LIGHTBRIDGE Corp
Form 10-Q
November 19, 2014

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, 2014**

[ ] 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.)*

1600 Tysons Boulevard, Suite 550
Mclean, VA 22102
(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 [ ]

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 [   ]

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 [ ]	Smaller reporting company [X]
(Do not check if a smaller reporting company)	

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

The number of shares outstanding of each of the issuer s classes of common equity, as of November 17, 2014 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	18,082,874

LIGHTBRIDGE CORPORATION
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

PART I FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION

Lightbridge Corporation
Condensed Consolidated Balance Sheets

	September 30 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 440,837	$ 3,672,877
Marketable securities	16,287	15,731
Restricted cash	555,842	555,008
Accounts receivable - project revenue and reimbursable project costs	138,026	425,916
Prepaid expenses & other current assets	300,398	288,939
Total Current Assets	1,451,390	4,958,471
Property Plant and Equipment -net	-	-
Other Assets		
Patent costs - net	801,447	699,168
Total Assets	**$ 2,252,837**	**$ 5,657,639**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 389,404	$ 476,628
Total Current Liabilities	389,404	476,628
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.001 par value, 50,000,000 authorized shares, no shares issued and outstanding	-	-
Common stock, $0.001 par value, 500,000,000 authorized, 15,204,358 shares outstanding and 15,057,243 shares outstanding at September 30, 2014 and December 31, 2013, respectively	15,204	15,057
Additional paid in capital - stock and stock equivalents	76,776,381	76,243,764
Deficit	(74,928,152)	(71,077,810)
Total Stockholders' Equity	1,863,433	5,181,011
Total Liabilities and Stockholders' Equity	**$ 2,252,837**	**$ 5,657,639**

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

Lightbridge Corporation
Condensed Unaudited Consolidated Statements of Operations

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue:				
Consulting Revenue	$ 275,158	$ 169,156	$ 878,396	$ 1,343,964
Cost of Consulting Services Provided	136,061	128,780	492,047	778,821
Gross Margin	139,097	40,376	386,349	565,143
Operating Expenses				
General and administrative	783,570	804,907	3,064,309	2,358,769
Research and development expenses	116,146	557,729	1,172,680	1,816,284
Total Operating Expenses	899,716	1,362,636	4,236,989	4,175,053
Operating Loss	(760,619)	(1,322,260)	(3,850,640)	(3,609,910)
Other Income and (Expenses)				
Investment income	44	2,476	1,391	(9,277)
Other income (expenses)	(737)	505	(1,093)	(2,859)
Total Other Income and (Expenses)	(693)	2,981	298	(12,136)
Net loss before income taxes	(761,312)	(1,319,279)	(3,850,342)	(3,622,046)
Income taxes	-	-	-	-
Net loss	$ (761,312)	$ (1,319,279)	$ (3,850,342)	$ (3,622,046)
Net Loss Per Common Share, Basic and Diluted	$ (0.05)	$ (0.11)	$ (0.26)	$ (0.29)
Weighted Average Number of Shares Outstanding	15,111,383	12,556,400	15,079,222	12,550,850

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

Lightbridge Corporation
Condensed Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2014	2013
Operating Activities:		
Net Loss	$ (3,850,342)	$ (3,622,046)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock-based compensation	227,274	273,558
Depreciation and amortization	-	15,202
Unrealized and realized (gains) loss on marketable securities	(556)	49,116
Changes in non-cash operating working capital items:		
Accounts receivable - fees and reimbursable project costs	287,890	(26,986)
Prepaid expenses and other assets	(11,459)	125,831
Accounts payable, accrued liabilities and other current liabilities	(87,224)	(102,884)
Net Cash Used In Operating Activities	(3,434,417)	(3,288,209)
Investing Activities:		
Proceeds from the sale of marketable securities	-	1,572,242
Purchase of Marketable securities	-	(38,133)
Patent costs	(102,279)	(71,809)
Net Cash Provided by (Used In) Investing Activities	(102,279)	1,462,300
Financing Activities:		
Net proceeds from the issuance of common stock	305,490	-
Stock offering costs	-	(8,000)
Redemption of common stock into treasury stock	-	-
Restricted cash	(834)	(1,049)
Net Cash Provided by (Used In) Financing Activities	304,656	(9,049)
Net Decrease In Cash and Cash Equivalents	(3,232,040)	(1,834,958)
Cash and Cash Equivalents, Beginning of Period	3,672,877	2,197,555
Cash and Cash Equivalents, End of Period	$ 440,837	$ 362,597
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

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

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, 2013, included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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 period 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.

We were 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 (Lightbridge or the Company). We are engaged in two operating business segments: our Technology Business Segment and our Consulting Business Segment (see Note 9-Business Segment Results).

Technology Business Segment

Our primary business segment, based on future revenue potential, is to develop innovative, proprietary nuclear fuel designs which we expect will significantly enhance the nuclear power industry s economics and increase power output by: (1) providing an increase in power output of up to 10% while simultaneously extending the operating cycle length from 18 to 24 months in existing pressurized water reactors (which are currently limited to an 18-month operating cycle); alternatively, the power can be increased up to 17% while retaining an 18-month operating cycle; (2) enabling increased reactor power output (up to 30% increase) without changing the core size in new build PWRs; and (3) reducing the volume of used fuel per kilowatt-hour as well as enhancing proliferation resistance of spent fuel. There are significant technology synergies among our primary fuel products due to utilization of the proprietary metallic fuel rod technology that is at the core of each of them. Once completed, a full-scale demonstration and qualification of the metallic fuel rod technology will simultaneously advance all of our product families currently under development. Due to the significantly lower temperature during operation, our metallic nuclear fuel rods are expected to have improved safety margins during off-normal events.

U.S. Nuclear Regulatory Commission processes require engineering analysis of a large break loss-of-coolant accident (LOCA). The scenario assumes failure of a large water pipe in the reactor coolant system. Under LOCA conditions, the fuel and cladding temperatures rise due to reduced cooling capacity. Preliminary analytical modeling shows that under a LOCA scenario, unlike conventional uranium dioxide fuel, the cladding of the Lightbridge-designed metallic fuel rods would stay at least 200 degrees below the 850-900 degrees Celsius temperature at which steam begins to react with the zirconium cladding generating hydrogen gas. Buildup of hydrogen gas in a nuclear power plant can lead to a detonation. Lightbridge fuel is designed to prevent hydrogen gas generation in LOCA situations.

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 modular reactors.

On October 20, 2014, we announced the signing of an initial cooperation agreement with Canadian Nuclear Laboratories (CNL), formerly known as Atomic Energy of Canada Limited-Chalk River Laboratories, for fabrication and test reactor irradiation of Lightbridge's patented next generation metallic nuclear fuel samples. The work will take place at CNL's facilities at Chalk River, Ontario, Canada.

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 ENEC contract has been extended through 2015. The FANR contract has been extended to December 31, 2014. However, we have been notified by FANR that they plan to extend the contract to December 31, 2016. The amended agreement is dependent upon obtaining final signatures. These contracts can each continue to be extended upon agreement by both parties.

On October 7, 2013, we were selected as technical advisor to provide independent re-verification of equipment and material procurement processes related to construction and maintenance of nuclear power plants operated by Korea Hydro and Nuclear Power Company (KHNP). As a subcontractor to London-based Lloyd's Register Group Limited, we will focus on the environmental and seismic qualification and commercial grade dedication aspects of a two-year Lloyd's Register/KHNP contract.

On August 11, 2014, we were selected to provide quality assurance, safety and construction inspection services in support of the in-house inspection team of FANR. As a team with Lloyd s Register, this work is in addition to our ongoing support of FANR s activities.

On August 14, 2014 we signed a Memorandum of Understanding with the Vietnam Agency for Radiation and Nuclear Safety (VARANS) to provide regulatory, legal, and administrative support to Vietnam s civil nuclear program.

On October 17, 2014 we signed with the Vietnam Atomic Energy Institute (VINATOM) a comprehensive cooperation agreement for consulting services related to the construction and safe operation of Vietnam's Atomic Energy Research Center, including a nuclear research reactor. Our collaboration with VINATOM involves 24 specific activities, including design review and selection of nuclear research reactors, site selection, and nuclear security protocols.

On October 17, 2014 we signed with Vietnam's leading energy engineering consultant, Power Engineering Consulting Joint Stock Company 1 (PECC1), a teaming agreement for consulting services related to construction and safe operation of a nuclear research reactor, which is planned as part of the country's Center for Nuclear Energy Science and Technology (CNEST). Work under the five-year, Lightbridge/VINATOM agreement will support CNEST, Vietnam's nuclear science and technology center, a planned $500 million facility. The VINATOM agreement also stipulates support for nuclear quality assurance; research-reactor fuel selection; control-room operations; safeguards, control and accounting of nuclear material; and related training programs.

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Accounting Policies and Pronouncements

Basis of Consolidation

These financial statements include the accounts of Lightbridge, a Nevada corporation, and our wholly-owned subsidiaries, Thorium Power Inc., 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 and we also established a branch office in Moscow, Russia, in July 2009, both of which are wholly owned by Lightbridge International Holding LLC. Translation gains and losses for the three months and nine months ended September 30, 2014 and September 30, 2013, 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, 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.

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.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents and accounts receivable. Cash equivalents consist of a checking account held with one major financial institution with a high credit standing.

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; however, no reserve has been set up for 2014 and 2013, as we have not incurred any credit losses from our customers to date. Approximately 67% and 99% and 74% and 99% of our consulting revenues were from our Middle East contracts for the three months and nine months ended September 30, 2014 and 2013, respectively.

Revenue Recognition

Consulting Business Segment

At present, we derive all of our revenue from our consulting and strategic advisory services business segment, by performing consulting services for 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 of the project, 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 government-owned entities in the UAE are billed and recognized on a time and expense basis.

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. 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 2014 and 2013 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 and other related consulting costs. All costs directly related to producing work under certain consulting agreements where revenue is recognized upon acceptance of certain contractual milestones by our customer, are first capitalized as deferred project costs. Deferred project costs are then recognized or amortized to an expense captioned cost of consulting services provided on the accompanying consolidated statement of operations, when the revenue is recognized upon the delivery and acceptance of the defined contractual milestones or deliverables.

Technology Business Segment

Once our nuclear fuel designs have advanced to a commercially usable stage by a fuel fabricator and/or nuclear plant owner/operator, we will seek to license our technology to them or to major government contractors working for the applicable government. We expect that our revenue from these license fees will be recognized on a straight-line basis over the expected period of the related license term.

Stock-Based Compensation

The stock-based compensation expense incurred by Lightbridge for employees and directors in connection with its stock option plan is based on the employee model of ASC 718, and the fair market 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 market 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 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.

For the three months ended September 30, 2014 and 2013, we recognized stock-based compensation of approximately $0.1 million and $0.1 million. For the nine months ended September 30, 2014 and 2013, we recognized stock-based compensation of approximately $0.2 million and $0.3 million, respectively. Related income tax benefits were not recognized, as we incurred a tax loss for both years.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value because of their generally short maturities. We carry marketable securities at fair value.

Cash and Cash Equivalents, Restricted Cash and Marketable Securities

We invest our excess cash in money market mutual funds, and mutual bond 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 and a money market core cash account, as reported on the accompanying consolidated balance sheets, totaled approximately $0.4 million and $3.7 million at September 30, 2014 and December 31, 2013, 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 future letters of credit that we may issue to some of our foreign customers. The total balance of our restricted cash at September 30, 2014 and December 31, 2013, was approximately $0.6 million.

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified and accounted for our marketable securities as available-for-sale, however, we carry these securities at fair value (see below election made to value these financial instruments at fair market value). The fair value of substantially all securities is determined by quoted market prices.

All marketable securities are classified as available-for-sale securities and are reported at their fair value (level 1). A level 1 measurement under the FASB pronouncements is the first tier of a three tier hierarchy for fair value measurements used in valuation methodologies. This valuation level allows for fair value measurements where the inputs are the quoted prices for the assets in the active markets. All of our marketable securities have quoted market prices and these quoted prices are used to determine the fair value of our marketable securities.

The total quoted fair value of our marketable securities at September 30, 2014 and December 31, 2013, was approximately $16,000. This amount was held in Vanguard High Yield Corp Investor Fund (Symbol -VWEHX). The cost basis of this above investment was approximately $15,000.

Investment Income (loss) is earned on marketable securities and consists of unrealized gains (losses), realized capital gains or losses, interest and dividends received, as reported to us from the financial institutions in which they were reinvested, and totaled approximately $0 and $2,000 for each of the three month periods ended September 30, 2014 and 2013, respectively, and $1,000 and $(9,000) for each of the nine months ended September 30, 2014 and 2013, respectively. We elected the fair value option permitted under FASB ASC 825 to report the unrealized gains and losses from our marketable securities in our accompanying consolidated statement of operations instead of other comprehensive income and loss. Management believes the fair value option provides a better indication of the Company s performance.

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 recorded at September 30, 2014 and December 31, 2013, as we have not experienced any bad debt write-offs from any of our customers. Substantially all accounts receivable at September 30, 2014 and December 31, 2013, are from the FANR and ENEC contracts (see Note 3-Accounts Receivable Project Revenue and Reimbursable Project Costs).

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with United States generally accepted accounting principles. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance to the extent that the recoverability of the asset is unlikely to be recognized. We did not provide any current or deferred income tax provision or benefit for any periods presented to date because we have continued to experience a net operating loss since inception and therefore provide a 100% valuation allowance against all of our deferred tax assets (see Note 8 Income Taxes).

The Company adopted the ASC standards relating to *Accounting for Uncertainty in Income Taxes*. This pronouncement provides guidance for recognizing and measuring uncertain tax positions, as defined in the FASB accounting pronouncement *Accounting for Income Taxes*. This pronouncement prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. This pronouncement also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company has not recognized any interest and penalties in 2014 or 2013.

Foreign Currency

The functional currency of our international branches is the local currency. We translate the financial statements of these branches to U.S. dollars using period-end rates of exchange for assets and liabilities, and average rates of exchange for revenues, costs, and expenses. The translation gains/losses for our branch office in Russia were not significant for the three and nine months ended September 30, 2014 and 2013.

Patents and Legal Costs

Patents are stated on the accompanying consolidated balance sheets at cost less accumulated amortization. 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, 2014 and 2013.

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 consolidated balance sheets.

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, 2014 and 2013.

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 Consolidated Statements of Operations. Research and development and related expenses totaled approximately $0.1 million and $0.6 million for the three months ended September 30, 2014 and 2013, respectively. Research and development and related expenses totaled approximately $1.2 million and $1.8 million for the nine months ended September 30, 2014 and 2013, respectively.

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 9 - Business Segment Results).

Commitments and Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to account for and report 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.

Recent Accounting Pronouncements

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, 2016, (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method.

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, 2014 and 2013, and the effect of including these potential common shares in the diluted earnings per share calculations would be anti-dilutive and are therefore not included in the calculations.

Note 3. Accounts Receivable Project Revenue and Reimbursable Project Costs

FANR Projects

The total accounts receivable from the ENEC and FANR contracts was approximately \$0.1 million and \$0.4 million at September 30, 2014 and December 31, 2013. These amounts due from FANR represent approximately 37% of the accounts receivable reported at September 30, 2014, and substantially all of the accounts receivable at December 31, 2013. Approximately 74% and 100% of the total revenues reported for the nine months ended September 30, 2014 and 2013, respectively, were from the ENEC and FANR contracts. One other contract, outside of the Middle East, constituted 20% of the total revenues reported for the nine months ended September 30, 2014.

Total unbilled accounts receivable of approximately \$0.1 million was included in the accompanying consolidated balance sheets and reported in accounts receivable at September 30, 2014 and December 31, 2013, and is for work that was billed to our clients in October 2014 and January 2014, respectively. Foreign currency transaction exchange losses and translation gains and losses for the three months and nine months ended September 30, 2014 and 2013, were not significant.

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 totaled approximately $0.1 million for the three month and nine month periods ended September 30, 2014 and 2013. 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 were not significant at September 30, 2014 and December 31, 2013.

Under our agreements with ENEC and FANR, revenue will be recognized on a time and expense basis. We periodically discuss our consulting work with ENEC and FANR, who 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.

Note 4. Accounts Payable and Accrued Liabilities

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

	Sep 30, 2014		Dec 31, 2013	
Trade payables	$	0.1	$	0.1
Accrued expenses and other		0.2		0.1
Accrued payroll liabilities		0.1		0.3
Total	$	0.4	$	0.5

Note 5. Income Taxes

Our tax provision is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The 2014 and 2013 annual effective tax rate is estimated to be a combined 40% for the U.S. federal and state statutory tax rate. We review tax uncertainties in light of changing facts and circumstances and adjust them accordingly. As of September 30, 2014 and December 31, 2013, there were no tax contingencies recorded.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting, and the amounts recognized for income tax purposes. The significant components of deferred tax assets (at a 40% effective tax rate) as of September 30, 2014 and December 31, 2013, respectively, are as follo