

INTERNATIONAL ISOTOPES INC
Form 10-Q
August 11, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number:

0-22923

INTERNATIONAL ISOTOPES INC.

(Exact name of registrant as specified in its charter)

Texas

(State of incorporation)

74-2763837

(IRS Employer Identification Number)

4137 Commerce Circle

Idaho Falls, Idaho, 83401

(Address of principal executive offices)

(208) 524-5300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller Reporting Company

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

As of July 15, 2009 the number of shares of Common Stock, \$.01 par value, outstanding was 288,906,886

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Information**Item 1. Financial Statements**

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets

| Assets | June 30, 2009 | December 31, 2008 |
|--|--------------------------|------------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 829,409 | \$ 2,149,340 |
| Accounts receivable | 668,277 | 521,908 |
| Inventories | 2,700,003 | 2,518,254 |
| Prepays and other current assets | 69,327 | 117,621 |
| Total current assets | 4,267,016 | 5,307,123 |
| Long-term assets | | |
| Restricted certificate of deposit | 262,362 | 260,517 |
| Property, plant and equipment, net | 2,681,898 | 2,748,023 |
| Capitalized lease disposal costs, net | 76,138 | 86,974 |
| Investment | 1,290,000 | 1,290,000 |
| Patents and other intangibles, net | 257,074 | 247,682 |
| Total long-term assets | 4,567,472 | 4,633,196 |
| Total assets | \$ 8,834,488 | \$ 9,940,319 |
| | | |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 501,307 | \$ 430,457 |
| Accrued liabilities | 335,376 | 348,427 |
| Deferred revenue | - | 102,814 |
| Current installments of capital leases | 35,050 | 33,149 |
| Current installments of notes payable | 123,477 | 580,759 |
| Total current liabilities | 995,210 | 1,495,606 |

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| | | |
|--|--------------|--------------|
| Long-term liabilities | | |
| Obligation for lease disposal costs | 271,515 | 261,721 |
| Notes payable, excluding current installments | 1,367,925 | 930,493 |
| Capital leases, excluding current installments | 28,977 | 46,991 |
| Mandatorily redeemable convertible preferred stock | 850,000 | 850,000 |
| Total long-term liabilities | 2,518,417 | 2,089,205 |
| Total liabilities | 3,513,627 | 3,584,811 |
| Stockholders' Equity | | |
| Common stock, \$0.01 par value; 500,000,000 shares authorized; 288,877,401 and 288,625,708 shares issued and outstanding respectively | 2,888,774 | 2,886,257 |
| Additional paid-in capital | 98,498,320 | 98,188,924 |
| Accumulated deficit | (96,066,233) | (94,719,673) |
| Total stockholders' equity | 5,320,861 | 6,355,508 |
| Total liabilities and stockholders' equity | \$ 8,834,488 | \$ 9,940,319 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months ended June 30, | | Six Months ended June30, | |
|--|------------------------------------|--------------|---------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Sale of product | \$ 1,485,599 | \$ 1,876,042 | \$ 3,185,269 | \$ 3,183,980 |
| Cost of product | 684,741 | 925,371 | 1,515,477 | 1,534,907 |
| Gross profit | 800,858 | 950,671 | 1,669,792 | 1,649,073 |
| Operating costs and expenses: | | | | |
| Salaries and contract labor | 519,034 | 507,865 | 1,055,088 | 1,020,477 |
| General, administrative and consulting | 457,873 | 663,415 | 889,514 | 1,280,582 |
| Research and development | 580,867 | 6,390 | 1,053,306 | 22,118 |
| Total operating expenses | 1,557,774 | 1,177,670 | 2,997,908 | 2,323,177 |
| Operating loss | (756,916) | (226,999) | (1,328,116) | (674,104) |
| Other income (expense): | | | | |
| Other income | 20,872 | 8,386 | 37,316 | 20,402 |
| Interest income | 1,718 | 8,042 | 7,675 | 13,356 |
| Interest expense | (24,308) | (36,139) | (63,436) | (72,308) |
| Total other expense | (1,718) | (19,711) | (18,445) | (38,550) |
| Net loss | \$ (758,634) | \$ (246,710) | \$ (1,346,561) | \$ (712,654) |
| Net loss per common share basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted average common shares outstanding - | | | | |
| basic and diluted | 288,870,769 | 277,122,436 | 288,836,531 | 270,055,656 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six Months ended June 30, | |
|--|----------------------------------|--------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,346,561) | \$ (712,654) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 204,785 | 193,390 |
| Loss on disposal of property, plant and equipment | 3,100 | - |
| Accretion of obligation for lease disposal costs | 9,794 | 13,524 |
| Equity based compensation | 312,177 | 179,585 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (146,369) | (46,299) |
| Prepays and other assets | 48,294 | 34,543 |
| Deferred revenue | (102,814) | - |
| Inventories | (181,749) | (3,221) |
| Accounts payable and accrued liabilities | 43,921 | (192,333) |
| Net cash used in operating activities | (1,155,422) | (533,465) |
| Cash flows from investing activities: | | |
| Restricted certificate of deposit | (1,845) | (73,063) |
| Proceeds from sale of property, plant and equipment | 1,900 | - |
| Purchase of property, plant and equipment | (142,216) | (1,118,130) |
| Net cash used in investing activities | (142,161) | (1,191,193) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants | - | 2,799,997 |
| Proceeds from sale of stock | 13,615 | 36,393 |
| Proceeds from issuance of debt | 26,769 | - |
| Principal payments on notes payable and capital leases | (62,732) | (61,589) |
| Net cash (used in) provided by financing activities | (22,348) | 2,774,801 |

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| | | |
|--|-------------|--------------|
| Net (decrease) increase in cash and cash equivalents | (1,319,931) | 1,050,143 |
| Cash and cash equivalents at beginning of period | 2,149,340 | 121,887 |
| Cash and cash equivalents at end of period | \$ 829,409 | \$ 1,172,030 |
| Supplemental disclosure of cash flow activities: | | |
| Cash paid for interest | \$ 93,648 | \$ 102,535 |
| Supplemental disclosure of noncash transactions: | | |
| Retirement of 77,091 shares of common stock at \$0.18 per share to cover certain payroll taxes of employees in connection with shares granted to employees for restricted stock awards | \$ 13,877 | \$ - |
| Increase in lease disposal costs | \$ - | \$ 18,535 |
| Acquisition of interest in RadQual LLC in exchange for issuance of 1,370,753 shares of stock. | \$ - | \$ 960,000 |

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(1)

The Company and Basis of Presentation

International Isotopes Inc. (the Company) was incorporated in Texas in November 1995. The consolidated financial statements include all 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 of which are Idaho corporations. The Company's headquarters and all operations are located in Idaho Falls, Idaho.

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.

With the exception of certain unique products, the Company's normal operating cycle is considered to be one year. Due to the time required to produce some cobalt products, the Company's operating cycle for those products is considered to be three years. All assets expected to be realized in cash or sold during the normal operating cycle of business are classified as current assets.

Principles of Consolidation The 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 intercompany accounts and transactions have been eliminated in consolidation.

Interim Financial Information The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by accounting principles generally

accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments and reclassifications considered necessary in order to make the financial statements not misleading and for a fair and comparable presentation have been included and are of a normal recurring nature. Operating results for the three and six month periods ending June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The accompanying financial statements should be read in conjunction with the Company's most recent audited financial statements.

Research and Development For the three and six months ended June 30, 2009, costs related to the work on the de-conversion and fluorine extraction project have been reported as research and development expense. These costs were reported as general and administrative expense for the period ended March 30, 2009; consequently, the year to date information has been reclassified to report these costs as if they had been previously reported as research and development expense.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1 (collectively, FSP FAS 107-1), Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. The FSP FAS 107-1 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures about the fair value of financial instruments in summarized financial information at interim reporting periods. Under FSP FAS 107-1, the Company will be required to include disclosures about the fair value of its financial instruments whenever it issues financial information for interim reporting periods. In addition, the Company will be required to disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. FSP FAS 107-1 is effective for periods ending after June 15, 2009 and its adoption is expected to have no impact on the Company's results of operations and financial condition but will require additional disclosures about the fair value of financial instruments in its financial statements.

(2)

Current Developments and Liquidity

Business Condition Since inception, the Company has suffered substantial losses. During the six-month period ended June 30, 2009, the Company had a loss of \$1,346,561 and operations used cash of \$1,155,422. During the same period in 2008, the Company had a loss of \$712,654 and operations used cash of \$533,465. The Company believes that continued growth in its current business segments will continue to improve revenue and cash flow for the Company. However, the Company will continue to invest in the design and licensing of a larger scale uranium de-conversion and fluorine extraction facility. Management expects to generate sufficient cash flows from the existing business segments to meet operational needs during 2009; however, there is no assurance that these cash flows will occur. In addition, the Company will likely require additional capital to support ongoing efforts to expand the Company business to include the envisioned large scale uranium de-conversion processing and fluorine extraction plant. Site studies as well as initial design and licensing activities for this new facility will continue through the remainder of 2009.

(3)

Net Loss Per Common Share - Basic and Diluted

At June 30, 2009, and 2008, 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:

| | June 30, | |
|---|-----------------|-------------|
| | 2009 | 2008 |
| Stock options | 27,080,000 | 18,780,000 |
| Warrants | 21,533,331 | 13,333,331 |
| Restricted stock awards issued under the 2006 Equity Incentive Plan | 994,850 | - |
| 850 shares of Series B redeemable convertible preferred stock | 425,000 | 425,000 |
| | 50,033,181 | 32,538,331 |

(4)

Investments

At June 30, 2009 the Company owned a 24.5% interest in RadQual, LLC, with which the Company holds an exclusive manufacturing agreement for nuclear medicine products. The Company accounts for this investment at cost and has recorded \$1,290,000 as an investment. At June 30, 2009 and December 31, 2008, the Company had receivables from RadQual, LLC in the amount of \$426,840 and \$399,140 respectively, which are recorded as part of accounts receivable. For the six months ended June 30, 2009 and 2008, the Company had revenues from RadQual, LLC in the amount of \$1,607,490 and \$1,505,798 respectively, which are recorded as part of sale of product.

(5)

Purchased Assets

During the three months ending June 30, 2009, the Company acquired new equipment for use in the cobalt products and transportation segments totaling \$13,801 and \$34,332 respectively. Assets purchased for the fluorine extraction segment totaled \$7,844. All assets purchased totaled \$55,977 and were paid in full at the time of purchase with the exception of transportation equipment which was financed with a three year note in the amount of \$25,106 bearing a 9.4% interest rate.

(6)

Inventories

Inventories consist of the following at June 30, 2009, and December 31, 2008:

| | June 30, 2009 | | December 31, 2008 |
|------------------|----------------------|----|--------------------------|
| Raw materials | \$ 251,058 | \$ | 256,576 |
| Work in progress | 2,448,945 | | 2,261,678 |
| | \$ 2,700,003 | \$ | 2,518,254 |

(7) Notes Payable

In April 2009, the Company renewed a promissory note with Compass Bank. The new note bears interest at 7.25%, requires monthly installments of \$9,090 and matures in April 2011. At June 30, 2009, the outstanding balance on the note was \$519,137.

(8) Stockholders' Equity, Options and Warrants

Employee Stock Purchase

During the six months ended June 30, 2009, the Company issued 80,072 shares of common stock to employees for proceeds of \$13,615. Subsequent to June 30, 2009, the Company issued 29,485 shares of common stock to employees for proceeds of \$6,265. All of these shares were issued in accordance with the Company's employee stock purchase plan.

Stock-based Compensation Plans

Employee/Director Grants - The Company accounts for issuances of stock-based compensation to employees under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R). 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).

During May 2009, the Company issued 7,500,000 options to officers and directors under the 2006 Equity Incentive Plan. The options have an exercise price of \$0.32 per share, vest 25% on the first anniversary of the grant date and 25% after each additional one-year period of continuous service and expire 10 years from the date of grant. These options had a fair value of \$1,743,898 or \$0.23 per share as estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.37%, expected dividend yield of 0%, expected volatility of 84.03% and an expected life of 6.25 years.

Non-Employee Grants - The Company accounts for its issuances of stock-based compensation to non-employees for services using the measurement date guidelines enumerated in SFAS 123(R) and EITF 96-18. Accordingly, the value of any awards that were vested and non forfeitable at their date of issuance were measured based on the fair value of the equity instruments at the date of issuance. The non-vested portion of awards that are subject to the future performance of the counterparty are adjusted at each reporting date to their fair values based upon the then current market value of the Company's stock and other assumptions that management believes are reasonable. The fair value of the stock options granted was calculated using the Black-Scholes option pricing model.

During May 2009, the Company issued 800,000 non-employee options under the 2006 Equity Incentive Plan. The options were issued to individuals providing consulting services for the depleted uranium de-conversion facility. These options have an exercise price of \$0.32 per share, vest 20% on the first and second anniversary of the grant date and 30% per year thereafter and expire in May 2019. The options had a grant date fair value of \$182,202 or \$0.23 per share as calculated using the Black-Scholes option pricing model. In accordance with EITF 96-18, these options will be revalued using the Black-Scholes option pricing model each reporting period.

At June 30, 2009, the Company had 1,200,000 options outstanding to non-employees with a fair value of \$182,324 or \$0.15 per share as estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 84.10% and an expected life of 6.20 years.

Option awards outstanding as of December 31, 2008, and June 30, 2009, and changes during the six months ended June 30, 2009, were as follows:

| Fixed Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Term | Aggregate Intrinsic Value |
|----------------------------------|---------------|--|--|--|
| Outstanding at December 31, 2008 | 18,780,000 | \$ 0.09 | | |
| Granted | 8,300,000 | 0.32 | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Outstanding at June 30, 2009 | 27,080,000 | 0.16 | 5.6 | \$ 3,658,600 |
| Exercisable at June 30, 2009 | 16,880,000 | 0.06 | 3.8 | \$ 3,488,600 |

The intrinsic value of outstanding and exercisable shares is based on a June 30, 2009, closing price of the Company's common stock of \$0.25 per share.

As of June 30, 2009, there was approximately \$1,828,650 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.38 years.

Restricted Stock Grants - During January 2009, the Company granted 1,243,563 shares of restricted stock to certain employees as part of their annual performance award and incentive under the 2006 Equity Incentive Plan. Each restricted stock award was 20% vested on the date of grant and an additional 20% of the award will vest on each anniversary thereof until fully vested. The restricted stock awards had a grant date fair value of \$223,841. At the time of grant 20% of the shares, or 248,713 shares, were vested. Simultaneously, at the request of employees, 77,091 shares were withheld to pay taxes on deemed employee compensation.

Restricted stock awards outstanding as December 31, 2008, and June 30, 2009, and changes during the six months ended June 30, 2009, were as follows:

| Restricted Stock Awards | Shares |
|---------------------------------|---------------|
| Non-vested at December 31, 2008 | - |
| Granted | 1,243,563 |
| Vested | 248,713 |
| Forfeited | - |
| Non-vested at March 31, 2009 | 994,850 |

The value of non-vested stock under the 2006 Equity Incentive Plan at June 30, 2009 is \$248,713 and is based on a June 30, 2009 value of \$0.25 per share. As of June 30, 2009, there was approximately \$109,322 of unamortized deferred compensation that will be recognized over a weighted average period of 2.2 years.

Compensation expense charged against income for stock based awards during the six months ended June 30, 2009 was \$312,177, as compared to \$179,585 for the six months ended June 30, 2008, and is included in general and administrative expense and research and development expense in the accompanying financial statements.

For the three and six months periods ended June 30, 2009, there was no change in warrants outstanding.

(9) Commitments and Contingencies

Dependence on Third Parties

The production of HSA Cobalt is dependent upon the U.S. Department of Energy, and its prime operating contractor, which controls the reactor operations and, therefore, controls the continued production of cobalt in the government funded reactor. Nuclear Medicine Reference and Calibration Standard manufacturing is conducted under an exclusive contract with another of our customers, RadQual, LLC, which in turn has an agreement in place with several companies for distributing the product. Sale of radiochemical iodine is dependent upon continued supply of the material from a single source in South Africa. A loss of any of these customers or suppliers could adversely affect operating results by causing a delay in production or a possible loss of sales.

Contingencies

Because all of the Company's business segments involve radioactive 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, automatically renewable letter of credit against a Certificate of Deposit at Wells Fargo Bank has been used to provide the financial assurance required by the NRC for the Idaho facility license.

(10) Segment Information

Segment information has been prepared in accordance with SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information.

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

| Sale of Product | Three Months ended June 30, | | Six Months ended June 30, | |
|------------------------|------------------------------------|--------------|----------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Radiochemical Products | \$ 398,895 | \$ 349,990 | \$ 747,666 | \$ 668,398 |
| Cobalt Products | 375,759 | 879,516 | 1,114,039 | 1,150,044 |
| Nuclear Medicine | 466,113 | 464,288 | 955,099 | 911,698 |
| Radiological Services | 154,600 | 166,548 | 234,953 | 412,270 |
| Fluorine Products | - | - | 878 | - |
| Transportation | 90,232 | 15,700 | 132,634 | 41,570 |
| Total Segments | 1,485,599 | 1,876,042 | 3,185,269 | 3,183,980 |
| Corporate revenue | - | - | - | - |
| Total Consolidated | \$ 1,485,599 | \$ 1,876,042 | \$ 3,185,269 | \$ 3,183,980 |

| Depreciation and Amortization | Three Months ended June 30, | | Six Months ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Radiochemical Products | \$ 9,866 | \$ 11,326 | \$ 19,789 | \$ 22,652 |
| Cobalt Products | 26,128 | 26,181 | 52,291 | 48,500 |
| Nuclear Medicine | 1,190 | 846 | 1,758 | 1,692 |
| Radiological Services | 2,600 | 1,991 | 5,200 | 2,804 |
| Fluorine Products | 50,597 | 50,917 | 101,037 | 91,763 |
| Transportation | 6,872 | 4,666 | 12,892 | 9,257 |
| Total Segments | 97,253 | 95,927 | 192,967 | 176,668 |
| Corporate depreciation and amortization | 5,872 | 3,918 | 11,818 | 16,722 |
| Total Consolidated | \$ 103,125 | \$ 99,845 | \$ 204,785 | \$ 193,390 |

| Segment Income (Loss) | Three Months ended June 30, | | Six Months ended June 30, | |
|------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Radiochemical Products | \$ 39,692 | \$ 52,218 | \$ 95,704 | \$ 58,550 |
| Cobalt Products | 230,702 | 440,240 | 592,102 | 635,514 |
| Nuclear Medicine | 178,605 | 219,897 | 406,901 | 393,867 |
| Radiological Services | 96,001 | 101,938 | 155,108 | 275,694 |

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| | | | | |
|-------------------|--------------|--------------|----------------|--------------|
| Fluorine Products | (758,911) | (310,003) | (1,435,098) | (598,358) |
| Transportation | 2,938 | (48,328) | (15,320) | (83,287) |
| Total Segments | (210,973) | 455,962 | (200,603) | 681,980 |
| Corporate Loss | (547,660) | (702,672) | (1,145,958) | (1,394,634) |
| Net Loss | \$ (758,633) | \$ (246,710) | \$ (1,346,561) | \$ (712,654) |

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| Expenditures for Segment Assets | Three Months ended June 30, | | Six Months ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Radiochemical Products | \$ - | \$ - | \$ - | \$ - |
| Cobalt Products | - | 23,771 | - | 141,771 |
| Nuclear Medicine | 13,801 | - | 23,531 | - |
| Radiological Services | - | 3,200 | - | 51,995 |
| Fluorine Products | 7,844 | 912,836 | 37,032 | 914,473 |
| Transportation | 34,332 | 6,633 | 81,653 | 6,633 |
| Total Segments | 55,977 | 946,440 | 142,216 | 1,114,872 |
| Corporate purchases | - | - | - | 3,258 |
| Total Consolidated | \$ 55,977 | \$ 946,440 | \$ 142,216 | \$ 1,118,130 |

| Segment Assets | June 30, | December 31, |
|------------------------|-----------------|---------------------|
| | 2009 | 2008 |
| Radiochemical Products | \$ 336,187 | \$ 312,049 |
| Cobalt Products | 3,224,905 | 3,110,486 |
| Nuclear Medicine | 518,421 | 439,832 |
| Radiological Services | 82,007 | 55,042 |
| Fluorine Products | 1,983,749 | 2,044,333 |
| Transportation | 144,981 | 52,720 |
| Total Segments | 6,290,250 | 6,014,462 |
| Corporate assets | 2,544,238 | 3,925,857 |
| Total Consolidated | \$ 8,834,488 | \$ 9,940,319 |

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

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Quarterly Report are forward looking. In particular, statements regarding growth in our business segments; increased cash flow to meet operational needs; improvement in our financial strength, debt ratio and attractiveness to investors and lenders; future liquidity requirements; NRC licensing requirements; and the consequences of the loss of any of our major customers are forward looking. Forward-looking statements reflect management's current 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 our actual results to differ significantly from management's expectations are described in the risk factors set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2008 filed with the securities and Exchange Commission on March 26, 2009. These factors, describe some but not all of the factors that could cause actual results to differ significantly from management's expectations. The Company will not publicly release any revisions to these forward-looking statements 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 we file from time to time with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

Three-month and six-month periods ended June 30, 2009, and 2008.

Revenues for the three and six-month period ended June 30, 2009, were \$1,485,599 and \$3,185,269 as compared to \$1,876,042 and \$3,183,980 for the same periods in 2008, a decrease of \$390,443, or 21%, and an increase of \$1,289, or, less than 1% respectively. The decrease in total revenues for the three-month period was attributable to normal variations in the sale of bulk cobalt while the small increase in revenues for the six-month period is indicative of the steady state of most business segments. Since the timing of large bulk cobalt product sales during the course of the calendar year has a significant impact upon period comparisons management believes that excluding sales of bulk cobalt product from the period comparisons of revenues provides useful information to investors.

There were no bulk cobalt sales during the three-month period ended June 30, 2009. Therefore, excluding bulk cobalt sales, revenues for the three-month period ended June 30, 2009, were \$1,485,599 as compared to \$1,387,786 in 2008, which represents an increase of 7.0%. Excluding bulk cobalt sales, revenues for the six-month period ended June 30, 2009 were \$2,690,608 as compared to \$2,695,724 in 2008, a decrease of less than 1%. Please refer to the following tables for a financial measure reconciliation of total revenues:

Three-Month Financial Measure Reconciliation

| | Period ended June 30, 2009 | Period ended June 30, 2008 |
|--|---------------------------------------|---------------------------------------|
| Total Revenues | \$1,485,599 | \$1,876,042 |
| Bulk Cobalt Products Revenues | \$0 | \$488,256 |
| Total Revenues Excluding Bulk Cobalt Products Revenues | \$1,485,599 | \$1,387,786 |

Six-Month Financial Measure Reconciliation

| | Period ended June 30, 2009 | Period ended June 30, 2008 |
|--|---------------------------------------|---------------------------------------|
| Total Revenues | \$3,185,269 | \$3,183,980 |
| Bulk Cobalt Products Revenues | \$494,661 | \$488,256 |
| Total Revenues Excluding Bulk Cobalt Products Revenues | \$2,690,608 | \$2,695,724 |

Revenues from the sale of radiochemical products for the three-month period ending June 30, 2009, were \$398,895 compared to \$349,990 for the same period in 2008. This represents an increase in revenue of \$48,905, or about 14%. Revenues from the sale of radiochemical products for the six-month period ending June 30, 2009, were \$747,666 compared to \$668,398 for the same period in 2008. This represents an increase in revenue of \$79,268, or about 12%. Increases in the segment performance are attributable to increased sales of radiochemical iodine-131. Revenues from nuclear medicine products for the three-month period ending June 30, 2009 were \$466,113 compared to \$464,288 for the same period in 2008. This represents an increase in revenue of \$1,825, or less than 1%. Revenues from nuclear medicine products for the six-month period ending June 30, 2009 were \$955,099 compared to \$911,698 for the same period in 2008. This represents an increase in revenue of \$43,401, or about 5%. Revenues from radiological services segment for the three-month period ending June 30, 2009, were \$154,600 compared to \$166,548 for the same period in 2008; a decrease of \$11,948 or 7%. Revenues from radiological services segment for the six-month period ending June 30, 2009, were \$234,953 compared to \$412,270 for the same period in 2008; a decrease of \$177,317 or 43%. The decline in this segment's revenue was largely attributable to a decline in the volume of gemstone processing. Current economic conditions are having a negative impact upon the gemstone industry which directly affects this segment's performance. Revenues from fluorine products segment for the three month periods ending June 30, 2009 and 2008 were \$0. Revenues from the fluorine products segment for the six-month period ending June 30, 2009 were \$878 compared to \$0 for the same period in 2008. This small amount of revenue resulted from the sale of an initial qualification lot of material to our prospective customer during the first quarter of 2009. The customer verified that while the material met specifications no additional material has been sold due to weak market conditions.

Gross profit for the three and six-month periods ended June 30, 2009, was \$800,858 and \$1,669,792 compared to \$950,671 and \$1,649,073 for the same periods in 2008. This represents a decrease of \$149,813 or 16% for the three month period and an increase of \$20,719 or less than 1% for the six months ended June 30, 2009. Operating expenses increased to \$1,557,774 for the three-month period ended June 30, 2009, compared to \$1,177,670 for the same period of 2008. This represents an increase of \$380,104 or 32%. Operating costs have increased in the period comparisons due to research and development and consultant expense related to engineering design, and licensing efforts to support the planned depleted uranium de-conversion and fluorine extraction process facility. The bulk of this expense is attributable to the consulting services of a major subcontractor which prepared the Conceptual Design Report for the above project and is also preparing the environmental report and license application. This development work has been classified as research and development expense in the accompanying Statement of Operations. Salaries and contract labor expenses for the three month period ended June 30, 2009 were \$519,034 as compared to \$507,865 for the same period in 2008 and \$1,055,088 for the six month period ended June 30, 2009 as compared to \$1,020,477 for the same six month period of 2008. General administrative expenses totaled \$457,873 for the three-month period ended June 30, 2009 as compared to \$663,415 for the same period of 2008 and \$889,514 for the six month period ended June 30, 2009, as compared to \$1,280,582 same period of 2008. For these same time periods we also realized a significant increase in stock based compensation expense.

Our net loss for the three and six-month periods ended June 30, 2009 was \$758,634 and \$1,346,561 respectively compared to a loss of \$246,710 and \$712,654 for the same periods in 2008. This is an increase in loss of \$511,924 for the three-months ended June 30, 2008 and an increase in loss of \$633,907 for the six months ended June 30, 2009, and was attributable to research and development costs related to the depleted uranium de-conversion and fluorine

extraction processing facility.

Interest expense for the three and six-month periods ended June 30, 2009, was \$24,308 and \$63,436 as compared to \$36,139 and \$72,308 for the same periods in 2008. These decreases for the three and six month periods of \$11,831 and \$8,872 respectively are largely attributable to a loan with Compass Bank which was renewed April 20, 2009, at a lower rate of interest.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2009, we had cash and cash equivalents of \$829,409. For the six-months ended June 30, 2009, net cash used in operating activities was \$1,155,422. We used \$142,161 for investing activities and \$22,348 for financing activities during the six months ended June 30, 2009.

At June 30, 2009, the Company had two outstanding loans with Compass Bank. One loan carries an outstanding balance of \$91,196 with an interest rate of 9.25% and matures September 15, 2011. The second loan, which matured March 31, 2009, and was renewed April 20, 2009, has an outstanding balance of \$519,136 with an interest rate of 7.25%.

Our future liquidity and capital funding requirements will depend on numerous factors, including, contract manufacturing agreements, commercial relationships, technological developments, market factors, available credit, and voluntary warrant redemption by shareholders. We have 21,533,331 Class E and F warrants outstanding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) to ensure that material information relating to the Company is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Under the supervision and with the participation of management, including the principal executive officer and principal financial officer an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2009 was completed based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are functioning effectively to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Although our disclosure controls and internal controls 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 the Company 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.

Changes in Internal Control over Financial Reporting

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, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

3(i)

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(ii)

Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 filed on May 1, 1997 (Registration No. 333-26269)).

4.1

Form of Class E Warrant (incorporated by reference to Exhibit 4.1 of the Company's Current Report of Form 8-K filed on April 21, 2008).

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 by the Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2

Certification by the Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act the registrant caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

International Isotopes Inc.
(Registrant)

By: /s/ Steve T. Laflin
Steve T. Laflin
President and Chief Executive
Officer

By: /s/ Laurie McKenzie-Carter
Laurie McKenzie-Carter
Chief Financial Officer

Date: August 10, 2009

EXHIBIT INDEX

Exhibit

Number

Description of Document

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