

LIGHTBRIDGE Corp  
Form 10-Q  
May 10, 2011

**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: March 31, 2011

**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

Tysons Corner, VA 22102

(Address of principal executive offices, Zip Code)

(571) 730-1200

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

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(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

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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 [  ] 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 [  ] (Do not check if a smaller reporting company) 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 April 30, 2011 is as follows:

| Class of Securities                      | Shares Outstanding  |
|--|---------------------|
| -----<br>Common Stock, \$0.001 par value | -----<br>12,362,779 |

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**ITEM 1. FINANCIAL STATEMENTS**

**LIGHTBRIDGE CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2011 AND 2010**

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**Lightbridge Corporation**  
**Condensed Consolidated Balance Sheets**

|  | <b>March 31</b>      | <b>December 31,</b>  |
|--|----------------------|----------------------|
|  | <b>2011</b>          | <b>2010</b>          |
|  | <b>(Unaudited)</b>   |                      |
| <b>ASSETS</b>  |                      |                      |
| <b>Current Assets</b>  |                      |                      |
| Cash and cash equivalents  | \$ 3,014,361         | \$ 2,373,421         |
| Marketable securities  | 8,473,708            | 10,461,357           |
| Restricted cash  | 550,566              | 550,283              |
| Accounts receivable - project revenue and reimbursable project costs   | 904,966              | 990,563              |
| Deferred project costs   | 393,692              | 36,700               |
| Prepaid expenses & other current assets  | 802,179              | 328,561              |
| <b>Total Current Assets</b>  | <b>14,139,472</b>    | <b>14,740,885</b>    |
| Property Plant and Equipment -net  | 66,422               | 72,179               |
| <b>Other Assets</b>  |                      |                      |
| Patent costs - net   | 399,139              | 377,262              |
| Security deposits  | 120,486              | 120,486              |
| <b>Total Other Assets</b>  | <b>519,625</b>       | <b>497,748</b>       |
| <b>Total Assets</b>  | <b>\$ 14,725,519</b> | <b>\$ 15,310,812</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                      |
| <b>Current Liabilities</b>   |                      |                      |
| Accounts payable and accrued liabilities   | \$ 1,900,301         | \$ 2,088,362         |
| Deferred revenue   | 935,240              | 98,110               |
| <b>Total Liabilities</b>   | <b>2,835,541</b>     | <b>2,186,472</b>     |
| Commitments and contingencies  |                      |                      |
| <b>Stockholders' Equity</b>  |                      |                      |
| 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, 12,432,588 shares issued, 12,360,516 shares outstanding and 12,430,058 shares issued, 12,345,840 shares outstanding at March 31, 2011 and December 31, 2010, respectively | 12,361               | 12,346               |
| Additional paid in capital - stock and stock equivalents   | 69,746,123           | 69,370,261           |
| Deficit  | (57,925,506)         | (56,286,767)         |
| Common stock reserved for issuance, 11,350 shares and 6,451 shares at March 31, 2011 and December 31, 2010, respectively   | 57,000               | 28,500               |
| <b>Total Stockholders' Equity</b>  | <b>11,889,978</b>    | <b>13,124,340</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 14,725,519</b> | <b>\$ 15,310,812</b> |

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

**Lightbridge Corporation**  
**Unaudited Condensed Consolidated Statements of Operations**  
Three Months Ended  
March 31,

|   | 2011           |    | 2010        |
|---|----------------|----|-------------|
| Revenue:                                      |                |    |             |
| Consulting Revenue                            | \$ 1,578,094   | \$ | 2,399,132   |
| Cost of Consulting Services Provided          | 1,093,019      |    | 1,505,490   |
| Gross Margin                                  | 485,075        |    | 893,642     |
| Operating Expenses                            |                |    |             |
| General and administrative                    | 1,727,186      |    | 2,372,263   |
| Research and development expenses             | 499,640        |    | 204,743     |
| Total Operating Expenses                      | 2,226,826      |    | 2,577,006   |
| Operating loss                                | (1,741,751)    |    | (1,683,364) |
| Other Income and (Expenses)                   |                |    |             |
| Investment income                             | 105,822        |    | 152         |
| Other expenses                                | (2,810)        |    | (546)       |
| Total Other Income and Expenses               | 103,012        |    | (394)       |
| Net loss before income taxes                  | (1,638,739)    |    | (1,683,758) |
| Income taxes                                  | -              |    | -           |
| Net loss                                      | \$ (1,638,739) | \$ | (1,683,758) |
| Net Loss Per Common Share, Basic and diluted  | \$ (0.13)      | \$ | (0.17)      |
| Weighted Average Number of shares outstanding | 12,353,251     |    | 10,168,412  |

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

**Lightbridge Corporation**  
**Unaudited Condensed Consolidated Statements of Cash Flows**

Three Months Ended  
March 31,

|   | 2011           |    | 2010        |
|---|----------------|----|-------------|
| <b>Operating Activities:</b>  |                |    |             |
| Net Loss  | \$ (1,638,739) | \$ | (1,683,758) |
| Adjustments to reconcile net loss from operations to net cash used in operating activities: |                |    |             |
| Stock based compensation  | 404,377        |    | 859,576     |
| Depreciation and amortization   | 7,297          |    | 6,951       |
| Unrealized loss on marketable securities  | 37,756         |    | -           |
| Changes in non-cash operating working capital items:  |                |    |             |
| Accounts receivable - fees and reimbursable project costs                                   | 85,597         |    | (226,145)   |
| Prepaid expenses, deferred project costs and other assets                                   | (830,610)      |    | (101,428)   |
| Accounts payable, accrued liabilities and other current liabilities                         | (188,061)      |    | 116,147     |
| Deferred revenue  | 837,130        |    | -           |
| Net Cash Used In Operating Activities   | (1,285,253)    |    | (1,028,657) |
| <b>Investing Activities:</b>  |                |    |             |
| Sales of marketable securities  | 1,949,893      |    | -           |
| Property and equipment  | (1,540)        |    | -           |
| Patent costs  | (21,877)       |    | -           |
| Net Cash Provided By Investing Activities   | 1,926,476      |    | -           |
| <b>Financing Activities:</b>  |                |    |             |
| Restricted cash   | (283)          |    | -           |
| Net Cash Provided by (Used In) Financing Activities   | (283)          |    | -           |
| Net Increase (Decrease) In Cash and Cash Equivalents  | 640,940        |    | (1,028,657) |
| Cash and Cash Equivalents, Beginning of Period  | 2,373,421      |    | 3,028,791   |
| Cash and Cash Equivalents, End of Period  | \$ 3,014,361   | \$ | 2,000,134   |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                     |                |    |             |
| <b>Cash paid during the year:</b>   |                |    |             |
| Interest paid   | \$ -           | \$ | -           |
| Income taxes paid   | \$ -           | \$ | -           |
| <b>Non-Cash Financing Activity</b>  |                |    |             |
| Grant of Common Stock for Payment of Accrued Liabilities                                    | \$ -           | \$ | 702,651     |

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

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

**Note 1. Lightbridge Corporation and Summary of Significant Accounting Policies**

**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, 2010, included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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 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.

**Nature Of Operations**

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. ( Novastar ), entered into an Agreement and merged on October 6, 2006 with TPI. 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**

We are developing 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 length to 24 months or longer while simultaneously increasing the power output by up to 17% in existing pressurized water reactors (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) Addressing the back-end of the fuel cycle concerns related to the volume of used fuel per kilowatt-hour as well as 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.

The first nuclear fuel product line includes an all-uranium seed and blanket fuel that is particularly suitable for existing PWRs, though it can also be utilized in new build PWRs. We are developing two variants of this fuel technology for PWR reactors: (1) an all-uranium seed-and-blanket fuel for power uprate up to 10% and a 24-month fuel cycle, and (2) an all-uranium seed-and-blanket fuel for a power uprate up to 17% and a 24-month fuel cycle. A power uprate, coupled with a 24-month fuel cycle, can be a particularly attractive option for existing Westinghouse-type 4-loop PWRs that are currently limited to an 18-month fuel cycle due to fuel performance constraints attributed to conventional uranium oxide fuels. To accommodate up to a 17% power uprate, a number of reactor design modifications would be required, including upgrades to the primary and secondary systems. For uprates up to 10%, only relatively minor reactor system modifications would be required.

The second nuclear fuel product line includes our all-metal fuel, which we expect will be able to provide up to a 30% increase in power output of new build PWRs, such as Westinghouse (U.S.)-designed AP-1000, AREVA (French)-designed EPR, Mitsubishi (Japanese)-designed APWR, KEPCO (Korean)-designed APR-1400 and others. Also, we believe that this fuel technology can be used to extend the fuel cycle length up to 24 months in addition to the 30% uprate. To accommodate up to a 30% power uprate, a number of reactor design modifications would be required, including upgrades to the primary and secondary systems, as well as potential modifications to the reactor containment structure.



**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

The third nuclear fuel product line includes our thorium-based seed-and-blanket fuel, which we believe has several major benefits, including: (1) enhanced proliferation resistance, (2) significantly reduced volume (up to 40% reduction) and weight (up to 90% reduction) of spent fuel, and (3) reduced natural uranium requirements (up to 10% reduction) in a once-through fuel cycle. These benefits can be particularly appealing to those markets that either have significant domestic thorium reserves but lack natural uranium resources or are concerned with the cost of long-term storage as a used fuel management option. Further, the economics of our thorium-based fuel can become more attractive as the price of natural uranium increases due to the projected reduction in natural uranium requirements per megawatt-day. Finally, the enhanced proliferation resistance aspects of the fuel can appeal to markets that put key emphasis on non-proliferation.

The development of our power uprate product lines provides diversity to our fuel offerings and synergistically advances the development of our thorium-based fuel product line.

### **Consulting Business Segment**

Our business model expanded with a consulting business segment being established in 2007, providing consulting and strategic advisory services to companies and governments planning to create or expand electricity generation capabilities using nuclear power plants. We had secured four contracts with successively larger values for consulting and strategic advisory services in the United Arab Emirates ( UAE ). 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 UAE and Federal Authority for Nuclear Regulation ( FANR ) formed by the government of UAE. Under these two agreements, we are to provide consulting and strategic advisory services over a contract term of five years starting from June 23, 2008, with automatic renewals of these contracts for one year periods.

In April 2010 and December 2010 we entered into agreements with the Gulf Cooperation Council ( GCC ) and the Kuwait National Nuclear Energy Committee ( Kuwait ) to evaluate the feasibility of developing and deploying a civil nuclear power program as one element of a strategy to meet future electricity generation needs.

We have also provided nuclear safety consulting advice to U.S. nuclear utilities. We plan to continue and potentially expand this nuclear safety consulting work in the United States.

### **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 and a branch office in the UAE in January 2010, which are also both wholly-owned by Lightbridge International Holding, LLC.

#### *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.

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

*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.

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

*Certain Risks, Uncertainties and Concentrations*

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 our 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, particularly in one country right now, the Company may be subject to various additional political, economic, and other uncertainties.

Management anticipates, based on its current working capital and projected working capital requirements, that it will have enough working capital funds to sustain its current operations at its current operating level until sometime later in the year of 2012 or 2013. In support of our business plan regarding our research and development activities for developing our fuel designs, we will need to raise additional capital by way of an offering of equity securities, an offering of debt securities, a financing through a bank, or a strategic alliance with another entity. We may also need to raise additional capital sooner to support our overhead operation if the consulting business segment becomes non-sustaining. Currently, we are working on revenue opportunities with the overall goal of increasing our profitability and cash flow.

We participate in a government regulated industry. Our operation 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, the ability to safeguard the production of nuclear power and safeguarding 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.

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 primarily 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 2011 and 2010, we generated approximately all of our revenues from customers based outside the U.S., with our customers located in the UAE, GCC, Kuwait and France. 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 2011 and 2010 as we have not incurred any credit losses from our customers, to date. Primarily all of our consulting revenues are from the ENEC and FANR contracts for the three months ended March 31, 2011 and 2010.

*Revenue Recognition*

The following table presents our revenues by business segment:

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|            | <b>2011</b>  | <b>2010</b>  |
|------------|--------------|--------------|
| Revenues:  |              |              |
| Consulting | \$ 1,578,094 | \$ 2,294,132 |
| Technology | -            | 105,000      |
| Total      | \$ 1,578,094 | \$ 2,399,132 |

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**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

*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.

Substantially all of our revenues are from the Executive Affairs Authority (EAA) of Abu Dhabi, one of the member Emirates of the UAE, and the related entities, ENEC and FANR. Revenues recognized from these contracts for 2011 and 2010 were recognized on a time and expense basis.

The revenue recognition from our GCC and Kuwait contracts are based on the completion and acceptance of defined contractual milestones. Milestone payments, which are generally based on the completion of certain deliverables in the contracts, are recognized as revenue when milestones are achieved, collectability is reasonably assured, and there are no significant future performance obligations in connection with the milestones. In those instances where the Company has collected fees or milestone payments but has significant future performance obligations related to the development of the product, it records deferred revenue and recognizes it over the period of the Company's future obligations. Total deferred revenue as reported on the accompanying consolidated balance sheets from these two contracts at March 31, 2011 and December 31, 2010 was \$935,240 and \$98,110 respectively, representing deposits for consulting work to be performed at a future date.

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 2011 and 2010 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 revenues also includes the expenses associated with the operation of our consulting services including 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 to be recognized upon 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.

*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.

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

*Cash and Cash Equivalents, Restricted Cash and Marketable Securities*

We invest our excess cash primarily in money market mutual funds, and four 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. Total cash held in checking accounts and a money market core cash account, as reported on the accompanying consolidated balance sheets, totaled approximately \$3.0 million and \$2.4 million at March 31, 2011 and December 31, 2010, 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. The total balance of restricted cash at March 31, 2011 and December 31, 2010 was approximately \$550,000.

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 at March 31, 2011 (consisting of three Vanguard mutual bond funds and one Fidelity mutual money market fund) were purchased in August 2010, were classified as available-for-sale securities and were 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.

The total quoted fair value of our marketable securities at March 31, 2011 was approximately \$8.5 million. This amount was held in the following mutual funds, mutual money market fund - \$0.4 million; Vanguard mutual bond funds \$8.1 million. The fair value of marketable securities at December 31, 2010 was approximately \$10.5 million. This amount was held in the following mutual funds, Vanguard mutual money market fund - \$0.4 million; four Vanguard mutual bond funds - \$10.1 million.

The amount recorded as unrealized loss, 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 \$106,000 for the three months ended March 31, 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. The amount recorded as unrealized gain for the three months ended March 31, 2011 totaled approximately \$38,000. The total cost basis of our marketable securities was approximately \$8.1 million at March 31, 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 \$0.2 million for the three months ended March 31, 2011 and 2010.



*Recent Accounting Pronouncements*

In June 2009, the FASB issued a standard that established the FASB Accounting Standards Codification ( ASC ) and amended the hierarchy of generally accepted accounting principles ( GAAP ) such that the ASC became the single source of authoritative nongovernmental U.S. GAAP. The ASC did not change current U.S. GAAP, but was intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates. For our Company, the ASC was effective July 1, 2009. This standard did not have an impact on our consolidated results of operations or financial condition. However, throughout the notes to the accompanying consolidated financial statements references that were previously made to various former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2011 and 2010**

In April 2009, the FASB issued a pronouncement regarding *Interim Disclosures about Fair Value of Financial Instruments Disclosures* to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This new guidance requires these disclosures in all interim financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009, with early application permitted. The fair value of all cash, receivables and payables are equal to the carrying amounts.

In April 2010, the FASB issued Accounting Standards Update 2010-17 (ASU 2010-17), *Revenue Recognition (Topic 605): Milestone Method*. ASU 2010-17 provides guidance on applying the milestone method of revenue recognition in arrangements with research and development activities. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010.

**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 ended March 31, 2011 and 2010 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.

The following table sets forth the computation of the basic and diluted loss per share:

|  | 2011           | 2010           |
|--|----------------|----------------|
| Numerator:                                 |                |                |
| Net loss                                   | \$ (1,638,739) | \$ (1,683,758) |
| Denominator:                               |                |                |
| Weighted-average common shares outstanding | 12,353,251     | 10,168,412     |
| Basic and diluted net loss per share       | \$ (0.13)      | \$ (0.17)      |

**Note 3. Accounts Receivable Project Revenue and Project Costs**

The total accounts receivable from the ENEC and FANR was approximately \$558,000 at March 31, 2011, and approximately \$820,000 at December 31, 2010. These amounts represent 62 percent and 83 percent of the total accounts receivable reported of approximately \$905,000 and \$991,000 at March 31, 2011 and December 31, 2010 respectively.

We expect to continue to provide strategic advisory services to Abu Dhabi during the five-year term of these consulting agreements and also expect the variation of revenue 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 will review the work we perform, and our reimbursable travel expenses, and accept our monthly invoicing for services and reimbursable expenses.

The remaining accounts receivable reported at March 31, 2011 and December 31, 2010 from other contracts was approximately \$347,000 and \$171,000, respectively. Total unbilled accounts receivable reported on the accompanying

consolidated balance sheets in accounts receivable of approximately \$530,000 and \$456,000 at March 31, 2011 and December 31, 2010 respectively, is for work that was billed to our clients in April 2011 and January 2011, respectively. Foreign currency transaction exchange losses were approximately \$3,000 and \$1,000 for the three months ended March 31, 2011 and 2010, respectively, which is reported in the caption other income and expense on the accompanying consolidated statement of operations.

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
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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 \$149,000 and \$361,000 for the three months ended March 31, 2011 and 2010, respectively. The total travel and other reimbursable expenses that have not been reimbursed and are included in total accounts receivable reported above from our contracts were in the amount of approximately \$106,000 and \$67,000 at March 31, 2011 and December 31, 2010, respectively.

The GCC is obligated to pay the Company milestone payments contingent on the achievement of certain substantive deliverables under the contract. The final work product to be delivered under the contract with the GCC is to issue a feasibility report on regional cooperation in the development of civilian nuclear power for electricity and water desalination. These milestone events include completion of meetings with all GCC members; delivery of assumptions and methodology; submittal of a discussion paper; delivery of a preliminary report and delivery of a final feasibility report to the GCC members. The Company recognizes milestone payments from the GCC as revenue when the Company achieves the underlying contractual milestone, as milestone payments are not dependent on any other future activities or achievement of any other future milestones and the achievement of each of the contractual milestones were substantively at risk and contingent at the effective date of the contract. Substantial effort is involved in achieving each of the milestones. These milestones represent the culmination of discrete earnings processes, and the amount of each milestone payment is reasonable in relation with the level of effort associated with the achievement of the milestone. Each milestone payment is nonrefundable and non-creditable when made. Furthermore, these milestones are considered substantive because the consideration earned from the achievement of each milestone (a) is commensurate with the Company's performance to achieve the milestone, (b) relates solely to past performance, and (c) is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. No revenue has been recognized from this GCC contract for the three months ended March 31, 2010 and deferred revenue of approximately \$819,000 was recorded at March 31, 2011. As of this date the work contracted with Kuwait, for which milestone payments are also to be made under this contract, is not significant and deferred revenue of \$116,000 was recorded at March 31, 2011.

**Note 4. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued expenses consisted of the following:

|                             | <b>2011</b>  | <b>2010</b>  |
|-----------------------------|--------------|--------------|
| Trade payables              | \$ 289,269   | \$ 361,344   |
| Accrued expenses and other  | 788,255      | 694,531      |
| Accrued payroll liabilities | 822,777      | 1,032,487    |
| Total                       | \$ 1,900,301 | \$ 2,088,362 |

**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 2010 and 2009 annual effective tax rate is estimated to be at a combined 40% for the U.S. federal and states statutory tax rate.

As of March 31, 2011 and December 31, 2010, 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 March 31, 2011 and December 31, 2010 respectively, are as follows:



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| Deferred Tax Assets             | Total Amount |              | Deferred Tax Asset Amount |              |
|---------------------------------|--------------|--------------|---------------------------|--------------|
|                                 | 2011         | 2010         | 2011                      | 2010         |
| Capitalized start-up costs      | \$ 5,973,739 | \$ 6,101,739 | \$ 2,389,496              | \$ 2,440,696 |
| Stock-based compensation        | 20,388,918   | 20,073,918   | 8,155,567                 | 8,029,567    |
| Net operating loss carryforward | 26,316,422   | 24,992,683   | 10,526,569                | 9,997,073    |
| Less: valuation allowance       | (52,679,079) | (51,168,340) | (21,071,632)              | (20,467,336) |
|                                 | \$ --        | \$ --        | \$ -                      | \$ -         |

We have a net operating loss carry-forward for federal and state tax purposes of approximately \$26 million at March 31, 2011 that is available to offset future taxable income, that will begin to expire in the year 2021. For financial reporting purposes, no deferred tax asset was recognized because at March 31, 2011 and December 31, 2010 substantially all of the net operating losses are presently expected to expire unused. As a result, the amount of the deferred tax assets considered realizable was reduced 100% by a valuation allowance. The change in the valuation allowance was approximately \$604,000 and \$3,136,000 for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. Many of the Company's operating expenses in its 2007 and 2006 tax years were classified under the Internal Revenue Code as capitalized Start-up Costs which were not deductible for tax purposes until 2008.

The Company files a consolidated tax return with its subsidiaries.

#### **Note 6. Commitments and Contingencies**

##### *Employment Agreements*

We have employment agreements with our executive officers and some consultants, the terms of which expire at various times. Such agreements provide for minimum compensation levels, as well as incentive bonuses that are payable if specified management goals are attained. Under each of the agreements, in the event the officer's employment is terminated (other than voluntarily by the officer or by us for cause, or upon the death of the officer), if all provisions of the employment agreements are met, we are committed to pay certain benefits, including specified monthly severance.

##### *Operating Leases*

We entered into an agreement to lease new office space under the terms of a sublease with a term of 65 months commencing August 1, 2008. Under the terms of the sublease, the lease payments are inclusive of pass-through costs, which include real estate taxes and standard operating expenses. We paid the security deposit related to this sublease agreement in the amount of \$120,486. We pay monthly rental fees in the amount of approximately \$43,000 in accordance with the sublease agreement plus parking fees, and payments increase by a factor of 4% each year thereafter. The monthly straight-line rental expense from August 1, 2008 to December 1, 2013 is \$45,189. As a result of the straight-line rent calculation generated by the one free rent period and rent escalation, we have recorded in the accrued liabilities a deferred rent credit of \$73,238 at March 31, 2011 and December 31, 2010.

Future estimated rental payments under our operating leases are as follows:

|                                 | Total      |
|---------------------------------|------------|
| Year ending - December 31, 2011 | \$ 564,109 |
| Year ending - December 31, 2012 | 586,136    |
| Year ending - December 31, 2013 | 609,016    |

|                              |  |    |           |
|------------------------------|--|----|-----------|
| Total minimum lease payments |  | \$ | 1,759,261 |
|------------------------------|--|----|-----------|

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**Lightbridge Corporation**  
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*Letters of Credit*

At March 31, 2011 we had outstanding letters of credit of approximately \$212,060, which is collateralized with our restricted cash, associated with our consulting contracts that we entered into in 2010 with two new governments.

**Note 7. Research and Development Costs**

*Research Costs*

Research and development costs, included in the accompanying consolidated statement of operations amounted to approximately \$0.5 million and \$0.2 million for the three months ended March 31, 2011 and 2010, respectively. Total cumulative research and development expenses amounted to approximately \$10 million from January 8, 1992 (date of inception of Lightbridge) to March 31, 2011.

*Research Agreements*

Effective on August 21, 2009, TPI entered into an agreement for ampoule irradiation testing, or the AIT Agreement, with Russian Research Centre Kurchatov Institute ( Kurchatov ). Under the AIT Agreement, TPI agreed to compensate Kurchatov for irradiation testing of TPI's proprietary nuclear fuel designs conducted in 2008 and part of 2009. Pursuant to the AIT Agreement, TPI is obligated to pay to Kurchatov a total of \$400,000, and Kurchatov is obligated to transfer to TPI the worldwide rights in all of the test data generated in the course of the irradiation testing of TPI's proprietary nuclear fuel designs in 2008 and part of 2009, and Kurchatov agrees not to use, in any manner, the work product associated with such testing or exercise any rights associated therewith without the written consent of TPI. Further, Kurchatov is obligated to provide to TPI and its affiliates specified information and documentation for audit purposes and to obtain any and all permits from Russian governmental entities which may be required in order for Kurchatov to perform under the AIT Agreement. As of the date hereof, all of the deliverables have been submitted and the entire amount due to Kurchatov Institute under the TPI has been paid.

In October 2009 we entered into an umbrella agreement, or the SOSNY Agreement, with Russian Limited Liability Research and Development Company, or SOSNY. SOSNY will serve as our prime contractor in Russia to manage the research and development activities related to the lead test assembly, or LTA, program for Russian designed VVER-1000 reactors. SOSNY is a leading Russian commercial nuclear entity specializing in front-end and back-end nuclear fuel cycle management and logistics services. Specific work will be carried out under individual task orders to be issued under the SOSNY Agreement. The scope, deliverables, and costs are to be agreed to between the parties for each individual task order. On June 17, 2010, TPI entered into Task Order No. 1 with SOSNY whereby TPI is obligated to pay to SOSNY a total of \$234,161 for certain R&D work to be completed and all deliverables to be submitted to TPI by March 31, 2011. As of March 31, 2011, a total of 2,832,000 Rubles (approximately \$94,000 at the March 31, 2011 exchange rate) worth of work was completed by SOSNY and its subcontractors and paid. The remaining portion will be paid upon completion of the remaining milestones stipulated in the Task Order No. 1.

In addition to the above agreements, there are consulting agreements with several consultants working on various projects for us, which total approximately \$10,000 per month.

**Note 8. Stockholders' Equity**

At March 31, 2011 there are 500,000,000 shares of authorized common stock. Total common stock outstanding at March 31, 2011 and December 31, 2010 was 12,360,516 and 12,345,840, respectively. At March 31, 2011, there were



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11,350 shares reserved for future issuance, 1,034,996 stock warrants, 92,552 unvested restricted stock shares and 1,839,021 stock options outstanding, all totaling 15,338,435 of total stock and stock equivalents outstanding at March 31, 2011.

**Lightbridge Corporation**  
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*Stock Options and Restricted Stock Grants**Stock Plan*

We have a stock-based compensation plan to reward for services rendered by officers, directors, employees and consultants. On July 17, 2006, we amended this stock plan. We have reserved 2,500,000 shares of common stock of our unissued share capital for the stock plan. Other limitations are as follows:

- (i) No more than an aggregate of 1,250,000 shares can be granted for the purchase of restricted common shares during the term of the stock plan;
- (ii) The maximum number of shares of common stock with respect to which options may be granted to any one person during any fiscal year may not exceed 266,667 shares; and
- (iii) The maximum number of restricted shares that may be granted to any one person during any fiscal year may not exceed 166,667 common shares.

Total stock options outstanding at March 31, 2011 were 1,839,021 of which 1,441,895 of these options were vested at March 31, 2011. Stock option expense was approximately \$315,000 and approximately \$728,000 for the three months ended March 31, 2011 and 2010, respectively.

Stock option transactions to the employees, directors, advisory board members and consultants are summarized as follows for the three months ended March 31, 2011 were as follows:

|                       | <b>2011</b> |
|-----------------------|-------------|
| Beginning of the year | 1,772,348   |
| Granted               | 69,423      |
| Exercised             | -           |
| Forfeited             | (2,750)     |
| Expired               | -           |
| End of period         | 1,839,021   |
| Options exercisable   | 1,441,895   |

The above table includes options issued as of March 31, 2011 as follows:

- i). A total of 473,540 non-qualified 5-10 year options have been issued, and are outstanding, to advisory board members at exercise prices of \$4.50 to \$14.40 per share.
- ii). A total of 1,143,522 non-qualified 5-10 year options have been issued, and are outstanding, to our directors, officers and employees at exercise prices of \$5.53 to \$23.85 per share. From this total, 665,088 options are outstanding to the Chief Executive Officer who is also a director, with remaining contractual lives of 4.9 to 10 years. All other options issued have a remaining contractual life ranging from 0.5 years to 10 years.
- iii). A total of 221,959 non-qualified 5-10 year options have been issued, and are outstanding, to our consultants at exercise prices of \$6.30 to \$19.20 per share.

**Lightbridge Corporation**  
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The following table provides certain information with respect to the above-referenced stock options that are outstanding and exercisable at March 31, 2011:

| Exercise Prices  | Stock Options Outstanding                           |                  | Stock Options Vested |                                 |       |
|------------------|---|------------------|----------------------|---------------------------------|-------|
|                  | Weighted Average Remaining Contractual Life - Years | Number of Awards | Number of Awards     | Weighted Average Exercise Price |       |
| \$4.50 - \$8.70  | 7.60  | 874,771          | 477,645              | \$                              | 6.68  |
| \$9.00 - \$12.90 | 5.46  | 163,717          | 163,717              | \$                              | 10.65 |
| \$13.20-\$18.90  | 3.47  | 560,533          | 560,533              | \$                              | 14.57 |
| \$23.85          | 4.88  | 240,000          | 240,000              | \$                              | 23.85 |
| Total            | 5.79  | 1,839,021        | 1,441,895            | \$                              | 13.06 |

The aggregate intrinsic value of stock options outstanding at March 31, 2011 was \$263,974, of which \$159,622 related to vested awards. Intrinsic value is calculated based on the difference between the exercise price of the underlying awards and the quoted price of our common stock as of the reporting date (\$5.77 per share as of the close on March 31, 2011).

#### Restricted Stock Award Activity

The following summarizes our restricted stock unit activity:

|   | Number of Units | Weighted Average Grant Date Fair Value |
|---|-----------------|--|
| Total awards outstanding at December 31, 2010 | 83,911          | \$ 7.19                                |
| Units granted                                 | 23,010          | \$ 5.57                                |
| Units Exercised/Released                      | (14,369)        | \$ 8.59                                |
| Total awards outstanding at March 31, 2011    | 92,552          | \$ 6.57                                |
| Total units vested                            | -               |  |
| Total units non-vested                        | 92,552          | \$ 6.57                                |
| Total shares outstanding at March 31, 2011    | 92,552          | \$ 6.57                                |

Scheduled vesting for outstanding restricted stock units at March 31, 2011 is as follows:

|  | Year Ended December 31, |        |        |       |            | Total  |
|--|-------------------------|--------|--------|-------|------------|--------|
|  | 2011                    | 2012   | 2013   | 2014  | Thereafter |        |
| Scheduled vesting restricted stock units | 21,894                  | 41,602 | 21,272 | 7,784 | --         | 92,552 |

**Lightbridge Corporation**  
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As of March 31, 2011, there was \$0.5 million of net unrecognized compensation cost related to unvested restricted stock-based compensation arrangements. This compensation is recognized on a straight line basis resulting in approximately \$0.28 million of the compensation expected to be expensed in the next twelve months, and the total unrecognized has a weighted average recognition period of 1.88 years.

We use the historical volatility of our stock price since January 5, 2006, the date we announced that we were becoming a public company, to estimate the future volatility of our stock. At this time we do not believe that there is a better objective method to predict the future volatility of our stock. We estimate the term of our option awards based on the full term of the award. To date we have had very few exercises of our options, and those exercises have occurred just before the expiration date of the awards. Since the strike price of most of our outstanding awards is greater than the price of our stock, generally awards have expired at the end of the term. We estimate the effect of future forfeitures of our grants based on an analysis of historical forfeitures of unvested grants, as we have no better objective basis for that estimate. The expense that we have recognized related to our grants of options and restricted stock includes the estimate for future pre-vest forfeitures. We will adjust the actual expense recognized as future pre-vest forfeitures occur. We have estimated that 1.6% and 4.8% of our option and restricted stock grants respectively, will be forfeited prior to vesting.

Assumptions used in the Black Scholes option-pricing model for the three months ended March 31, 2011 and the year ended December 31 2010 were as follows:

|                                 | <b>3/31/2011</b> | <b>Year ended<br/>12/31/2010</b> |
|---------------------------------|------------------|----------------------------------|
| Average risk-free interest rate | 3.28%            | 3.53%                            |
| Average expected life- years    | 10               | 10                               |
| Expected volatility             | 94.39%           | 99.08%                           |
| Expected dividends              | 0%               | 0%                               |

Stock-based compensation expense includes the expense related to (1) grants of stock options, (2) grants of restricted stock, (3) stock issued as consideration for some of the services provided by our directors and strategic advisory council members, and (4) stock issued in lieu of cash to pay bonuses to our employees and contractors. We record stock-based compensation expenses in the caption with all of our other general and administrative expenses. Grants of stock options and restricted stock are awarded to our employees, directors, consultants and board members, and we recognize the fair market value of these awards ratably as they are earned. The expense related to payments in stock for services is recognized as the services are provided.

During the three months ended March 31, 2011 and 2010, approximately \$404,000 and \$859,000 respectively, were recorded as total stock-based compensation. Stock-based compensation expense is recorded under the caption general and administrative expenses in the accompanying consolidated statement of operations.

**Common Stock reserved for Future Issuance**

Common stock reserved for future issuance consists of:

|                          | <b>Shares of<br/>Common<br/>Stock</b> | <b>Amount</b> |
|--------------------------|---------------------------------------|---------------|
| Stock-based compensation | 11,350                                | \$ 57,000     |

**Lightbridge Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
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**Note 9. Business Segment Results**

We have two principal business segments, which are (1) technology and (2) consulting services. These business segments were determined based on the nature of the operations and the services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision-makers, in deciding how to allocate resources and in assessing performance. Our Chief Executive Officer, Chief Operating Officer/Chief Financial Officer have been identified as the chief operating decision makers. Our chief operating decision makers direct the allocation of resources to operating segments based on the profitability, the cash flows, and the business plans of each respective segment.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The following tables show the operations of the Company's reportable business segments for the three months ended March 31, 2011 and 2010.

|                           | Consulting |           | Technology |           | Corporate and<br>Eliminations |             | Total       |             |
|---------------------------|------------|-----------|------------|-----------|-------------------------------|-------------|-------------|-------------|
|                           | 2011       | 2010      | 2011       | 2010      | 2011                          | 2010        | 2011        | 2010        |
| <b>Revenue Segment</b>    | 1,578,094  | 2,294,132 | -          | 105,000   | -                             | -           | 1,578,094   | 2,399,132   |
| <b>Profit Pre Tax</b>     | 306,312    | 612,816   | (499,640)  | (164,449) | (1,445,411)                   | (2,132,125) | (1,638,739) | (1,683,758) |
| <b>Total Assets</b>       | 1,298,658  | 2,650,113 | 399,139    | 224,432   | 13,027,722                    | 3,553,459   | 14,725,519  | 6,428,004   |
| <b>Property Additions</b> | -          | -         | -          | -         | 1,540                         | -           | 1,540       | -           |
| <b>Interest Expense</b>   | -          | -         | -          | -         | -                             | -           | -           | -           |
| <b>Depreciation</b>       | -          | -         | -          | -         | 7,297                         | 6,951       | 7,297       | 6,951       |

**Note 10. Subsequent Events**

The Company evaluated all events or transactions that occurred after March 31, 2011 up through the date these financial statements were issued. During this period the Company did not have any material recognizable subsequent events.

## FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We use words such as believe, expect, anticipate, project, target, plan, optimistic, intend, aim, will or similar expressions which are intended to identify forward-looking statements. Such statements include, among others, (1) those concerning market and business segment growth, demand and acceptance of our Nuclear Energy Consulting Services and Nuclear Fuel Technology Business, (2) any projections of sales, earnings, revenue, margins or other financial items, (3) any statements of the plans, strategies and objectives of management for future operations, (4) any statements regarding future economic conditions or performance, (5) uncertainties related to conducting business in foreign countries, as well as (6) all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions that if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties, among others, include:

- our ability to attract new customers,
- our ability to employ and retain qualified employees and consultants that have experience in the Nuclear Industry,
- competition and competitive factors in the markets in which we compete,
- general economic and business conditions in the local economies in which we regularly conduct business, which can affect demand for the Company's services,
- changes in laws, rules and regulations governing our business,
- development and utilization of our intellectual property,
- potential and contingent liabilities,
- the risks identified in the Risk Factors section of the Company's Annual Report on Form 10-K, and
- other risks identified in this Report.

All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law. When used in this report, the terms Lightbridge, Company, we, our, and us refer to Lightbridge Corporation and its wholly-owned subsidiaries Thorium Power, Inc. (a Delaware corporation) and Lightbridge International Holding, LLC (a Delaware limited liability company).

## ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

### 2. OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is intended to help the reader understand Lightbridge Corporation, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto contained in Item 1. Financial Statements of this report. This overview summarizes the MD&A, which includes the following sections:

- *Our Business* a general overview of our two business segments, the material opportunities and challenges of our business;
- *Critical Accounting Policies and Estimates* a discussion of accounting policies that require critical judgments and estimates;
- *Operations Review* an analysis of our Company's consolidated results of operations for the two periods presented in our consolidated financial statements. Except to the extent that differences among our operating segments are material to an understanding of our business as a whole, we present the discussion in the MD&A on a consolidated basis; and
- *Liquidity, Capital Resources and Financial Position* an analysis of cash flows; an overview of financial position.

The following discussion contains forward-looking statements that involve risks, uncertainties, and assumptions such as statements of our plans, objectives, expectations, and intentions. Our actual results may differ materially from those discussed in these forward-looking statements because of the risks and uncertainties inherent in future events.

#### **Our Business**

##### **General Overview**

We are a leading nuclear fuel technology company, and participate in the nuclear power industry in the U.S. and internationally. Our business operations can be categorized into two segments: (i) we are a developer of next generation nuclear fuel technology that has the potential to significantly uprate the power output of reactors, reducing the per-megawatt-hour cost of generating nuclear energy, and reducing nuclear waste and proliferation, and (ii) we are a provider of nuclear power consulting and strategic advisory services to commercial and governmental entities worldwide.

##### **Our Nuclear Fuel Technology Business Segment**

###### *The Nature of Our Proprietary Technology Development Activities*

We are developing innovative, proprietary nuclear fuel designs that can significantly enhance the nuclear power industry's economics and increase power output by: 1) Extending the fuel cycle length to 24 months or longer while simultaneously increasing the power output by up to 17% in existing pressurized water reactors (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) Addressing the back-end of the fuel cycle concerns related to the volume of used fuel per kilowatt-hour as well as proliferation of weapons-usable materials. There are significant technology synergies among our primary fuel products due to utilization of our proprietary metallic fuel rod technology that is at the core of each of them. As a result, full-scale demonstration and qualification of the metallic fuel rod technology simultaneously advances all of our product families currently under development.

In response to the challenges associated with conventional oxide fuels, we are developing an innovative, proprietary metallic fuel technology, that is capable of significantly higher burn-up and power density compared to conventional oxide fuels. We believe our fuel designs will allow current and new-build nuclear reactors to safely increase power production and reduce the initial capital investment and operations and maintenance costs on a per kilowatt-hour basis. In addition to the projected electricity production cost savings, we believe that our technology can result in utilities or countries needing to deploy fewer new reactors to generate the same amount of electricity. For utilities or countries that already have operating reactors, our technology could be utilized to increase the power output of those reactors as opposed to building new reactors. Further, we believe that the fuel fabrication or manufacturing process for this new fuel design is simpler, which we expect could lower fuel fabrication costs.



We intend to license our intellectual property for our nuclear fuel designs to existing major nuclear fuel fabricators that own and operate fuel fabrication facilities and have long-term fuel supply contracts with nuclear power plants. We believe that this partnering strategy would also allow us to take advantage of the existing customer base of such major fuel fabricators, thus enabling our fuel products to achieve high market penetration rates in a relatively short period of time. We are currently pursuing a research and development strategy aimed at generating sufficient interest and confidence in our fuel technology among major fuel fabricators with a view of entering into a commercial arrangement with one or more of them within the next 2-3 years. In addition to a fuel design license agreement, we believe that there may be manufacturing technology licenses or manufacturing support fees that we may be able to receive from the fuel fabricator.

### ***Consulting and Strategic Advisory Services Business Segment***

We are primarily engaged in the business of assisting commercial and governmental entities with developing and expanding their nuclear industry capabilities and infrastructure. We provide integrated strategic advice across a range of expertise areas including, for example, regulatory development, nuclear reactor site selection, procurement and deployment, reactor and fuel technology, international relations and regulatory affairs.

Due to the relatively limited growth in the nuclear energy industry during the 1980 s and 1990 s, and corresponding limited recruitment into the industry, the cadre of engineers, managers and other nuclear energy industry experts is aging. In any nuclear renaissance, we believe that the industry will be challenged in acquiring and retaining sufficient qualified expertise. Moreover, in countries studying new nuclear energy programs, the number of qualified nuclear energy personnel is limited, and we believe that those countries will need to rely on significant support from non-domestic service providers and experts to ensure success in those programs.

Our emergence in the field of nuclear energy consulting is in direct response to the need for independent assessments and highly qualified technical consulting services from countries looking to establish nuclear energy programs, by providing a blueprint for safe, secure, efficient and cost-effective nuclear power. We offer full-scope strategic planning and advisory services for new and growing existing markets. Furthermore, we only engage with commercial entities and governments that are dedicated to non-proliferative and transparent nuclear programs.

Our consulting services are expert and relationship based, with particular emphasis on key decision makers in senior positions within governments or companies, as well as focus on overall management of nuclear energy programs. To date, substantially all of our revenues are derived from our consulting and strategic advisory services business segment, which primarily provides nuclear consulting services to entities within the United Arab Emirates, our first significant consulting and strategic advisory client. In April 2010 and December 2010, we began to provide consulting services in additional countries, including the member states of the Gulf Cooperation Council and Kuwait. We have also provided nuclear safety consulting advice to U.S. nuclear utilities.

### **Factors Affecting Our Financial Performance**

#### ***Proprietary Nuclear Fuel Technology Development***

We believe that a major opportunity for us is the possibility that our advanced nuclear fuel designs, which are currently in the research and development stage, will be used in many existing and new light water nuclear reactors. Light water reactors are the dominant reactor types currently used in the world, and fuels for such reactors constitute the majority of the commercial market for nuclear fuel.

Various industry efforts currently underway to meet the growing demand for more electric power output from the same reactor core size, and to create a more efficient fuel cycle, with improved safety, reliability and extended fuel cycle length, are largely focused on stretching the limits of conventional oxide fuels. While this strategy has worked well in the past, now almost all of the available fuel performance margins with conventional oxide fuels have been utilized. However, due to a risk-averse nature of the major industry players and a significant capital investment made

in existing infrastructure supporting conventional oxide fuels, major fuel vendors are reluctant to take on early risks associated with fuel development programs on next generation nuclear fuel designs. As a result, we are well positioned to take advantage of this market opportunity by developing next generation fuel designs that can meet the needs of the power generator.

Our commercialization strategy is not to compete with the major fuel fabricators that collectively fabricate a large majority of the fuel used in the world's nuclear power plants. Instead, we are pursuing a commercialization strategy aimed at generating interest in our nuclear fuel designs from one or more of these major nuclear fuel fabricators that could lead to a technology licensing or other teaming arrangement over the next three years. Our ultimate commercial success depends on how soon and what kind of a commercial arrangement we are able to negotiate with one or more of these potential partner companies.

In addition, we recognize that a successful commercialization strategy is highly dependent upon the interest in its nuclear fuel designs from nuclear power plants which are the ultimate fuel product user. If we are successful in generating sufficient interest from one or more nuclear power plants in evaluating our fuel technology for potential use, we believe it would make it easier to find a major fuel fabricator that would be willing to partner with us in order to offer that fuel product to the nuclear power generator.

It is also important to generate public, industry and government awareness of our nuclear fuel technology that could help build technology confidence and increase credibility among fuel fabricators and nuclear power plants. As a result, we are pursuing a public outreach effort by seeking publication of technical papers highlighting progress on our fuel designs in peer-reviewed technical journals and presentations at major international nuclear conferences.

Competition with respect to the design of commercially viable fuel products is limited to conventional uranium oxide fuels, which, as discussed above, are reaching the limits in terms of their capability to provide increased power output or longer fuel cycles. We believe that the industry needs fuel products that can provide these benefits. To our knowledge, our nuclear fuel development project is the only commercially viable program that could achieve these goals. Due to the long-term product development timelines, significant nuclear regulatory requirements, and our comprehensive patent portfolio, we believe that the barriers to entry prevent a viable competitor in the foreseeable future.

In addition, in certain markets with a diversified energy base, decisions on new-build power plants are largely affected by the economics of various energy sources. If prices of non-nuclear energy sources fall, it could limit the deployment of new-build nuclear power plants in such markets. As a result, this could reduce the size of the potential markets for our fuel technology. However, if prices or production costs of non-nuclear energy increase, there may be increased demand for the deployment of new-build nuclear power plants.

### ***Consulting and Strategic Advisory Services***

Our emergence in the field of nuclear energy consulting is in direct response to the need for independent assessments and highly qualified and integrated strategic advisory services for countries looking to establish nuclear energy programs, while still providing a blueprint for safe, secure, efficient and cost-effective non-proliferative nuclear power. We offer full-scope planning and strategic advisory services for new and existing markets and offer such services without a bias towards or against any reactor vendor or fuel technology. We believe that there are significant opportunities available to provide services to governments that are dedicated to non-proliferative, safe, and transparent nuclear programs.

Our major challenge in pursuing our business is that the decision making process for nuclear power programs typically involves careful consideration by many parties and therefore requires significant time. Also, many of the potential clients that could benefit from our services are in regions of the world where tensions surrounding nuclear energy are high, or in countries where public opinion plays an important role. Domestic and international political pressure may hinder our efforts to provide nuclear energy services, regardless of our focus on non-proliferative nuclear power.



## **Critical Accounting Policies**

### ***Critical Accounting Policies and Estimates***

The SEC issued Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* suggesting that companies provide additional disclosure and commentary on their most critical accounting policies. In Financial Reporting Release No. 60, the SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the following significant policies as critical to the understanding of our financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

Our management expects to make judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. We have identified certain accounting policies that we believe are most important to the portrayal of our current financial condition and results of operations.

### ***Accounting for Stock Based Compensation, Stock Options and Warrants Granted to Employees and Non-employees***

We adopted the requirements for stock-based compensation, where all forms of share-based payments to employees or non-employees, including stock options and stock purchase plans, are treated the same as any other form of compensation by recognizing the related cost in the statement of income.

Under these requirements, stock-based compensation expense for employees is measured at the grant date based on the fair value of the award, and the expense is recognized ratably over the award's vesting period.

The stock-based compensation expense incurred by Lightbridge in connection with its employees is based on the employee model of ASC 718. 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. Under these requirements, stock-based compensation expense for non-employees is based on the fair value of the award on the measurement date which is the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached (a performance commitment), or the date at which the counterparty's performance is complete. For all grants made, we recognize compensation cost under the straight-line method.

We measure the fair value of stock options on the date of grant using a Black-Scholes option-pricing model which requires the use of several estimates, including:

- the volatility of our stock price;
- the expected life of the option;

- risk free interest rates; and
- expected dividend yield.

Prior to the completion of our merger in October 2006, we had limited historical information on the price of our stock as well as grantees' stock option exercise behavior for stock options issued prior to the merger. As a result, we could not rely on historical experience alone to develop assumptions for stock price volatility and the expected life of options. As such, our stock price volatility was estimated with reference to our historical stock price for the time period before the merger, from the date the announcement of the merger was made. We utilized the closing prices of our publicly-traded stock from the announcement date in January 2006 to determine our volatility and we have continued to use our historical stock price closing prices to determine our volatility.

The expected life of options is based on internal studies of historical experience and projected exercise behavior. We estimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Estimated forfeitures are reassessed in subsequent periods and may change based on new facts and circumstances. We utilize a risk-free interest rate, which is based on the yield of U.S. treasury securities with a maturity equal to the expected life of the options. We have not and do not expect to pay dividends on our common shares.

### ***Income Taxes***

We account for income taxes using the liability method in accordance with the accounting pronouncement *Accounting for Income Taxes*, which requires the recognition of deferred tax assets or liabilities for the tax-effected temporary differences between the financial reporting and tax bases of our assets and liabilities, and for net operating loss and tax credit carry forwards. The tax expense or benefit for unusual items, prior year tax exposure items, or certain adjustments to valuation allowances are treated as discrete items in the interim period in which the events occur.

On January 1, 2007, we adopted Accounting Interpretation *Accounting for Uncertainty in Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this requirement, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As a result of the implementation of this standard, we did not recognize any current tax liability for unrecognized tax benefits. We do not believe that there are any unrecognized tax positions that would have a material effect on the net operating losses disclosed.

### ***Revenue Recognition from Consulting Contracts***

We believe one of our critical accounting policies is revenue recognition from our consulting contracts. We are currently primarily deriving our revenue from fees by offering consulting and strategic advisory services to commercial and government owned entities outside the U.S. planning to create or expand electricity generation capabilities, using nuclear power plants. Our fee type and structure for each client engagement depend 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 electricity generation capabilities using nuclear power plants, and other factors.

The two consulting agreements that we entered into in August 2008 were fixed-fee service contracts but were subsequently changed to time and expense contracts. We recognize revenue associated with these contracts in accordance with the time and expense billed to our customer, which is subject to their review and approval. When a loss is anticipated on a contract, the full amount of the anticipated loss is recognized immediately. Our management uses its judgment concerning the chargeable number of hours to bill under each contract considering a number of factors, including the experience of the personnel that are performing the services, the value of the services provided and the overall complexity of the project. Should changes in management's estimates be required, due to business conditions that cause the actual financial results to differ significantly from management's present estimates, revenue recognized in future periods could be adversely affected.

The revenue recognition from our Kuwait and GCC contracts will be based on the completion and acceptance of contractual milestones.



We recognize revenue in accordance with SEC Staff Accounting Bulletin or SAB, No. 104, *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.

In situations where contracts include client acceptance provisions, we do not recognize revenue until such time as the client has confirmed its acceptance.

### ***Intangibles***

As presented on the accompanying balance sheet, we had patents with a net book value of approximately \$399,000 as of March 31, 2011. There are many assumptions and estimates that may directly impact the results of impairment testing, including an estimate of future expected revenues, earnings and cash flows, and discount rates applied to such expected cash flows in order to estimate fair value. We have the ability to influence the outcome and ultimate results based on the assumptions and estimates we choose for testing. To mitigate undue influence, we set criteria that are reviewed and approved by various levels of management. The determination of whether or not intangible assets have become impaired involves a significant level of judgment in the assumptions. Changes in our strategy or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

### **Contingencies**

Management assesses the probability of loss for certain contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to the Company that may arise as a result of having to pay out additional expenses that may have a material adverse effect on the financial condition of the Company taken as a whole should be disclosed. Refer to Note 6 to the Notes to Consolidated Financial Statements.

### **Recent Accounting Standards and Pronouncements**

Refer to Note 1 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

### **Business Segments and Periods Presented**

We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the three months ended March 31, 2011 and 2010, in order to provide a meaningful discussion of our business segments. We have organized our operations into two principal segments: Consulting and Fuel Technology. We present our segment information along the same lines that our chief executives review our operating results in assessing performance and allocating resources.

|                                   | Consulting |           | Technology |           | Corporate and<br>Eliminations |             | Total       |             |
|-----------------------------------|------------|-----------|------------|-----------|-------------------------------|-------------|-------------|-------------|
|                                   | 2011       | 2010      | 2011       | 2010      | 2011                          | 2010        | 2011        | 2010        |
| <b>Revenue</b>                    | 1,578,094  | 2,294,132 | -          | 105,000   | -                             | -           | 1,578,094   | 2,399,132   |
| <b>Segment Profit<br/>Pre Tax</b> | 306,312    | 612,816   | (499,640)  | (164,449) | (1,445,411)                   | (2,132,125) | (1,638,739) | (1,683,758) |
| <b>Total Assets</b>               | 1,298,658  | 2,650,113 | 399,139    | 224,432   | 13,027,722                    | 3,553,459   | 14,725,519  | 6,428,004   |
| <b>Property<br/>Additions</b>     | -          | -         | -          | -         | 1,540                         | -           | 1,540       | -           |
| <b>Interest Expense</b>           | -          | -         | -          | -         | -                             | -           | -           | -           |
| <b>Depreciation</b>               | -          | -         | -          | -         | 7,297                         | 6,951       | 7,297       | 6,951       |
| <i>Technology Business</i>        |            |           |            |           |                               |             |             |             |

Over the next 12 to 15 months we expect to incur approximately \$5 million in research and development expenses related to the development of our proprietary nuclear fuel designs. We spent approximately \$0.5 million and \$0.2 million for research and development during the three months ended March 31, 2011 and 2010, respectively.

Over the next several years, we expect that our research and development activities will increase and will be primarily focused on testing and demonstration of our all-metal fuel technology for Western-type pressurized water reactors. The main objective of this research and development phase is to prepare for full-scale demonstration of our fuel technology in an operating commercial PWR. As discussed above, we believe the testing and demonstration work on our all-metal fuel technology will also benefit and advance our thorium-based seed-and-blanket fuel assembly design due to the similarities and synergies between the all-metal fuel rods and the metallic seed fuel rods utilized in the seed-and-blanket fuel assembly design.

Last year we began working with the Idaho National Laboratory (INL) on the continued development of our technology. Following an extensive independent technical evaluation by INL of the proposal for capsule irradiation testing of Lightbridge's metallic fuel samples in the Advanced Test Reactor at INL, the US Department of Energy (DOE) approved the project in June 2010. Lightbridge will fund the fabrication of metallic fuel samples in Russia and their shipment to INL. DOE is expected to fund the capsule irradiation testing and post-irradiation examination work. Currently, Lightbridge is in the experiment planning stage with INL and Texas A&M University on this project and planning activities with its Russian partners.

In addition, the Company has made considerable progress against its technology development roadmap during the past quarter, including the following developments:

- Preparations for testing at the reactor in Russia are already underway. We have visited the test reactor facilities in Russia where our fuels will be tested and begun preparations for this testing. In April, we signed a memorandum of understanding with the Research Institute of Atomic Reactors in Dimitrovgrad where the MIR research reactor is located in Russia
- The thermal-hydraulic and vibration testing on a VVER seed and blanket fuel assembly mockup is currently underway and is expected to be completed in the next quarter. The results of this testing will be submitted for publication in a peer-reviewed journal.
- Idaho National Laboratory (INL) is in the process of completing a comprehensive independent analysis of the Lightbridge thorium-based seed and blanket technology. As an independent review, INL is funding and providing the personnel required to complete the analysis. The evaluation is expected to cover both the metallic zirconium-uranium seed and the thorium-uranium dioxide blanket. The results of the study will be submitted to the US Department of Energy (DOE). We will provide an update when the report is made publicly available by DOE.



- We prepared and issued a white paper on the safety attributes of our metallic fuel technology which has been posted to our corporate website. The main conclusion of the white paper is that the inherent characteristics of our metal fuel technology, particularly the increased heat transfer capability resulting in lower fuel operating temperature and improved cladding integrity due to a metallurgical bond between the fuel and the cladding, are expected to contribute to increased safety margins during normal reactor operation and certain off-normal events.
- We are in discussions with government and commercial entities for collaborative development efforts on our lead test assembly program going forward.
- Lightbridge development efforts resulted in the filing of new patent applications in the US to cover our all-uranium seed and blanket fuel technology for power uprates and longer fuel cycles.

### ***Consulting Services Business***

At the present time, substantially all of our revenue for the three months ended March 31, 2011 and 2010, from our consulting and strategic advisory services business segment is derived by offering services to governments outside of the U.S. planning to create or expand electricity generation capabilities using nuclear power plants. The fee type and structure that we offer for each client engagement is dependent on a number of variables, including the complexity of the services, the level of the opportunity for us to improve the client's electricity generation capabilities using nuclear power plants, and other factors. Our revenues totaling approximately \$1.6 million and \$2.4 million for the three months ended March 31, 2011 and 2010, respectively, have been derived primarily from our continuing work under the August 1, 2008 agreements, and follow-on agreements in 2009, with the Executive Affairs Authority, or EAA, of Abu Dhabi, and with the Emirates Nuclear Energy Corporation, or ENEC, and the Federal Authority for Nuclear Regulation, or FANR. We entered into next phase follow-on agreements in March 2009 and July 2009 to continue our consulting services under the ENEC and FANR agreements for 2011. Revenue was recognized on a time and expense basis for the three months ended March 31, 2011 and 2010 for the ENEC and FANR contracts. For our contracts with Kuwait and the Gulf Cooperation Council, revenue is recognized upon the achievement of contractual milestones and the acceptance by our customer of our work.

**Consolidated Results of Operations**

The following table presents our historical operating results as a percentage of revenues for the periods indicated:

|  | Three Months Ended |      |
|--|--------------------|------|
|  | March 31,<br>2011  | 2010 |
| <b>Consolidated Statements of Income Data:</b> |                    |      |
| Revenues                                       | 100%               | 100% |
| Costs and expenses:                            |                    |      |
| Cost of revenues                               | 69%                | 63%  |
| Gross Profit                                   | 31%                | 37%  |
| Research and development                       | 32%                | 9%   |
| General and administrative                     | 109%               | 99%  |
| Total costs and expenses                       | 141%               | 108% |
| Loss from operations                           | 110%               | 71%  |
| Investment income and other, net               | 7%                 | 0%   |
| Loss before income taxes                       | 103%               | 71%  |
| Provision for income taxes                     | 0%                 | 0%   |
| Net loss                                       | 103%               | 71%  |

**Revenue**

The following table presents our revenues, by business segment, for the periods presented:

|                                    | Three Months Ended March 31, |           |
|------------------------------------|------------------------------|-----------|
|                                    | 2011                         | 2010      |
| <b>Consulting Segment Revenues</b> |                              |           |
| ENEC and FANR (UAE)                | \$ 1,546,594                 | 2,231,132 |
| Other                              | 31,500                       | 63,000    |
| Total                              | 1,578,094                    | 2,294,132 |
| Technology Segment Revenues        | -                            | 105,000   |
| Total Revenues                     | \$ 1,578,094                 | 2,399,132 |

The decrease in our revenues from 2010 to 2011 resulted from the decrease in the work performed for our ENEC project. Our consulting projects with ENEC and FANR are being performed pursuant to ongoing requests to work on specific projects on a time and expense basis as needed. The future revenue to be earned and recognized under both the ENEC and FANR agreements will depend upon agreed upon work plans which can differ from the revenue amounts initially planned to be earned under these agreements.

For our contracts with Kuwait and the Gulf Cooperation Council, deferred revenue recorded at March 31, 2011 was \$935,240. This revenue will be recognized in future periods based upon the achievement of contractual milestones and the acceptance by our customer of our work.

We believe that in 2011 we will obtain contracts from other governments interested in deploying nuclear power in their countries, based on our commitment to providing consulting services that are relevant and objective in exploring the use of nuclear power, which in turn we expect will increase our future consulting revenue.

**Costs and Expenses**

The following table presents our cost of services provided, by business segment, for the periods presented:

**Cost of Services Provided**

|            | Three Months Ended March 31, |              |
|------------|------------------------------|--------------|
|            | 2011                         | 2010         |
| Consulting | \$ 1,093,019                 | \$ 1,465,208 |
| Technology | -                            | 40,282       |
| Total      | \$ 1,093,019                 | \$ 1,505,490 |

These expenses related to the consulting, professional, administrative and other support costs allocated to our technology and consulting projects, which were incurred to perform and support the work done for our consulting projects with ENEC, FANR and our AREVA contract. The billing rates to us from our consultants who provide services under our consulting contracts predominantly remained the same in 2011 and 2010. The decrease in the consulting costs was a result in the decrease of work performed under the ENEC contract.

If consulting revenues increase in 2011, we expect cost of services provided will increase in dollar amount and may increase as a percentage of revenues in 2011 and in future periods.

**Research and Development**

The following table presents our research and development expenses:

|                                   | Three Months Ended March 31, |            |
|-----------------------------------|------------------------------|------------|
|                                   | 2011                         | 2010       |
| Research and development expenses | \$ 499,640                   | \$ 204,743 |

Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of our fuel. Almost all of our research and development activities are conducted in Russia. We expense research and development costs as they are incurred.

Research and development expenses will increase in dollar amount and may increase as a percentage of revenues in 2011 and future periods because we expect to continue to invest in the development of our nuclear fuel products.

**General and Administrative Expenses.**

The following table presents our general and administrative expenses:

|                                     | Three Months Ended March 31, |              |
|-------------------------------------|------------------------------|--------------|
|                                     | 2011                         | 2010         |
| General and administrative expenses | \$ 1,727,186                 | \$ 2,372,263 |

General and administrative expenses consist primarily of compensation and related costs for personnel and facilities, stock-based compensation, finance, human resources, information technology, and fees for consulting and other professional services. Professional services are principally comprised of outside legal, audit, strategic advisory services and outsourcing services.

General and administrative expenses decreased approximately \$0.7 million from 2010 to 2011. This decrease was primarily related to the decrease in stock-based compensation expense of \$0.5 million as a result of a significant amount of equity awards which fully vested in 2010. We expect our general and administrative expenses may increase in future periods due to the expansion of our technology and consulting and strategic advisory services business segments and the hiring of new officers, employees and consultants to help further develop and support our technology and consulting and strategic advisory services segments.



**Interest Income and Other, Net**

Interest income and other, net increased \$0.1 million from 2011 to 2010. This increase was primarily driven by an increase in investment income due to our higher cash and marketable securities balances resulting from our July 2010 fundraise.

**Provision for Income Taxes**

The following table presents our provision for income taxes. Our effective tax rate for the periods presented is 40%.

|                            | Three Months Ended March 31, |        |
|----------------------------|------------------------------|--------|
|                            | 2011                         | 2010   |
| Provision for income taxes | \$ 0.0                       | \$ 0.0 |

We incurred a net loss for both 2011 and 2010 and took a 100% valuation allowance against all deferred tax assets. Therefore we did not have a provision for taxes for both 2011 and 2010.

**Liquidity and Capital Resources**

As of March 31, 2011, we had total cash and cash equivalents of approximately \$3.0 million and marketable securities of \$8.5 million. The following table provides detailed information about our net cash flow for all financial statements periods presented in this Report.

**Cash Flow**

|   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2011                         | 2010           |
| Net cash provided by (used in) operating activities | \$ (1,285,253)               | \$ (1,028,657) |
| Net cash provided by (used in) investing activities | \$ 1,926,476                 | \$ 0           |
| Net cash provided by (used in) financing activities | \$ (283)                     | \$ 0           |
| Net cash inflow (outflow)                           | \$ 640,940                   | \$ (1,028,657) |

**Operating Activities**

Net cash used in our operating activities increased by approximately \$0.2 million for the three months ended March 31, 2011 as compared to 2010. This increase in cash used was primarily due to the decrease in our revenues resulting in a decrease in our revenue cash collections of approximately \$0.5 million and an increase in cash payments made toward prepayments, deferred project costs and other expenses of \$1.2 million. This increase in cash used in operating activities was primarily offset by a decrease in cash payments for our accounts payable and accrued liabilities of approximately \$0.7 million and an increase in our deferred revenue of \$0.8 million.

**Investing Activities**

Net cash provided by our investing activities for the three months ended March 31, 2011 as compared to 2010, increased by approximately \$1.9 million, which was due to the sale of marketable securities of approximately \$1.9 million.

**Financing Activities**

There were no significant changes in our net cash provided by (used in) our financing activities for the three months ended March 31, 2011 and 2010.





We anticipate entering into other consulting and technology agreements with our existing and new potential clients that will generate additional revenues for us in 2011 and beyond. If we do not enter into any new agreements, we anticipate that our cash position will meet our anticipated working capital needs until later in the year 2012 or 2013.

In support of our long-term business plan with respect to our fuel technology business, we endeavor to create strategic alliances with major fuel vendors, fuel fabricators and/or other strategic parties during the next three years, to support the remaining research and development activities required to further enhance and complete the development of our fuel products to a commercial stage. We may be unable to form such strategic alliances on terms acceptable to us or at all. Our total current average operating expenses, excluding the approximate \$5 million of outside consulting research and development expenses we expect to incur over the next 12-15 months, is approximately \$0.8 million per month.

### ***Off Balance Sheet Arrangements***

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that is material to an investor in our securities.

### ***Seasonality***

Our business has not been subject to any material seasonal variations in operations, although this may change in the future.

### ***Inflation***

Our business, revenues and operating results have not been affected in any material way by inflation.

## **ITEM 4. CONTROLS AND PROCEDURES.**

### ***Disclosure Controls and Procedures***

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this report on Form 10-Q. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer, and our Chief Financial Officer. Based upon that evaluation, management concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to management (including the chief executive officer and chief financial officer) to allow timely decisions regarding required disclosure and that our disclosure controls and procedures are effective to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

There were no changes in our internal control over financial reporting identified in connection with the evaluation performed that occurred during the period covered by this report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.



### ***Internal Controls Over Financial Reporting***

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in this Quarterly Report on Form 10-Q a report on management's assessment of the effectiveness of our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective, as of March 31, 2011, and was effective during the entire quarter ended March 31, 2011.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

### **ITEM 1A. RISK FACTORS**

#### **General Business Risks**

***If the price of non-nuclear energy sources falls, there could be an adverse impact on new-build nuclear reactor activities in certain markets, which would have a material adverse effect on our operations.***

In certain markets with a diversified energy base, decisions on new-build power plants are largely affected by the economics of various energy sources. If prices of non-nuclear energy sources fall, it could limit the deployment of new-build nuclear power plants in such markets. As a result, this could reduce the size of the potential markets for both our fuel technology and our consulting services.

***We may be adversely affected by uncertainty in the global financial markets and worldwide economic downturn.***

Our future results may be impacted by the worldwide economic downturn, continued volatility or further deterioration in the debt and equity capital markets, inflation, deflation, or other adverse economic conditions that may negatively affect us. The cost of raising money in the debt and equity capital markets has increased substantially during the current financial crisis while the availability of funds from those markets has diminished significantly. Even with the net proceeds of our July 2010 financing, we may require additional capital in the future. However, due to the above listed factors, we cannot be certain that additional funding will be available on terms that are acceptable to us, or at all.

***Our limited operating history makes it difficult to judge our prospects.***

Prior to 2008 we were a development stage company. We have only recently commenced the provision of nuclear consulting services and currently have only a limited number of clients in this area of our business. Similarly, our fuel design patents and technology have not been commercially used and we have not received any royalty or sales

revenue from this area of our business. We are subject to the risks, expenses and problems frequently encountered by companies in the early stages of development.

***We rely upon certain members of our senior management, including Seth Grae, and the loss of Mr. Grae or any of our senior management would have an adverse effect on the Company.***

Our success depends upon certain members of our senior management, including Seth Grae, Chief Executive Officer of the Company. Mr. Grae's knowledge of the nuclear power industry, his network of key contacts within that industry and in governments and, in particular, his expertise in the potential markets for the Company's technologies, is critical to the implementation of our business model. Mr. Grae is likely to be a significant factor in our future growth and success. The loss of the service of Mr. Grae would likely have a material adverse effect on our Company.

***Competition for highly skilled professionals could have a material adverse effect on our success.***

We rely heavily on our contractor staff and management team. Our success depends, in large part, on our ability to hire, retain, develop and motivate highly skilled professionals. Competition for these skilled professionals is intense and our inability to hire, retain and motivate adequate numbers of consultants and managers could have a serious effect on our ability to meet client needs and to continue the development of our fuel designs. A loss of a significant number of our employees could have a serious negative effect on us. In addition, any significant volatility or sustained decline in the market price of our common stock could impair our ability to use equity-based compensation to attract, retain and motivate key employees and consultants.

***As a result of a major nuclear accident at the Fukushima nuclear power plant in Japan that is believed to have been caused by a massive tsunami produced by a strong earthquake that occurred on March 11, 2011, public opposition to nuclear power could increase, resulting in a slow down in, or a complete halt to, new construction of nuclear power plants and an early shut down of existing power plants and the narrowing of our potential target market.***

Successful execution of our business model is dependent upon public support for nuclear power in the United States and other countries. Nuclear power faces strong opposition from certain competitive energy sources, individuals and organizations. A major nuclear accident that occurred at the Fukushima nuclear power plant in Japan that is believed to have been caused by a major tsunami wave produced by a strong earthquake that hit Japan on March 11, 2011, could have a significant adverse effect on public opinion about nuclear power and the favorable regulatory climate needed to introduce new nuclear technologies. Strong public opposition could hinder the construction of new nuclear power plants and lead to early shut-down of the existing nuclear power plants. Furthermore, nuclear fuel fabrication and the use of new nuclear fuels in reactors must be licensed by the U.S. Nuclear Regulatory Commission and equivalent governmental authorities around the world. In many countries, the licensing process includes public hearings in which opponents of the use of nuclear power might be able to cause the issuance of required licenses to be delayed or denied. Following the Fukushima nuclear accident, some countries have announced their plans to delay, scale down or cancel deployment of new nuclear power plants while others, such as Germany, have temporarily suspended the operation of their existing nuclear power plants until a safety review is completed.

***We may not be able to receive or retain authorizations that may be required for us to sell our services, or license our technology internationally.***

The sales and marketing of our services and technology internationally may be subject to U.S. export control regulations and the export control laws of other countries. Governmental authorizations may be required before we can export our services or technology. If authorizations are required and not granted, our international business plans could be materially affected. Furthermore, the export authorization process is often time consuming. Violation of export control regulations could subject us to fines and other penalties, such as losing the ability to export for a period of years, which would limit our revenue growth opportunities and significantly hinder our attempts to expand our business internationally.

#### **Risks Associated with our Fuel Technology Business**

*Our fuel designs have never been tested in an existing commercial reactor and actual fuel performance, as well as the willingness of commercial reactor operators and fuel fabricators to adopt a new design, is uncertain.*

Nuclear power research and development entails significant technological risk. New designs must be fabricated, tested and licensed before they can be offered for sale in commercial markets. Our fuel designs are still in the research and development stage and while certain testing on our fuel technologies has been completed, further testing and experiments will be required in test facilities. Furthermore, the fuel technology has yet to be demonstrated in an existing commercial reactor. Until we are able to successfully demonstrate operation of our fuel designs in an actual commercial reactor, we will not be certain about the ability of the fuel we design to perform as expected. In addition, there is also a risk that suitable testing facilities may not be available to us on a timely basis, which could cause limited development program schedule delays.

We will also have to enter into a commercial arrangement with a fuel fabricator to actually produce fuel using our designs. If our fuel designs do not perform as anticipated in commercial use, we will not realize revenues from licensing or other use of our fuel designs.

***We serve the nuclear power industry, which is highly regulated. Our fuel designs differ from fuels currently licensed and used by commercial nuclear power plants. As a result, the regulatory licensing and approval process for our fuels may be delayed and made more costly, and industry acceptance of our fuels may be hampered.***

The nuclear power industry is a highly regulated industry. All entities that operate nuclear facilities and transport nuclear materials are subject to the jurisdiction of the U.S. Nuclear Regulatory Commission, or its counterparts around the world.

Our fuel designs differ significantly in some aspects from the fuel licensed and used today by commercial nuclear power plants. These differences will likely result in more prolonged and extensive review by the U.S. Nuclear Regulatory Commission or its counterparts around the world that could cause development program schedule delays. Also, entities within the nuclear industry may be hesitant to be the first to use our fuel, which has little or no history of successful commercial use. Furthermore, our research and development program schedule relies on the transferability and applicability of the operating experience of the Russian icebreakers with metallic fuels for regulatory licensing purposes outside of Russia. There is a risk that if this fuel performance operating experience is found by the regulatory authority not to be transferable, more extensive experiments will be required which could cause program schedule delays and require more research and development funding.

***Existing commercial nuclear infrastructure in many countries is limited to uranium material enrichments up to 5%. Our metallic fuel is enriched to higher levels which would require modifications to existing commercial nuclear infrastructure and could impede commercialization of our technology.***

Existing commercial nuclear infrastructure, including conversion facilities, enrichment facilities, fabrication facilities, fuel storage facilities, fuel handling procedures and fuel operation at reactor sites, used fuel storage facilities and shipping containers, was designed and is currently licensed to handle uranium enrichment up to 5%. Our fuel designs are expected to have enrichment levels up to 19.7% and would therefore require certain modifications to existing commercial nuclear infrastructure to enable commercial nuclear facilities to handle our fuels. In addition, those nuclear facilities will need to go through a regulatory licensing process and obtain regulatory approvals to be able to handle uranium with enrichment levels up to 19.7% and operate commercial reactors using our fuel. There is a risk that some relevant entities within the nuclear power industry may be slow in making any required facility infrastructure modifications or obtaining required licenses or approvals to handle our fuel or operate commercial reactors using our fuel.

In addition, our nuclear fuel designs rely on fabrication technologies that in certain material ways are different from the fabrication techniques presently utilized by existing commercial fuel fabricators. In particular, our metallic fuel rods must be produced using a co-extrusion fabrication process. Presently, most commercial nuclear fuel is produced using a pellet fabrication technology, whereby uranium oxide is packed into small pellets that are stacked and sealed inside metallic tubes. The co-extrusion fabrication technology involves extrusion of a single-piece solid fuel rod from



a metallic matrix containing uranium and zirconium alloy. Fabrication of full-length (approximately 3.5 to 4.5 meters) metallic fuel rods has yet to be demonstrated. There is a risk that the fuel fabrication process required to produce one meter long metallic fuel rods may not be adaptable to the fabrication of full-length metallic fuel rods used in commercial reactors.

***Our plans to develop our fuel designs depend on us acquiring rights to the designs, data, processes and methodologies that are used or may be used in our business in the future. If we are unable to obtain such rights on reasonable terms in the future, our ability to exploit our intellectual property may be limited.***

We are currently conducting fuel assembly design and testing work in Russia through our Moscow office personnel as well as Russian research institutes and other nuclear entities that are owned or are closely affiliated with the government of the Russian Federation. We do not currently have all of the necessary licensing or other rights to acquire or utilize certain designs, data, methodologies or processes required for the fabrication of our fuel assemblies. If we, or a fuel fabricator to whom we license our fuel technology, desire to utilize such processes or methodologies in the future, a license or other right to use such technologies from the Russian entities that previously developed and own such technologies would be required. Furthermore, nuclear operators typically seek diversity of fuel supply and may be hesitant to use a fuel product that is only available from a single supplier. If we are unable to obtain a license or other right to acquire or utilize certain know-how required for the fabrication of our fuel assemblies on terms that the Russian entities deem to be reasonable, or there is only a single supplier of our fuel assemblies, then we may not be able to fully exploit our intellectual property and may be hindered in the sale of our fuel products and services.

***Our research operations are conducted primarily in Russia, making them subject to political uncertainties relating to Russia and U.S.-Russian relations.***

Much of our present research activities are being conducted in Russia. Our research operations conducted in Russia are subject to various political risks and uncertainties inherent in the country of Russia. If U.S.-Russia relations deteriorate, the Russian government may decide to scale back or even cease completely its cooperation with the United States on various international projects, including nuclear power technology development programs. If this should happen, our research and development program in Russia could be scaled back or shut down, which could cause development program schedule delays and may require additional funding to access alternative testing facilities outside of Russia. Furthermore, the Russian institutes or nuclear entities engaged in our project are highly regulated and, in many instances, are controlled by the Russian government. The Russian government could decide that the nuclear scientists engaged in our project in Russia or testing facilities employed in our project should be redirected to other high priority national projects in the nuclear sector which could lead to development program schedule delays. Finally, certain future research and development activities to be performed by Russian entities under contract with us will require formal authorization from the Russian State Atomic Energy Corporation, or Rosatom, which owns those entities and is the main Russian government agency that oversees Russia's civil nuclear power industry. Rosatom requires that all collaborative projects with U.S. entities fall into one of the collaboration areas outlined in a government-to-government agreement that was entered into by and between the United States and Russia soon after the 123 agreement on peaceful nuclear cooperation between the two countries came into force (which occurred in late 2010). In addition, Rosatom requires that the U.S. Department of Energy, or DOE, issue an official endorsement of each commercial project proposed for collaboration between a U.S. entity and Rosatom. Without such DOE endorsement and designation of the project by DOE as consistent with one of the collaboration areas outlined in the above-mentioned government-to-government agreement, Rosatom is unlikely to cooperate and participate in the proposed project. Lightbridge is currently in discussions with DOE on obtaining the official endorsement of its project required by Rosatom.

***Applicable Russian intellectual property law may be inadequate to protect our intellectual property, which could have a material adverse effect on our business.***

Intellectual property rights are evolving in Russia, trending towards international norms, but are by no means fully developed. While we are continuing to diversify our research and development activities with associated intellectual property, historically, we have worked closely with our Russian branch office employees and other Russian contractors and entities to develop a significant portion of our material intellectual property. Our rights in this intellectual property, therefore, derive, or are affected by, Russian intellectual property laws. If the application of these laws to our intellectual property rights proves inadequate, then we may not be able to fully avail ourselves of our

intellectual property and our business model may fail or be significantly impeded.

***If the Department of Energy, or DOE, were to successfully assert that an invention claimed within our 2007 or 2008 Patent Cooperation Treaty, or PCT, patent applications was first conceived or actually reduced to practice under a contract with the DOE, then our intellectual property rights in that invention would become compromised and our business model could fail or become significantly impeded.***

Work on finite aspects and/or testing of some subject matter disclosed in our 2007 and 2008 Russian PCT patent applications was done under a government contract with the DOE. If the DOE asserted that an invention claimed in the 2007 and/or 2008 Russian PCT applications was first conceived or actually reduced to practice under such a contract, and a U.S. court agreed, the DOE might gain an ownership interest in such an invention outside of the Russian Federation and our intellectual property rights in that claimed invention would become compromised and our business model may then fail or be significantly impeded.

***If we are unable to obtain or maintain intellectual property rights relating to our technology, the commercial value of our technology may be adversely affected, which could in turn adversely affect our business, financial condition and results of operations.***

Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our nuclear fuel designs by establishing and maintaining intellectual property rights relating to or incorporated into our fuel technologies and products. We own a variety of patents and patent applications in the United States, as well as corresponding patents and patent applications in several other jurisdictions. However, we have not obtained patent protection in each market in which we plan to compete. In addition, we do not know how successful we would be should we choose to assert our patents against suspected infringers. Our pending and future patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection, which could in turn adversely affect our business, financial condition and results of operations.

***If we infringe or are alleged to infringe intellectual property rights of third parties, our business, financial condition and results of operations could be adversely affected.***

Our nuclear fuel designs may infringe, or be claimed to infringe, patents or patent applications under which we do not hold licenses or other rights. Third parties may own or control these patents and patent applications in the United States and elsewhere. Third parties could bring claims against us that would cause us to incur substantial expenses and, if successfully asserted against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay commercialization of the fuel design or a component thereof that is the subject of the suit. As a result of patent infringement claims, or in order to avoid potential claims, we may choose or be required to seek a license from the third party and be required to pay license fees, royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be forced to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. This could significantly and adversely affect our business, financial condition and results of operations. In addition to infringement claims against us, we may become a party to other types of patent litigation and other proceedings, including interference proceedings declared by the United States Patent and Trademark Office regarding intellectual property rights with respect to our nuclear fuel designs. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

***Our nuclear fuel process is dependent on outside suppliers of nuclear and other materials and any difficulty by a fuel fabricator in obtaining these materials could be detrimental to our ability to eventually market our fuel through a fuel fabricator.***

Production of fuel assemblies using our nuclear fuel designs is dependent on the ability of fuel fabricators to obtain supplies of nuclear material utilized in our fuel assembly design. Fabricators will also need to obtain metal for components, particularly zirconium or its alloys. These materials are regulated and can be difficult to obtain or may have unfavorable pricing terms. Any difficulties in obtaining these materials by fuel fabricators could have a material adverse effect on their ability to market fuel based on our technology.

**Risks Associated With Our Consulting Activities.**

*Our inability to attract business from new clients or the loss of any of our existing clients could have a material adverse effect on us.*

We expect that many of our future client engagement agreements will be terminable by our clients with little or no notice and without penalty. Some of our work will involve multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for additional stages of an engagement or that a client will cancel or delay additional planned engagements. In addition, a small number of existing clients account for a majority of our consulting revenues, the loss of any one of which would have a material adverse effect on our results of operations.

*Our future profitability will suffer if we are not able to maintain current pricing and utilization rates.*

Our revenue, and our profitability, will be largely based on the billing rates charged to clients and the number of hours our professionals will work on client engagements, which we define as the utilization of our professionals. Accordingly, if we are not able to maintain the pricing for our services or an appropriate utilization rate for our professionals, revenues, project profit margins and our future profitability will suffer. Bill rates and utilization rates are affected by a number of factors, including:

- our ability to predict future demand for services and maintain the appropriate headcount and minimize the number of underutilized personnel;
- our clients' perceptions of our ability to add value through our services;
- our competitors' pricing for similar services;
- the market demand for our services; and
- our ability to manage significantly larger and more diverse workforces as we increase the number of our professionals and execute our growth strategies.

*Unsuccessful future client engagements could result in damage to our professional reputation or legal liability, which could have a material adverse effect on us.*

Our professional reputation and that of our personnel is critical to our ability to successfully compete for new client engagements and attract or retain professionals. Any factors that damage our professional reputation could have a material adverse effect on our business.

In addition, any client engagements that we obtain will be subject to the risk of legal liability. Any public assertion or litigation alleging that our services were negligent or that we breached any of our obligations to a client could expose us to significant legal liabilities, could distract our management and could damage our reputation. We carry professional liability insurance, but our insurance may not cover every type of claim or liability that could potentially arise from our engagements. In addition, the limits of our insurance coverage may not be enough to cover a particular claim or a group of claims, and the costs of defense.

*Our results of operations could be adversely affected by disruptions in the marketplace caused by economic and political conditions.*

Global economic and political conditions affect our clients' businesses and the markets they serve. A severe and/or prolonged economic downturn or a negative or uncertain political climate could adversely affect our clients' financial condition and the levels of business activity engaged in by our clients and the industries we serve. Clients could determine that discretionary projects are no longer viable or that new projects are not advisable. This may reduce demand for our services, depress pricing for our services or render certain services obsolete, all of which could have a material adverse effect on our results of operations. Changes in global economic conditions or the regulatory or legislative landscape could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Although we have implemented cost management measures, if we are unable to appropriately manage costs or if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

### **Risks Relating to the Ownership of Our Securities**

*There may be volatility in our stock price, which could negatively affect investments, and stockholders may not be able to resell their shares at or above the value they originally purchased such shares.*

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond its control, including:

- quarterly variations in operating results,
- changes in financial estimates by securities analysts,
- changes in market valuations of other similar companies,
- announcements by us or our competitors of new products or of significant technical innovations, contracts, receipt of (or failure to obtain) government funding or support, acquisitions, strategic partnerships or joint ventures,
- additions or departures of key personnel,
- any deviations in net sales or in losses from levels expected by securities analysts, or any reduction in political support from levels expected by securities analysts,
- future sales of common stock, and
- results of analyses of mining and resources assets.

In addition, the stock market may experience extreme volatility that is often unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of its performance.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES OR USE OF PROCEEDS**

There were no unregistered sales of equity securities during the fiscal quarter ended March 31, 2011.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

There were no defaults upon senior securities during the fiscal quarter ended March 31, 2011.

### **ITEM 4. (REMOVED AND RESERVED)**

### **ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**



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The following exhibits are filed with this report, except those indicated as having previously been filed with the SEC and are incorporated by reference to another report, registration statement or form. As to any shareholder of record requesting a copy of this report, we will furnish any exhibit indicated in the list below as filed with this report upon payment to us of our expenses in furnishing the information.

***Exhibit***

***Number Description***

|             |  |
|-------------|--|
| <u>31.1</u> | <u>Rule 13a-14(a)/15d-14(a) Certification - Principal Executive Officer</u>  |
| <u>31.2</u> | <u>Rule 13a-14(a)/15d-14(a) Certification - Principal Accounting Officer</u> |
| <u>32</u>   | <u>Section 1350 Certifications</u>   |

SIGNATURES

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereto duly authorized individuals.

Date: May 10, 2011

**LIGHTBRIDGE CORPORATION**

By: /s/ Seth Grae

Seth Grae  
Chief Executive Officer,  
President and Director  
(Principal Financial Officer)

By: /s/ James Guerra

James Guerra  
Chief Operating Officer and  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

**EXHIBIT INDEX**

*Exhibit*

*Number Description*

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