INTERNATIONAL ISOTOPES INC
Form 10KSB
March 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-KSB

(X) ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

( ) TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ______________

Commission file number

000-22923

INTERNATIONAL ISOTOPES INC.

(Exact name of issuer 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)

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $.01 PAR VALUE

(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act ( )

Check whether the issuer (1) 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 ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The Issuer s revenue for the fiscal year ended December 31, 2006 was $4,469,538.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to be the average bid and asked price of such common equity at February 9, 2007 was $12,512,626.

As of March 22, 2007 the number of shares outstanding of common stock, $.01 par value was 239,212,163 shares.

Documents Incorporated by Reference

Certain information called for in Parts II and III of this Annual Report on Form 10-KSB is incorporated by reference to the definitive proxy statement for the annual meeting of shareholders of the Company, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

INTERNATIONAL ISOTOPES INC.

FORM 10-KSB

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PART I

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Annual Report are forward looking. Words such as anticipates, believes, expects, future and intends and similar expressions identify forward-looking statements. In particular, statements regarding: the sufficiency of our available cash and revenues from operations to meet our operating needs; our ability to generate revenue; improvements in our gross profit; the implementation of our 2007 goals and objectives; the improvement in our financial performance due to a stabilization of our operating expenses; anticipated growth in our business segments; the effect of any business segment on our total revenues; the effect of our new FEP production capabilities on our business and the growth of the Fluorine products market; the effect of our ability to use our patents; our future research focus; the improvement of our competitive position based on low production costs; and the outcome of litigation pending against us are forward-looking are forward-looking. Forward-looking statements reflect management s current expectations, plans or projections and are inherently uncertain. Actual results could differ materially from management's expectations, plans or projections. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Certain risks and uncertainties that could cause actual results to differ significantly from management s expectations are described in the section entitled Factors Affecting Future Results. That section, along with other sections of this Annual Report, describes some, but not all, of the factors that could cause actual results to differ significantly from management s expectations. The company does not intend to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are urged, however, to review the factors set forth in reports that the company files from time to time with the Securities and Exchange Commission.

Item 1. BUSINESS

General Business and Products Description

International Isotopes Inc., was formed as a Texas corporation in 1995. Its wholly owned subsidiaries, are International Isotopes Idaho Inc.; International Isotopes Fluorine Products Inc.; and International Isotopes Transportation Services Inc., all of which are Idaho corporations. Our headquarters and all operations are located in Idaho Falls, Idaho. Our business consists of six reportable segments which include; Nuclear Medicine Standards, Cobalt Products, Radiochemical Products, Fluorine Products, Radiological Services, and Transportation Services.

Nuclear Medicine

This segment consists of the manufacture of sources and standards associated with SPECT (Single Photon Emission Computed Tomography), patient positioning, and calibration or operational testing of dose measuring equipment for the nuclear pharmacy. These items include flood sources, dose calibrators, rod sources, flexible and rigid rulers, spot markers, pen point markers, and a host of specialty design items. We manufacture these products through an exclusive manufacturing agreement with RadQual LLC. RadQual has, in turn, numerous distributors for direct sales of the products. There are over 5,000 nuclear medicine centers around the country that require these types of products on a regular repeat basis. We have been manufacturing these products since 2001, and have continued to grow this business at an annual rate of between 10% and 15% per year. The nuclear pharmacy business has been growing, and is anticipated to continue to grow, at an annual rate of about 5%.

Cobalt Products

This segment includes the production of high and medium specific activity bulk cobalt, recycling of expended cobalt sources, and fabrication of a wide array of cobalt teletherapy and experimental irradiator source capsules. Because of the lengthy production cycle required for bulk cobalt, and because those sales occur in large batches, we typically see large variations in revenues for this segment in financial period comparisons. However, the year-over-year demand for bulk cobalt, and our ability to supply it, remains steady.

New products added to this area include cobalt source recycling and sealed source fabrication. Increasing sales and additional contract opportunities were encountered with these products in 2006 and additional opportunities are expected in the future.

Radiochemical Products

This segment includes production and distribution of various isotopically pure radiochemicals for medical, industrial, or research applications. These products are either directly produced by us or are purchased in bulk from other producers and distributed by us in customized packages and chemical forms tailored to meet customer requirements. Our sales in this segment consist of Cobalt-60 (Co-60), Cobalt-57 (Co-57), Cesium-137 (Cs-137), Iodine-131 (I-131), Sodium-22 (Na-22), and Barium-133 (Ba-133) isotopes. Radiopharmaceuticals produced with Iodine-131 are used in the treatment and diagnosis of various diseases of the thyroid such as Graves disease, thyroid cancer, and hyperthyroidism and are also used in a host of investigational and clinical trials such as for the treatment of breast, lung, prostate, and ovarian cancers. Other isotopes are used in a host of research and industrial applications although in smaller quantities.

Fluorine Products

We acquired seven patents for the Fluorine Extraction Process (FEP) in January 2004 and plan to use this technology to produce several high purity fluorine products, such as germanium tetrafluoride. High purity fluorine gases are in ever-increasing demand for ion-implantation or chemical vapor deposition processes for microelectronics components and high-speed silicon chip manufacture. The FEP fluorine product is expected to have very high purity, which makes it ideally suited to these specialty applications, where high purity gas is required. In addition, we anticipate that the production costs of FEP products will be low compared to processes used by our competitors to manufacture ultra pure fluorine products. This will enable us to effectively compete with existing high purity fluorine product suppliers.

The FEP plant was completed in the fourth quarter of 2005 and the first successful trial operation of the plant was conducted in January 2006. During the remainder of 2006, we invested significant resources in completing additional design and resolving technical issues that would interfere with full commercial scale production of high purity germanium tetrafluoride from the plant. As of December 31, 2006 nearly all of these upgrades and technical issues have been resolved and we expect to begin commercial production and obtain contracts for this product in the third quarter of 2007. We have indications that the market size and growth outlook for high purity fluorine products should provide us with an opportunity to grow our revenue in the coming years. In addition to FEP production we were successful in obtaining our first Small Business Innovative Research (SBIR) grant for phase I investigational development of germanium tetrafluoride as a fluorinating agent for the production of hydro fluorocarbons. The Phase I investigational studies will be completed by mid 2007 and if successful we will be making application for full phase II funding to commercialize this technology in 2008.

Radiological Services

This segment includes a wide variety of miscellaneous services, the largest of which is processing gemstones that have undergone irradiation for color enhancement. One customer accounts for most of our sales in this segment. We have an exclusive contract with this customer for gemstone processing. Other services in this segment consist of radiological engineering consultant services, research and development activities, and Type A package certification testing. In 2006, this segment also included operations associated with the support of the orphan source recovery project for the Department of Energy.

Transportation Services

This segment was established in 2006 under the subsidiary name of International Isotopes Transportation Services (IITS). IITS was established to provide for transportation of the Company products (such as cobalt sources) and to offer for hire transportation services of hazardous and non-hazardous cargo materials. A major factor in the Company s determination of the need to establish this subsidiary and business segment was based upon many new requirements involving security and tracking of shipments of cobalt. IITS provides the Company with considerable savings for the transportation of our own products and has introduced a new revenue stream for transportation of products for other companies.

We believe that all of our business segments will perform well and should continue to demonstrate continued growth. We expect that revenues generated from these operations should be expected to produce sufficient cash to meet our operational needs.

Industry Overview, Target Markets, and Competition

The industries and markets that require or involve the use of radioactive material are diverse. Our current operations involve products that are used in a wide variety of applications and in various markets.

Nuclear Medicine

Calibration and Reference Standards are required for the daily operational checks and calibration of the measurement of SPECT imaging devices frequently used in nuclear medicine. This calibration and quality assurance testing is required as a routine part of the normal operations of this equipment to ensure its reliability and accuracy. We exclusively manufacture many of these products for RadQual LLC, which in turn has several distributors who make direct sales around the U.S. We directly ship these products to all 50 states and several overseas locations. There are two other major producers of these products within the U.S. and that directly compete with us for these products. Most of the products manufactured by our competitors are similar in design to our products because all must meet Original Equipment Manufacturer (OEM) dimensional and performance standards. However, we attempt to differentiate our products from our competitors products through increased levels of quality control and customer service.

Cobalt Products

We sell high activity bulk cobalt to a customer that uses it to fabricate sealed sources for the Elekta Gamma knife unit. The gamma knife is a device used for the precise radiation treatment of certain tumors and vascular deformities of the brain. There are over 80 treatment centers around the U.S that are using the gamma knife and through 2006 it is estimated that approximately 100,000 patients have been successfully treated with this device. We also accept old gamma knife sources for recycling when they have decayed past their useful activity. This recycled cobalt, combined with cobalt we produce in a reactor, is incorporated into new sealed sources for teletherapy, experimental irradiators. There are no other producers of cobalt in the U.S.; however, there are at least three significant producers in other parts of the world. There is only one other company in the U.S. currently licensed to handle the form and quantity of cobalt we are authorized to handle and one other company in the U.S. capable of handling large quantities of sealed cobalt material and competing directly with us for some sealed sources and recycling services in this segment.

Radiochemical Products

We typically supply radioisotope products in bulk form. The markets for most radiochemicals are highly competitive. The target markets for these products are customers who 1) incorporate them into finished industrial or medical devices; 2) use radioisotope products in clinical trials for various medical applications; or 3) further process and include the radioisotope products into a pharmaceutical product for FDA approved therapy or imaging.

Fluorine Products

We are developing our fluorine products for several reasons including: (i) we intend to take advantage of increased market demand for certain high purity fluorine compounds in the microelectronics industry ; (ii)we believe the FEP process could provide a unique opportunity to produce derivative commercial products; and (iii) the FEP process should be compatible with various governments efforts to convert depleted uranium forms and to produce oxide for other purposes. We established manufacturing capacity for germanium tetrafluoride in the fourth quarter of 2005, and worked to resolve final technical issues and complete systems necessary to support full commercial production during 2006. We now anticipate the start of regular commercial production during the third quarter of 2007. Several of these fluorine compounds are already being produced by other companies using other processes. Since the anticipated cost of the FEP process is low, we anticipate that we will have a price advantage with our fluorine products. However, this price advantage may initially be our only competitive advantage in this market.

In addition to FEP production we were successful in obtaining our first Small Business Innovative Research (SBIR) grant from the National Science Foundation for phase I investigational development of germanium tetrafluoride as a fluorinating agent for the production of hydro fluorocarbons. The Phase I investigational studies will be completed by mid 2007 and, if successful, we will be making an application for phase II funding in mid 2007 (in the amount of $750,000) to develop the commercial potential of this technology. Phase II funding award determination should be made by the end of 2007.

Radiological Services

Most of our radiological services are performed in support of gemstone processing to enhance color. Color-enhanced gemstones are used in commercial jewelry. The color enhancement process is a highly competitive industry and there are several alternatives to irradiation treatment. There are also other reactors located outside the U.S. that offer irradiation service. In 2006, this segment also included operations associated with the support of the orphan source recovery project for the Department of Energy.

Transportation Services

IITS was a new subsidiary for our company in 2006. IITS was formed in order to transport our own products and to provide   for hire   services. IITS specializes in the transportation of hazardous, radioactive, materials and especially large quantity cobalt shipments which have gained a significant amount of new regulation intended to address enhanced security for the transportation of those materials. IITS has specially trained drivers and equipped vehicles intended to meet all the new standards for transportation large cobalt shipments. Therefore, IITS is capable of providing unique transportation services that perhaps only one or two other commercial carriers in the U.S. can also provide. Revenues from   for hire   services are expected to increase in the coming year as greater awareness is made of IITS capabilities to other commercial businesses. IITS will also support the planned growth of our cobalt product segment sales.

Government Regulation

We have obtained two materials licenses from the Nuclear Regulatory Commission (NRC) that permit use and possession of by-product material. The first materials license covers calibration and reference standard manufacturing and distribution, radioisotope processing and distribution, large scale cobalt processing and recycle operations, radioactive gemstone processing, environmental sample analysis, and various research and development activities. The second materials license specifically covers FEP production and our subsidiary, International Isotopes Fluorine Products Inc.. The existing license and permits are adequate to allow all of our current business operations. At this time, there are no additional permits or approvals required for the planned scope of our operations in 2007.

We also have an operating permit from the NRC , which requires that we maintain an adequate cash reserve, in the form of a certificate of deposit and irrevocable letter of credit to the NRC, to support our estimated decommissioning and disposal costs for our facilities. We do not handle "special nuclear materials" (i.e. nuclear fuels and weapons grade uranium, thorium and plutonium). Therefore, our facility is not designated as a nuclear facility that would require additional licensing.

Regulation of Radioisotope Production Radioactive Waste

All of our manufacturing processes generate some radioactive waste. We must handle this waste pursuant to the Low Level Radioactive Waste Policy Act of 1980, which requires the safe disposal of mildly radioactive materials. The estimated costs for storage and disposal of these materials have been included in the manufacturing and sales price of our products. However, actual disposal costs are subject to change at the discretion of the disposal site and are ultimately applied at the time of disposal. We have obtained all necessary permits and approvals for the disposal of our waste materials. We do not anticipate any changes in capacity or regulatory conditions that would limit or restrict our waste disposal capabilities.

Other Regulations

We are registered as a medical device manufacturer through the Food and Drug Administration (FDA) for several of our nuclear medicine reference and calibration standards. We are registered with the U.S. Department of Transportation for the shipment of radioactive materials. In the first quarter of 2006, we obtained an NRC license for the import and export of radioactive materials. Because of increasing security controls and regulations, it is likely that we may encounter additional regulations effecting transportation, storage, sale, and import/export of radioactive materials. Registration of any of our radiochemicals into a Drug Master File (DMF) could subject us to the additional regulations of the FDA.

Employees

As of December 31, 2006 we had 25 employees, all of whom are full-time.

Reports to Security Holders

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy materials that we have filed with the SEC at the SEC public reference room located at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public at no charge from the SEC's website at www.sec.gov and under the "Investor Center" section of our website at www.intisoid.com. Information on our website is not incorporated into this report or other securities filings.

Distribution Methods for Products

We use common commercial carriers and our own IITS subsidiary for delivery of the company s products. For smaller quantities of material, and overnight and next day delivery, we utilize other commercial carriers. For our products that involve large quantities of radioactive material, most commonly cobalt-60, that invoke certain special transportation requirements, we use our new IITS transportation subsidiary. The creation of IITS subsidiary has produced additional revenue in for-Hire operations and saved expense by transporting our own products more cost effectively than other commercial carriers.

Dependence on Customers

Sales to three major customers accounted for 81% of our sales during 2006. This is a significant reduction in dependence compared to 2005 in which 83% of sales were based upon sales to two major customers.

Patents, Trademarks, Licenses, Royalty Agreements, etc

During the years ended December 31, 2005 and 2004, we obtained certain patents and patents pending related to a Fluorine Extraction Process and a container to transport radioactive materials.

Research and Development

We had research and development expenses totaling $58,360 in 2006 and $77,162 in 2005. These expenses were associated with initial development of the processing opportunities for new radiochemical products and for development work associated with the addition of several new products in the nuclear medicine reference and calibration business including several measurement devices, calibrated vials, and various markers. Beginning in 2006, R&D in this area was conducted as a radiological engineering service and generated some limited revenues.

Item 2. PROPERTIES

We lease two properties. The following paragraphs provide a brief summary of these properties.

4137 Commerce Circle The facility located on this property houses our main corporate headquarters and all of our manufacturing operations except our FEP operations. We hold this property pursuant to a lease that extends through April 2011. The facility was new when leased in March 2001 and remains in excellent condition. Our lease includes unlimited automatic five year extensions of the lease at our sole discretion. Lease payments are adjusted annually based upon the Consumer Price Index. We also have a purchase option and a right of first refusal on this property that allows us to purchase this property at any time for a stated amount.

3159 Commerce Way - The facility located on this property houses our FEP production operations. The facility was first leased in February 2004 and is in excellent overall condition. We hold this property pursuant to a lease that extends through January 2009. The facility is in excellent condition. Our lease includes unlimited automatic five year extensions of the lease at our sole discretion. Lease payments are adjusted annually based upon changes in the CPI. We also have a purchase option and a right of first refusal on this property that allows us to purchase this property at any time for a stated amount.

Item 3. LEGAL PROCEEDINGS

During April 2005, the Company was named as a defendant in a lawsuit filed in the District Court of Texas for Denton County, by a former employee. The plaintiff has alleged that the Company breached his employment contract, by failing to provide six months continuation pay upon his termination,. The plaintiff seeks damages of approximately $57,500, plus attorneys' fees and court costs. This suit is set for trial beginning April 17, 2007.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders during the fourth quarter of fiscal 2006.

PART II

Item 5.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is reported on the Over the Counter Bulletin Board (OTCBB) under the trading symbol INIS. High asked prices and low bid prices reported by the OTCBB during the periods indicated are shown below:

Fiscal Year	Quarter	High Asked	Low Bid
2006	1st	$0..21	$0.09
2006	2nd	$0.15	$0.08
2006	3rd	$0.14	$0.08
2006	4th	$0.15	$0.10
2005	1st	$0.12	$0.02
2005	2nd	$0.12	$0.07
2005	3rd	$0.08	$0.05
2005	4th	$0.09	$0.07

On February 16, 2007, there were 358 holders of record of our common stock. We have never paid any cash dividends on our common stock. In the future, and based upon our profit performance, our Board of Directors will evaluate and determine whether to issue dividends or retain funds for research and development and expansion of our business. It is unlikely that we will pay any dividends to shareholders for the foreseeable future.

Additional information called for by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed within 120 days after December 31, 2006.

Item 6.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the results of the company's operations and financial condition should be read in conjunction with the accompanying financial statements and the notes thereto included within this report.

Overview

International Isotopes Inc. manufactures a full range of nuclear medicine calibration and reference standards, manufactures high purity fluoride gases and a wide range of products such as teletherapy sources, high purity fluoride gasses, cobalt sources, and provides a wide selection of radioisotopes and radiochemicals for medical devices, calibration, clinical research, life sciences, and industrial applications. We also provide a host of analytical, measurement, recycling, and processing services on a contract basis to clients. The first successful operation of the Fluorine production plant was completed in January 2006. For the remainder of the year we completed numerous test runs, installed remaining plant operations equipment, and resolved technical system issues to allow full scale commercial production.

Results of Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Revenues

Total revenues in 2006 were $4,469,538 compared to $2,985,434 in 2005, which represents an increase of $1,484,104 or 50%. Revenues generated by our largest segment, Nuclear Medicine, increased by $142,833 or 9% to $1,684,727 in 2006 from $1,541,894 in 2005 while revenues generated by the Radiochemical Segment increased $136,152 or 19% to $844,014 in 2006 from $707,862 in 2005. The Radiological Services segment increased $231,925 or 57% to $641,411 in 2006 compared to $409,486 in 2005. The Cobalt Products segment increased $865,832 or 265% to $1,192,024 in 2006 from $326,192 in 2005.

Cost of Revenues and Gross Profit

Cost of revenue for 2006, was $2,462,715 compared to $1,601,361 in 2005, an increase of $861,354 or 54%. Gross profit for 2006, was $2,006,823 or 45% as compared to $1,384,073 or 46% in 2005.

Operating Costs and Expenses

Total operating costs and expenses for 2006, were $2,871,295 as compared to $2,201,933 in 2005, an increase of $669,362 or 30%. The increase was equally attributable to three contributing factors namely, FEP production supplies and equipment depreciation; wages attributable to the cost of stock options; and costs associated with our new transportation subsidiary (IITS). We anticipate no further significant increases in these operational expenses during 2007 and should, in fact, begin to see a portion of these operational expenses shift into cost of goods sold for fluorine products manufactured and sold by the subsidiary.

Other Income (expense)

Other (expense) in 2006 was ($172,840) compared to other expense of ($165,093) in 2005. The difference of $7,747 was principally attributable to an increase in interest expense in 2006.

Net Loss

The Net Loss was $1,037,312 in 2006 compared to a loss of $982,953 in 2005. The $54,359 increase in net loss was equally attributable to three contributing factors namely, FEP production supplies and equipment depreciation; wages attributable to the cost of stock options; and costs associated with our new transportation subsidiary (IITS).

Liquidity and Capital Resources

On December 31, 2006, we had cash and cash equivalents of $169,702 compared to $184,631 at December 31, 2005. For the year ended December 31, 2006, our cash flows included net cash used in operating activities of $259,941, net cash provided by financing activities of $490,430 and cash used in investing activities of $245,418.

We incurred a loss of $1,037,312 for the year ended December 31, 2006, and have an accumulated deficit of $90,833,651 since inception. Prior to 2006, our operations and plant and equipment expenditures were funded principally from proceeds from public and private sales of equity as well as through asset sales.

As of December 31, 2006, we had net term borrowings of $648,075 with Texas State Bank. The current maturity date of this loan is March 2007, however, it is expected that the note will be renewed and the maturity date extended into 2009 with comparable terms. We also have a $250,000 revolving line of credit with Texas State Bank that has a maturity date of August 2007. As of December 31, 2006, we had drawn $250,000 against this line of credit.

We completed an unsecured note purchase agreement on January 21, 2004, with certain of our principal investors and Directors totaling $650,000. Pursuant to the terms of the note purchase agreement, we issued unsecured notes, accruing interest at 6% per year. In December 2005, the holders of these notes agreed to modify the terms of the Note Purchase Agreement and the Notes by extending the maturity date of the notes from December 31, 2005 to January 2, 2007, and by reducing the original conversion price from $0.18 to $0.08 per share. In March 2007, the Note holders converted this debt, and accrued interest, into 8,420,172 shares of the Company s common stock.

Series B Warrant exercises in 2006 generated $500,724 for the Company. As of January 30, 2007 there are 9,454,871 Series B warrants outstanding, which, if exercised would generate an additional $473,742.

In 2006, we continued to build our various business segments, make investments into facilities and infrastructure, launch new products, and improve production costs. The following is a list of some of the more significant accomplishments in 2006.

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We have made significant increases in sales in all business segments and an approximate overall 50% increase in revenue for the company compared to 2005.

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Our customer base has increased. New products and services, such as our Transportation Services, were added in 2006 and have diversified the Radiological Services segment by contributing more than 30% of the revenue to that segment.

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Cobalt source capsule fabrication demand has grown and several different types of capsules and several new customers have been added in 2006.

•

We were awarded several contracts by the Department of Energy to assist with efforts related to the Orphan Source Recovery Project.

•

We received a grant from the National Science Foundation of phase I research into use of germanium tetrafluoride as a fluorinating agent for production of hydro fluorocarbon. Successful completion of phase I could lead to full scale commercial development of this promising technology under a phase II program in 2008.

Based upon the investments we have made in our facilities and products developed in 2006 we have the following goals and objectives for 2007:

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To begin commercial production and sale of germanium tetrafluoride using the FEP gas production plant and begin certain research activities intended to develop germanium tetrafluoride as a fluorinating agent for production of hydrofluorcarbon.

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To pursue additional opportunities for various source recovery and recycle programs expected to be funded through the federal government and to which we are uniquely suited to provide services.

•

Continue to advertise and promote the use of International Isotopes Transportation Services (IITS) revenues for the Company s products and other commercial customers.

•

To continue to expand our customer base, increase revenues in every business segment, continue to reduce production and operating costs, and achieve profitability.

In March 2007, the Company s Board of Directors approved, by unanimous consent, the completion of a Securities Purchase Agreement (SPA) with certain non-affiliates to obtain funding for working capital and general corporate purposes. The SPA authorized the sale of (i) 13,333,331 shares of the Company's common stock at $0.09 per share (par value $0.01 per share), (ii) Class C Warrants exercisable for 13,333,331 shares of the Company's common stock at an exercise price of $0.10, and (iii) Class D Warrants exercisable for 13,333,331 shares of the Company's common stock at an exercise price of $0.11, all for an aggregate sale price of approximately $1,200,000 and pursuant to the terms and conditions set forth in the Securities Purchase Agreement.

We believe that revenues generated from these business activities will have a positive effect upon our business in 2007 and should produce sufficient cash to meet our operational needs.

Company Risk Factors

Readers should carefully consider the following factors that may affect our business, future operating results and financial condition, as well as other information included in this Annual Report. The risks and uncertainties described below are not the only ones the company faces. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.

We have incurred and may continue to incur losses. With the exception of 2002, we have incurred net losses for most fiscal periods since our inception. From inception through December 31, 2006, we have generated $29,620,633 in revenues and accumulated deficit (including preferred stock dividends and returns) in the amount of $90,833,651.

We may need additional financing to continue operations. As of December 31, 2006, we have a loan from Texas State Bank in the amount of $648,075 which matures in March 2007 and is secured by our accounts receivable and fixed assets. We also have a line of credit with Texas State Bank in the amount of $250,000, all of which was drawn at December 31, 2006. The line matures in August 2007. We also owe $840,753 to our former Chairman of the Board pursuant to a note that matures in April 2012. Principal and interest payments on this note are paid annually based upon net profits (annual principal payment to equal 30% of net pre-tax profits).

Remaining obligations on the Texas State Bank loan for the Waxahachie property could revert to us, increasing our debt obligations. In 2002, Texas State Bank agreed to the assumption of our loan by an individual upon our sale of the Waxahachie property. As of January 30, 2007, the remaining outstanding balance on this loan was $279,244. Should this individual default on the assumed loan, the liability for the loan will revert to the Company, increasing our debt.

Operational hazards could result in the spread of contamination within our facility and require additional funding to correct. An irrevocable, automatic renewable letter of credit against a certificate of deposit at Texas State Bank has been used to provide the financial assurance required by the Nuclear Regulatory Commission for our Idaho facility license. If a contamination event resulted in greater liability to us, we would have to borrow money or fund the liability from our future revenue.

We may incur material losses and costs as a result of product liability claims that may be brought against us. We face an inherent business risk of exposure to product liability claims in the event that products supplied by us to the medical industry fail to perform as expected or such failure results, or is alleged to result, in bodily injury. A successful product liability claim against us in excess of our available insurance coverage or established reserves may have a material adverse effect on our business.

Government regulation could adversely affect our business. Operations within our Idaho facility are subject to U.S. Nuclear Regulatory Commission and Food and Drug Administration regulations. To the extent these regulations are or become burdensome, our business development could be adversely affected.

We are dependent upon key personnel. Our ongoing operations are dependent on Steve T. Laflin, President and Chief Executive Officer. The loss of Mr. Laflin could have a material adverse effect on our business. We have a $2 million dollar key man life insurance policy on Mr. Laflin and an employment agreement that extends through February 2010. There is no assurance that we will be able to retain Mr. Laflin or our existing personnel or attract additional qualified employees. The loss of any of our key personnel or an inability to attract additional qualified employees could result in a significant decline in revenue.

We are dependent on various third parties in connection with our business operations. The production of HSA Cobalt is dependent upon the Department of Energy, and its prime-operating contractor, which controls the Idaho reactor and laboratory operations. Our gemstone production is tied to an exclusive agreement with Quali Tech Inc. Nuclear medicine calibration and reference standard manufacturing is conducted under an exclusive contract with RadQual, LLC, which in turn has agreements in place with several companies for marketing and sales.

We are subject to competition from other companies. Each of our business areas has direct competition from other businesses. HSA cobalt is supplied by other reactor facilities around the world. Nuclear medicine calibration and reference standards are being produced by several other manufacturers in the U.S. and overseas, and there is at least one other gemstone processor in Europe. Most of our radiochemicals are also manufactured by several other companies in the world, and there are other suppliers of high purity fluorine products. Each of our competitors has significantly greater financial resources that could give them competitive advantage over us.

Item 7. FINANCIAL STATEMENTS

The following financial statements are included herewith:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for the years ended December 31, 2006 and 2005

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005

Notes to Consolidated Financial Statements

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 8A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the company conducted an evaluation of disclosure controls and procedures, under the supervision and with the participation of its principal executive officer and principal financial officer. Based on this evaluation, the principal executive officer and principal financial officer concluded that the company s disclosure controls and procedures were effective as of December 31, 2006.

There was no change in the Company s internal control over financial reporting during the Company s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our principal executive officer and principal financial officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer have determined that our disclosure controls and procedures are effective at doing so, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within International Isotopes have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Item 8B. OTHER INFORMATION

None

PART III.

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. Our Code of Ethics is posted on our website and can be accessed, free of charge, at www.intisoid.com.

The information required by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006, the close of our fiscal year.

Item 10. EXECUTIVE COMPENSATION

The information required by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006, the close of our fiscal year.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006, the close of our fiscal year.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006, the close of our fiscal year.

Item 13. EXHIBITS

The following documents are filed or incorporated by reference as exhibits to this Report:

3.1

Second Amended and Restated Articles of Incorporation (incorporated by reference to Appendix C to the Company's definitive proxy statement on Schedule 14A filed on April 28, 2005).

3.2

Bylaws of the Company (incorporated by reference to the Company's Registration Statement on Form SB-2 filed on May 1, 1997 (Registration No. 333-26269)).

10.1

* 2002 Long Term Incentive Plan (incorporated by reference to the Company's Annual Report on Form 10KSB for the year ended December 31, 2002).

10.2

Form of Incentive Stock Option Agreement (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.3

Series A and B Warrant Agreement and Form of Series A and B Warrant (incorporated by reference to the Company s Registration Statement on Form S-3 filed on June 18,2003 (Registration No. 333-106215).

10.4

*International Isotopes Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Company s definitive proxy statement on Schedule 14A, as amended, filed on May 6, 2005).

10.5

*International Isotopes Employment Agreement with Steve T. Laflin (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.6

Lease Agreement 4137 Commerce Circle (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.7

Option to Purchase and Right of First Refusal for Property located at 4137 Commerce Circle (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.8

Lease Agreement 3159 Commerce Way (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.9

Option to Purchase and Right of First Refusal for Property located at 3159 Commerce Way (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.10

Promissory Note with Texas State Bank for $250,000 Line of Credit.

10.11

Promissory Note with Texas State Bank for Commercial Loan.

10.12

Unsecured Note to former Chairman of the Board, Dated April 1, 2002 (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.13

Form of Note Purchase Agreement and Form of Unsecured Convertible Promissory Notes (incorporated by reference to the Company s Annual Report on Form 10KSB for the year ended December 31, 2004).

10.14

2006 Equity Incentive Plan (incorporated by reference to the Company s definitive proxy statement on Schedule 14A filed on May 1, 2006.

21.

Subsidiaries (incorporated by reference to the Company s Annual Report on From 10 KSB for the year ended December 31, 2005).

23.

Consent of Hansen, Barnett & Maxwell.

31.1

Certification under section 302 of the Sarbanes-Oxley Act of 2002 for Chief Executive Officer.

31.2

Certification under section 302 of the Sarbanes-Oxley Act of 2002 for Chief Financial Officer.

32.1

Certification under section 906 of the Sarbanes-Oxley Act of 2002.

*This exhibit constitutes a management contract or compensatory plan or arrangement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be included in our Proxy Statement for our 2007 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 26, 2007.

International Isotopes Inc.

By: /s/ Steve T. Laflin

Steve T. Laflin

President, Chief Executive Officer, and Chief Financial Officer

SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 26, 2007

/s/ Dr. Ralph Richart

Dr. Ralph Richart

Chairman of the Board of Directors

March 26, 2007

/s/s Steve T. Laflin

Steve T. Laflin

President, Chief Executive Officer (Principal Executive Officer),

Chief Financial Officer (Principal Accounting Officer) and Director

March 26, 2007

/s/ Christopher Grosso

Christopher Grosso

Director, Audit Committee Chairman

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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HANSEN, BARNETT & MAXWELL, P.C.

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders

International Isotopes Inc

We have audited the accompanying consolidated balance sheets of International Isotopes Inc and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Isotopes Inc and subsidiaries as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (R), Share-Based Payment, effective January 1, 2006.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah

March 19, 2007

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31,	
Assets	**2006**	**2005**
Current assets:		
Cash and cash equivalents	$ 169,702	$ 184,631
Accounts receivable	353,379	386,862
Inventories (Note 3)	2,537,627	2,668,911
Prepaids and other current assets	115,589	132,562
Total current assets	3,176,297	3,372,966
Long-term assets		
Restricted certificate of deposit	176,966	178,684
Property, plant and equipment, net (Note 4)	2,077,844	1,876,464
Capitalized lease disposal costs, net (Note 11)	98,103	112,935
Patents, net (Note 5)	73,500	84,000
Total long-term assets	2,426,413	2,252,083
Total assets	$ 5,602,710	$ 5,625,049
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 208,993	$ 238,393
Accrued liabilities	436,099	261,709
Current installments of capital leases (Note 7)	26,518	-
Current installments of notes payable (Note 6)	1,738,828	1,057,069
Total current liabilities	2,410,438	1,557,171
Long-term liabilities		
Obligation for lease disposal costs (Note 11)	206,451	191,160
Notes payable, excluding current installments (Note 6)	650,000	1,327,421
Capital leases, excluding current installments (Note 7)	112,111	-
Mandatorily redeemable convertible preferred stock (Note 8)	850,000	850,000
Total long-term liabilities	1,818,562	2,368,581
Total liabilities	4,229,000	3,925,752
Stockholders' equity (Note 8)		

Common stock, $0.01 par value; 500,000,000 shares authorized;				
216,721,144 and 206,582,688 shares issued and outstanding respectively		2,167,211		2,065,826
Additional paid-in capital		90,040,150		89,429,810
Accumulated deficit		(90,833,651)		(89,796,339)
Total stockholders' equity		1,373,710		1,699,297
Total liabilities and stockholders' equity	$	5,602,710	$	5,625,049

See accompanying notes to consolidated financial statements.

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INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Years ended December 31, 2006	2005
Sales of product	$ 4,469,538	$ 2,985,434
Cost of products	2,462,715	1,601,361
Gross profit	2,006,823	1,384,073
Operating costs and expenses:		
Salaries and contract labor	1,328,111	916,081
General, administrative and consulting	1,484,824	1,208,690
Research and development	58,360	77,162
Total operating expenses	2,871,295	2,201,933
Operating loss	(864,472)	(817,860)
Other income (expense):		
Other income	14,228	635
Interest income	5,734	4,231
Interest expense	(192,802)	(169,959)
Total other (expense)	(172,840)	(165,093)
Net loss	$ (1,037,312)	$ (982,953)
Net loss per common share basic and diluted:	$ (0.00)	$ (0.01)
Weighted average common shares outstanding - basic and diluted	211,984,394	186,630,510

See accompanying notes to consolidated financial statements.

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INTERNATIONAL ISOTOPES INC AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
Years ended December 31, 2005 and 2006

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance December 31, 2004	159,077,940	$ 1,590,779	$ 87,773,992	$ (88,813,386)	$ 551,385
Exercise of Series A and B warrants	47,424,474	474,245	1,652,362	-	2,126,607
Redemption of warrants	-	-	(1,192)	-	(1,192)
Shares issued under employee stock purchase plan	80,274	802	4,648	-	5,450
Net loss	-	-	-	(982,953)	(982,953)
Balance December 31, 2005	206,582,688	2,065,826	89,429,810	(89,796,339)	1,699,297
Exercise of Series B warrants	10,014,490	100,145	400,579	-	500,724
Shares issued under employee stock purchase plan	123,966	1,240	8,432	-	9,672
Compensation expense related to issuance of options	-	-	201,329	-	201,329
Net loss	-	-	-	(1,037,312)	(1,037,312)
Balance December 31, 2006	216,721,144	$ 2,167,211	$ 90,040,150	$ (90,833,651)	$ 1,373,710

See accompanying notes to consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Years ended December 31, 2006	2005
Cash flows from operating activities:		
Net loss	$ (1,037,312)	$ (982,953)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	206,758	213,386
Loss on abandonment of patent	-	13,097
Loss on disposal of property, plant and equipment	27,263	-
Accretion of obligation for lease disposal costs	15,291	16,415
Compensation expense related to issuance of options	201,329	-
Changes in operating assets and liabilities:		
Accounts receivable	33,483	45,888
Prepaids and other current assets	16,973	(36,942)
Inventories	131,284	(431,490)
Accounts payable and accrued liabilities	144,990	(54,825)
Net cash used in operating activities	(259,941)	(1,217,424)
Cash flows from investing activities:		
Restricted certificate of deposit	1,718	(25,956)
Purchase of patents	-	(10,287)
Purchase of property, plant and equipment	(247,136)	(944,763)
Net cash used in investing activites	(245,418)	(981,006)
Cash flows from financing activities:		
Proceeds from exercise of warrants	500,724	2,126,607
Redemption of warrants	-	(1,192)
Proceeds from sale of stock under employee stock purchase plan	9,672	5,450
Proceeds from issuance of debt	100,000	150,000
Principal payments on notes payable	(119,966)	(47,855)
Net cash provided by financing activities	490,430	2,233,010
Net change in cash and cash equivalents	(14,929)	34,580
Cash and cash equivalents at beginning of year	184,631	150,051
Cash and cash equivalents at end of year	$ 169,702	$ 184,631

Supplemental disclosure of cash flow activities:				
Cash paid for interest	$	149,733	$	209,666
Supplemental disclosure of noncash financing and investing transactions:				
Assets acquired through capital lease	$	202,910	$	-
Capitalization of lease disposal costs		-		25,413

See accompanying notes to consolidated financial statements

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NOTE 1 - DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

International Isotopes Inc. (the Company) was incorporated in Texas in November 1995. The consolidated financial statements include all the accounts of the Company and its wholly owned subsidiaries. In November 2005, the Company created two new wholly owned subsidiaries; International Isotopes Fluorine Products, Inc. (to account for the activity and operations of the fluorine extraction process) and International Isotopes Transportation Services Inc. (to account for the activity and operations of isotope transportation services). The Company also owns 100% of the outstanding common shares of International Isotopes Idaho, Inc.

Nature of Operations The Company s business consists of six major business segments which include: Nuclear Medicine Standards, Cobalt Products, Radiochemical Products, Fluorine Products, Radiological Services, and Transportation Services.

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. As of December 31, 2006, the Company had 26 full time employees.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries International Isotopes Idaho Inc.; International Isotopes Fluorine Products, Inc; and International Isotopes Transportation Services Inc. All significant - accounts and transactions have been eliminated in consolidation.

Significant Accounting Policies

(a)

Financial Instruments and Cash Equivalents

The carrying value of notes payable approximates fair value because they bear interest at rates which approximate market rates.

Cash and cash equivalents, totaling $169,702 and $184,631 at December 31, 2006 and 2005, respectively, consist of operating accounts, and money market accounts. For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid financial instruments with original maturities of three months or less at date of purchase to be cash equivalents.

At December 31, 2006 and 2005, the Company has pledged a certificate of deposit valued at $176,966 and $178,684, respectively as security on a letter of credit. The letter of credit is required as part of the licensing agreement with the Nuclear Regulatory Commission (NRC). Among other things, the licensing agreement calls for a letter of credit to provide a level of financial assurance to maintain licensing with the NRC. Accordingly, withdrawal of the certificate is restricted over the remaining life of the license.

At December 31, 2006, the Company had cash deposits in excess of federally insured limits.

(b)

Accounts Receivable

The Company sells products mainly to recurring customers, wherein the customer s ability to pay has previously been evaluated. The Company generally does not require collateral. The Company periodically reviews accounts receivable for amounts considered uncollectible. Allowances are provided for uncollectible accounts when deemed necessary.

(c)

Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the first in, first out method. Work in progress inventory contains product that is undergoing irradiation. This irradiation process can take up to three years to reach high specific activity (HSA) levels.

(d)

Property, Plant and Equipment

Depreciation on property, plant and equipment is computed using the straight-line method over the estimated useful life of the asset.

Leasehold improvements are amortized over the shorter of the life of the lease or the service life of the improvements. Maintenance, repairs, and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the results of operations.

(e)

Patents are amortized using the straight-line method over their estimated useful lives and are evaluated for impairment at least annually or when events or circumstances arise that indicate the existence of impairment.

(f)

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

Long-lived assets are reviewed for impairment yearly. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Based on the evaluation, no impairment was considered necessary during the years ended December 31, 2006 or 2005.

(g)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

(h)

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(i)

Revenue Recognition

Revenue is recognized when products are shipped. No warranty coverage or right of return provisions are provided to customers.

Sales to three major customers accounted for 81% of sales during 2006 and sales to two major

customers accounted for 83% during 2005. At December 31, 2006 and 2005 those same three customers accounted for 78% and 96% of total recievables, respectively.

(j)

Research and Development Costs

The Company had research and development expenses totaling $58,360 in 2006 and $77,162 in 2005. These expenses were associated with initial development of the processing opportunities for new radiochemical products and for development work associated with the addition of several new products in the nuclear medicine reference and calibration business including several measurement devices, calibrated vials, and various markers.

(k)

Shipping and Handling Costs

The Company expenses all shipping and handling costs incurred. For the years ended December 31, 2006 and 2005, the Company expensed $3,348 and $5,123, respectively of shipping and handling costs. These costs are included in general, administrative and consulting costs in the statements of operations.

(l)

Stock Option Plan

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), share based payments using the modified prospective method. SFAS 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

For the twelve months ended December 31, 2006, the Company recognized compensation expense of $201,329 related to stock options. As of December 31, 2006, there was approximately $205,809 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 1.6 years.

Prior to January 1, 2006, the Company determined the value of stock-based compensation arrangements under provisions of APB Opinion No. 25 and accounted 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 was recognized for stock options in the accompanying consolidated financial statements for the year ending December 31, 2005. 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 would have been increased to the pro forma amounts indicated below for the year ended December 31, 2005:

		2005
Net loss, as reported	$	(982,953)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(149,370)
Pro forma net loss	$	(1,132,323)
Loss per share, basic and diluted:		
As reported	$	(0.01)
Pro forma	$	(0.01)

(m)

Net Loss Per Common Share-Basic and Diluted

Basic loss per share is computed on the basis of the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed on the basis of the weighted-average number of common shares and all dilutive potentially issuable common shares outstanding during the year.

At December 31, 2006, and 2005, the Company had the following common stock equivalents outstanding 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:

	December 31,	
	2006	2005
Options/warrants	32,104,871	38,118,481
850 shares of Series B redeemable Convertible preferred stock	425,000	425,000
$650,000 of convertible notes payable	8,125,000	8,125,000
	40,654,871	46,668,481

(n)

Business Segments and Related Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company currently operates in six business segments (see Note 12).

(o)

Reclassifications

Certain 2005, amounts have been reclassified to conform to the 2006, presentation. These reclassifications had no effect on the previously reported net loss.

(p)

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which attempts to set out a consistent framework for preparers to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of FASB Statement No. 109 uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit which is greater than fifty percent likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity s tax reserves. The Company will be required to adopt this Interpretation as of January 1, 2007. The Company is still evaluating the impact of the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires additional disclosures about fair value measurements. SFAS 157 aims to improve the consistency and comparability of fair value measurements by creating a single definition of fair value. The Statement emphasizes that fair value is not entity-specific, but instead is a market-based measurement of an asset or liability. SFAS 157 upholds the requirements of previously issued pronouncements concerning fair value measurements and expands the required disclosures. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, however earlier application is permitted provided the reporting entity has not yet issued financial statements for that fiscal year. The Company does not believe that the adoption of SFAS 157 will have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 are effective for the Company for its December 31, 2006 year-end. The adoption of SAB 108 had no impact on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.* SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.* SFAS No. 155 will become effective for the Company s fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend upon the nature and extent of any new derivative instruments entered into after the effective date.

NOTE 2 BUSINESS CONDITION AND LIQUIDITY

Business Condition The Company has a history of recurring losses with an accumulated deficit of $90,833,651 at December 31, 2006, and a net loss of $1,037,312 for the year then ended. The Company s working capital has decreased by $1,049,936 from the prior year, working capital includes inventory which will not be sold for up to three years, and the Company has used cash flows from operations of $259,941. During 2006, the Company sought to improve future cash flows from operating activities through significant investments into facilities and infrastructure, launching new products and implementing and improving operating cost control measures. The Company has been able to grow the Nuclear Medicine Reference and Calibration Standards segment at an annual rate of approximately 12% per year and anticipates similar growth trends over the coming year. During 2006 all of the Company s remaining business segments grew between 9% and 56%.

During 2004, the Company acquired seven patents for the Fluorine Extraction Process (FEP) and began construction of a plant to use this technology to produce several high purity fluorine products, such as germanium tetrafluoride. During January 2006, the Company successfully tested the fluorine extraction process and expects to begin full commercial production in 2007. In addition, the company was successful in obtaining a phase I SBIR grant form the National Science Foundation for development of alternative methods of hydrofluoricarbon production. Based on the market size and growth outlook for high purity fluorine products, management believes this plan and its operations should increase future revenues.

In March 2007, the Company converted $650,000 in principal and $23,614 in accrued interest into 8,420,172 shares of common stock. As further discussed in note 13, the Board approved securities purchase agreement on March 21 2007, which issues common stock and warrants for proceeds of $1,200,000.

Management believes these changes to operations, the reduction of debt obligations, equity funding, and the additional capital received from the exercise of warrants subsequent to year end will be sufficient to enable the Company to continue its operations as a going concern; however, management s plans may not be fulfilled and profitable operations may not be obtained.

NOTE 3 - INVENTORIES

Inventories consisted of the following at December 31, 2006 and 2005:

		2006		**2005**
Raw materials	$	263,791	$	264,137
Work in progress		2,273,836		2,404,774
	$	2,537,627	$	2,668,911

Included in inventory are the various pellet holders and housings involved in target fabrication, raw cobalt, nickel and other raw elements, completed flood sources and irradiated cobalt.

Work in progress includes cobalt-60 isotopes that are located in the U.S. federal government s Advanced Test Reactor (ATR) located outside Idaho Falls, Idaho. These isotopes are at various stages of irradiation. Some isotopes are near completion and others may require up to three years to complete. At December 31, 2006 and 2005, these isotopes had a carrying value of $1,939,702 and $1,948,055, respectively.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows at December 31, 2006 and 2005:

		2006		**2005**	**Estimated Useful Lives**
Furniture and fixtures	$	83,637	$	82,205	3 5 years
Transportation equipment		23,016		6,290	5 10 years
Plant and improvements		149,608		149,608	5 years
Production equipment		2,587,850		2,247,418	5 10 years
		2,844,111		2,485,521	
Less accumulated depreciation		(766,267)		(609,057)	
Property, plant & equipment, net	$	2,077,844	$	1,876,464	

Depreciation was $181,426 and $187,425 for the years ended December 31, 2006 and 2005, respectively.

NOTE 5 - PATENTS

During the years ended December 31, 2006 and 2005, the Company obtained certain patents and patents pending related to a Fluorine Extraction Process and a container to transport radioactive materials. Patents, as of December 31, 2006 and 2005 are as follows:

	2006	2005
Beginning Patents	$ 105,000	$ 109,000
Additions	-	10,287
Abandonments	-	(14,287)
Ending patents	105,000	105,000
Accumulated amortization	(31,500)	(21,000)
Patents - net	73,500	84,000

During the year ended December 31, 2006 and 2005, the Company recognized $10,500 of amortization expense, respectively. Estimated amortization expense of patents is as follows:

Years ending December 31:	
2007	$ 10,500
2008	10,500
2009	10,500
2010	10,500
2011	10,500
Thereafter	21,000
	$ 73,500

NOTE 6 - NOTES PAYABLE

During 2006, the Company renegotiated its line of credit with a bank. The maximum amount available to borrow is $250,000. The line accrues interest at the bank prime rate plus 1.5% (9.7% at December 31, 2006). The line comes due in August 2007, and is secured by equipment, accounts receivable and inventory. As of December 31, 2006, the Company had drawn $250,000 against this line of credit.

During November 2005, the Company renegotiated the $650,000 convertible notes payable to certain directors and shareholders and extended the due date to January 2, 2007. As consideration for this, the conversion price was reduced to $0.08 per share, which was the market value of the common stock on the date of the amendment. In March 2007, the Company converted $650,000 in principal and $23,614 in accrued interest at $0.08 per share, resulting in 8,420,172 shares of common stock issued. As a result, the $650,000 is classified as a long-term liability in the accompanying financial statements.

Notes payable as of December 31, 2006 and 2005, consist of the following:

	2006	2005
Unsecured note payable to certain directors and shareholders, accrues interest at 6%, convertible to common stock at the option of the creditor, converted to 8,125,000 shares of common stock in February 2007.	$ 650,000	$ 650,000
Note payable to a finance company accruing interest at 8.7%; settled in March 2006.	-	44,680
Bank line of credit, renegotiated in 2006, maximum available to borrow is		
$250,000, accrues interest at bank prime plus 1.5% (9.7% at December 31, 2006);		
secured by equipment and accounts receivable, due August 2007.	250,000	150,000
Promissory note to a bank, bearing interest at 8.25%; monthly installments of $8,961,		
secured by equipment, accounts receivable and inventory; due March 2007.	648,075	699,057
Note payable to the former chairman of the board, interest accrues at 7%; payable		
annually on April 1; principal payments are due annually on April 1 consisting of		
30% of prior year net income, with remaining balance due April 2012; unsecured.	840,753	840,753
Total notes payable	2,388,828	2,384,490
Less: current maturities	(1,738,828)	(1,057,069)
Notes payable, excluding current installments	$ 650,000	$ 1,327,421

NOTE 7 LEASE OBLIGATIONS

Capital leases

In March 2006, the Company entered into a capital lease obligation for production equipment. The agreements call for monthly payments of $3,341 through February 2011.

The following table summarizes equipment and the related depreciation held under capital leases at December 31, 2006:

Production equipment	$ 202,910
Less: accumulated depreciation	(10,146)
Net equipment under capital lease	$ 192,764

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2006:

Years ending December 31		
2007	$	43,433
2008		40,092
2009		40,092
2010		40,092
2011		10,023
Total minimum lease payments		173,732
Less amount representing interest		(35,103)
Present value of net minimum lease payments		138,629
Less current portion		(26,518)
Capital lease obligation long term	$	112,111

Operating leases

The Company leases office space, certain office equipment and production equipment under operating leases expiring at various dates through 2011. Rental expense under such leases for the years ended December 31, 2006 and 2005 was $155,857 and $144,225 respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2006 are:

Years ending December 31		**Operating Leases**
2007	$	173,597
2008		173,597
2009		119,940
2010		114,380
2011		38,127
Total minimum lease payments	$	619,641

NOTE 8 - SHAREHOLDERS EQUITY, REDEEMABLE CONVERTIBLE PREFERRED STOCK, OPTIONS AND WARRANTS

Stock Rights Offering

On August 12, 2003, the Company completed a rights offering to its common shareholders. Each right issued was exercisable at $0.03 in exchange for the issuance of one common share, a Series A warrant to purchase one common share at $0.04 and a Series B warrant to purchase one common share at $0.05. Common shareholders exercised 43,790,153 rights. The remaining warrants are exercisable through July 2007.

During 2004, there were 18,356,024 Series A warrants, and 1,358,870 Series B warrants, issued from the 2003 rights offering that were exercised by shareholders for common stock generating $802,184 and resulted in the Company issuing an additional 19,714,894 shares of common stock. The Series A warrant agreement contained a provision allowing the Company to redeem the Series A warrants at any time, provided the average closing price of the Company s common stock equaled, or exceeded, $0.12 for 30 consecutive trading days. The Company stock met this requirement and in January 2005, the Company announced that the Series A warrants would be redeemed on February 25, 2005 at a redemption price of $0.001 per warrant. Prior to the redemption date of February 25, 2005, 24,461,672 of Series A warrants were exercised for cash proceeds of $978,467. On February 25, 2005, the Company redeemed the remaining 972,457 Series A warrants for $1,192. During 2005, 22,962,802 Series B warrants were exercised for cash proceeds of $1,148,140. During 2006, 10,014,490 Series B warrants were exercised for cash proceeds of $500,724. At December 31, 2006, there were no outstanding Series A warrants and 9,454,871 Series B warrants outstanding.

Mandatorily Redeemable Convertible Preferred Stock

The Company has authorized to issue up to 5,000,000 shares of Preferred Stock, par value $0.01 per share. The Board of Directors is authorized to set the distinguishing characteristics of each series prior to issuance, including the granting of limited or full voting rights, rights to the payment of dividends and amounts payable in event of liquidation, dissolution or winding up of the Company.

At December 31, 2006, there were 850 shares of the Series B Preferred Stock outstanding with a mandatory redemption date of May 2022 at $1,000 per share. The shares are also convertible into common stock at a conversion price of $2.00 per share. These preferred shares carry no dividend preferences.

Employee Stock Purchase Plan

On September 30, 2004, the Company s Board of Directors approved an employee stock purchase plan for an aggregate of up to 2,000,000 shares of the Company s common stock. The plan allows employees to deduct up to 15% of their payroll each pay period to be used for the purchase of common stock at a discounted rate. The common shares will be purchased at the end of each three month offering period or other period as determined by the Board. The Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. Employees began making payroll deductions in January 2005.

During 2006, the Company issued 123,966 shares of common stock to employees for proceeds of $9,672 in accordance with the employee stock purchase plan.

During 2005, the Company issued 80,274 shares of common stock to employees for proceeds of $5,450 in accordance with the employee stock purchase plan.

2006 Equity Incentive Plan

In April 2006, the Company adopted the International Isotopes 2006 Equity Incentive Plan (the 2006 Plan). The 2006 Plan obtained shareholder approval in July 2006. The 2006 Plan replaced the Company s 2002 Long-Term Incentive Plan (the Prior Plan).

The 2006 Plan permits the granting of any or all of the following types of awards: (1) incentive and nonqualified stock options, (2) stock appreciation rights, (3) stock awards restricted stock and stock units, (4) performance shares and performance units conditioned upon meeting performance criteria and (5) other stock or cash based awards.

The 2006 Plan authorizes the issuance of up to 20,000,000 shares of Common Stock, plus 1,350,000 shares previously reserved under the Prior Plan and up to 18,650,000 additional shares that are subject to outstanding options granted under the Prior Plan, that may become available for issuance under the 2006 Plan to the extent that such outstanding options are forfeited or otherwise expire or terminate without the issuance of shares.

The Company made stock option grants totaling 4,000,000 shares during 2006, in accordance with the Company s 2006 Equity Incentive Plan. Of those options granted 1,000,000 shares were vested at the date of grant. The Company has made no other stock option grants during the year ended December 31, 2006. Unless earlier terminated the 2006 Plan will terminate on July 12, 2016.

Stock Option Plan

In January 1997, the Company adopted a Stock Incentive Plan (the Plan) pursuant to which the Company s Board of Directors may grant stock options to officers, key employees, and consultants. The Plan was amended in 2000, to authorize grants of options to purchase up to 1,000,000 shares of authorized but unissued common stock. Stock options are granted with an exercise price of not less than 85% of the reported market value of the common stock at the date of grant and vest over three years. 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 common stock. The maximum number of options that can be granted to each employee in one year is 10,000,000.

For options granted subsequent to January 1, 2006, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. During 2005, the Company granted 150,000 options to purchase common stock at an exercise price of $0.07 and 500,000 options to purchase common stock at an exercise price of $0.08 which was equal to the closing market price of the common stock on the grant dates. These offerings vest quarterly through January 2008, and July 2008, respectively.

A summary of the stock options issued under the Company s Plan is as follows:

Fixed Options	**Shares**		**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2004	18,000,000	$	0.03		
Granted	650,000	$	0.08		
Outstanding at December 31, 2005	18,650,000	$	0.04		

Granted	4,000,000	$	0.08		
Outstanding at December 31, 2006	22,650,000	$	0.05	6.3	1,505,000
Exercisable at December 31, 2005	16,662,500	$	0.03		
Exercisable at December 31, 2006	18,825,000	$	0.04	5.7	1,404,500

The following table summarizes information about fixed stock options under the Plan outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at December 31, 2006	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2006	Weighted-Average Exercise Price
0.02-0.03	15,000,000	5.33	$ 0.02	15,000,000	$ 0.02
0.07-0.08	5,650,000	8.55	$ 0.08	2,325,000	$ 0.08
0.12	500,000	7.85	$ 0.12	375,000	$ 0.12
0.17	1,500,000	7.59	$ 0.17	1,125,000	$ 0.17

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Expected dividend yield	-	-
Risk-free interest rate	4.9%	4.2%
Expected volatility	137%	143%
Expected life	10 years	10 years
Weighted average fair value per share	$0.08	$0.08

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of our common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents our anticipated cash dividend over the expected life of the stock options.

Warrants

The following summarizes warrant activity for the years ended December 31, 2006 and 2005:

Fixed Warrants	**Outstanding Shares**		**Weighted-Average Exercise Price**	**Exercisable Shares**	**Weighted-Average Remaining Contractual Life (Years)**
Outstanding at December 31, 2004	67,866,292	$	0.05		
Exercised	(47,424,474)	$	0.04		
Redemptions	(972,457)		0.04		
Outstanding at December 31, 2005	19,469,361	$	0.05		
Exercised	(10,014,490)	$	0.05		
Outstanding at December 31, 2006	9,454,871	$	0.05	9,454,871	0.58

NOTE 9 - INCOME TAXES

The Company paid no federal or state income taxes during 2006 or 2005. Income tax expense on loss differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax losses as a result of the following:

		2006		2005
Income tax benefit	$	(352,686)	$	(344,204)
Nondeductible expenses		2,805		397
State taxes net of federal benefit		(47,716)		(41,308)
Change in valuation allowance		397,597		385,115
Total income tax expense	$	-	$	-

The tax effects of temporary differences that give rise to significant portions of the Company s deferred tax assets (liabilities) as of December 31, 2006 and 2005 are presented below:

		2006		2005
Deferred income tax asset				
Net operating loss carryforward	$	2,267,371	$	1,859,037
Valuation allowance		(2,144,963)		(1,747,366)
Total deferred income tax asset		122,408		111,671
Deferred income tax liability - depreciation		(122,408)		(111,671)
Deferred tax asset (liability)	$	-	$	-

At December 31, 2006, the Company had net operating losses of $5,784,109 that will begin to expire in 2023. The valuation allowances for 2006 and 2005 have been applied to offset the deferred tax assets in recognition of the uncertainty that such benefits will be realized.

The Internal Revenue Code contains provisions which reduce or limit the availability and utilization of net operating loss carry forwards in the event of a more than 50% change in ownership. If such an ownership change occurs with the Company, the use of these net operating losses could be limited.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Litigation

The Company has been named as a defendant in a lawsuit filed by a former employee. The plaintiff has alleged that the Company breached his employment contract, by failing to provide six months continuation pay upon his termination. The plaintiff seeks damages of approximately $57,500, plus attorneys' fees and court costs. The suit is still in discovery stage and the Company intends to vigorously defend against this law suit. The Company determined the likelihood of an unfavorable outcome to be remote and accordingly has not recorded an accrued expense.

Dependence on Third Parties

The production of HSA Cobalt is dependent upon the U.S. 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 the Company s sole customer for this product. Nuclear Medicine Reference and Calibration Standard manufacturing is conducted under an exclusive contract with RadQual, LLC. who in turn has an agreement in place with several companies for distributing the product. A loss of either of these customers 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 materials 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 amended 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 reactor produced radioisotopes by the Company but this license does not currently 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 Certificate of Deposit at Texas State Bank has been used to provide the financial assurance required by the NRC for the Idaho facility license.

Sale of Waxahachie Real Estate

In January 2003, the Company entered into an agreement to sell real estate in Waxahachie ,Texas for the assumption of $345,295 of debt associated with the property. The Company remains contingently liable to Texas State Bank for the debt on the real estate for the remainder of the term of the debt and could become directly liable should the purchaser default on the note.

In accordance with FASB No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* the Company has recognized a $10,000 obligation under the guarantee that consists of the obligation to stand ready to reassume the note held at Texas State Bank in the event the purchaser defaults on the note. The obligation is based on the cost necessary for the purchaser to refinance the note, which would release the Company from the guarantor position. Should the purchaser default on the note and the Company reassumes the liability, the Company would also regain the real estate.

NOTE 11 ASSET RETIREMENT OBLIGATION

In accordance with the provisions of SFAS No. 143, the Company has capitalized lease disposal costs of $174,745, and accumulated amortization of $76,642 and $61,810, at December 31, 2006 and 2005.

The following summarizes the asset retirement obligation activity for the years ended December 31, 2006 and 2005:

Balance January 1, 2005	$ 149,332
Accretion expense	16,415
Additional asset retirement obligation	25,413
Balance December 31, 2005	191,160
Accretion expense	15,291
Balance December 31, 2006	$ 206,451

NOTE 12 SEGMENTS INFORMATION

Information related to the Company s reportable operating business segments is shown below. The Company s reportable segments are reported in a manner consistent with the way management evaluates the businesses. The Company identifies its reportable business segments based on differences in products and services. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. The Company has identified the following business segments:

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Nuclear Medicine segment consists of manufacture of sources and standards associated with SPECT imaging, patient positioning, and calibration or operational testing of dose measuring equipment for nuclear pharmacy.

- Cobalt Products segment includes the production of high and medium specific activity bulk cobalt, recycling expended cobalt sources, and fabrication of a wide array of cobalt teletherapy and experimental irradiator source capsules.

- Radiochemical Products segment includes production of various isotopically pure radiochemical for medical, industrial, or research applications. These products are either directly produced by the company or are purchased in bulk from other producers and distributed by the Company in customized packages and chemical forms tailored to customer and market demands.

- Fluorine Products segment concerns the production of high purity fluorine gas compounds (such as germanium tetrafluoride) for the electronics and silicon chip manufacturing industry. The Company has acquired all patent rights to this process and is in the process of constructing/licensing a separate FEP production facility.

- Radiological Services segment concerns a wide array of miscellaneous services such as processing of gemstone which has undergone irradiation for color enhancement, radiological engineering consultant services, Type A package certification testing, and waste packaging/recycle services.

- Transportation segment includes transportation services the Company engages in for the commercial transfer of nuclear products for which it is licensed to move.

The following presents certain segment information as of and for the years ended December 31, 2006 and 2005:

Sale of Product		**2006**		**2005**
Radiochemical Products	$	844,014	$	707,862
Cobalt Products		1,192,024		326,192
Nuclear Medicine Standards		1,684,727		1,541,894
Radiological Services		641,411		409,486
Flourine Products		-		-
Transportation		107,362		-
Total Segments		4,469,538		2,985,434
Corporate revenue		-		-
Total Consolidated	$	4,469,538	$	2,985,434

Depreciation and Amortization		**2006**		**2005**
Radiochemical Products	$	47,983	$	52,300
Cobalt Products		48,359		43,606
Nuclear Medicine Standards		10,122		33,050
Radiological Services		1,600		24,184
Flourine Products		57,837		19,469
Transportation		4,508		-
Total Segments		170,409		172,610
Corporate depreciation and amortization		36,349		40,777
Total Consolidated	$	206,758	$	213,387

Segment Income (Loss)		**2006**		**2005**
Radiochemical Products	$	50,408	$	(33,015)
Cobalt Products		476,145		182,902
Nuclear Medicine Standards		683,840		686,784
Radiological Services		410,604		161,966
Flourine Products		(727,461)		(533,634)
Transportation		(122,365)		-
Total Segments		771,171		465,003
Corporate loss		(1,808,483)		(1,447,956)
Net Loss	$	(1,037,312)	$	(982,953)

Expenditures for Segment Assets	2006	2005
Radiochemical Products	$ -	$ 1,800
Cobalt Products	59,454	118,856
Nuclear Medicine Standards	-	-
Radiological Services	-	-
Flourine Products	368,021	805,634
Transportation	19,369	-
Total Segments	446,844	926,290
Corporate purchases	3,202	28,760
Total Consolidated	$ 450,046	$ 955,050

Segment Assets		2006		2005
Radiochemical Products	$	348,769	$	557,608
Cobalt Products		2,772,027		2,633,211
Nuclear Medicine Standards		438,522		582,341
Radiological Services		58,999		217,949
Flourine Products		1,343,799		1,161,687
Transportation		38,255		-
Total Segments		5,000,371		5,152,796
Corporate assets	$	602,339	$	472,253
Total Consolidated		5,602,710		5,625,049

NOTE 13 - SUBSEQUENT EVENTS

As discussed in Note 6, the Company converted $650,000 of notes payable and $23,614 of accrued interest into 8,420,172 shares of common stock.

During January and February 2007, an additional 712,906 shares of common stock were issued as holders of Series B Warrants exercised their warrants for $35,645.

In January 2007, the Company issued 24,609 shares of Company stock to employees as part of the employee stock purchase program.

In March 2007, the Company s Board of Directors approved, by unanimous consent, the completion of a Securities Purchase Agreement (SPA) with certain non-affiliates to obtain funding for working capital and general corporate purposes. The SPA authorized the sale of (i) 13,333,331 shares of the Company's common stock at $0.09 per share (par value $0.01 per share), (ii) Class C Warrants exercisable for 13,333,331 shares of the Company's common stock at an exercise price of $0.10, and (iii) Class D Warrants exercisable for 13,333,331 shares of the Company's common stock at an exercise price of $0.11, all for an aggregate sale price of approximately $1,200,000 and pursuant to the terms and conditions set forth in the Securities Purchase Agreement.