,745)	(109,334)	(620,414)	(209,452)
Total other income (expense)	(281,296)	(112,706)	(563,807)	(205,525)
Net loss	(526,708)	(406,249)	(981,318)	(1,086,349)
Loss attributable to non-controlling interest	(1,590)	7,039	815	18,247
Net income (loss) attributable to International Isotopes Inc.	$ (528,298)	$ (399,210)	$ (980,503)	$ (1,068,102)
Net loss per common share - basic and diluted	$ -	$ -	$ -	$ -

Weighted average common shares outstanding - basic and diluted	369,387,638	362,046,367	369,269,226	361,233,668

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities:		
Net loss	$ (981,318)	$ (1,086,349)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Net income in equity method investment	(40,586)	(31,633)
Depreciation and amortization	136,892	214,257
Loss on disposal of property, plant and equipment	-	40,026
Accretion of obligation for lease disposal costs	22,881	21,138
Accretion of beneficial conversion feature and debt discount	423,053	52,763
Equity based compensation	48,198	154,229
Changes in operating assets and liabilities:		
Accounts receivable	255,996	7,864
Prepaids and other assets	255,047	154,686
Inventories	397,762	(44,391)
Accounts payable and accrued liabilities	(15,263)	(1,788)
Net cash provided by (used in) operating activities	502,662	(519,198)
Cash flows from investing activities:		
Restricted certificate of deposit	1,045	(354)
Dividends received from equity method investment	47,428	40,163
Proceeds from sale of property, plant and equipment	-	3,993
Purchase of property, plant and equipment	(98,861)	(303,062)
Net cash used in investing activities	(50,388)	(259,260)
Cash flows from financing activities:		
Proceeds from sale of stock	4,531	35,336
Proceeds from issuance of debt	-	1,060,000
Principal payments on notes payable	(102,870)	(134,005)
Net cash (used in) provided by financing activities	(98,339)	961,331
Net increase in cash and cash equivalents	353,935	182,873
Cash and cash equivalents at beginning of period	456,374	546,143
Cash and cash equivalents at end of period	$ 810,309	$ 729,016
Supplemental disclosure of cash flow activities:		
Cash paid for interest	$ 3,084	$ 50,466

Supplemental disclosure of noncash financing and investing transactions:				
Increase in equity and decrease in debt for amount allocated to warrants issued with convertible debentures	$	384,428	$	-
Increase in equity and decrease in debt for beneficial conversion feature associated with the convertible debentures	$	15,464	$	-
Increase in notes payable through conversion of NRC payable	$	-	$	596,816
Increase in equity for the beneficial conversion feature associated with the convertible debentures	$	-	$	75,715

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

For the Quarter Ended June 30, 2014

(1)

The Company and Basis of Presentation

International Isotopes Inc. (INIS) was incorporated in Texas in November 1995. The accompanying unaudited condensed consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and include all operations and balances of INIS and its 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 unaudited condensed consolidated financial statements also include the accounts of INIS s 50% owned joint venture, TI Services, LLC, which is located in Youngstown, Ohio. The Company s headquarters and all operations, with the exception of TI Services, LLC, are located in Idaho Falls, Idaho.

Nature of Operations INIS and its subsidiaries and joint venture (collectively, the Company, we, our or manufacture a full range of nuclear medicine calibration and reference standards, a wide range of products including cobalt teletherapy sources, and a varied selection of radioisotopes and radiochemicals for medical research, and clinical devices. The Company holds several patents for a fluorine extraction process that it expects to use in conjunction with a proposed commercial depleted uranium de-conversion facility, and provide a host of transportation, recycling, and processing services on a contract basis for clients. The Company s business consists of six major business segments: 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 unaudited condensed consolidated financial statements include the accounts of INIS, its wholly-owned subsidiaries and its 50% owned joint venture, TI Services, LLC. All 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 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 six-month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013 filed with the SEC on March 28, 2014.

Recent Accounting Standards - In May 2014, the FASB issued authoritative guidance for revenue and contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about:

1. Contracts with customers-including revenue and impairments recognized, disaggregation of revenue, and information about contract balances.

2. Significant judgments and changes in judgments-determining the timing of satisfaction of performance obligations (over time or at a point in time), and determining the transaction price and amounts allocated to performance obligations.

3. Assets recognized from the costs to obtain or fulfill a contract.

For public entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company has not yet determined what effect this standard will have on its results of operations.

In June 2014, the FASB issued authoritative guidance for stock based compensation. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined what effect this standard will have on its results of operations.

(2)

Current Developments and Liquidity

Business Condition Since inception, the Company has suffered substantial losses. During the six-month period ended June 30, 2014, the Company reported a net loss of $980,503, net of non-controlling interest loss, and net cash provided by operating activities of $502,662. During the same period in 2013, the Company reported a net loss of $1,068,102, net of non-controlling interest loss, and net cash used in operating activities of $519,198.

The Company has made significant investments in the design, planning and construction of a large scale uranium de-conversion and fluorine extraction facility, a project the Company started in 2004. Since beginning its efforts to design and build this proposed de-conversion facility, the Company acquired seven patents for the Fluorine Extraction Process (FEP) and later designed, built, and operated an FEP pilot plant to produce a fluoride gas from de-conversion of uranium tetrafluoride. Following completion of testing, the plant was shut down in 2013. In October 2012, the Company obtained the Nuclear Regulatory Commission s (NRC) construction and operating license for the planned de-conversion facility which is a forty (40) year operating license and is the first commercial license of this type issued in the U.S. There are no other companies with a similar license application under review by the NRC. Therefore, the NRC license represents a significant competitive barrier and the Company believes that it provides it with a very valuable asset.

However, since the start of this project there have been several changes in the nuclear industry that have caused the Company to place near-term engineering work on this de-conversion project on hold. When the Company began pursuing this project there were three companies planning for construction of new commercial uranium enrichment plants in the U.S. and a fourth company using the Silex laser separation technology. The Company was communicating with all of them for possible de-conversion agreements to process its tails and was successful in obtaining a de-conversion service agreement with URENCO USA (UUSA) that would use approximately 50% of the installed processing capacity of its proposed de-conversion facility. While the agreement with UUSA remains in place, the milestone dates in the agreement for the Company to have an operating de-conversion facility have passed. UUSA has not indicated they intend to terminate the agreement at this time. Instead UUSA and the Company plan to revise the agreement milestone dates at a future time once the Company has a firmer idea of the schedule for resumption of engineering and construction of the project. Plans to obtain additional contracts with the other enrichment companies in order to commit 100% of the planned facility s capacity have been delayed because of the slowdown in nuclear industry growth. Having contracts in place for the full plant capacity is necessary for the Company to obtain funding for the project and it believes that one or more of these companies are likely to resume construction plans on a new enrichment facility within the next few years. When these plans do resume, the Company will once again begin contract talks to commit the remaining capacity for its planned de-conversion facility and continue efforts to obtain project financing to proceed with the design and construction of the facility. It is also expected that the Company will be able to revise its contract dates with UUSA once one of these other enrichment companies resumes construction planning. Therefore, in the fourth quarter of 2013 the Company placed most of the work on that project on hold until additional contracts for de-conversion service could be secured and financing obtained for the project. During the six-month period ending June 30, 2014, the Company incurred costs of approximately $206,000 to maintain licenses and other necessary project investments. During the same six-month period in 2013, the Company incurred costs of approximately $557,000 for planning and development activities on the project.

In the meantime, the Company is renewing its focus upon its long-standing core business segments and working to reduce operating costs as well as create new business opportunities within those segments. The results of these efforts have led to positive cash flow produced by operating activities for the first six months of 2014 and for the first time in the Company s operating history. While there can be no assurances that this positive cash flow from operations will continue, the Company intends to continue to work towards that goal and in achieving profitability based upon the performance of our current business segments. The Company believes there are significant future opportunities for growth within the radiochemical, cobalt products, and field services segments and will be exploring those opportunities to expand business and revenue within those segments. The Company intends to make public announcements of those developments as agreements are put in place to secure those opportunities.

(3)

Net Loss Per Common Share - Basic and Diluted

For the six months ended June 30, 2014, the Company had 16,450,000 stock options outstanding, 42,257,951 warrants outstanding, and 425,000 shares of Series B redeemable convertible preferred stock outstanding that were not included in the computation of diluted loss per common share because they would be anti-dilutive.

For the six months ended June 30, 2013, the Company had 16,450,000 stock options outstanding, 38,059,303 warrants outstanding, and 425,000 shares of Series B redeemable convertible preferred stock outstanding that were not included in the computation of diluted loss per common share because they would be anti-dilutive.

(4)

Investment

The Company owns a 24.5% interest in RadQual, LLC (RadQual), with which the Company has an exclusive manufacturing agreement for nuclear medicine products. The 24.5% ownership of RadQual has a balance of $1,361,966 and is reported as an asset at June 30, 2014. For the six months ended June 30, 2014, member distributions from RadQual totaled $47,428 and were recorded as a reduction of the investment, and for the same period in 2013, member distributions totaled $40,163. During the six months ended June 30, 2014 and 2013, earnings allocated to the Company from RadQual totaled $40,586 and $31,633, respectively. These allocated earnings were recorded as equity in net income of affiliate on the Company s condensed consolidated statements of operations.

At June 30, 2014 and 2013, the Company had receivables from RadQual in the amount of $466,218 and $422,733, respectively, which are recorded as part of accounts receivable on the Company s condensed consolidated balance sheets. For the six months ended June 30, 2014 and 2013, the Company had revenue from RadQual in the amount of $1,541,972 and $1,615,482, respectively, which is recorded as sale of product on the Company s condensed consolidated statements of operations.

(5)

Inventories

Inventories consisted of the following at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Raw materials	$ 97,970	$ 247,667
Work in progress	962,032	1,206,708
Finished goods	20,585	23,974
	$ 1,080,587	$ 1,478,349

Work in progress includes cobalt-60 which is located in the U.S. federal government s Advanced Test Reactor (ATR) located outside of Idaho Falls, Idaho. The cobalt is at various stages of production and will require further irradiation to complete. At June 30, 2014 and December 31, 2013, the cobalt had a carrying value of $787,159 and $957,221, respectively, which is based on accumulated costs allocated to cobalt targets based on the length of time the cobalt remains in the ATR.

(6)

Stockholders Equity, Options and Warrants

Employee Stock Purchase Plan

During the six months ended June 30, 2014 and 2013, the Company issued 97,090 and 39,234 shares of common stock, respectively, to employees for proceeds of $4,531 and $5,336, respectively. All of these shares were issued in accordance with the Company s employee stock purchase plan.

Stock-Based Compensation Plans

Employee/Director Grants - The Company accounts for issuances of stock-based compensation to employees by recognizing, as compensation expense, the cost of employee services received in exchange for the equity awards. The compensation expense is based on the grant date fair value of the award. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period).

Non-Employee Grants - The Company accounts for its issuances of stock-based compensation to non-employees by measuring the value of any awards that were vested and non-forfeitable at their date of issuance based on the grant date fair value of the award. The non-vested portion of awards that are subject to the future performance of the counterparty are adjusted at each reporting date to their fair values based upon the then current market value of the Company s stock and other assumptions that management believes are reasonable.

Option awards outstanding as of June 30, 2014, and changes during the six months ended June 30, 2014, were as follows:

Fixed Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2013	16,450,000	$ 0.09		
Granted	-			
Exercised	-			
Forfeited	-			
Outstanding at June 30, 2014	16,450,000	0.09	3.3	$ -
Exercisable at June 30, 2014	14,387,500	$ 0.09	3.7	$ -

The intrinsic value of outstanding and exercisable shares is based on the closing price of the Company s common stock of $0.05 per share on June 30, 2014, the last trading day of the quarter. The intrinsic value of exercised shares is based on the closing price of the Company s common stock on the day of exercise with a weighted-average price of $0.09 per share.

As of June 30, 2014, there was approximately $79,221 of unrecognized compensation expense related to stock options that will be recognized over a weighted-average period of 1.5 years.

Total stock-based compensation expense for the six months ended June 30, 2014 and 2013 was $48,198 and $154,229, respectively.

Pursuant to an employment agreement with our CEO, the Company issued 280,000 in fully vested shares of common stock in February 2014, under the Company s 2006 Equity Incentive Plan. The number of shares awarded was based on a $28,000 stock award using a price of $0.10 per share. The agreement states that the number of shares issued will be based on the average closing price of common stock for the 20 trading days prior to issue date but not less than $0.10 per share. Compensation expense recorded pursuant to this stock grant was $16,800, which was determined by multiplying the number of shares awarded by the closing price of the common stock on February 27, 2014, which was $0.06 per share. The Company withheld 112,140 shares of common stock to satisfy the employee s payroll tax liabilities in connection with the stock grant. The net shares issued on February 28, 2014, totaled 167,860 shares.

Warrants

Warrants outstanding at June 30, 2014, and changes during the six months ended June 30, 2014, were as follows:

Warrants	
Outstanding at December 31, 2013	27,257,951
Issued	15,000,000
Exercised	-
Forfeited	-
Outstanding at June 30, 2014	42,257,951

Pursuant to the promissory note agreement discussed below, an aggregate of 15,000,000 additional warrants were issued on June 30, 2014, as a condition of extending the due date of the note from June 30, 2014 to December 31, 2017.

(7) Notes Payable

Notes Payable

In July 2012, the Company entered into a securities purchase agreement with certain institutional and private investors pursuant to which it sold convertible debentures for an aggregate of $3,069,900. The debentures bear interest at 8%, mature July 2017 and are unsecured. These debentures are convertible at any time into shares of the Company's common stock at an initial conversion price of $0.225 per share, subject to adjustment under certain conditions. Each investor also received a common stock purchase warrant to purchase common stock equal to twenty five percent (25%) of the shares issuable upon conversion of the debentures. The warrants are immediately exercisable at a price of $0.30 per share and have a term of five years. In accordance with FASC 470-20, *Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion*, the Company allocated the proceeds to the debentures and warrants based on their relative fair value resulting in $2,703,144 being allocated to the debentures and $366,756 being allocated to the warrants. Subsequent to the allocation, the Company calculated a beneficial conversion feature of $25,656. The allocated warrant value and the beneficial conversion feature were recorded as debt discount and will be accreted to interest expense over the five-year life of the debentures.

In connection with this offering, the Company paid a fee and issued to the placement agent a warrant to purchase 1,091,497 shares of the Company s common stock. The placement warrant had a fair value of $133,285. The value of the placement warrant and the fees are recorded as offering costs and will be amortized to expense over the life of the debentures. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of .65%, expected dividend yield of 0%, expected volatility of 88%, and an expected life of 5 years.

In February 2013, the Company entered into a securities purchase agreement with certain private investors pursuant to which it sold convertible debentures for an aggregate of $1,060,000. The debentures accrue interest at a rate of 10% per annum, compounded annually and mature February 2015. The conversion price in effect for these debentures, on any conversion date, is equal to the lesser of $0.14 or the average closing price of the Company s common stock for the 120 consecutive trading days up to, but not including the maturity date. If at any time prior to the maturity date, the volume weighted average price of the Company s common stock exceeds $0.50 per share over any consecutive thirty trading days then the Company is required to convert the debentures. At the maturity date all of the outstanding principal of the debentures as well as the accrued interest will be converted into shares of common stock. The fair market value of the Company s common stock was $0.15 per share on the date of the agreement. Consequently, the difference between the anticipated conversion price of $0.14 and the closing price of $0.15, multiplied by the number of issuable common shares upon conversion, was recorded as a beneficial conversion feature with an increase to equity and a debt discount in the amount of $75,715. This amount will be accreted to interest expense through February 2015.

During April 2013, the Company negotiated with the NRC to convert amounts owing as a trade payable to a long-term note. The Company converted a total of $596,816 in accounts payable to the note which is payable in monthly installments of $17,500 and accrues interest at a rate of 1% annually. The note matures February 15, 2016 and is unsecured.

In June 2014, the Company renegotiated the terms of a promissory note totaling $500,000 from the Company s Chairman of the Board and one of the Company s major shareholders (the Lenders). The promissory note bears interest at 6% and originally matured on June 30, 2014. At any time, the Lenders can elect to have any or all of the principal and accrued interest under the promissory note repaid in the form of shares of the Company s common stock, at a rate based on the average closing price of the Company s common stock for the 20 trading days preceding the maturity of the prepayment date. In connection with the promissory note, each Lender was issued 5,000,000 warrants to purchase shares of the Company s common stock at $0.06 per share. The fair value of the warrants was $383,025 and was recorded as a debt discount and was amortized to interest expense over the initial six-month life of the promissory note. The warrants are immediately exercisable. The fair value of the warrants was determined using the Black-Scholes Option Pricing Model and was calculated using the following assumptions: risk free interest rate of 1.33%, expected dividend yield rate of 0%, expected volatility of 78.9%, an expected life of 5 years.

Pursuant to a modification to the loan made June 30, 2014, the maturity date was extended to December 31, 2017, and each Lender was granted an additional 7,500,000 warrants to purchase shares of the Company s common stock at $0.06 per share. The warrants are immediately exercisable. The fair value of these warrants was $384,428 and was recorded as a debt discount and will be amortized to interest expense over the new life of the promissory note. The fair value of the warrants was determined using the Black-Scholes Option Pricing Model and was calculated using the following assumptions: risk free interest rate of 1.62%, expected dividend yield rate of 0%, expected volatility of 69.47%, an expected life of 4.5 years. The Company calculated a beneficial conversion feature of $15,464 which will be accreted to interest expense over the new life of the note.

(8)

Commitments and Contingencies

Dependence on Third Parties

The production of HSA Cobalt is dependent upon the U.S. Department of Energy (DOE), and its prime operating contractor, which controls the reactor and laboratory operations at the U.S. federal government s Advanced Test Reactor (ATR) located outside of Idaho Falls, Idaho. Continued access to the ATR for cobalt production remains subject to the approval of the DOE based upon the priorities of the government s experiments program. In June 2012, a leak of a cobalt target belonging to another commercial business resulted in the curtailment of all further cobalt handling and production activities at the ATR, pending completion of several corrective actions. During 2013, the Company completed corrective actions for both target handling and enhanced target design and was successful in transferring some previously irradiated targets from the ATR to its facility for processing. The Company is currently discussing requirements for the resumption of irradiation of its in-process cobalt targets with the DOE and is also working with the DOE to start new production targets. The Company anticipates reaching an agreement with the DOE during the third quarter of 2014 to contract for the start of irradiation of the new design cobalt targets that would allow the Company to resume cobalt sales from the resumed ATR production by about 2017. The Company is also working with the DOE on evaluating conditions necessary to resume irradiation of the old cobalt target design. In this evaluation, the Company is considering three options for this material: 1) selling the older cobalt target inventory to the DOE, 2) having the Company fund the additional engineering evaluation necessary to resume irradiation, or 3) writing off the value of the inventory and disposing of this material. These options will be evaluated and a decision made on the best option for the Company by the end of 2014.

Nuclear Medicine Reference and Calibration Standard manufacturing is conducted under an exclusive contract with RadQual, which in turn has an agreement in place with several companies for distributing the products. The majority of the radiochemical products sold by the Company are provided through a supply agreement with a single entity. A loss of any of these customers or suppliers could adversely affect operating results by causing a delay in production or a possible loss of sales.

Contingencies

Because all of the Company s business segments involve radioactive material, the Company is required to have an operating license from the NRC and specially trained staff to handle these materials. The Company has an NRC operating license and has amended this license many times to increase the amount of material permitted within its facility and change the descriptions of scope of work permitted both in the facility and by the Company in other locations. Additional processing capabilities and license amendments could be implemented that would permit processing of other reactor-produced radioisotopes by the Company. The current license does not restrict the volume of business operation performed or projected to be performed in the upcoming year. To provide the financial assurance required by the NRC, the Company carries a surety bond issued by Argonaut Insurance Company naming the NRC as beneficiary. The surety bond renews annually and requires a letter of credit against a certificate of deposit at Wells Fargo Bank in the amount of 50% of the face value of the surety bond. The Company has placed $203,177 into a certificate of deposit for this purpose. At June 30, 2014, the restricted certificate of deposit totaled $203,177.

(9)

Subsequent Events

In July 2014, in accordance with the Company s employee stock purchase plan, the Company issued 57,677 shares of common stock to employees in exchange for proceeds of $2,451.

(10)

Segment Information

The Company has six reportable segments which include: Nuclear Medicine Standards, Cobalt Products, Radiochemical Products, Fluorine Products, Radiological Services, and Transportation. Information regarding the operations and assets of these reportable business segments is contained in the following table:

	Three months ended June 30,				Six months ended June 30,			
Sale of Product	2014		2013		2014		2013	
Radiochemical Products	$	460,988	$	426,605	$	879,392	$	866,624
Cobalt Products		152,100		253,862		694,048		445,129
Nuclear Medicine Standards		799,066		811,483		1,612,589		1,719,749
Radiological Services		375,727		254,499		500,483		341,036
Fluorine Products		-		-		-		-
Transportation		20,700		53,600		70,925		100,300
Total Segments		1,808,581		1,800,049		3,757,437		3,472,838
Corporate revenue		-		-		-		-
Total Consolidated	$	1,808,581	$	1,800,049	$	3,757,437	$	3,472,838