

Thorium Power, Ltd
Form 10-Q
November 13, 2008

**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: September 30, 2008

**“ 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: 000-28543

THORIUM POWER, LTD.

(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 x 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 “

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Non-Accelerated Filer (Do not check if a smaller reporting company) 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 September 30, 2008 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	301,395,310

Transitional Small Business Disclosure Format (check one): Yes No

ITEM 1. FINANCIAL STATEMENTS

THORIUM POWER, LTD.

UNAUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

TABLE OF CONTENTS

	Page
Condensed Consolidated Balance Sheets	2
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss	3
Unaudited Condensed Consolidated Statements of Cash Flows	4
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity	5
Notes to Unaudited Consolidated Financial Statements	6 -14

Thorium Power Ltd.
Condensed Consolidated Balance Sheets

	September 2008 (Unaudited)	December 31 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,360,068	\$ 9,907,691
Accounts receivable - reimbursable project costs	759,929	—
Prepaid expenses & other current assets	115,586	204,035
Deferred project costs	—	371,631
Total Current Assets	11,235,583	10,483,357
Property Plant and Equipment -net	211,281	30,676
Other Assets		
Marketable securities - available for sale	2,127,429	0
Patent costs - net	217,875	217,875
Security deposits	140,467	2,049
Total Other Assets	2,485,771	219,924
Total Assets	\$ 13,932,635	\$ 10,733,957
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,010,118	\$ 2,122,649
Current portion long term debt	—	4,651
Customer deposit and other current liabilities	—	1,206,875
Deferred revenue	3,270,000	3,793,125
Total Current Liabilities	6,280,118	7,127,300
Notes Payable - long term	—	5,782
Total Liabilities	6,280,118	7,133,082
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 authorized shares, no shares issued and outstanding	-	-
Common stock, \$0.001par value, 500,000,000 authorized, 301,395,310 shares issued and outstanding at September 30, 2008 and 299,014,182 shares issued and outstanding at December 31, 2007	301,395	299,014
Additional paid in capital - stock and stock equivalents	46,744,676	41,791,735
Accumulated Deficit	(39,563,035)	(38,630,572)
Common stock reserved for issuance, 484,055 shares and 2,000,000 shares at September 30, 2008 and December 31, 2007, respectively	114,787	590,000
Accumulated other comprehensive income	463,862	30,143
Deferred stock compensation	(409,168)	(479,445)

Total Stockholders' Equity		7,652,517		3,600,875
Total Liabilities and Stockholders' Equity	\$	13,932,635	\$	10,733,957

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

2

Thorium Power Ltd.
Condensed Consolidated Statements of Operations and Comprehensive Loss

	Nine Months Ended September 30, (Unaudited)		Three Months Ended September 30, (Unaudited)	
	2008	2007	2008	2007
Revenue:				
Consulting revenue	\$ 14,863,125	\$ —	\$ 6,746,500	\$ —
Cost of Consulting Services Provided	5,246,875	—	1,862,309	—
Gross Margin	9,616,250	—	4,884,191	—
Operating Expenses				
General and administrative	5,595,881	3,907,464	2,478,894	1,113,731
Research and development expenses	497,228	297,064	211,779	141,593
Stock-based compensation	4,172,007	3,582,344	1,384,828	1,127,610
Total Operating Expenses	10,265,116	7,786,872	4,075,501	2,382,934
Operating income (loss)	(648,866)	(7,786,872)	808,690	(2,382,934)
Other Income and (Expenses)				
Interest income	162,293	301,824	19,113	84,888
Realized loss on marketable securities	(438,750)	—	—	—
Other expenses	—	(58,600)	—	—
Total Other Income and Expenses	(276,457)	243,224	19,113	84,888
Net income (loss) before income taxes	(925,323)	(7,543,648)	827,803	(2,298,046)
Income taxes	7,140	—	(24,799)	—
Net income (loss)	(932,463)	(7,543,648)	852,602	(2,298,046)
Other Comprehensive Income				
Unrealized gain marketable securities	433,719	3,274	437,234	3,931
Total Comprehensive Income (Loss)	\$ (498,744)	\$ (7,540,374)	\$ 1,289,836	\$ (2,294,115)
Net Income (Loss) Per Common Share, Basic and diluted	\$ 0.00	\$ (0.03)	\$ 0.00	\$ (0.01)
Weighted Average Number of shares outstanding for the period used to compute per share data	300,406,299	296,297,409	299,615,349	296,170,196

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

3

Thorium Power Ltd.
Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, (Unaudited)	
	2008	2007
Operating Activities:		
Net Loss	\$ (932,463)	\$ (7,543,648)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Shares issued for other than cash for payment of expenses	4,500,411	3,735,500
Depreciation and amortization	11,593	6,213
Amortization of deferred revenue - net	(523,125)	0
Amortization of deferred project costs	5,246,875	0
Realized loss on marketable securities	433,719	0
Settlement Expense	0	37,161
Changes in non-cash operating working capital items:		
Accounts receivable - reimbursable project costs	(759,929)	0
Prepaid expenses and other current assets	88,449	307,013
Security deposits	(138,418)	0
Accounts payable, accrued liabilities and other current liabilities	(319,406)	(999,311)
Deferred project costs	(4,875,244)	0
Net Cash Provided By (Used In) Operating Activities	2,732,462	(4,457,072)
Investing Activities:		
Purchase of office equipment	(192,198)	—
Other	—	3,274
Net Cash Provided By (Used In) Investing Activities	(192,198)	3,274
Financing Activities:		
Proceeds from issue of common shares	49,975	—
Payments on notes payable and other	(10,433)	(3,685)
Net Cash Provided By (Used In) Financing Activities	39,542	(3,685)
Net Increase (Decrease) In Cash and Cash Equivalents	2,579,806	(4,457,483)
Cash and Cash Equivalents, Beginning of Period	9,907,691	10,927,775
Reclassification of cash equivalents to marketable securities - available for sale	(2,127,429)	—
Cash and Cash Equivalents, End of Period	\$ 10,360,068	\$ 6,470,292
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year:		
Interest paid	\$ 40	\$ 524
Income taxes paid	\$ 31,939	\$ —
Non-cash transactions:		
Conversion of liabilities to equity	\$ 0	\$ 1,410,884

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

Thorium Power Ltd.
Condensed Consolidated Statements of Changes in Stockholders' Equity
For Nine Months Ended September 30, 2008 (Unaudited) and Year Ended December 31, 2007

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Stock Committed Future Issuance	Accumulated Comprehensive Income	Deferred Stock Compensation	Treasury Stock Shares	Treasury Stock Amount
Balance - December 31, 2006	257,291,709	\$ 257,292	\$ 23,148,560	\$ (27,177,989)	\$ 1,200,000	\$ 18,861	\$ (285,200)	(850,000)	\$ (255,800)
Issuance of stock for services	808,916	809	232,678						
Issuance of stock for payment of liabilities	714,120	714	277,727						
Stock based compensation - shares committed for future issuance and issued	2,350,000	2,350	866,150		(1,200,000)				
Stock Option Expense			3,991,317						
Net loss for the year				(11,452,583)					
Unrealized gains on marketable securities						11,282			
Amortization of deferred stock compensation costs							395,755		
Reclassification of warrant liability to additional paid in capital			1,132,444						
Cashless exercise of stock options and warrants	888,534	888	(888)						
Retirement of treasury stock	(850,000)	(850)	(255,000)					850,000	255,800
	128,139	128	37,032						

Stock settlement - merger									
Stock based compensation - officers, directors and employees	1,022,927	1,023	357,002						
Reclassification of temporary equity to permanent equity	36,659,837	36,660	12,004,713						
Stock based compensation - shares committed for future issuance					590,000		(590,000)		
Balance - December 31, 2007	299,014,182	\$ 299,014	\$ 41,791,735	\$ (38,630,572)	\$ 590,000	\$ 30,143	\$ (479,445)		—
Unrealized loss on marketable securities							433,719		
Exercise of stock options	320,350	320	49,655						
Stock option expense			4,009,315						
Stock based compensation - officers, directors and employees	60,778	61	305,971		114,787		(114,787)		
Amortization of deferred stock compensation costs							185,064		
Shares issued	2,000,000	2,000	588,000		(590,000)				
Net loss for the period				(932,463)					
Balance September 30, 2008	301,395,310	\$ 301,395	\$ 46,744,676	\$ (39,563,035)	\$ 114,787	\$ 463,862	\$ (409,168)		—\$

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

Thorium Power Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Nine Months Periods Ended September 30, 2008 and 2007

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiary have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (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 regulation 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, 2007, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

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.

Nature of Operations

Radkowsky Thorium Power Corp., incorporated in the state of Delaware on January 8, 1992 ("Inception"), changed its name to Thorium Power, Inc. in April 2001. On February 14, 2006, Novastar Resources Ltd. ("Novastar"), now called Thorium Power Ltd., entered into an Agreement and merged on October 6, 2006 with Thorium Power, Inc. (Collectively after the merger, all entities are referred to as the "Company" or "Thorium"). Thorium is engaged in two business segments. The first business segment is the development, promotion and marketing of its patented nuclear fuel designs: (1) thorium/uranium nuclear fuel and (2) thorium/reactor-grade plutonium disposing fuel. The Company also has a conceptual design of a thorium/plutonium disposing fuel. These fuels are designed to be used in existing light water reactors. Presently, we are focusing most of our efforts on demonstrating and testing our nuclear fuel technology for the Russian designed VVER-1000 reactors. Operations to date in this business segment have been devoted primarily to continued development of our fuel designs, filing for certain patents related to our technology, developing strategic relationships within the nuclear power industry, and securing political as well as some financial support from the United States and Russian governments.

Our business model expanded in 2007 and our second business segment is providing consulting and strategic advisory services to companies and governments planning to create or expand electricity generation capabilities using nuclear power plants. We have to date secured four contracts with successively larger values for consulting and strategic advisory services in the United Arab Emirates ("UAE"). We started working on our first consulting project with the Executive Affairs Authority ("EAA") of Abu Dhabi, one of the member Emirates of the UAE in December 2007 and completed this first consulting project in March 2008. We secured our second consulting project with the EAA in March 2008 and completed our second project in June 2008. On August 1, 2008, we signed separate consulting services agreements with two government entities to be formed by Abu Dhabi. Under these two new agreements, we are to provide consulting and strategic advisory services over a contract term of five years starting from June 23, 2008, with automatic renewals of these contracts for one year periods, see note 2c below.

Once our reactor fuels are further developed and tested, we plan to license our intellectual property rights to fuel fabricators, nuclear generators, and governments for use in commercial light water nuclear reactors, or sell the technology to a major nuclear company or government contractor, or some combination of the two. We anticipate

having the final design of our fuel technology for VVER-1000 reactors and demonstration of our fuel in a VVER-1000 operating reactor to commence in the next three to five years. Presently all our research, testing and demonstration activities are being conducted in Russia. Our research operations are subject to various political, economic, and other risks and uncertainties inherent in Russia.

6

Thorium Power Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Nine Months Periods Ended September 30, 2008 and 2007

The Company's future operations and earnings will depend on the results of the Company's operations in foreign countries. There can be no assurance that the Company will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Company's financial position, results of operations, and cash flows. Also, the success of the Company's operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for the Company's services, competition, and changes in regulations. Because the Company is dependent on international operations, particularly in one country right now, the Company will be subject to various additional political, economic, and other uncertainties.

We participate in a highly regulated industry that is characterized by governmental regulation. Our results of operations are affected by a wide variety of factors including general economic conditions, 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.

Based on the revenue we earned from our consulting contracts that we entered into in 2007 and 2008, we are no longer a development stage company in 2008, as we now have our ongoing consulting and strategic advisory services business segment, having recognized revenue earned in each of the quarters of 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

These financial statements include the accounts of Thorium Ltd. (a Nevada corporation) and our wholly-owned subsidiary, Thorium Power, Inc. (a Delaware corporation).

All significant intercompany transactions and balances have been eliminated in consolidation. We anticipate forming several foreign branch offices during the fourth quarter of 2008, which will be consolidated in our December 31, 2008 consolidated financial statements.

b) Use of Estimates

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.

These 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 net operating loss carry-forward, cost estimates relating to our consulting contracts, and the valuation allowance for deferred taxes and various contingent liabilities. 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.

c) Revenue Recognition

Revenue—at the present time we are deriving all of our revenue from our consulting and strategic advisory services business segment, by offering services to foreign governments planning to create or expand el