

INTERNATIONAL ISOTOPES INC
Form 10QSB
November 13, 2007

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

FORM 10-QSB

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

For the quarterly period ended
September 30, 2007

Commission file number:
0-22923

INTERNATIONAL ISOTOPES INC.

(Exact name of small business issuer 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

(Issuer's telephone number)

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 small business issuer 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 small business issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of October 31, 2007 the number of shares of Common Stock, \$.01 par value, outstanding was 249,696,514.

INTERNATIONAL ISOTOPES INC.

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Part I. Financial Statements**Item 1. Financial Statements****INTERNATIONAL ISOTOPES INC. AND SUBSIDIARIES****Unaudited Condensed Consolidated Balance Sheets**

| Assets | September 30, 2007 | December 31, 2006 |
|--|-------------------------------|------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 173,751 | \$ 169,702 |
| Accounts receivable | 1,000,040 | 353,379 |
| Inventories | 2,493,352 | 2,537,627 |
| Prepays and other current assets | 135,616 | 115,589 |
| Total current assets | 3,802,759 | 3,176,297 |
| Long-term assets | | |
| Restricted certificate of deposit | 182,895 | 176,966 |
| Property, plant and equipment, net | 2,140,398 | 2,077,844 |
| Capitalized lease disposal costs, net | 86,979 | 98,103 |
| Investment | 330,000 | - |
| Patents, net | 88,939 | 73,500 |
| Total long-term assets | 2,829,211 | 2,426,413 |
| Total assets | \$ 6,631,970 | \$ 5,602,710 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 420,331 | \$ 208,993 |
| Accrued liabilities | 538,384 | 436,099 |
| Current installments of capital leases | 26,304 | 26,518 |
| Current installments of notes payable | 936,346 | 1,738,828 |
| Total current liabilities | 1,921,365 | 2,410,438 |
| Long-term liabilities | | |
| Obligation for lease disposal costs | 217,919 | 206,451 |
| Capital leases, excluding current installments | 90,391 | 112,111 |
| Notes payable, excluding current installments | 693,125 | 650,000 |
| Mandatorily redeemable convertible preferred stock | 850,000 | 850,000 |
| Total long-term liabilities | 1,851,435 | 1,818,562 |

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| | | |
|--|--------------|--------------|
| Total liabilities | 3,772,800 | 4,229,000 |
| Stockholders' equity | | |
| Common stock, \$0.01 par value; 500,000,000 shares authorized; | | |
| 249,696,514 and 216,721,144 shares issued and outstanding respectively | 2,496,965 | 2,167,211 |
| Additional paid-in capital | 92,342,137 | 90,040,150 |
| Accumulated deficit | (91,979,932) | (90,833,651) |
| Total stockholders' equity | 2,859,170 | 1,373,710 |
| Total liabilities and stockholders' equity | \$ 6,631,970 | \$ 5,602,710 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|--|---|--------------|--|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Sale of product | \$ 1,486,112 | \$ 1,458,260 | \$ 3,592,049 | \$ 3,641,098 |
| Cost of product | 796,263 | 852,284 | 1,973,170 | 1,967,402 |
| Gross profit | 689,849 | 605,976 | 1,618,879 | 1,673,696 |
| Operating costs and expenses: | | | | |
| Salaries and contract labor | 406,783 | 333,277 | 1,101,605 | 912,518 |
| General, administrative and consulting | 536,502 | 375,454 | 1,608,698 | 1,149,450 |
| Research and development | 26,830 | 13,732 | 45,749 | 44,990 |
| Total operating expenses | 970,115 | 722,463 | 2,756,052 | 2,106,958 |
| Operating loss | (280,266) | (116,487) | (1,137,173) | (433,262) |
| Other income (expense): | | | | |
| Other income | 39,661 | - | 108,531 | 3,785 |
| Interest income | 1,967 | 1,556 | 5,985 | 3,779 |
| Interest expense | (37,649) | (50,810) | (123,624) | (143,464) |
| Total other expense | 3,979 | (49,254) | (9,108) | (135,900) |
| Net Loss | \$ (276,287) | \$ (165,741) | \$ (1,146,281) | \$ (569,162) |
| Net loss per common share basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted common shares outstanding - basic and diluted | 247,646,540 | 213,184,707 | 235,378,328 | 211,078,457 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine Months ended September 30, | |
|---|--|--------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,146,281) | \$ (569,162) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 250,481 | 125,519 |
| Loss on disposal of property, plant and equipment | - | 27,268 |
| Accretion of obligation for lease disposal costs | 11,468 | 11,468 |
| Compensation expense related to issuance of options | 229,852 | 155,329 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (646,661) | (148,367) |
| Prepays and other assets | (20,027) | 30,073 |
| Inventories | 44,275 | 285,308 |
| Accounts payable and accrued liabilities | 337,236 | (30,034) |
| Net cash used in operating activities | (939,657) | (112,598) |
| Cash flows from investing activities: | | |
| Restricted certificate of deposit | (5,929) | 3,684 |
| Purchase of patents | (23,510) | - |
| Purchase of RadQual interest | (275,000) | - |
| Purchase of property, plant and equipment | (251,341) | (228,971) |
| Net cash used in investing activities | (555,780) | (225,287) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants | 468,048 | 346,577 |
| Proceeds from sale of stock | 1,205,369 | 6,853 |
| Proceeds from issuance of debt | - | 100,000 |
| Principal payments on notes payable and capital leases | (173,931) | (102,688) |
| Net cash provided by financing activities | 1,499,486 | 350,742 |
| Net change in cash and cash equivalents | 4,049 | 12,857 |
| Cash and cash equivalents at beginning of period | 169,702 | 184,631 |
| Cash and cash equivalents at end of period | \$ 173,751 | \$ 197,488 |
| Supplemental disclosure of cash flow activities: | | |
| Cash paid for interest, net of amounts capitalized | \$ 140,947 | \$ 177,990 |

Supplemental disclosure of non-cash transactions:

| | | | | |
|---|----|---------|----|---------|
| Conversion of note payable and accrued interest into common stock | \$ | 673,614 | \$ | - |
| Issuance of note payable for property and equipment | \$ | 42,499 | \$ | - |
| Issuance of shares of common stock to acquire investment | \$ | 55,000 | \$ | - |
| Assets acquired through capital lease | \$ | - | \$ | 202,910 |

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 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. 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: 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 September 30, 2007, the Company had 27 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 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 for a fair and comparable presentation have been included and are of a normal recurring nature. Operating results for the nine-month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The accompanying financial statements should be read in conjunction with the Company's most recent audited financial statements.

Stock-based Compensation Plans Compensation expense charged against income for stock based awards during the three and nine months ended September 30, 2007 was \$141,385 and \$229,852, respectively, as compared to \$110,801 and \$155,329 for the three and nine months ended September 30, 2006, respectively, and is included in general and administrative expense in the accompanying financial statements.

A summary of the status of the stock options as of September 30, 2007 and changes during the nine months ended September 30, 2007 is as follows:

| Fixed Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Term | Aggregate Intrinsic Value |
|-----------------------------------|---------------|--|--|--|
| Outstanding at December 31, 2006 | 22,650,000 | \$ 0.05 | | |
| Granted | 1,000,000 | 0.40 | | |
| Exercised | (1,500,000) | 0.02 | | |
| Outstanding at September 30, 2007 | 22,150,000 | 0.06 | 5.9 | \$ 13,542,000 |
| Exercisable at September 30, 2007 | 19,062,500 | 0.05 | 5.4 | 12,151,250 |

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As of September 30, 2007, there was approximately \$364,869 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.1 years.

(2)

Current Developments and Liquidity

Business Condition Since inception, the Company has suffered substantial losses. During the three and nine-month periods ended September 30, 2007 the Company had a loss of \$276,287 and \$1,146,281 respectively compared to a loss of \$165,741 and \$569,162 during the same periods ended September 30, 2006. During the nine-month period ended September 30, 2007, the Company's operations used cash of \$939,657 in operating activities compared to \$112,598 for the same period in 2006. The Company believes that continued growth in its major business segments, the start of the fluorine product sales, and proceeds raised through the sale of equity securities and conversion of warrants will lead to increased revenue and improved cash flow. Based upon these improvements to business conditions, management expects to generate sufficient cash flows to meet operational needs during 2007; however, there is no assurance that these cash flows will occur.

(3)

Net Loss Per Common Share - Basic and Diluted

At September 30, 2007, and 2006, 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:

| | September 30, | |
|---|----------------------|-------------|
| | 2007 | 2006 |
| Stock options | 22,150,000 | 22,650,000 |
| Warrants | 26,666,662 | 12,537,770 |
| 850 shares of Series B redeemable convertible preferred stock | 425,000 | 425,000 |
| \$650,000 of convertible notes payable | -- | 8,125,000 |
| | 49,241,662 | 43,737,770 |

(4)

Inventories

Inventories consist of the following at September 30, 2007, and December 31, 2006.

| | September 30, | December 31, |
|------------------|----------------------|---------------------|
| | 2007 | 2006 |
| Raw materials | \$ 263,338 | \$ 263,791 |
| Work in progress | 2,230,014 | 2,273,836 |
| | \$ 2,493,352 | \$ 2,537,627 |

(5)

Stockholders Equity, Stock Options and Warrants

Private Placement

On March 21, 2007, the Company completed a private placement offering of 13,333,331 Units priced at \$0.09 per Unit for proceeds of \$1,200,000. Each Unit consisted of one share of common stock, one Class C warrant to purchase a share of common stock at \$0.10 per share and one Class D warrant to purchase a share of common stock at \$0.11 per share. The warrants expire in March 2011. The proceeds were allocated to the warrants based upon their fair value of \$2,460,000, and resulted in \$751,783 being allocated to the warrants and \$448,217 allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 4.43%, expected dividend yield of 0%, expected volatility of 133.76% and an expected life of 4 years.

The common shares and the shares underlying the warrants have registration rights, and the Company filed a registration statement covering the shares with the Securities and Exchange Commission which became effective on June 8, 2007.

Stock Options

During the nine months ended September 30, 2007, the Company issued 1,000,000 options to purchase common stock at a price of \$0.40 per share to an employee under the Company's stock option plan. These options had a fair value of \$388,913 (\$0.39 per share) as estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield \$0; risk free interest rate 5.02%; expected volatility 132.75%; expected life 10 years.

During the nine months ended September 30, 2007, an employee exercised options to purchase 1,500,000 shares of common stock and the Company issued 1,414,285 shares of common stock under a cashless exercise. These options had a fair market intrinsic value of \$435,000 on the date of exercise and in accordance with the terms of the 2006 Equity Incentive Plan.

Warrants

During the nine months ended September 30, 2007, 9,363,122 Series B warrants were exercised for cash proceeds of \$468,048. In accordance with the 2003 Rights Offering, on July 31, 2007, the remaining 90,869 series B warrants expired and were wholly void and of no value.

On March 21, 2007, in conjunction with a Private Placement Offering, the Company issued 13,333,331 Class C warrants and 13,333,331 Class D warrants. At September 30, 2007 no Class C or Class D warrants had been exercised.

Employee Stock Purchase Plan

During the nine months ended September 30, 2007, the Company issued 51,602 shares of common stock to employees for proceeds of \$5,369 in accordance with the employee stock purchase plan.

(6)

Notes Payable

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During March 2007, the Company secured financing on equipment purchased for its transportation segment in the amount of \$32,499. The note bears interest at 8.99%, requires monthly payments of \$674, is due March 2012, and is secured by equipment.

During March 2007, the company re-negotiated the \$648,075 note payable. The new terms call for interest of 10.25% with 23 payments of \$9,711 beginning April 30, 2007. All unpaid principle and interest is due March 31, 2009.

In April 2007, the Company converted all of the \$650,000 convertible notes payable and \$23,614 of accrued interest at \$0.08 per share into 8,420,172 shares of common stock.

During September the Company Chairman of the Board provided the Company with \$125,000 in advance of the Company's receipt of certain account payable. This amount is to be repaid to the Chairman upon receipt of the payment from their customer.

During September 2007, the Company converted its \$150,000 line of credit with a bank to a term note with the same bank. The new terms call for interest of 9.25% with 48 payments of \$3,760 beginning October 2007.

(7)

Acquisition of Interest in RadQual, LLC

During April 2007, the Company acquired an interest in RadQual, LLC. The Company acquired 5.5 units in RadQual, LLC, representing about 6% of the Company, for a total purchase price of \$330,000. Of that amount \$275,000 was paid in cash and \$55,000 was paid in the form of shares of common stock of the Company. A total of 392,857 shares were issued valued at \$0.14 per share. The Company also has the option to purchase an additional 12.5 units in RadQual, LLC that would raise the total ownership to just over 20%. The option is exercisable for \$55,000 per unit if paid in cash or \$60,000 per unit, with \$50,000 being paid in cash and \$10,000 payable in the form of the Company's common stock. This option expires December 31, 2007. This investment is accounted for at cost.

(8)

Other Income

The Company was awarded a grant by the National Science Foundation (NSF) Small Business Innovation Research program of approximately \$100,000 to complete a Phase I investigation into the use of germanium tetrafluoride as a fluorinating agent for development of new and more efficient processes for production of hydrofluorocarbon (HFC) refrigerants. Under this NSF program, the Company conducted experiments to obtain evidence for germanium tetrafluoride fluorination by halogen exchange. As of September 30, 2007, the Company had received \$100,000 from this grant and all work under this Phase I grant was complete. The Company has prepared a Phase II grant application, however, receipt of additional funding for Phase II is not known at this time.

(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, who controls the reactor operations. Nuclear Medicine Standard's manufacturing is conducted under an exclusive contract with another of our customers, RadQual, LLC, who in turn has an agreement in place with a major distributor. In April 2007, the Company acquired a 6 % interest in RadQual, LLC and has an option to acquire up to about 20% of that company. A change in the contractual relationship with the DOE for cobalt production or the loss of the RadQual customer, or their distributors, could adversely affect operating results by causing a delay in production or lead to a reduction in 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 amended the NRC license numerous times to address changes in the quantities of material being handled, and to describe the types of activities being conducted in the facility, and has obtained an additional license for the Fluorine Products subsidiary operations. Additional processing capabilities and license amendments could be implemented that would permit processing of other reactor-produced radioisotopes by the Company, but our current licenses do not restrict the volume of business operations currently 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 these licenses.

Litigation

The Company was 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. In April 2007, the lawsuit was settled by the Company for a cash payment of \$43,000.

(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, Cobalt Products, Radiochemical Products, Fluorine Products, Radiological Services, and Transportation Services. Information regarding the operations and assets of these reportable business segments is contained in the following table:

| Sale of Product | Three Months ended September 30, | | Nine Months ended September 30, | |
|----------------------------|---|--------------|--|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Radiochemical Products | \$ 248,228 | \$ 214,904 | \$ 758,235 | \$ 617,782 |
| Cobalt Products | 608,374 | 662,444 | 822,414 | 1,144,074 |
| Nuclear Medicine Standards | 466,435 | 379,991 | 1,386,213 | 1,319,698 |
| Radiological Services | 136,978 | 200,921 | 503,877 | 559,544 |
| Fluorine Products | - | - | - | - |
| Transportation | 26,097 | - | 121,310 | - |
| Total Segments | 1,486,112 | 1,458,260 | 3,592,049 | 3,641,098 |
| Corporate revenue | - | - | - | - |
| Total Consolidated | \$ 1,486,112 | \$ 1,458,260 | \$ 3,592,049 | \$ 3,641,098 |

| Depreciation and Amortization | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Radiochemical Products | \$ 11,326 | \$ 11,393 | \$ 34,047 | \$ 36,587 |
| Cobalt Products | 16,217 | 10,881 | 48,029 | 32,646 |
| Nuclear Medicine Standards | 968 | 2,307 | 3,873 | 7,876 |
| Radiological Services | - | 1,634 | 458 | 4,818 |
| Fluorine Products | 43,546 | 10,575 | 121,335 | 15,977 |
| Transportation | 4,600 | - | 10,447 | - |
| Total Segments | 76,657 | 36,790 | 218,189 | 97,904 |
| Corporate depreciation and amortization | 8,057 | 12,605 | 32,292 | 27,615 |
| Total Consolidated | \$ 84,714 | \$ 49,395 | \$ 250,481 | \$ 125,519 |

| Segment Income (Loss) | Three Months ended September 30, | | Nine Months ended September 30, | |
|------------------------------|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Radiochemical Products | \$ (4,989) | \$ 14,665 | \$ 53,319 | \$ 29,011 |
| Cobalt Products | 380,444 | 279,102 | 410,855 | 470,163 |
| Nuclear Medicine Standards | 142,053 | 136,201 | 479,274 | 558,342 |
| Radiological Services | 79,075 | 58,990 | 295,596 | 216,200 |
| Fluorine Products | (228,537) | (158,694) | (720,451) | (482,297) |
| Transportation | (38,962) | - | (60,818) | - |
| Total Segments | 329,084 | 330,264 | 457,775 | 791,419 |

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| | | | | |
|----------------|--------------|--------------|----------------|--------------|
| Corporate Loss | (605,371) | (496,005) | (1,604,056) | (1,360,581) |
| Net Loss | \$ (276,287) | \$ (165,741) | \$ (1,146,281) | \$ (569,162) |

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| Expenditures for Segment Assets | Three Months ended September 30, | | Nine Months ended September 30, | |
|--|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Radiochemical Products | \$ - | \$ - | \$ - | \$ - |
| Cobalt Products | 7,320 | - | 91,278 | - |
| Nuclear Medicine Standards | - | - | - | - |
| Radiological Services | - | 6,290 | - | 25,659 |
| Fluorine Products | 37,813 | 25,549 | 166,724 | 403,023 |
| Transportation | - | - | 52,439 | - |
| Total Segments | 45,133 | 31,839 | 310,441 | 428,682 |
| Corporate purchases | 1,184 | 2,169 | 6,909 | 3,199 |
| Total Consolidated | \$ 46,317 | \$ 34,008 | \$ 317,350 | \$ 431,881 |

| Segment Assets | September 30, | | December 31, | |
|----------------------------|----------------------|----|---------------------|----|
| | 2007 | | 2006 | |
| Radiochemical Products | \$ 340,156 | \$ | 348,769 | \$ |
| Cobalt Products | 3,288,782 | | 2,772,027 | |
| Nuclear Medicine Standards | 492,526 | | 438,522 | |
| Radiological Services | 24,199 | | 58,999 | |
| Fluorine Products | 1,400,705 | | 1,343,799 | |
| Transportation | 63,695 | | 38,255 | |
| Total Segments | 5,610,063 | | 5,000,371 | |
| Corporate assets | 1,021,907 | | 602,339 | |
| Total Consolidated | \$ 6,631,970 | \$ | 5,602,710 | \$ |

(11)

Subsequent Events

On October 31, 2007 the Company awarded 1,000,000 stock options to an employee at the market price of \$0.70 per share. Twenty percent (20%) of these options vested on the grant date and the remainder will vest in increments of 20% on each of the next four anniversary dates of the grant award.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

This Quarterly Report contains forward-looking statements within the meaning 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-KSB for the fiscal year ended December 31, 2006 filed with the securities and Exchange Commission on March 26, 2007. 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 and nine-month periods ended September 30, 2007, and 2006. The Company's losses from operations for the three and nine-month periods ended September 30, 2007, were \$276,287 and \$1,146,281 respectively, as compared to losses from operations of \$165,741 and \$569,162 respectively for the comparable periods of 2006. The figures represent a 67% increase and 101% increase in loss for the three and nine-month periods respectively. The increase in loss for the three month period comparison was primarily attributable to an increase in general and administrative expenses in the Fluorine Products segment and corporate general and administrative expense.

Revenue for the three and nine-month periods ended September 30, 2007, was \$1,486,112 and \$3,592,049 respectively, as compared to \$1,458,260 and \$3,641,098 for the same periods in 2006. These numbers represent an increase of \$27,852 (or 2%) for the three-month period and a decrease of \$49,049 (or 1%) for the nine-month period

comparisons. The Radiological Services segment revenues decreased 32% and 10% respectively for the three and nine-month periods of 2007 compared to 2006. The decline in this segment was attributable to a short term reduction in contract services related to topaz processing. The Cobalt Products segment declined by about 8% and 28% respectively for the three and nine-month periods of 2007 compared to 2006 primarily due to the cyclic nature of bulk cobalt sales. The Radiochemical Products segment revenues increased by about 16% and 23% respectively for the three and nine-month periods of 2007 compared to 2006 as a result of continually improving sales in this segment.

Also the Nuclear Medicine segment increased 23% and 5% respectively for the three and nine month period ended September 30, 2007 compared to the same period in 2006 as a result of strengthening sales. The Transportation segment had revenues of \$26,097 and \$121,310 for the three and nine month periods respectively in its first year of revenue generation.

It should be noted that the Company typically sees large variations in the revenue produced by the Cobalt Product segment because a large percentage of that revenue results from the sale of bulk cobalt and those sales are cyclic in nature. Therefore, the timing of those bulk sales will have a significant impact upon revenue period comparisons. Excluding Cobalt Product sales, revenues for the three-month period ended September 30, 2007, were \$877,738 as compared to \$795,816 for the same period in 2006, which represents an increase of \$81,922 or 10%. Excluding Cobalt Product sales revenues for the nine-month period ended September 30, 2007, were \$2,769,635 as compared to \$2,497,024 for the same period in 2006, which represents an increase of \$272,611 or 11%. Because of the significant impact of the timing of cobalt product sales, management believes that excluding sales of cobalt products from the period comparisons of revenues provides useful information to investors and may provide a more accurate projection of the actual revenue growth trends of the Company. Please refer to the tables below for a further analysis of this measure.

Three-Month Financial Measure Reconciliation

| | Period ended Sept 30, 2006 | Period ended Sept 30, 2007 |
|---|----------------------------|-------------------------------|
| Total Revenues | \$1,458,260 | \$1,486,112 |
| Cobalt Products Revenues | \$ 662,444 | \$ 608,374 |
| Total Revenues Excluding Cobalt Products Revenues | \$ 795,816 | \$ 877,738 |

Nine-Month Financial Measure Reconciliation

| | Period ended Sept 30, 2006 | Period ended Sept 30, 2007 |
|---|----------------------------|-------------------------------|
| Total Revenues | \$3,641,098 | \$3,592,049 |
| Cobalt Products Revenues | \$1,144,074 | \$ 822,414 |
| Total Revenues Excluding Cobalt Products Revenues | \$2,497,024 | \$2,769,635 |

Gross profit for the three-month periods ended September 30, 2007, and 2006, was \$689,849 and \$605,976 respectively, which represents an increase of \$83,873 or 14%. Gross profit for the nine-month periods ended September 30, 2007, and 2006 was \$1,618,879 and \$1,673,696 respectively, which represents a decrease of \$54,817 or 3%. Gross profit as a percentage of revenue increased, from 41.5% to 46.4%, for the three month periods ended September 30, 2006 and 2007, and decreased slightly, from 45.9% to 45.1%, for the nine-month periods ended September 30, 2006 and 2007 respectively.

Operating expenses for the three month periods ended September 30, 2007, and 2006, were \$970,115 and \$722,463 respectively which represents an increase of \$247,652 or 34%. Operating expenses for the nine-month periods ended September 30, 2007, and 2006, were \$2,756,052 and \$2,106,958 respectively which represents an increase of

\$649,094 or 31%. The increase in operating expenses was attributed to increases in Salaries, contract labor, and general administrative costs. Salaries and contract labor expenses for the three and nine-month periods ended September 30, 2007, were \$406,783 and \$1,101,605 respectively, as compared to \$333,277 and \$912,518 for the same periods of 2006. The increase in salaries and contract labor costs was primarily attributable to changes in accounting standards requiring costs to be incurred attributable to stock options. General, administrative (G&A) and consulting expenses totaled \$536,502 and \$1,608,698 respectively for the three and nine-month periods ended September 30, 2007, as compared to \$375,454 and \$1,149,450 for the same periods of 2006. The increase in G&A costs were primarily attributable to legal expense related to patent work and protection of newly developed intellectual property of the Fluorine Products division and FEP equipment depreciation expenses.

Interest expense for the three and nine-month period ended September 30, 2007, was \$37,649 and \$123,624 as compared to \$50,810 and \$143,464 for the comparable periods in 2006, a decrease of \$13,161 and \$19,840 respectively. The decreases are attributable to reduction in the principal balance of the commercial notes.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2007 the Company had cash and cash equivalents of \$173,751 compared to \$169,702 at December 31, 2006. For the nine months ended September 30, 2007, operating activities used cash of \$939,657, investing activities used cash of \$555,780 and financing activities provided cash of \$1,499,486 from exercise of Series B warrants and sale of Company stock.

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 Series C or D Warrant redemption by shareholders. The Company has 13,333,331 Class C warrants and 13,333,331 Class D warrants outstanding from the private placement of march 2007.

MATERIAL CHANGES

In January, 2007, we were awarded a grant by the National Science Foundation (NSF) Small Business Innovation Research program of approximately \$100,000 to complete a Phase I investigation into the use of germanium tetrafluoride as a fluorinating agent for development of new and more efficient processes for production of hydrofluorocarbon (HFC) refrigerants. Under this NSF program, we conducted experiments and obtained evidence for germanium tetrafluoride fluorination by halogen exchange.

During April 2007, the Company entered into an Option Purchase Agreement with one of the owners and founders of RadQual LLC. Under the terms of this Agreement, the Company purchased units representing about 6% of RadQual LLC and has an option to purchase additional units that would represent a total of just over 20% of RadQual.

RadQual LLC is a privately held company that markets a wide range of nuclear medicine reference and calibration standards under the trademark name of Benchmark™. We have been the sole contract manufacturer of the Benchmark products since 2001.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our 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")). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2007.

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

Our principal executive officer and principal financial officer do not expect that our disclosure controls or our internal controls will prevent all error and all fraud. 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.

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 May 1, 2006).

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)).

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.

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Certification by the Chief Executive and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

International Isotopes Inc.
(Small business issuer)

Date: November 13, 2007

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