LIGHTBRIDGE Corp
Form 10-Q
November 10, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 2016**

o 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: **001-34487**

LIGHTBRIDGE CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**91-1975651**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Empl. Ident. No.)*

11710 Plaza America Drive, Suite 2000
Reston, VA 20190
(Address of principal executive offices, Zip Code)

(571) 730-1200
(Registrant's telephone number, including area code)

____
(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report)

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

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 x No o

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	x

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

The number of shares outstanding of the issuer's common stock, as of November 10, 2016 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	5,545,150

LIGHTBRIDGE CORPORATION
Form 10-Q
SEPTEMBER 30, 2016

PART I—FINANCIAL INFORMATION

Lightbridge Corporation

Unaudited Condensed Consolidated Balance Sheets

		September 30, 2016		December 31, 2015
ASSETS				
Current Assets				
Cash and cash equivalents	$	3,214,065	$	623,184
Restricted cash		113,990		325,832
Accounts receivable - project revenue and reimbursable project costs		83,219		139,797
Prepaid expenses and other current assets		135,222		168,029
Deferred financing cost, net		491,168		-
Total Current Assets		4,037,664		1,256,842
Other Assets				
Patent costs		1,121,771		950,594
Deferred financing cost, net		1,105,241		-
Total Assets	**$**	**6,264,676**	**$**	**2,207,436**
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)				
Current Liabilities				
Accounts payable and accrued liabilities	$	951,705	$	1,182,371
Note payable		27,377		-
Total Current Liabilities		979,082		1,182,371
Long-Term Liabilities				
Deferred lease abandonment liability		67,354		196,938
Derivative warrant liability		120,513		2,327,195
Total Liabilities		1,166,949		3,706,504
Commitments and contingencies (Note 7)				
Stockholders' Equity (Deficiency)				
Preferred stock, $0.001 par value, 10,000,000 authorized shares, Convertible Series A Preferred Shares, $.001 par value, 1,020,000 issued and outstanding at September 30, 2016 and 0 shares outstanding at December 31, 2015		1,020		-
Common stock, $0.001 par value, 100,000,000 authorized, 5,183,231 shares outstanding at September 30, 2016 and 3,725,819 shares outstanding at December 31, 2015		5,183		3,726
Additional paid-in capital		82,598,391		72,868,647
Accumulated Deficit		(77,506,867)		(74,371,441)

Total Stockholders' Equity (Deficiency)		5,097,727		(1,499,068)
Total Liabilities and Stockholders' Equity (Deficiency)	**$**	**6,264,676**	**$**	**2,207,436**

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

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Lightbridge Corporation

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue:				
Consulting Revenue	$ 83,219	$ 234,163	$ 372,142	$ 656,220
Cost of Consulting Services Provided	43,919	118,954	174,281	452,007
Gross Margin	39,300	115,209	197,861	204,213
Operating Expenses				
General and administrative	1,106,125	1,067,166	3,311,488	3,106,265
Research and development expenses	441,874	302,912	1,450,954	910,458
Total Operating Expenses	1,547,999	1,370,078	4,762,442	4,016,723
Operating Loss	(1,508,699)	(1,254,869)	(4,564,581)	(3,812,510)
Other Income and (Expenses)				
Warrant revaluation	78,442	1,083,495	1,643,941	2,741,746
Warrant modification expense	-	-	(129,369)	-
Interest income	19	164	294	488
Financing costs	(73,279)	-	(85,650)	-
Other expenses	-	(3,061)	(62)	(6,337)
Total Other Income and (Expenses)	5,182	1,080,598	1,429,154	2,735,897
Net loss before income taxes	(1,503,517)	(174,271)	(3,135,427)	(1,076,613)
Income taxes	-	-	-	-
Net loss	(1,503,517)	(174,271)	(3,135,427)	(1,076,613)
Accumulated preferred stock dividend	(32,667)	-	(32,667)	-
Deemed dividend on convertible preferred stock, due to beneficial conversion feature	(581,300)	-	(581,300)	-
Net loss attributable to common stockholders	$ (2,117,484)	$ (174,271)	$ (3,749,394)	$ (1,076,613)
Net Loss Per Common Share, Basic and Diluted	$ (0.44)	$ (0.05)	$ (0.91)	$ (0.30)
	4,804,044	3,634,030	4,105,107	3,622,393

Weighted Average Number of Shares Outstanding	

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

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Lightbridge Corporation

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating Activities:		
Net Loss	$ (3,135,427)	$ (1,076,613)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock-based compensation	943,424	1,017,449
Amortization of deferred financing cost	68,590	-
Warrant modification expense	129,369	-
Warrant revaluation income	(1,643,941)	(2,741,746)
Changes in operating working capital items:		
Accounts receivable - fees and reimbursable project costs	56,578	214,051
Prepaid expenses and other assets	32,807	92,615
Accounts payable and accrued liabilities	(161,359)	(45,323)
Deferred lease abandonment liability	(198,891)	-
Net Cash Used In Operating Activities	(3,908,850)	(2,539,567)
Investing Activities:		
Patent costs	(171,177)	(59,627)
Net Cash Used In Investing Activities	(171,177)	(59,627)
Financing Activities:		
Net proceeds from the issuance of common stock	3,631,689	55,131
Net proceeds from the issuance of preferred stock	2,800,000	-
Proceeds from the issuance of note payable	135,000	-
Repayment of note payable	(107,623)	-
Restricted cash	211,842	(489)
Net Cash Provided by Financing Activities	6,670,908	54,642
Net Increase (Decrease) In Cash and Cash Equivalents	2,590,881	(2,544,552)
Cash and Cash Equivalents, Beginning of Period	623,184	4,220,225
Cash and Cash Equivalents, End of Period	$ 3,214,065	$ 1,675,673
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest paid	2,269	-
Income taxes paid	-	-
Non-Cash Financing Activity:		
Deferred financing cost - paid with stock purchase warrants	$ 1,665,000	$ -
Warrant liability - reclassification to equity	$ 692,110	$ -
Shares issued for offering costs	$ -	$ 275,700

Accumulated preferred stock dividend	$	32,667	$	-
Deemed dividend on convertible preferred stock, due to beneficial conversion feature	$	581,300	$	-

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

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LIGHTBRIDGE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation, Summary of Significant Accounting Policies and Nature of Operations

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Lightbridge Corporation and its subsidiaries have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC, including the instructions to Form 10-Q and Regulation S-X. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements and should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015, included in our Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of the management of the Company, all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the three month and nine month periods have been made. Results for the interim period presented are not necessarily indicative of the results that might be expected for the entire fiscal year. When used in these notes, the terms "Company," "we," "us" or "our" mean Lightbridge Corporation and all entities included in our consolidated financial statements.

The Company was formed on October 6, 2006, when Thorium Power, Ltd. merged with Thorium Power, Inc., ("TPI"), which had been formed in the State of Delaware on January 8, 1992. On September 29, 2009, we changed our name from Thorium Power, Ltd. to Lightbridge Corporation (subsequently referred to as "we" or the "Company"). We are engaged in two operating business segments: our Technology Business Segment and our Consulting Business Segment (see Note 11-Business Segment Results).

Liquidity

We have incurred recurring losses since inception and expect to continue to incur losses as a result of costs and expenses related to our research and continued development of our nuclear fuel and our corporate general and administrative expenses. Our limited capital resources and operations to date have been funded through sales of our equity securities and through revenues from our consulting business. As of September 30, 2016, we had working capital of approximately $3.1 million, cash and restricted cash of approximately $3.3 million, stockholders' equity of approximately $5.1 million and an accumulated deficit of approximately $77.5 million. As of December 31, 2015, we had working capital of approximately $0.1 million, cash and restricted cash of approximately $0.9 million, stockholders' deficit of approximately $1.5 million and an accumulated deficit of approximately $74 million. On August 2, 2016, we closed on our offering of $2.8 million of our Convertible Series A Preferred Stock (see note 10). We have also raised approximately $3.6 million in 2016 from our equity line purchase agreement from Aspire Capital Fund, LLC ("Aspire Capital") (see note 10). We have also entered into an option agreement with Aspire Capital that will give us an option until December 31, 2019 to enter in two equity line agreements for a combined total of $20 million (see note 10).

In the event that we are unable to generate sufficient cash from our operating activities or raise additional funds, we may be required to delay, reduce or severely curtail our operations or otherwise impede our on-going business efforts, which could have a material adverse effect on our business, operating results, financial condition and long-term prospects. The Company expects to seek to obtain additional funding through future equity issuances. There can be no assurance as to the availability or terms upon which such financing and capital might be available.

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Reverse Stock Split

Effective July 20, 2016, we conducted a one for five reverse stock-split of our issued and outstanding common stock and have retroactively adjusted our common shares outstanding, options and warrants amounts outstanding. We have presented our share data for and as of all periods presented on this basis. As a result, the number of common shares issued and outstanding at September 30, 2016 decreased from 25,916,155 shares to 5,183,231 shares. The number of common shares issued and outstanding at December 31, 2015 decreased from 18,628,957 shares to 3,725,819 shares. Our authorized capital of 500,000,000 shares of common stock and 50,000,000 shares of preferred stock, each with a par value of $0.001, was changed to 100,000,000 shares of common stock authorized and 10,000,000 shares of preferred stock authorized with a par value of $0.001. The par value was not adjusted as a result of the one for five reverse stock split.

Technology Business Segment

Our primary business segment, based on future revenue potential, is to develop and commercialize innovative, proprietary nuclear fuel designs which we expect will significantly enhance the nuclear power industry’s economics due to higher power output and improve safety margins.

We are currently focusing our development efforts primarily on the metallic fuel with a power uprate of up to 10% and a 24-month operating cycle in existing Westinghouse-type four-loop pressurized water reactors. Those reactors represent the largest segment of our global target market. Our metallic fuel could also be adapted for use in other types of water-cooled commercial power reactors, such as boiling water reactors, CANDU heavy water reactors, as well as water-cooled small and modular reactors.

On January 12, 2016, we announced entry into an initial services agreement with BWXT Nuclear Energy, Inc., a wholly owned subsidiary of BWX Technologies, Inc., to evaluate the ability to fabricate and prepare a preliminary plan for fabrication of Lightbridge-designed partial length nuclear fuel samples at BWXT facilities in the United States.

On March 14, 2016, we entered into a joint development agreement (“JDA”) with AREVA NP (“AREVA”) to develop a joint business plan to evaluate the technical, economic, and strategic feasibility and desirability of the parties’ forming one or more joint venture companies to further develop, manufacture, and commercialize the Company’s metallic nuclear fuel technology. The JDA includes a statement of work whereby the Company is expected to pay a total of approximately $141,000 toward the total cost of work to be performed as part of the Joint Evaluation Project Plan by placing a work release or purchase order with AREVA. The total amount is due and payable by the Company as follows: 40% of the total amount due upon the effective date of the signing of the JDA (paid May 4, 2016); 30% of the total amount due upon the delivery of an intermediate report by AREVA (paid August 2, 2016) and the remaining 30% due upon the delivery of the final report to the Company.

On June 6, 2016 we announced that we received a key patent covering our metallic nuclear fuel rod design in Canada and also received our key patent in China following the notice of allowance publicly disclosed in May 2016.

On July 5, 2016 we announced that we received a Notice of Allowance for a key patent covering our metallic nuclear fuel rod design from the European Patent Office. The patent was issued in August 2016.

Lightbridge will seek patent validation in key countries in the EU region, including France, the UK, Sweden, and other key countries that already have a significant amount of nuclear generating capacity.

Consulting Business Segment

Our business model expanded with the establishment of a consulting business segment in 2007, through which we provide consulting and strategic advisory services to companies and governments planning to create or expand electricity generation capabilities using nuclear power plants. On August 1, 2008, we signed separate consulting services agreements with two government entities: Emirates Nuclear Energy Corporation (“ENEC”) formed by Abu Dhabi, one of the member Emirates of the United Arab Emirates (“UAE”), and the Federal Authority for Nuclear Regulation (“FANR”) formed by the government of the UAE. Under these two original agreements, we have provided consulting and strategic advisory services over a contract term of five years starting from June 23, 2008. The FANR contract has been extended to December 31, 2016. The FANR contract can continue to be extended upon agreement by both parties.

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Accounting Policies and Recent Pronouncements

Basis of Consolidation

These consolidated financial statements include the accounts of Lightbridge, a Nevada corporation, and our wholly-owned subsidiaries, TPI, a Delaware corporation, Lightbridge International Holding LLC, a Delaware limited liability company, and our foreign branch offices.

All significant intercompany transactions and balances have been eliminated in consolidation. We registered a branch office in the United Kingdom in 2008 called Lightbridge Advisors Limited (inactive) and we also established a branch office in Moscow, Russia, in July 2009, both of which are wholly owned by Lightbridge International Holding LLC at September 30, 2016 and December 31, 2015. We anticipate that these branch offices will be closed in 2016. Translation gains and losses for the three months and nine months ended September 30, 2016 and 2015 were not significant.

Use of Estimates and Assumptions

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Estimates

These accompanying consolidated financial statements include some amounts that are based on management’s best estimates and judgments. The most significant estimates relate to valuation of stock grants and stock options, derivative liability for the stock purchase warrants, the valuation allowance on deferred tax assets, and various contingent liabilities. It is reasonably possible that these above-mentioned estimates and others may be adjusted as more current information becomes available, and any adjustment could be significant in future reporting periods. It is also reasonably possible that the actual grant date value of the stock options vested might have been materially different than the estimated value.

Fair Value of Financial Instruments

The Company’s financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, note payable and a derivative warrant liability. The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value of the derivative warrant liabilities were determined based on “Level 3” inputs. See Note 9-Warrant Liability for more information on the Level 3 inputs and valuation of the derivative warrant liability and Note 12 – Fair Value Measurements for more information on fair value measurements.

Certain Risks, Uncertainties and Concentrations

We are an early stage company and will likely need additional funding by way of strategic alliances, further offerings of equity securities, an offering of debt securities, or a financing through a bank in order to support the remaining research and development activities required to further enhance and complete the development of our fuel products to a commercial stage. Currently, we are working on consulting revenue opportunities with the overall goal of increasing our profitability and cash flow.

We participate in a government-regulated industry. Our operating results are affected by a wide variety of factors including decreases in the use or public favor of nuclear power, the ability of our technology to safeguard the production of nuclear power and our ability to safeguard our patents and intellectual property from competitors. Due to these factors, we may experience substantial period-to-period fluctuations in our future operating results. Potentially, a loss of a key officer, key management, and other personnel could impair our ability to successfully execute our business strategy, particularly when these individuals have acquired specialized knowledge and skills with respect to nuclear power and our operations.

Our future operations and earnings currently depend on the results of the Company's operations outside the United States. There can be no assurance that the Company will be able to successfully continue to conduct such operations, and a failure to do so would have a material adverse effect on the Company's research and development activities, financial position, results of operations, and cash flows. Also, the success of the Company's operations will be subject to other numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, competition, changes in regulations, changes in accounting and taxation standards, inability to achieve overall long-term goals, future impairment charges and global or regional catastrophic events. Because the Company is dependent on its international operations for almost all its revenue, the Company may be subject to various additional political, economic, and other uncertainties.

Accounts receivable are typically unsecured and are primarily derived from revenues earned from customers located in the Middle East. We perform ongoing evaluations to determine customer credit and we limit the amount of credit we extend, but generally we do not require collateral from our customers. We maintain reserves for estimated credit losses if necessary, however, no reserve has been set up at September 30, 2016 and December 31, 2015, as we expect to collect all of our outstanding receivables. Accounts receivable from one customer constituted approximately 100% of the total accounts receivable at September 30, 2016 and accounts receivable from two customers constituted approximately 77% of the total accounts receivable at December 31, 2015.

Approximately 0% and 17% of the total revenues reported for the three months and nine months ended September 30, 2016 and 2015, respectively, were from the ENEC and FANR contracts. Contracts with one other utility customer in the United States constituted approximately 0% and 44% of total revenues reported for the three months and nine months ended September 30, 2016, respectively, and contracts with one other customer constituted 100%% and 39% for the three months and nine months ended September 30, 2015, respectively.

Revenue Recognition

Consulting Business Segment

At the present time, we derive all of our revenue from our consulting business segment on a time and expense basis as provided, by offering consulting services to utilities as well as to governments outside the United States planning to create or expand electricity generation capabilities using nuclear power plants. Our fee structure for each client engagement is dependent on a number of variables, including the size of the client, the complexity, the level of the opportunity for us to improve the client's electrical generation capabilities using nuclear power plants, and other factors. The accounting policy we use to recognize revenue depends on the terms and conditions of the specific contract.

Revenues from utilities and the Executive Affairs Authority ("EAA") of Abu Dhabi, one of the member Emirates of the UAE, and the related entities, ENEC and FANR, are billed on a time and expense basis.

We recognize revenue in accordance with ASC 605-10-S99, "Revenue Recognition." We recognize revenue when all of the following conditions are met:

(1) There is persuasive evidence of an arrangement;
(2) The service has been provided to the customer;
(3) The collection of the fees is reasonably assured; and
(4) The amount of fees to be paid by the customer is fixed or determinable.

Certain customer arrangements require evaluation of the criteria outlined in the accounting standards for reporting revenue "Gross as a Principal Versus Net as an Agent" in determining whether it is appropriate to record the gross amount of revenue and related costs, or the net amount earned as agent fees. Generally, when we are primarily obligated in a transaction, revenue is recorded on a gross basis.

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Other factors that we consider in determining whether to recognize revenue on a gross versus net basis include our assumption of credit risk, latitude in establishing prices, our determination of service specifications, and our involvement in the provision of services. We have determined, based on the credit risk that we bear for collecting consulting fees, travel costs, and other reimbursable costs from our customers, that in 2016 and 2015 we acted as a principal, and therefore we are recognizing as revenue all travel costs and other reimbursable costs billed to our customers.

Cost of consulting services includes labor, travel expenses, stock-based compensation and other related consulting costs.

Technology Business Segment

We are seeking to enter into a commercial arrangement with one or more fuel fabricators. We expect that our revenue from such a commercial arrangement will be recognized on a straight-line basis over the expected period of the related license term.

Cash and Cash Equivalents and Restricted Cash

We may at times invest our excess cash in money market mutual funds. We classify all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months as marketable securities. We hold cash balances in excess of the federally insured limits of $250,000 with one prominent financial institution. We deem this credit risk not to be significant as our cash is held by a major prominent financial institution. Total cash and cash equivalents held in checking accounts, as reported on the accompanying condensed consolidated balance sheets, totaled approximately $3.2 million and $0.6 million at September 30, 2016 and December 31, 2015, respectively.

Restricted cash represents cash being held by the same prominent financial institution that is being used as collateral for our corporate credit cards and letters of credit to secure contingent obligations under the sub-lease and our ACH transactions. The total balance of our restricted cash at September 30, 2016 and December 31, 2015 was approximately $0.1 million and $0.3 million, respectively.

Trade Accounts Receivable

We record accounts receivable at the invoiced amount and we do not charge interest. We review the accounts receivable by amounts due from customers which are past due, to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. We will also maintain a sales allowance to reserve for potential credits issued to customers. We will determine the amount of the reserve based on historical credits issued.

There was no provision for doubtful accounts or a sales allowance recorded at September 30, 2016 and December 31, 2015, as we have not experienced any bad debts from any of our customers or issued significant credits to customers.

Foreign Currency

Foreign currency transaction gains/losses were not significant for the three months and nine months ended September 30, 2016 and 2015.

Patents and Legal Costs

Patents are stated on the accompanying condensed consolidated balance sheets at cost. Patent costs consist primarily of legal fees and application costs for filing and pursuing patent applications. The costs of the patents, once placed in service, will be amortized on a straight-line basis over their estimated useful lives or the remaining legal lives of the patents, whichever is shorter. The amortization periods for our patents can range between 17 and 20 years if placed into service at the beginning of their legal lives. Our patents have not been placed in service for the three months and nine months ended September 30, 2016 and 2015.

Legal costs are expensed as incurred except for legal costs to file for patent protection, which are capitalized and reported as patents on the accompanying condensed consolidated balance sheets.

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Impairment of long-lived assets

Long-lived assets of the Company are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges for the three months and nine months ended September 30, 2016 and 2015.

Research, Development and Related Expenses

These costs from our technology business segment are charged to operations in the period incurred and are shown on a separate line on the accompanying condensed consolidated statements of operations.

Stock Warrants

The Company accounts for stock warrants as either equity instruments or derivative liabilities depending on the specific terms of the warrant agreement. Stock warrants are accounted for as a derivative in accordance with Accounting Standards Codification 815, Derivatives and Hedging ("ASC 815") if the stock warrants contain terms that could potentially require "net cash settlement" and therefore, do not meet the scope exception for treatment as a derivative. Warrant instruments that could potentially require "net cash settlement" in the absence of express language precluding such settlement are initially classified as derivative liabilities at their estimated fair values, regardless of the likelihood that such instruments will ever be settled in cash. The Company will continue to classify the fair value of the warrants that contain "net cash settlement" as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability. For additional discussion of our warrants, see Note 9 - Warrant Liability.

Commitments and Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. The Company's legal costs associated with contingent liabilities are recorded to expense as incurred.

Stock-Based Compensation

The stock-based compensation expense incurred by Lightbridge for employees and directors in connection with its equity incentive plan is based on the employee model of ASC 718, and the fair value of the options is measured at the grant date. Under ASC 718 employee is defined as, "An individual over whom the grantor of a share-based compensation award exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. Tax Regulations." Our advisory board members and consultants do not meet the employer-employee relationship as defined by the IRS and therefore are accounted for under ASC 505-50.

ASC 505-50-30-11 (previously EITF 96-18) further provides that an issuer shall measure the fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of the following dates, referred to as the measurement date:

i. The date at which a commitment for performance by the counterparty to earn the equity instruments is reached (a performance commitment); and

ii. The date at which the counterparty's performance is complete.

We have elected to use the Black-Scholes pricing model to determine the fair value of stock options on the measurement date of the grant. Restricted stock units are measured based on the fair values of the underlying stock on the measurement date of the grant. Shares that are issued to officers on the exercise dates of their stock options may be issued net of the minimum statutory withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of shares exercised under the stock option. We recognize stock-based compensation using the straight-line method over the requisite service period.

Segment Reporting

We use the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by our chief decision makers for making operating decisions and assessing performance, as the source for determining our reportable segments. We have determined that we have two operating segments as defined by the FASB accounting pronouncement, "*Disclosures about Segments of an Enterprise and Related Information*". As discussed above, our two reporting business segments are our technology business and our consulting services business (see Note 11 - Business Segment Results).

Recent Accounting Pronouncements

Stock Compensation In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting,* which will simplify the income tax consequences, accounting for forfeitures and classification on the Statement of Consolidated Cash Flows. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. This new pronouncement is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Principal versus Agent Considerations – In March 2016, the FASB issued Accounting Standards Update 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations" ("ASU 2016-08"). ASU 2016-08 clarifies implementation guidance on principal versus agent considerations in ASU 2014-09. ASU 2016-10 was issued to clarify ASC Topic 606 related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients, clarify certain narrow aspects of Topic 606 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted but not sooner than the annual reporting periods beginning after December 15, 2016). The Company is currently assessing the impact ASU 2014-09 and ASU 2016-08 will have on the Company, but it is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Leases – In February 2016, the FASB issued ASU 2016-02 which amends existing lease accounting guidance, and requires recognition of most lease arrangements on the balance sheet. The adoption of this standard will result in the Company recognizing a right-of-use asset representing its rights to use the underlying asset for the lease term with an offsetting lease liability. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the potential impact of the adoption of this accounting pronouncement to its consolidated financial statements.

Deferred Taxes – During November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified on a net basis as non-current in a statement of financial position. Early adoption of this ASU did not have an effect on our deferred tax assets and deferred tax liabilities in our consolidated balance sheet as of September 30, 2016 and December 31, 2015.

Consolidation — In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This will improve certain areas of consolidation guidance for reporting organizations that are required to evaluate whether to consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures. ASU 2015-02 simplified and improves generally accepted accounting principles by: eliminating the presumption that a general partner should consolidate a limited partnership, eliminating the indefinite deferral of FASB Statement No. 167, thereby reducing the number of Variable Interest Entity (VIE) consolidation models from four to two (including the limited partnership consolidation model), and clarifying when fees paid to a decision maker should be a factor to include in the consolidation of VIEs. ASU 2015-02 is effective for periods beginning after December 15, 2015. The Company has evaluated the potential impact of the adoption of this guidance on its financial statements and it currently has no impact.

Going Concern — In August 2014, FASB issued guidance that requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The updated accounting guidance will be effective for the Company on December 31, 2016, and early adoption is permitted. The Company will evaluate the going concern considerations in this guidance upon adoption.

Revenue Recognition — In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted but not sooner than the annual reporting periods beginning after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company is currently evaluating the revenue recognition provisions in this guidance.

Deferred Financing Costs - Debt Issuance Costs – Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, in August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30), which clarifies ASU 2015-03 by stating that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This ASU is effective immediately.

The Company does not expect the adoption of any recent accounting pronouncements to have a material impact on its financial statements.

Note 2. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period except that it does not include unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, warrants, restricted shares, and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options, restricted shares, restricted stock units, and warrants is not reflected in diluted earnings per share because we incurred net losses for the three months and nine months ended September 30, 2016 and 2015, and the effect of including these potential common shares in the net loss per share calculations would be anti-dilutive and are therefore not included in the calculations.

Loss per-share amounts for all periods have been retroactively adjusted to reflect the Company’s 1-for-5 reverse stock split, which was effective July 20, 2016.

Note 3. Accounts Receivable – Project Revenue and Project Costs

FANR and Other Projects

Under our agreements with FANR and other entities, revenue will be recognized on a time and expense basis and fixed contract basis. We periodically discuss our consulting work with FANR, which will review the work we perform, and our reimbursable travel expenses, and accept our monthly invoicing for services and reimbursable expenses. We expect the variation of revenue we earn from these contracts to continue.

Travel costs and other reimbursable costs under these contracts are reported in the accompanying statement of operations as both revenue and cost of consulting services provided, and were not significant for the three months and nine months ended September 30, 2016 and 2015. The total travel and other reimbursable expenses that have not been reimbursed to us and are included in total accounts receivable reported above from our consulting contracts was not significant at September 30, 2016 and December 31, 2015.

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses consist primarily of prepayments made for research and development work, various professional services, insurance policies, travel, rent, and other miscellaneous prepayments. Total prepaid expenses and other current assets reported on the accompanying condensed consolidated balance sheets at September 30, 2016 and December 31, 2015, were both approximately $0.1 and $0.2 million, respectively.

Note 5. Patents

Patents represent legal fees and filing costs that are capitalized and will be amortized over their estimated useful lives of 17 to 20 years or their remaining legal lives, whichever is shorter, after they are placed in service. For the nine months ended September 30, 2016 and 2015, we capitalized approximately $0.2 million and $0.1 million, respectively, for patent filing costs. The total investment in patents was approximately $1.1 million and $1.0 million as of September 30, 2016 and December 31, 2015, respectively.

No amortization expense of patents was recorded for the three months and nine months ended September 30, 2016 and 2015. These patents were not placed in service as of September 30, 2016 and December 31, 2015, or in prior years.

Note 6. Accounts Payable, Accrued Liabilities and Note Payable

Accounts payable and accrued liabilities (rounded in millions) consisted of the following:

	September 30, 2016	December 31, 2015
Trade payables	$ 0.3	$ 0.3
Accrued expenses and other	0.5	0.4
Accrued bonuses	0.2	0.5
Total	$ 1.0	$ 1.2

Note Payable

On February 28, 2016 a note payable was issued to a finance company for a vendor invoice, which totaled $135,000. A down payment of $13,500 was made with remaining payments of nine monthly installments of approximately $14,000 (annual effective interest rate approximately 5%). The note is expected to be fully paid by November 28, 2016. Total interest expense under the note was approximately $1,000 for the three months ended September 30, 2016 and $3,000 for the nine months ended September 30, 2016, which was recorded in the accompanying statement of operations.

Note 7. Commitments and Contingencies

Operating Leases

On December 22, 2015 we entered into a lease for new office space for a 12 month term, with a monthly rent payment of approximately $6,500 per month plus additional charges.

On December 17, 2015 we entered into a sublease agreement for our former office space with a third party with a lease term starting January 1, 2016 to February 28, 2018. The average monthly rent to be received under this sub-lease is approximately $15,000 per month, over the sub-lease term. At December 31, 2015 the present value of the negative cash flows over this sub-lease term was approximately $433,000 and this amount plus a real estate commission paid to find the sub-lease tenant of approximately $20,000, resulted in a total $453,000 that was recognized as an abandonment loss in 2015. The long-term portion of deferred lease abandonment liability was approximately $67,000 and the short-term portion of deferred lease abandonment liability of approximately $167,000 was included in accounts payable and accrued liabilities at September 30, 2016. The long-term portion of deferred lease abandonment liability was approximately $197,000 and the short-term portion of deferred lease abandonment liability of $237,000 was included in accounts payable and accrued liabilities at December 31, 2015. We have a standard indemnification arrangement under this sublease agreement that require us to indemnify the sublessee against liabilities and claims incurred in connection with the premises covered by the Company’s lease. The term of this indemnification agreement is from the time of execution of the agreement to its expiration. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is $75,000, which is covered by a letter of credit that is outstanding as of September 30, 2016. As of September 30, 2016, the Company had not accrued a liability for this indemnification because the likelihood of incurring a payment obligation in connection with this indemnification is remote.

The future minimum lease payments required under the non-cancelable operating leases are as follows (rounded in millions):

Year ending December 31,		Amount
2016	$	0.1
2017		0.4
2018		0.1
Total minimum payments required	$	0.6

Minimum payments have not been reduced by minimum sublease rentals of approximately $0.3 million due in the future under non-cancelable subleases.

Note 8. Research and Development Costs

Research and development costs, included in the accompanying condensed consolidated statement of operations amounted to approximately $0.4 million and $0.3 million for each of the three months ended September 30, 2016 and 2015. Research and development costs, included in the accompanying condensed consolidated statement of operations amounted to approximately $1.5 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively. We shut down our Moscow office operations as of January 1, 2015 and have since shifted our research and development work primarily to the United States, Canada, Norway and France. There were no significant accrued liabilities related to the winding down of our Moscow office at September 30, 2016 and December 31, 2015.

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On March 14, 2016, we entered into a joint development agreement with AREVA which defines the different steps (including, without limitation, a feasibility study, a business plan, and an implementation action plan), working groups, and methodology to determine the feasibility and opportunity of future joint ventures between the parties. The joint development agreement provides the process by which the parties will execute definitive documentation for the joint ventures, including a term sheet that will set forth the main terms of the definitive joint venture agreements.

On January 12, 2016, we announced entry into an initial services agreement with BWXT Nuclear Energy, Inc., a wholly owned subsidiary of BWX Technologies, Inc., to evaluate the ability to fabricate and prepare a preliminary plan for fabrication of Lightbridge-designed partial length nuclear fuel samples at BWXT facilities in the United States. This arrangement can provide us with an alternative vendor and site to Canadian Nuclear Labs ("CNL") for fabrication of our patented next generation metallic nuclear fuel test for irradiation testing at the Halden Research Reactor.

We have consulting agreements with several consultants working on various projects for us, which total approximately $20,000 per month.

Note 9. Warrant Liability

Certain warrants are recorded as liabilities at their estimated fair value at the date of issuance, with the subsequent changes in estimated fair value recorded in other income (expense) in the Company's condensed consolidated statement of operations in each subsequent quarterly period. The change in the estimated fair value of our warrant liability for the three months ended September 30, 2016 and 2015 resulted in non-cash income of approximately $0.1 million and $1.1 million, respectively. The change in the estimated fair value of our warrant liability for the nine months ended September 30, 2016 and 2015 resulted in non-cash income of approximately $1.6 million and $2.7 million, respectively. The Company utilizes the Monte Carlo simulation valuation method to value the liability classified warrants.

On June 30, 2016 we came to agreement with the 2014 warrant holders that in return for reducing the strike price of the warrants from $11.55 per share to $6.25 per share, the warrant holders would amend certain provisions of the warrant agreement. The revised warrants are classified as equity in the condensed consolidated financial statements. The loss on the modification of these outstanding warrants was approximately $0.1 million and this loss was reported in other expenses. The value of the 2014 warrants at the time of the warrant modification was approximately $0.6 million. The valuation of the amended 2014 warrants was approximately the same under both the Black Scholes pricing model and Monte Carlo valuation method.

The estimated fair value of the liability classified warrants is determined using Level 3 inputs. Inherent in the Monte Carlo valuation model are assumptions related to expected stock-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates the volatility of its common stock based on historical volatility that matches the expected remaining life of the warrants. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected remaining life of the warrants. The expected life of the warrants is assumed to be equivalent to their remaining contractual term. The dividend rate is based on the historical rate, which the Company anticipates to remain at zero.

The following table summarizes the calculated aggregate fair values, along with the assumptions utilized in each calculation:

	September 30, 2016	December 31, 2015
Calculated aggregate value	$ 120,513	$ 2,327,195
Weighted average exercise price per share of warrant	$ 27.60	$ 18.60
Closing price per share of common stock	$ 1.74	$ 5.00
Weighted average volatility	93.56%	83.6%
Weighted average remaining expected life (years)	2.77	5.11
Weighted average risk-free interest rate	0.88	1.90
Dividend yield	0%	0%

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The nature of the warrant liability is such (i.e., the warrant holders receive more value when the Company’s stock price is higher) that increases in the Company’s stock price during the period result in losses on the Company’s statement of operations while decreases in the Company’s stock price result in the Company recording income. The warrant liability decreased on September 30, 2016 due to the decrease in stock price and the settlement of the 2014 warrants, resulting in the 2014 warrants being treated as equity instead of a derivative liability at June 30, 2016.

Note 10. Stockholders’ Equity

All common shares, warrants and stock option amounts and per share amounts for all periods reported below has been retroactively adjusted to reflect the Company’s 1-for-5 reverse stock split, which was effective July 20, 2016.

At September 30, 2016, there were 5,183,231 common shares, 1,772,622 stock warrants and 1,451,861 stock options outstanding, all totaling 8,407,714 of total stock and stock equivalents outstanding at September 30, 2016. At December 31, 2015, there were 3,725,819 common shares, 977,355 stock warrants and 1,047,450 stock options outstanding, totaling 5,750,624 of total stock and stock equivalents outstanding at December 31, 2015.

Securities Purchase Agreement – General International Holdings, Inc.

On June 28, 2016, we entered into a Securities Purchase Agreement (the “GIH Offering”) with General International Holdings, Inc. (“GIH”) pursuant to which GIH agreed to purchase 1,020,000 shares of the Company’s newly created Non-Voting Series A Convertible Preferred Stock (the “Series A Preferred Stock”) for $2.8 million or approximately $2.75 per share, subject to the terms and conditions set forth in the GIH Offering. On August 2, 2016, the closing of the sale of the Series A Preferred Stock under the GIH Offering took place.

The initial value attributed to the Series A Preferred Stock of $2,800,000 represents a discount of approximately $581,300 from its initial conversion value of $3,381,300, or approximately $0.57 per share. The average of the high and low market prices of the common stock on August 2, 2016, the date of the closing of the sale of the preferred stock, was $3.315 per share. The intrinsic value of the Series A Preferred Stock is $3.315 multiplied by the 1,020,000 common shares into which the Series A Preferred Stock is convertible or $3,381,300. Subtracting the $2,800,000 of proceeds from the intrinsic value of Series A Preferred Stock, resulted in an intrinsic value for the beneficial conversion feature totaling $581,300. The Company recorded this beneficial conversion feature as a deemed dividend on convertible preferred stock upon issuance, for the three months and nine months ended September 30, 2016. At the closing, Mr. Xingping Hou, the president of GIH, joined the Board of Directors of the Company as co-Chairman.

The Series A Preferred Stock is non-voting and is convertible at the option of the holder into shares of the Company's common stock initially on a one-for-one basis. Dividends accrue on the Series A Preferred Stock at the rate of 7% per year and will be paid in-kind. The accumulated dividend (unpaid) at September 30, 2016 was approximately $33,000.

The Company has the option of forcing the conversion of the Series A Preferred Stock if the trading price for the Company's common stock is more than two times the applicable conversion price (approximately $2.75 per share) before the third anniversary of the issuance of the Series A Preferred Stock, or if the trading price is more than three times the applicable conversion price following the third anniversary of issuance. The Company may also redeem the Series A Preferred Stock following the third anniversary of the issuance.

Series A Preferred Stock

On July 29, 2016, in anticipation of the closing under the Purchase Agreement with General International Holdings, Inc., (see above) the Company filed a Certificate of Designation of Preferences, Rights and Limitations of Non-Voting Series A Convertible Preferred Stock (the "Certificate of Designation") with the Secretary of State of the State of Nevada. Pursuant to the Certificate of Designation, the Company's Board of Directors designated a new series of the Company's preferred stock, the Non-Voting Series A Convertible Preferred Stock, par value $0.001 per share (the "Series A Preferred Stock"). The Certificate of Designation authorized the Company to issue 1,020,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock has a liquidation preference of $2.75 per share. The holders of the Series A Preferred Stock have no voting rights. In addition, as long as 255,000 shares of Series A Preferred Stock are outstanding, the Company may not take certain actions without first having obtained the affirmative vote or waiver of the holders of a majority of the outstanding shares of Series A Preferred Stock. The Company has the option at any time after August 2, 2019 to redeem some or all of the outstanding Series A Preferred Stock for an amount in cash equal to the liquidation preference plus the amount of any accrued but unpaid dividends of the Series A Preferred Stock being redeemed. The Series A Preferred Stock is not redeemable upon the election of the holders of Series A Preferred Stock.

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Aspire Option Agreement

On August 10, 2016 the Company entered into an option agreement with Aspire Capital whereby the Company has the right, at any time prior to December 31, 2019, to require Aspire Capital to enter into with the Company, up to two common stock purchase agreements each with a three year term, with an aggregate amount under both purchase agreements combined not to exceed $20,000,000. A notice to Aspire exercising the option may be revoked by the Company at any time prior to the parties entering into a purchase agreement without effecting or limiting the Company's future rights to give a subsequent option notice to Aspire Capital, under the terms and conditions of the option agreement.

The Company issued 500,000 common stock purchase warrants with a strike price of $0.01 per share to Aspire Capital as the commitment fee for entering into this option agreement. The commitment fee of approximately $1.7 million was recorded as deferred financing costs and additional paid-in capital and this asset will be amortized over the life of the option agreement. The amortized amount of $0.1 million was expensed to financing costs during the three months and nine months ended September 30, 2016. The total short-term and long-term unamortized portion is carried on the balance sheet as deferred financing cost was approximately $1.6 million at September 30, 2016.

The assumptions used in the Black Scholes option-pricing model for the three months ended and nine months ended September 30, 2016, were as follows:

Average risk-free interest rate	0.83%
Average expected life- years	3.39
Expected volatility	92.61
Expected dividends	0%

The future amortization of deferred financing costs are as follows (in millions):

2016	$	0.1
2017	$	0.5
2018	$	0.5
2019	$	0.5

Securities Purchase Agreement - Aspire Capital

On June 28, 2016, we entered into a Securities Purchase Agreement with Aspire Capital Fund, pursuant to which the Company has agreed to sell up to $5.0 million of shares of the Company's common stock to Aspire Capital, without an underwriter or placement agent.

Pursuant to the Securities Purchase Agreement, the Company sold 371,400 shares of common stock and 295,267 in the form of pre-funded warrants with an exercise price of $0.05 per share to Aspire Capital on June 28, 2016 for $1.0 million (the "First Purchase"). The Securities Purchase Agreement provides for the sale of up to an additional $3.0 million of the Company's common stock to Aspire Capital upon the Company's announcement on or before March 31, 2017 of its entry into a binding joint venture agreement to fully develop and to commercialize Lightbridge-designed metallic nuclear fuel with a major global nuclear fuel fabrication company. The Securities Purchase Agreement also provided for the sale of up to an additional $1.0 million of the Company's common stock upon the Company's announcement on or before October 31, 2016 of its entry into a strategic arrangement regarding Lightbridge- designed nuclear fuel with one or more major nuclear utilities, but this milestone was not satisfied.

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The subsequent closing is subject to customary conditions, including the satisfaction of Aspire Capital with achievement of the milestone. The purchase price per share for the subsequent closing will be based upon the market price of the common stock at the time of such closing, or, if lower, $5.00 per share. Aspire Capital may elect to receive pre-funded warrants in lieu of common stock for all or a portion of the subsequent closings. The Company did not use an underwriter or placement agent in connection with the offering and therefore owed no placement agent commissions on this offering.

The allocation of the proceeds from the offering, based on the relative fair value of the common stock and the warrants, resulted in the allocation of approximately $0.6 million of the net proceeds to the common stock sold and approximately $0.4 million of the net proceeds to the warrants, which was recorded to additional paid-in capital-stock.

The value of the warrants issued was calculated by using the Black Scholes Valuation Model, which was approximately the same as the Monte Carlo valuation method, using the following assumptions: volatility 91%; risk-free interest rate of 1%; dividend yield of 0%, and expected term of 5 years. The volatility of the Company's common stock was estimated by management based on the historical volatility of the trading history of the Company's common stock. The risk-free interest rate was based on the Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the expected life of the warrants. The expected dividend yield was based on the Company's current and expected dividend policy and the expected term is equal to the contractual life of the warrants.

Equity Purchase Agreement – Equity Line

On September 4, 2015, we entered into a common stock purchase agreement with Aspire Capital, which provides that Aspire Capital is committed to purchase up to an aggregate of $10.0 million of shares of our common stock over a two-year term, subject to our election to sell any such shares, and subject to the Nasdaq Listing Rule 5635(d) limitation. Nasdaq Listing Rule 5635(d) ("the Nasdaq 20% Rule"), requires shareholder approval of a transaction other than a public offering involving the sale, issuance, or potential issuance by a company of common stock (or securities convertible into or exercisable for common stock) equal to 20% or more of the company's outstanding shares of common stock, or 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock. The Company held its Annual Meeting on May 12, 2016. At the 2016 Annual Meeting, the Company's stockholders voted on the approval, pursuant to Nasdaq Listing Rule 5635(d), of the issuance of up to 3.0 million additional shares of common stock to Aspire Capital. The Company would seek stockholder approval before issuing more than such 3.0 million shares.

Under the agreement, we have the right to sell shares, subject to certain volume limitations and a minimum floor price, to Aspire Capital as of January 8, 2016, the date all conditions to the commencement of sales under the common stock purchase agreement were satisfied, including the effectiveness of the Form S-1 registration statement registering the resale of the Company's common stock by Aspire Capital. On any trading day selected by the Company, the

Company will have the right, in its sole discretion, to present Aspire Capital with a purchase notice directing Aspire Capital (as principal) to purchase up to 20,000 shares of the Company's common stock per business day (in a purchase amount up to $250,000 on each such business day) at a price equal to the lesser of:

1. The lowest sale price of the Company's common stock on the purchase date; or
2. The arithmetic average of the three (3) lowest closing sale prices for the Company's common stock during the twelve (12) consecutive trading days ending on the trading day immediately preceding the purchase date.

In addition, on any date on which we submit a purchase notice to Aspire Capital in an amount equal to 20,000 shares, the Company also has the right, in its sole discretion, to present Aspire Capital with a volume-weighted average price purchase notice (each, a "VWAP Purchase Notice") directing Aspire Capital to purchase an amount of stock equal to up to 30% of the aggregate shares of the Company's common stock traded on its principal market on the next trading day (the "VWAP Purchase Date"), subject to a maximum number of shares as the Company may determine. The purchase price per share pursuant to such VWAP Purchase Notice is generally 95% of the volume-weighted average price for the Company's common stock traded on its principal market on the VWAP Purchase Date.

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As part of the agreement, Aspire Capital received 60,000 additional shares as compensation for its commitment, valued approximately $276,000 or $4.60 per common share, recorded to additional paid-in capital.

For the nine months ended September 30, 2016 we sold approximately 1.1 million common shares for total gross proceeds of approximately $2.7 million through the equity line financing arrangement with Aspire Capital that we have in place.

ATM Offering

On June 11, 2015, the Company entered into an at-the-market issuance (“ATM”) sales agreement with MLV & Co. LLC ("MLV"), pursuant to which the Company may issue and sell shares of its common stock from time to time through MLV as the Company's sales agent. On September 1, 2015, MLV was acquired by FBR & Co. The issuance and sale of shares by the Company under the sales agreement are registered shares under the Company's shelf registration statement on Form S-3, as filed with the Securities and Exchange Commission on June 11, 2015 and declared effective by the Securities and Exchange Commission. The Company registered the sale of up to $5.8 million of common stock under the ATM sales agreement. There have been approximately 49,000 shares sold for total gross proceeds of approximately $282,000 through the ATM for the twelve month period ended December 2015. There were no ATM sales for the nine months ended September 30, 2016.

Outstanding Warrants

	September 30, 2016	**December 31, 2015**
Issued to Investors on July 28, 2010, entitling the holders to purchase 207,000 common shares in the Company at an exercise price of $45.00 per common share up to and including July 27, 2017. These warrants are reported in the liability section of our balance sheet.	207,000	207,000
Issued to Investors on October 25, 2013, entitling the holders to purchase 250,000 common shares in the Company at an exercise price of $11.50 per common share up to and including April 24, 2021. These warrants are reported in the liability section of our balance sheet.	223,436	223,436
Issued to Investors on November 17, 2014, entitling the holders to purchase 546,919 common shares in the Company at an exercise price of $11.55 per common share up to and including May 16, 2022 - reclassified to equity on June 30, 2016, exercise price amended to $6.25 per common share. These warrants are reported in the equity section of our balance sheet on September 30, 2016 and in	546,919	546,919

the liability section of our balance sheet on December 31, 2015.		
Issued to an Investor on June 28, 2016, entitling the holders to purchase 295,267 common shares in the Company at an exercise price of $0.05 per common share (pre-funded) up to and including June 27, 2021. These warrants are reported in the equity section of our balance sheet.	295,267	-
Issued to an investor on August 10, 2016, entitling the holders to purchase 500,000 common shares in the Company at an exercise price of price of $0.01 per share, up to and including December 31, 2019. These warrants are reported in the equity section of our balance sheet.	500,000	-
	1,772,622	977,355

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Stock-based Compensation – Stock Options and Restricted Stock

Stock Plan

The Company held its Annual Meeting on May 12, 2016 and the stockholders voted on the approval of an amendment to the 2015 Equity Incentive Plan to increase the number of shares authorized for issuance thereunder by 800,000 shares to 1,400,000 shares.

On March 25, 2015, the Compensation Committee and Board of Directors approved the 2015 Equity Incentive Plan (the "Plan") to authorize grants of (a) Incentive Stock Options, (b) Non-qualified Stock Options, (c) Stock Appreciation Rights, (d) Restricted Awards, (e) Performance Share Awards, and (f) Performance Compensation Awards to the employees, consultants, and directors of the Company. The Plan authorizes a total of 1,400,000 shares to be available for grant under the Plan. The Plan became effective upon ratification by the shareholders of the Company at the shareholders' annual meeting on July 14, 2015. Other provisions are as follows:

(i) Any shares of common stock granted in connection with Options and Stock Appreciation Rights shall be counted against this limit as one share for every one Stock Option or Stock Appreciation Right awarded. Any shares of common stock granted in connection with Awards other than Options and Stock Appreciation Rights shall be counted against this limit as two shares of common stock for every one share of common stock granted in connection with such Award;

(ii) Subject to adjustment in accordance with the Plan as amended, no Participant shall be granted, during any one year period, Stock Options to purchase Common Stock and Stock Appreciation Rights with respect to more than three hundred thousand (300,000) shares of Common Stock in the aggregate. The Plan also separately limits other Equity Awards with respect to more than three hundred thousand (300,000) shares of Common Stock in the aggregate. If an Award is to be settled in cash, the number of shares of Common Stock on which the Award is based shall count toward the individual share limit; and

(iii) A ten percent shareholder shall not be granted an Incentive Stock Option unless the Option exercise price is at least 110% of the fair market value of the common stock at the grant date and the option is not exercisable after the expiration of five years from the grant date.

Total stock options outstanding at September 30, 2016 and December 31, 2015, under the 2006 Stock Plan and 2015 Equity Incentive Plan were 1,451,861 and 1,047,450 of which 756,162 and 688,452 of these options were vested at September 30, 2016 and December 31, 2015, respectively. Stock based compensation was approximately $0.4 and $0.2 million for the three months ended September 30, 2016 and 2015, respectively. Stock based compensation was approximately $0.9 and $1.0 million for the nine months ended September 30, 2016 and 2015, respectively.

2015 Short-Term Non-Qualified Option Grants

On April 8, 2015, the Compensation Committee and the Board of Directors granted short term non-qualified stock options totaling 92,641 and 29,771 stock option