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INTERNATIONAL ISOTOPES INC

Form 10-Q

May 29, 2002

FORM 10-Q

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

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

For the quarterly period ended
March 31, 2001

Commission file number:
0-22923

INTERNATIONAL ISOTOPES INC.
(Exact name of registrant as specified in its charter)

Texas 74-2763837
(State of incorporation) (IRS Employer Identification Number)

4137 Commerce Circle
Idaho Falls, Idaho 83401
(Address of principal executive offices) (zip code)

208-524-5300
(Registrant's telephone number, including area code)

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

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

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Statements

Item 1. Financial Statements

INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets

| | March 31, 2001 (unaudited) | Decem 2 |
|------------------------------------|----------------------------------|------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 319,315 | \$ |
| Accounts receivable | 412,805 | |
| Assets held for sale | 24,199,141 | 25, |
| Inventories | 2,505,492 | 2, |
| Prepays and other current assets | 69,043 | |
| Total current assets | 27,505,796 | 28, |
| Property, plant and equipment, net | 480,014 | |
| Intangibles and other assets | 89,467 | |
| Total assets | \$ 28,075,277 | \$ 29, |

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Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit

| | | |
|--|---------------|--------|
| Current liabilities | | |
| Accounts payable | \$ 4,768,853 | \$ 4, |
| Accrued liabilities | 648,386 | 1, |
| Current portion of lease obligations | 1,443,484 | 16, |
| Current portion of mortgage and notes payable to banks | 19,240,064 | 23, |
| Total current liabilities | 26,100,787 | 2, |
| Non-current portion of lease obligations | 1,923,153 | 2, |
| Mortgage and notes payable to banks, excluding current portion | 61,843 | 25, |
| Total liabilities | 28,085,783 | 17, |
| Redeemable convertible preferred stock, net (liquidation value of \$18,217,000) | 17,470,404 | 17, |
| Stockholders' deficit | | |
| Preferred stock, \$0.01 par value; 5,000,000 shares authorized, 17,467 shares issued and outstanding at March 31, 2001 and 18,217 shares issued and outstanding at December 31, 2000 | - | |
| Common stock, \$0.01 par value; 250,000,000 shares authorized, issued and outstanding 12,230,880 shares at March 31, 2001 and 10,611,411 shares at December 31, 2000 | 122,310 | |
| Additional paid-in capital | 69,443,082 | 69, |
| Accumulated deficit | (87,046,302) | (83, |
| Total stockholders' deficit | (17,480,910) | (13, |
| Total liabilities and stockholders' deficit | \$ 28,075,277 | \$ 29, |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months ended March 31, 2001 | 2000 |
|------------------|--------------------------------------|------------|
| Revenue: | | |
| Sales of product | \$ 537,267 | \$ 472,492 |
| Cost of revenue: | | |
| Cost of products | 276,125 | 198,344 |

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| | | |
|--|----------------|----------------|
| Gross profit | 261,142 | 274,148 |
| | ----- | ----- |
| Operating costs and expenses: | | |
| Salaries and contract labor | 106,680 | 263,945 |
| General, administrative and consulting | 198,286 | 739,238 |
| | ----- | ----- |
| Total operating expenses | 304,966 | 1,003,183 |
| | ----- | ----- |
| Operating loss | (43,824) | (729,035) |
| Other (expense): | | |
| Interest expense | (802) | (18,655) |
| | ----- | ----- |
| Loss from continuing operations | (44,626) | (747,690) |
| | ----- | ----- |
| Discontinued operations: | | |
| Loss on disposal of discontinued operations including provision of \$3,553,025 for operating losses during the phase-out period (less applicable taxes of \$0) | (3,553,025) | - |
| Loss from discontinued operations | - | (3,520,150) |
| | ----- | ----- |
| Loss from discontinued operations | (3,553,025) | (3,520,150) |
| | ----- | ----- |
| Net loss | (3,597,651) | (4,267,840) |
| Preferred stock dividend, deemed dividend and accretion of discount | (132,450) | (238,320) |
| | ----- | ----- |
| Net loss applicable to common shareholders | \$ (3,730,101) | \$ (4,506,160) |
| | ===== | ===== |
| Net loss per common share continuing operations - basic and diluted | \$ (0.02) | \$ (0.11) |
| Net loss per common share discontinued operations - basic and diluted | (0.31) | (0.37) |
| | ----- | ----- |
| Net loss per common share - basic and diluted | \$ (0.33) | \$ (0.48) |
| | ===== | ===== |
| Weighted average common shares outstanding - basic and diluted | 11,370,968 | 9,464,092 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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| | 2001 | 2000 |
|--|----------------|----------------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,597,651) | \$ (4,000,000) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 19,234 | |
| Warrants issued for services received | - | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (39,292) | (40,000) |
| Prepays and other assets | 279,477 | |
| Inventories | 82,500 | |
| Deferred Revenue | - | |
| Accounts payable | 309,039 | |
| Accrued liabilities | (290,868) | |
| | ----- | ----- |
| Net cash used in operating activities | (3,237,561) | (4,000,000) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (43,707) | (40,000) |
| Proceeds from sale of assets held for sale | 888,091 | |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 844,384 | (40,000) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock and common stock subscriptions | - | 5,000,000 |
| Payments on capital leases | (191,009) | (40,000) |
| Proceeds from issuance of debt | 3,142,999 | |
| Principal payments on notes payable | (882,052) | (40,000) |
| | ----- | ----- |
| Net cash provided by financing activities | 2,069,938 | 5,000,000 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (323,239) | 2,000,000 |
| Cash and cash equivalents at beginning of period | 642,554 | 2,000,000 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 319,315 | \$ 3,000,000 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

(Continued)

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| | 2001 | 2000 |
|--|------------|-------|
| | ----- | ----- |
| Supplemental disclosure of cash flow activities: | | |
| Cash paid for interest, net of amounts capitalized | \$ 299,687 | \$ |
| | ===== | ===== |
| Supplemental disclosure of noncash transactions: | | |
| Common stock issued for preferred stock dividend | \$ 268,798 | \$ |
| | ===== | ===== |
| Capital expenditures included in accounts payable | \$ - | \$ |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements

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INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES Notes to Unaudited Condensed Consolidated Financial Statements

(1) The Company and Basis of Presentation

International Isotopes Inc (the Company) was incorporated in Texas in November 1995. The Company acquired the technology, proprietary designs and intellectual property for the design and assembly of a proton linear accelerator (LINAC) to produce radioisotopes used in nuclear medicine for the detection and treatment of various forms of cancer and other diseases. The Company also owns 100% of the outstanding common shares of Gazelle Realty, Inc. and International Isotopes Idaho, Inc. (I4). Gazelle Realty, Inc. owned 20 acres of land on which the facility for the LINAC has been constructed and 1.6 acres of land on which the administration, manufacturing, and research and development building was constructed. During 1997, all the property owned by Gazelle Realty, Inc. was transferred to the Company.

Prior to initial production in late 1999, the Company had devoted substantially all of its efforts, since inception, to the acquisition and construction of the LINAC project and related assets, pharmaceutical production and to raising capital and other organizational activities. The operating revenues to date have been limited to the sales of accelerator components purchased from the State of Texas, product development income, initial sales of I-125 brachytherapy seeds and sales of reactor produced products from I4. Additionally, the Company has derived operating capital from the sales of assets. The Company has financed its operations in part through private placements of its equity securities and its initial public offering (the "Offering") which occurred on August 19, 1997.

Discontinued Operations - In late 2000, the Company determined that it would be required to pursue strategic alternatives to sell certain assets in order to continue operations. It was determined that it would be necessary to dispose of: the Woodrow Spencer office and warehouse located in Denton, Texas; the Radiopharmaceutical Manufacturing Facility in Denton, Texas; the brachytherapy seed business in Denton, Texas; real estate located in Waxahachie, Texas; and the Radioisotope Production Facility in Denton, Texas. Each of these

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facilities/assets was evaluated for impairment and all were written down to net realizable value and an adjustment of \$17,975,043 was recorded at December 31, 2000 and was reported in the December 31, 2000 financial statements.

During January 2001 the sale of the Woodrow Spencer facility was completed. In April 2001 the Company completed the sale of the Radiopharmaceutical Manufacturing Facility and the Brachytherapy seed business. The sale of the Radioisotope Production Facility ("LINAC") closed in December 2001. At March 31, 2001 and 2000, the operations associated with these facilities and activities have been reclassified as discontinued operations. Costs associated with corporate functions for each of these years have been categorized as part of general and administrative and are included in continuing operations. Interest expense associated directly with the discontinued operations has been categorized as discontinued operations. Interest expense associated with continuing operations is reported separately

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

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(2) Current Developments and Liquidity

On January 16, 2001, the Company completed the sale of the Woodrow Spencer office and warehouse facility located in Denton, Texas for proceeds of \$950,000, less closing costs of \$63,811. Through an impairment charge of \$209,773, the facility had been written down to a net book value of \$886,189 at December 31, 2000. The Company used the proceeds to reduce its revolving line of credit by \$863,890 (including interest of \$23,400) and fund operating expenses with the remaining amounts.

On April 20, 2001, the Company completed the sale of the Radiopharmaceutical Manufacturing Facility to NeoRx Corporation ("NeoRx") for proceeds of \$12.0 million, less settlement costs of \$225,000, and warrants to purchase 800,000 shares of NeoRx common stock. (The warrants were given no value due to the exercise price of the warrants being less than the market value on the date the agreement was entered into.) This facility had a net book value of \$11,304,724 at December 31, 2000. The Company used the proceeds to repay advances made by NeoRx in the amount of \$861,060, reduce its note payable to a commercial lender by \$1,296,469 (including interest of \$36,578), reduce its revolving line of credit by \$2,614,023 (including interest of \$45,857), reduce its capital lease obligations by \$3,291,289, repay a portion of the note payable to William Nicholson, the former Chairman of the Board, in the amount of \$348,000 and fund other operating expenses. The Company transferred the NeoRx warrants to the Series A and B preferred shareholders in exchange for certain concessions in their certificates of designation. See Note 8 for a discussion of the concessions made by the Series A and B preferred shareholders.

On April 27, 2001, the Company completed the sale of its brachytherapy seed assets to Imagyn Medical Technologies, Inc. ("Imagyn") for net cash proceeds of \$5.0 million, less settlement costs of \$100,000. The seed business through an impairment charge of \$416,294 had been written down to a net book value of \$5,000,000 at December 31, 2000. The Company used the proceeds to repay advances and expenses incurred by Imagyn in the amount of \$108,786 and reduce its note payable to a commercial lender by \$4,645,582 (including interest of \$25,768), reduce its capital lease obligations by \$145,632 and fund other operating

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expenses.

On December 14, 2001, the Company completed the sale of the Linear Accelerator Facility for \$8,251,849. In this transaction, the buyers assumed Company debt of \$7,433,000 and paid interest of \$318,848 on behalf of the Company. The Company incurred additional closing costs of \$272,025. The Linear Accelerator Facility through an impairment charge of \$15,889,765 had been written down to a net book value of \$7,164,160 at December 31, 2000. Associated with the sale and the assumption of debt by the purchaser, the Company will retain an obligation of \$500,000 on that loan for six months or until purchaser renews their note with Texas State Bank. The Company also retains an obligation (also for six months or until purchaser renews the note) for decommissioning the Shady Oaks/LINAC facility should AMISI default on payment or not meet Texas State Bank requirements for note renewal.

Business Condition - Since inception, the Company has suffered recurring losses. During the periods ended March 31, 2001 and 2000, the Company had losses before preferred dividends of \$3,597,651 and \$4,267,840, respectively. During the periods ended March 31, 2001 and 2000, the Company's operations used cash in operating activities of \$3,237,561 and \$4,390,671, respectively. The net loss before preferred dividends includes discontinued operations for the periods ended March 31, 2001 and 2000 of \$3,553,025 and \$3,520,150, respectively. As of March 31, 2001, the remaining operating assets of the Company are those of I4, which incurred significant operating losses during the periods ended March 31, 2001 and 2000. These matters raise substantial doubt about the Company's ability to continue as a going concern. With the continuation of I4 operations, management expects to generate sufficient cash flows to meet operational needs during 2002 through financing and operating capital; however, there is no assurance that these cash flows will occur. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

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

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

As of March 31, 2001 and 2000 there were 8,312,376 and 4,653,236 options and warrants outstanding, respectively. As of March 31, 2001 and 2000 there were a total of 17,467 and 18,217 shares of Series A and B redeemable convertible preferred stock 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.

(4) Inventories

Inventories consist of the following at March 31, 2001 and December 31, 2000:

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| | March 31, 2001 | December 31, 2000 |
|------------------|----------------|-------------------|
| | ----- | ----- |
| Raw materials | \$ 161,816 | \$ 288,344 |
| Work in progress | 2,316,676 | 2,215,906 |
| Finished goods | 27,000 | 83,742 |
| | ----- | ----- |
| | \$ 2,505,492 | \$ 2,587,992 |
| | ===== | ===== |

(5) Stockholders' Equity and Redeemable Convertible Preferred Stock

Redeemable Convertible Preferred Stock

The Series A Preferred Stock was mandatorily redeemable on May 20, 2002 in cash or common stock at the then Average Price, at the Company's option. In March 2001, the holders of the Series A Preferred Stock agreed to a modification in terms, which removed their early redemption rights and certain adjustments to their conversion price. The Series A Preferred Stock was then convertible to common stock at a fixed price of \$2.00 per share, subject to adjustment in the case of stock splits or stock dividends. In connection with this modification, the exercise price of the Series A Preferred Stock warrants were also reduced to \$2.00 per warrant. Because the underlying stock value of the common stock at the date of adjustment was less than the new exercise price, the repricing of the warrants resulted in no additional value to the Series A Preferred Stockholders.

As consideration for those concessions, the Company distributed to the holders of the Series A Preferred Stock an aggregate of 439,150 warrants to purchase NeoRx common stock that the Company had received in connection with the sale of the Radiopharmaceutical Manufacturing Facility to NeoRx. The NeoRx warrants were valued using the intrinsic method of accounting resulting in no value being assigned to the warrants.

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The Series B Preferred Stock was mandatorily redeemable on May 31, 2003 in cash or common stock at the then Average Price, at the Company's option. When originally issued, holders of Series B Preferred Stock could require early redemption on December 1, 2000 and June 1, 2001. Other mandatory redemption events included change in control, suspension or delisting from NASDAQ, the BSE or any subsequent market on which the common stock is listed for five consecutive days, breach by the Company of any representations, warranties or other conditions in the preferred stock purchase agreement, and other events. In March, 2001, the holders of Series B Preferred Stock agreed to a modification in terms, which removed their early redemption rights and certain adjustments to their conversion price. The Series B Preferred Stock was then convertible to common stock at a fixed price of \$2.00 per share subject to adjustment in the case of stock splits or stock dividends. As consideration for those concessions, the Company distributed to the holders of Series B Preferred Stock an aggregate of 360,850 warrants to purchase NeoRx common stock that the Company had received in connection with the sale of the Radiopharmaceutical Manufacturing Facility to NeoRx. The NeoRx warrants were valued using the intrinsic method of accounting resulting in no value being assigned to the warrants.

During 2001, with the exception of the July 15 and the October 15 Series A Preferred dividends which were waived by the preferred shareholders, the Company for all other Series A and Series B redeemable convertible preferred stock

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dividends in 2001, elected to issue common stock as payment for the quarterly dividends. The Company satisfied these dividend payments by issuing a total of 15,594,724 shares of common stock (of which 1,596,187 were issued in the first quarter). The preferred shareholders have waived all future dividends for both the Series A and Series B redeemable convertible preferred stock.

During April and June of 2001, certain holders of Series B redeemable preferred stock converted 750 shares of preferred stock into 375,000 shares of common stock valued at \$750,000 or \$2.00 per common share.

Common Stock

On November 2, 2001, at the annual meeting of stockholders, the stockholders ratified an amendment authorizing 250,000,000 shares of common stock.

Stock Option Plan

On April 23, 2001, the Company granted 1,000,000 stock options to a key employee.

The following table summarizes information about fixed stock options under the Plan outstanding at December 31, 2001:

| Range of Exercise Price | Options Outstanding at December 31, 2001 | Options Outstanding | | Options Exercisable | |
|-------------------------------|---|--|--|--|--|
| | | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at December 31, 2001 | Weighted Average Exercise Price |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$ 0.076 | 1,000,000 | 9.32 years | \$ 0.076 | 500,000 | \$ 0.0 |

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 (all options from previous year expired prior to being exercised):

| | 2001 |
|-----------------------------|---------|
| | ----- |
| Expected dividend yield | - |
| Risk-free interest rate | 4.4% |
| Expected volatility | 153% |
| Expected life | 3 years |
| Weighted average fair value | \$0.03 |

Warrants

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At March 31, 2001, the Company had 7,312,376 warrants outstanding with exercise prices ranging from \$3.38 to \$10.00 per warrant.

(6) Commitments and Contingencies

Employment Contract

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

Dependence on Third Parties

The production of HSA Cobalt is dependent upon the Department of Energy, and its prime operating contractor, who controls the reactor and laboratory operations. The gemstone production is tied to an exclusive agreement with Quali Tech Inc. who in turn has a contract with The Topaz Group, Inc. Medical flood source manufacturing is conducted under an exclusive contract with RadQual, LLC. who in turn has agreement in place with several companies for marketing and sales.

Contingencies

In March 2001, I4 terminated its commercial use subcontract agreement that was first established in 1996 at the Idaho National Engineering and Environmental Laboratory. This contract had permitted access to the Idaho research reactor for isotope production but also included an obligation to pay for the operations of a DOE owned processing facility. The cost of supporting those operations had increased considerably in the past several years to the point of no longer being a profitable operation under those contractual arrangements. The termination of this contract will not effect the Company's plans to continue HSA cobalt production as some material remains in production in the DOE reactor facility and this material can be shipped directly from the reactor site to the customers facilities' without any processing in the government laboratory.

The Company conducts its operations in Idaho Falls, Idaho. Although the medical flood source and gemstone products appear diverse they share the common link as being radioactive materials. Therefore, the Company is required to have an operating license from the Nuclear Regulatory Commission ("NRC") and specially trained staff to handle these materials. The Company has an NRC operating license and has, in fact, continued to amend this license several times during 2001 to increase the amount of material permitted within the facility. Additional processing capabilities and license amendments could be implemented that would permit processing of other reactor produced radioisotopes by the Company but at the present time this license does not restrict the volume of business operation performed or projected to be performed in the coming year. An irrevocable, automatic renewable letter of credit against a \$132,614 Certificate of Deposit at Texas State Bank has been used to provide the financial assurance required by the Nuclear Regulatory Commission for the Idaho facility license.

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debt by the purchaser, the Company retains an obligation of \$500,000 on that loan for six months or until purchaser renews their note with Texas State Bank. The Company also retains an obligation (also for six months or until purchaser renews the note) for decommissioning the Shady Oaks/LINAC facility should the purchaser default on payment or not meet Texas State Bank requirements for note renewal. Because an amount is not probable nor estimable, no reserve has been established for the decommissioning of the Shady Oaks/Linac facility.

(7) Subsequent Events

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

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

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

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

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

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

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

Except for historical information contained herein, the following contains forward-looking information that is subject to certain risks and uncertainties.

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The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including those set forth in the "Risk Factors" section included in the Company's Form 10-K/A, filed with the Securities Exchange Commission (SEC) on November 8, 2001 ("Form 10-K"). The following discussion should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Form 10-K.

RESULTS OF OPERATIONS

Effective December 31, 2000, the Company decided to dispose of all its business segments with the exception of the I4 operations. As a result, all results of operations for the discontinued segments have been reclassified as discontinued operations.

Three-month periods ended March 31, 2001 and 2000. The Company's loss from continuing operations for the three month period ended March 31, 2001 was \$44,626, as compared to loss from continuing operations of \$747,690 for the comparable period of 2000. The change in loss was attributable to the curtailment of manufacturing operations and the reduction in employment staff in the company's radiopharmaceutical manufacturing and Linac facilities in Denton, Texas. The net loss per common share for the three-month period ended March 31, 2001 was \$0.33, as compared to net loss per common share of \$0.48 for the same period of 2000.

Revenues for the three-month period ended March 31, 2001 were \$537,267 as compared to \$472,492 for the same period in 2000. Gross profit for the three-month period ended March 31, 2001 was \$261,142 as compared to \$274,148 for the same period in 2000.

Operating expenses decreased to \$304,966 for the three-month period ended March 31, 2001 compared to \$1,003,183 for the same period of 2000. Salaries and contract labor expenses for the three-month period ended March 31, 2001 was \$106,680 as compared to \$263,945 for the same period of 2000, a decrease of \$157,265. General, administrative and consulting expenses totaled \$198,286 for the three-month period ended March 31, 2001 as compared to \$739,238 for the same period of 2000, a decrease of \$540,952. The decreases in all expense categories were primarily attributable to the curtailment of operations and the reduction in employment staff in the Company's radiopharmaceutical manufacturing and Linac facilities in Denton, Texas.

Interest expense for the three-month period ended March 31, 2001 was \$802 as compared to \$18,655 for the comparable period in 2000. The decrease was attributable to a suspension of interest payment requirements from Texas State Bank.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2001 the Company had cash and cash equivalents of \$319,315 compared to \$642,554 at December 31, 2000. For the three months ended March 31, 2001, net cash used in operating activities of \$3,237,561 was provided by net cash from investing activities, from proceeds from sales of assets of \$844,384 and by financing activities of \$2,069,938.

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

The Company's future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to: sale of remaining assets of I3; contract manufacturing and marketing relationships; and technological and market developments.

Although there can be no assurance, the Company expects that revenues will continue to increase, providing sufficient funds for operations and capital expenditures.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

In January of 2001, the Company elected to issue common stock in payment for the quarterly dividend on its Series A redeemable convertible preferred stock. The Company satisfied the \$125,000 dividend payment by issuing 711,186 shares of common stock at \$0.1757 per share, the average closing price of the stock for the preceding 10 trading days, discarding the highest and the lowest price for the period.

In March of 2001, the Company elected to issue common stock in payment for the quarterly dividend on the Series B redeemable convertible preferred stock. The Company satisfied the \$143,798 dividend payment by issuing 885,001 shares of common stock at \$0.1625 per share, the average closing price of the common stock for the preceding 5 trading days.

In April of 2001, the Company elected to issue common stock in payment for the quarterly dividend on its Series A redeemable convertible preferred stock. The Company satisfied the \$125,000 dividend payment by issuing 1,376,651 shares of common stock at \$0.0908 per share, the average closing price of the stock for the preceding 10 trading days, discarding the highest and the lowest price for the period.

In May of 2001, holders of 500 shares of Series B Preferred Stock elected to convert their shares into common stock. The Company issued 250,000 shares of common stock at the conversion rate of \$2.00 per share.

In June of 2001, the Company elected to issue common stock in payment for the quarterly dividend on the Series B redeemable convertible preferred stock. The Company satisfied the \$139,908 dividend payment by issuing 2,798,172 shares of common stock at \$0.05 per share, the average closing price of the common stock for the preceding 5 trading days.

In June of 2001, holders of 250 shares of Series B Preferred Stock elected to convert their shares into common stock. The Company issued 125,000 shares of common stock at the conversion rate of \$2.00 per share.

In September of 2001, the Company elected to issue common stock in payment for the quarterly dividend on the Series B redeemable convertible preferred stock. The Company satisfied the \$130,673 dividend payment by issuing 3,266,807 shares of common stock at \$0.04 per share, the average closing price of the common stock for the preceding 5 trading days.

In December of 2001, the Company elected to issue common stock in payment for the quarterly dividend on the Series B redeemable convertible preferred stock. The Company satisfied the \$130,673 dividend payment by issuing 6,533,625 shares of common stock at \$0.02 per share, the average closing price of the common stock for the preceding 5 trading days.

In January of 2002, the Company repurchased 2,817 shares of Series B Preferred Stock for \$86,832.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

NONE

Reports on Form 8-K:

The Company filed an 8-K on October 16, 2001 with respect to a change in accountants, on January 16, 2002 with respect to a change in ownership of the Company's Series A Preferred Stock, partial acquisition of Series B Preferred Stock, and issuance of common stock as required dividend payment and on April 5, 2002 with respect to a change in accountants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

International Isotopes Inc.
(Registrant)

By: /s/ Steve T. Laflin

Steve T. Laflin
President and Chief Executive Officer

Date: May 29, 2002