

LIGHTBRIDGE Corp
Form 10-Q
November 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2012

**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
*(State or other jurisdiction of
incorporation or organization)*

91-1975651
(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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

(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

The number of shares outstanding of each of the issuer's classes of common equity, as of October 22, 2012 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	12,524,716

LIGHTBRIDGE CORPORATION
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

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PART I FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

Lightbridge Corporation
Condensed Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 569,460	\$ 3,569,098
Marketable securities	4,532,864	5,146,823
Restricted cash	553,268	551,883
Accounts receivable - project revenue and reimbursable project costs	420,540	277,211
Prepaid expenses & other current assets	666,487	269,697
Total Current Assets	6,742,619	9,814,712
Property Plant and Equipment – net	43,030	46,514
Other Assets		
Patent costs – net	580,577	537,075
Security deposits	40,162	120,486
Total Other Assets	620,739	657,561
Total Assets	\$ 7,406,388	\$ 10,518,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,094,355	\$ 1,680,433
Total Current Liabilities	1,094,355	1,680,433
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, 12,539,162 shares issued, 12,523,872 shares outstanding and 12,476,414 shares issued, 12,427,220 shares outstanding at September 30, 2012 and December 31, 2011, respectively	12,524	12,427
Additional paid in capital - stock and stock equivalents	71,811,275	70,946,951
Deficit	(65,514,891)	(62,155,774)
Common stock reserved for issuance, 1,524 shares and 17,120 shares at September 30, 2012 and December 31, 2011, respectively	3,125	34,750
Total Stockholders' Equity	6,312,033	8,838,354
Total Liabilities and Stockholders' Equity	\$ 7,406,388	\$ 10,518,787

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

Lightbridge Corporation
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue:				
Consulting Revenue	\$ 591,355	\$ 1,652,538	\$ 2,829,893	\$ 5,523,181
Cost of Consulting Services Provided	370,415	848,065	1,747,880	3,516,708
Gross Margin	220,940	804,473	1,082,013	2,006,473
Operating Expenses				
General and administrative	1,082,644	1,438,660	3,274,240	4,559,317
Research and development expenses	542,664	591,089	1,557,732	1,716,884
Total Operating Expenses	1,625,308	2,029,749	4,831,972	6,276,201
Operating Loss	(1,404,368)	(1,225,276)	(3,749,959)	(4,269,728)
Other Income and (Expenses)				
Investment income	153,462	73,145	386,530	319,445
Other income (expenses)	3,258	(16,654)	4,312	(19,173)
Total Other Income and Expenses	156,720	56,491	390,842	300,272
Net loss before income taxes	(1,247,648)	(1,168,785)	(3,359,117)	(3,969,456)
Income taxes	0	0	0	0
Net loss	\$ (1,247,648)	\$ (1,168,785)	\$ (3,359,117)	\$ (3,969,456)
Net Loss Per Common Share, Basic and diluted				
	\$ (0.10)	\$ (0.09)	\$ (0.27)	\$ (0.32)
Weighted Average Number of shares outstanding				
	12,514,036	12,364,628	12,479,659	12,360,312

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

Lightbridge Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2012	2011
Operating Activities:		
Net Loss	\$ (3,359,117)	\$ (3,969,456)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock based compensation	831,063	1,147,669
Depreciation and amortization	21,584	19,515
Unrealized (gains) loss on marketable securities	(141,893)	(108,226)
Changes in non-cash operating working capital items:		
Accounts receivable - fees and reimbursable project costs	(143,329)	153,067
Prepaid expenses and other assets	(316,466)	(31,164)
Accounts payable, accrued liabilities and other current liabilities	(586,078)	(663,489)
Deferred revenue	0	(98,110)
Net Cash Used In Operating Activities	(3,694,236)	(3,550,194)
Investing Activities:		
Proceeds from the sale of marketable securities	997,926	10,569,583
Purchase of marketable securities	(242,074)	0
Purchase of property and equipment	(18,100)	(1,228)
Patent costs	(43,502)	(105,674)
Net Cash Provided By (Used In) Investing Activities	694,250	10,462,681
Financing Activities:		
Proceeds from the issuance of common stock	1,733	0
Restricted cash	(1,385)	(1,324)
Net Cash Provided by (Used In) Financing Activities	348	(1,324)
Net Increase (Decrease) In Cash and Cash Equivalents	(2,999,638)	6,911,163
Cash and Cash Equivalents, Beginning of Period	3,569,098	2,373,421
Cash and Cash Equivalents, End of Period	\$ 569,460	\$ 9,284,584
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest paid	\$ 0	\$ 0
Income taxes paid	\$ 0	\$ 0
Non-Cash Financing Activity:		
Grant of Common Stock for Payment of Accrued Liabilities	\$ 0	\$ 70,000

The accompanying notes are an integral part of these 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, 2011, included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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 periods 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 incorporated in the state of Delaware on January 8, 1992, and changed our name to Thorium Power, Inc. (TPI) in April 2001. On February 14, 2006, Novastar Resources Ltd., a Nevada corporation (Novastar), and TPI entered into an Agreement and Plan of Merger and merged on October 6, 2006. After the merger, we were known as Thorium Power Ltd. and TPI became our wholly-owned subsidiary. 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) extending the fuel cycle to 24 months while simultaneously increasing the power output by up to 17% in existing pressurized water reactors (PWRs), including Westinghouse 4-loop reactors, which are currently limited to an 18-month fuel cycle; 2) enabling increased reactor power output (up to 30% increase) without changing the core size in new-build PWRs; and 3) improving the back-end of the fuel cycle related to the volume of used fuel per kilowatt-hour as well as non-proliferation of weapons-usable materials. 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. As a result, once completed, full-scale demonstration and qualification of the metallic fuel rod technology will simultaneously advance all of our product families currently under development.

We are currently focusing our development efforts on three primary fuel product lines: 1) all-uranium seed and blanket fuel for existing plants, 2) all-metal fuel (i.e., non-oxide fuel) for new build reactors, and 3) thorium-based seed and blanket fuel for both existing and new build reactors. Each of the fuel designs utilizes our metallic fuel rod technology.

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 agreements, we provide consulting and strategic advisory services over a contract term of five years starting from June 23, 2008. The termination date of our agreement with FANR was extended to December 31, 2014. This termination date can be extended upon agreement by both parties.

Accounting Policies and Pronouncements

Basis of Consolidation

These 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 formed a branch office in the United Kingdom in 2008 called Lightbridge Advisors Limited, which is wholly-owned by Lightbridge International Holding, LLC. We also established a branch office in Moscow, Russia, established in July 2009.

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.

Concentrations

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities and accounts receivable. Cash equivalents and marketable securities consist of money market funds and mutual bond funds held with one major financial institution with a high credit standing. The underlying fixed-income investments of the money market and bond mutual funds are either United States Treasury securities or represent a diversified portfolio of investments. Accounts receivable are typically unsecured and are derived from revenues earned from customers located around the world. In 2012 and 2011, we generated approximately all of our revenues from customers based outside the U.S., with our 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 2012 and 2011, as we have not incurred any credit losses from our customers, to date. Substantially all of our

consulting revenues are from the FANR and ENEC contracts for the three months and nine months ended September 30, 2012.

Revenue Recognition

Consulting Business Segment

At the present time we are deriving all of our revenue from our consulting and strategic advisory services business segment, by offering consulting services 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 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 and recognized on a time and expense basis.

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 either a fuel fabricator or nuclear plant owner/operator, we will seek to license our technology to them or to major government contractors working for the U.S. or other governments. 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-Merton pricing model to determine the fair value of stock options on the dates of grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of 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.

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For the three months ended September 30, 2012 and 2011, we recognized stock-based compensation of approximately \$0.2 million and \$0.4 million respectively and for the nine months ended September 30, 2012 and 2011, we recognized stock-based compensation of approximately \$0.8 million and \$1.1 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 two prominent financial institutions. We deem this credit risk not to be significant as our cash is held by major prominent financial institutions. 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 \$0.6 million and \$3.6 million at September 30, 2012 and December 31, 2011, respectively.

Restricted cash represents cash being held by one prominent financial institution that is being used as collateral for our corporate credit cards and our letters of credit issued to some of our customers. There was approximately \$11,000 of outstanding letters of credit as of September 30. The total balance of our restricted cash at September 30, 2012 and December 31, 2011, 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 cost basis and fair value of our marketable securities.

The total quoted fair value of our marketable securities at September 30, 2012, was approximately \$4.5 million. This amount was held in the following mutual funds: (1) Doubleline Total Return Bond Fund (Symbol - DLTNX) - \$1.0 million; (2) Vanguard Wellesley Income Fund (Symbol - VWINX) - \$1.0 million; (3) Vanguard High Yield Corp Investor Fund (Symbol - VWEHX) - \$1.1 million; (4) Vanguard GNMA Investor Fund (Symbol - VFIIX) - \$0.7 million and (5) Vanguard Short Term Investment Grade Investor (Symbol - VGSTX) - \$0.7 million. The cost basis of these above investments was approximately \$4.3 million.

The total quoted fair value of our marketable securities at December 31, 2011, was approximately \$5.2 million. This amount was held in the following mutual funds: (1) Doubleline Total Return Bond Fund (Symbol - DLTNX) - \$1.0 million; (2) Vanguard Wellesley Income Fund (Symbol - VWINX) - \$1.3 million; (3) Vanguard High Yield Corp Investor Fund (Symbol - VWEHX) - \$1.3 million; (4) Vanguard GNMA Investor Fund (Symbol - VFIIX) - \$0.8 million and (5) Vanguard Short Term Investment Grade Investor (Symbol - VGSTX) - \$0.8 million. The cost basis of these above investments was approximately \$5.1 million.

The amount recorded as unrealized gain (loss), realized capital gain or loss, interest and dividends received, as reported to us from the financial institutions in which they were reinvested, and that we reported under the caption of investment income in the accompanying consolidated statement of operations, totaled approximately \$0.2 million and \$0.1 million for each of the three month periods ended September 30, 2012 and 2011, and approximately \$0.4 million

and \$0.3 million for each of the nine months ended September 30, 2012 and 2011. 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.

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 5–Income Taxes).

The Company adopted the ASC accounting pronouncement “*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 2012 or 2011.

Research, Development and Related Expenses

These costs from our Technology business segment are charged to operations in the year incurred and are shown on a separate line on the accompanying Consolidated Statement of Operations. Research and development and related expenses totaled approximately \$0.5 million and \$0.6 million for the three month periods ended September 30, 2012 and 2011, and \$1.6 million and \$1.7 million for the nine months ended September 30, 2012 and 2011, 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.

Recent Accounting Pronouncements

Recently Adopted

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for the Company beginning after December 15, 2011.

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill and other intangible assets such as patents for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

Note 2. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the reporting 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 reporting 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 and nine months ended September 30, 2012 and 2011, 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 Project Costs

ENEC and FANR Projects

The total accounts receivable from the ENEC and FANR contracts was approximately \$0.3 million at September 30, 2012 and December 31, 2011. These amounts due from ENEC and FANR represent approximately 86% and 100% of the total accounts receivable reported of approximately \$0.4 million and \$0.3 million at September 30, 2012 and December 31, 2011, respectively.

Total unbilled accounts receivable included in the accompanying consolidated balance sheets and reported in accounts receivable of approximately \$0.2 million at September 30, 2012 and December 31, 2011 is for work that was billed to our clients in October 2012 and January 2012, respectively. Foreign currency transaction exchange gains (losses) were not material for the three and nine months ended September 30, 2012 and 2011, respectively, which is reported in the caption “other income and expenses” on the accompanying consolidated statement of operations. Translation gains and losses for the three and nine months ended September 30, 2012 and 2011 were also not material.

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 periods ended September 30, 2012 and 2011, and approximately \$0.4 million for the nine month periods ended September 30, 2012 and 2011. 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 approximately \$0.1 million at September 30, 2012 and December 31, 2011.

We expect to continue to provide strategic advisory services to ENEC and FANR during the term of these consulting agreements and we also expect the variation of revenue we earn from these contracts to continue. Under these agreements, revenue will be recognized on a time and expense basis. We periodically discuss our consulting work with ENEC and FANR, who review the work we perform and our reimbursable travel expenses, and accept our monthly invoicing for services and reimbursable expenses.

Note 4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued expenses consisted of the following:

	2012	2011
Trade payables	\$ 137,626	\$ 148,194
Accrued expenses and other	271,444	587,533
Accrued payroll liabilities	685,285	944,706
Total	\$ 1,094,355	\$ 1,680,433

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 2012 and 2011 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, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, respectively, are as follows:

Deferred Tax Assets

	Total 2012	Total 2011	Deferred Tax Asset	
			2012	2011
Capitalized start-up costs	\$ 5,205,705	\$ 5,589,739	\$ 2,082,282	\$ 2,235,896
Stock-based compensation	22,149,391	21,070,686	8,859,756	8,428,274
Net operating loss carry-forward	33,584,240	30,463,782	13,433,696	12,185,513
Less: valuation allowance	(60,939,336)	(57,124,207)	(24,375,734)	(22,849,683)