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Lightbridge 2015 Q1 Business Update Conference Call Transcript

Lightbridge Corp (NASDAQ:[LTBR](#))
Q1 2015 Earnings Conference Call
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Executives

Gary Sharpe - Head, Investor Relations
Seth Grae - Chief Executive Officer
Linda Zwobota - Chief Financial Officer
Jim Malone - Chief Nuclear Fuel Development Officer
Andrey Mushakov - Executive Vice President, International Nuclear Operations

Analysts

Matt Paolucci - Darwin Asset Management

Operator

Welcome to the Lightbridge Corporation Business Update and 2015 First Quarter Financial Results Conference Call. My name is Hilda and I will be your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. I will now like to turn the call over to Mr. Gary Sharpe. Mr. Sharpe, you may begin.

[Gary Sharpe](#) - Head, Investor Relations

Thank you, Hilda, and good morning and welcome to the conference call for Lightbridge's 2015 first quarter business update and financial results. Our news release was distributed after the market close yesterday and can be viewed on the Investor Relations page of the Lightbridge Web site at [ltbridge.com](#). We also filed the company's Form 10-Q with the Securities and Exchange Commission.

Seth Grae, our CEO, will lead today's call. In addition, the following executives are available to answer your questions, CFO, Linda Zwobota; Jim Malone, Chief Nuclear Fuel Development Officer and Andrey Mushakov, Lightbridge's Executive Vice President for International Nuclear Operations.

Today's presentation includes forward-looking statements about the company's competitive position and product and service offerings. During the course of today's call, words such as expect, anticipate, believe, and intend will be used in our discussion of our goals and events in the future. This presentation is based on our current expectations. Certain risks and uncertainties may cause actual results to differ significantly from those estimates. These and other risks are set forth in more detail in Lightbridge's filings with the Securities and Exchange Commission. Lightbridge does not assume any obligation to update or revise any such forward-looking statements whether as a result of new developments or otherwise.

By now I am sure you know you can participate in our calls two ways. First, you may submit questions for management in writing to ir@ltbridge.com and if you have already submitted a question, we thank you. You can submit them at anytime during the prepared remarks or during the Q&A period. And then after prepared remarks, our operator will open the lines for live questions.

Before we get started, I want to draw your attention to a letter that was published today in the Wall Street Journal, Lightbridge CEO Seth Grae responded to recent criticism of a nuclear regulatory commission and he also briefly discusses the effective subsidies that support renewable energy sources on nuclear energies competitiveness. We hope you'll take a few minutes to read that commentary, it's available both online and in the print edition.

So now here is Lightbridge CEO, Seth Grae.

Seth Grae - Chief Executive Officer

Thank you, Gary. Good morning, everyone. Lightbridge made significant progress during the first quarter toward achieving strategic milestone in the development of our innovative metallic nuclear fuel technology. This near-term strategic progress bolsters our confidence about advancing Lightbridge's proprietary fuel designs to commercialization within our stated timeframes and creating long-term value for Lightbridge stockholders from high margin revenue streams from technology licensing fees and royalties from a growing \$25 billion annual market for nuclear fuel.

The company's success on the development front is driven by growing awareness among major entities in the nuclear power sector of the indicated benefits of Lightbridge metallic nuclear fuel technology mainly enhance reactor safety, improved operating economics for nuclear utilities and increased power output from existing a new build reactors. I also think the letter in today's Wall Street Journal is part of a growing awareness of Lightbridge generally.

Our fuel designs address the most important safety and economic issues facing the commercial nuclear energy industry.

Over the past two months, we have held meetings with our nuclear utility fuel advisory board comprised of fuel managers from four major nuclear utilities to discuss and agree on a plan to a written expression of interest to U.S. Nuclear Regulatory Commission, the NRC. Earlier we disclosed our commitment to achieving this crucial milestone by the end of the first quarter of 2016. We are now confident that the expression of interest will be delivered to the NRC sooner than that.

Such an expression of interest would present the strongest endorsement to-date of Lightbridge fuel by potential customers.

The NRC uses these communications from U.S. utility to adjust staffing level and budget in anticipation of regulatory review of licensing documentation. In this case relating to lead test assembly operation with Lightbridge-designed metallic fuel in a commercial power reactor in the United States beginning in 2020 to 2021.

After the NRC receives a written expression of interest in Lightbridge-designed fuel that document will be posted on the NRC's web site at nrc.gov. We will make a timely disclosure of that significant development.

In addition to considerable progress over the past quarter toward an expression of interest to the NRC, we have also continued steady advance toward other key fuel milestone development. During the quarter, negotiations reached the final stage on a comprehensive agreement between Lightbridge and Canadian Nuclear Laboratories, or CNL, a wholly owned subsidiary of Atomic Energy of Canada Limited, for fabrication of metallic nuclear fuel samples at CNL's Chalk River facility in Ontario. An initial cooperation agreement was signed with CNL in October 2014. We expect to sign the comprehensive agreement in the near future that involves three critical pass actives. One: development of a fabrication plan in 2015; two: fabrication and characterization in early 2016 of prototype fuel rods using depleted uranium, and; three: fabrication in late 2016 of irradiation fuel samples using enriched uranium.

First-quarter progress included the commencement of irradiation contract negotiations between Lightbridge and the Institute for Energy Technology, operator of the 25 Megawatt Halden Research Reactor at Halden, Norway. Beginning in 2017, we expect our fabricated fuel samples to undergo full irradiation under prototypic commercial reactor operating conditions in a pressurized water loop of the Halden reactor. Halden's operating license was recently renewed through 2020, which conforms to our anticipated irradiation testing schedule. Post-irradiation examination of partially irradiated fuel samples also is planned to begin at Halden in 2018.

We believe these test results will allow us to enter into a commercial arrangement with a major fuel fabricator or a development partner. This collaboration could entail a technology licensing deal that could be structured such that Lightbridge would receive upfront technology access fees, milestone progress payments and/or ongoing royalty fees from sale of each fuel assembly with Lightbridge designed metallic fuel rods. Alternatively, this collaboration could involve a cost-sharing arrangement whereby a development partner makes cash or in-kind contributions toward our fuel development program.

Other types of commercial arrangements were also possible. Our ultimate goal for such a deal is to have lead test assemblies and subsequently core re-loads with Lightbridge design metallic fuel manufactured and sold by fuel fabricators to end users, nuclear utilities operating commercial nuclear power plants worldwide.

Lightbridge's progress in developing advanced nuclear fuel comes at a time of renewed and broad based interest in nuclear energy and its potential to mitigate climate change by reducing carbon dioxide emissions generated by burning fossil fuels.

During the first quarter, the Organization for Economic Cooperation and Development, the OECD, called for a doubling of global nuclear power capacity by 2050 to limit the negative effect of global warming. In the 2015 edition of Nuclear Technology Roadmap published by the OECD and the International Energy Agency, the groups assert that "current trends in energy supply and use are unsustainable," and "the fundamental advantages provided by nuclear energy in terms of reduction of greenhouse gas emissions, competitiveness of electricity production and security of supply" are essential to achieving a "carbon limited energy mix by 2050."

We are also encouraged by recent bipartisan political and budgetary support in the U.S Congress for next generation nuclear technology.

A recent op-ed published by The Hill, a well regarded political newspaper in Washington, D.C., the underscored unrealized potential of nuclear power in the United States and the value of nuclear energy infrastructure to state and local governments.

The article states, "There is a lot of untapped power in the existing nuclear fleet. About 50% of U.S nuclear reactors have uprate potential which would be the equipment of adding 8 to 10 nuclear reactors to the U.S fleet. Five reactor uprates can equal the added output of one nuclear reactor, or the electricity needed to power 740,000 American homes."

The article acknowledged nuclear as a source of affordable, reliable, low carbon base load energy with "significant economic benefits." Nuclear energy facilities provide about 800 jobs per site, above-average wages, \$20 million in state and local taxes, plus more than \$400 million in other economic benefits per year.

Momentum is building throughout the commercial nuclear energy industry. Lightbridge fuel technology remains well positioned domestically and internationally from more progress in 2015. Our near-term catalyst are achievable.

We believe both the company and our industry are poised to realize sustainable long-term growth. Realizing that growth spells increased value for Lightbridge shareholders, improved operating economics and safety profiles for nuclear utilities and, ultimately, a healthier planet for all of us.

Now here is Lightbridge's Chief Financial Officer, Linda Zwobota to summarize the company's financial results for the quarter.

[Linda Zwobota](#) - Chief Financial Officer

Thank you, Seth.

For the quarter ended March 31, 2015, Lightbridge's net loss was \$1.1 million, or a loss of \$0.06 per share, on revenue of \$0.1 million, compared to a net loss of \$1.4 million, or a loss of \$0.10 per share, on revenue of \$0.3

million in the first quarter of 2014. General and administrative expenses in the 2015 quarter were \$0.9 million, compared to \$1.1 million in the same period of 2014.

Over the next 12 to 15 months, we expect to incur approximately \$2.5 million to \$3 million in research and development expenses related to the development of our proprietary nuclear fuel designs. We spent approximately \$0.2 million and \$0.4 million for research and development during the quarters ended March 31, 2015 and 2014 respectively.

Savings from a cost reduction program initiated in late 2014, including the closing of our Moscow office, are being reallocated to R&D work in the United States and future planned work in Canada and Norway.

At March 31, 2015, the company had approximately \$3.5 million in cash, cash equivalents and restricted cash, and approximately \$3.5 million of working capital with no long-term debt. Stockholders' equity was approximately \$4.4 million at March 31, 2015, compared with \$5.4 million on December 31, 2014. Common shares outstanding at December 31, 2014 totaled 18,082,874.

This concludes my summary, now it's time for the Q&A portion of today's presentation.

[Seth Grae](#) - Chief Executive Officer

Thanks, Linda.

Let's open the call to your questions. In addition to asking live questions by telephone, you can also submit questions in writing to ir@ltbridge.com. We will pause while Hilda reviews the procedures for asking live questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions].

[Seth Grae](#) - Chief Executive Officer

While we wait for live questions, Gary Sharpe, who is in charge of our Investor Relations, will proceed with questions that we've received by e-mail.

[Gary Sharpe](#) - Head, Investor Relations

So here are few that have come in via e-mail. First off, can you give us an update on the Department of Energy Meeting that you disclosed during your last conference call?

[Seth Grae](#) - Chief Executive Officer

Let me ask Jim Malone, who was the top Lightbridge person at that meeting to address that. Jim are you on?

[Jim Malone](#) - Chief Nuclear Fuel Development Officer

This is Jim, calling in from travel. The meeting with DOE was gratifying from Lightbridge perspective. We had several DOE people spend an extra hour with us beyond the scheduled finish time of the meeting. We got some good insights into their perspective; one very encouraging aspect was related to their position on the level of uranium enrichments in our fuel which they believe is just not a problem and I think that that's an important point. The DOE people were more than curious, they we're quite interested in what we are doing to see the value of it and they also understand that the utility presence at the meeting was very important to them because it does show that the alleged or the interest in the fuel and its capabilities on the part of the utilities makes us a real live project that DOE is going to follow.

[Andrey Mushakov](#) - Executive Vice President, International Nuclear Operations

I just want to add here that, three representatives from three utilities out of four utilities on our Nuclear Utility Fuel Advisory Board attended the DEO meeting with us. So that was very important as Jim pointed out to have utility presence at that meeting.

[Gary Sharpe](#) - Head, Investor Relations

A fresh question from the Internet, can you comment on the recent visit to Argentina by your Executive Chairman Ambassador Thomas Graham? Is there a business opportunity developing there?

[Seth Grae](#) - Chief Executive Officer

Tom was invited to the nuclear energy centers in Argentina to speak about nuclear energy in relation to climate change and also non-proliferation issues with the leaders of Argentina's nuclear sector and large numbers of people working in that sector in the general meeting. He was the keynote speaker. He also addressed at these sessions Lightbridge's nuclear fuel technology and potential for collaboration in Argentina and with other Argentinean entities over time.

As you know much of our work now is being done in Canada, Canadian Nuclear Labs particularly. That's where the nuclear fuel will be fabricated for the fuels for the radiation testing that will be done in the reactor in Norway. Canada also is a leader in CANDU-type reactors. Argentina and China and Canada all cooperated various ways in CANDU-type reactors as Romania and some other countries and India. We are looking at the potential for our fuel in CANDU-type reactors which is addition to Western type light water reactors, which we think will prove to be very beneficial for CANDU reactors. There might be opportunities with Argentina in the future along those lines.

[Gary Sharpe](#) - Head, Investor Relations

Here is another follow up question on the same topic. Can you comment on potential cooperation from the Russian fuel manufacturer in Argentina and elsewhere? How is the TVEL relationship holding up in this political climate?

[Seth Grae](#) - Chief Executive Officer

That's a very international question: Russian cooperation with Lightbridge in Argentina. That had not come up during these visits. The Russian Lightbridge relationship is actually very good. We've had a very long standing relationship in Russia with a lot of work. The Russian U.S relationship is not very good and that is why we have moved work out of Russia. Not just because of the excellent facilities and capabilities and personnel in Canada and Norway and Sweden and the United States where we have been transferring work. But also because it's just not realistic to enter into a multi-year, multi-million dollar test program in Russia that requires corporation by both governments and assume that nothing can go wrong, given the situation between the government with differences over Ukraine and other very important differences between the governments.

So our relationship with Russia as a company is very good. But we do think that long-term there will opportunities working with Russia, and Russia is deploying nuclear reactors all over the world. They are right now the largest deployer of nuclear reactors globally. Our fuel is designed to work in their VVER type reactors globally and it could be fabricated by companies that are not Russian to work in those reactors with or without Russian participation, but I suspect in the end we'll be coming to working with Russia and in certain countries around the world.

[Gary Sharpe](#) - Head, Investor Relations

Operator, Hilda would you please remind our callers how to call in with live questions.

Operator

Absolutely thank you. [Operator Instruction].

[Gary Sharpe](#) - Head, Investor Relations

While we're waiting for the queue to build, here's another question that's come in over the Internet. The NRC is being criticized in recent news reports for a having a large staff and a lengthy review process for licensing applications. If Congress reduces the commission's budget or staff level, would that have a large adverse impact on the approval process for Lightbridge fuel?

[Seth Grae](#) - Chief Executive Officer

Well, I think my letter in today's Wall Street Journal might be the only positive comment about the NRC in the history of the Wall Street Journal's opinion pages. And we think that not only do we need a strong nuclear safety regulator in the United States, that the NRC should justly take a lot of credit for the reason why nobody has ever

died from radiation in the history of the U.S nuclear power industry. But I think globally for U.S companies to be exporters throughout our supply, the NRC is extremely important and there are some countries that have told us that they would not consider deploying a nuclear reactor unless that design has already been licensed by the U.S NRC. And we see Westinghouse, GE, American reactor technology deployed around the world partly because of that NRC approval.

There will be budget cuts coming at the NRC. We don't think that this will have a negative effect on us at all. First of all, the NRC had staffed up for a nuclear renaissance of large numbers of new reactors being built and it's in those areas where staffing will be cut. That has nothing to do with new nuclear fuel licensing which is where our work is. We expect that with the contact we've had with the NRC and the letter we expect will be forthcoming from U.S. utilities showing expression of interest that the NRC will be aligning staff to and other resources, codes et cetera to prepare to license our fuel for lead test assemblies starting in one U.S. commercial reactor and then we're allotting to many reactors. We think there will be plenty of time, lead time for the NRC to be able to do that in accordance with our timeframes. And it is much less in terms of NRC resources that are needed to license new fuel, than in another new kind of nuclear reactor, including a new fuel and new way to make the fuel and everything else.

This fuel is much less than just a whole new kind of reactor in terms of holding on the NRC. So the answer is no, we don't think that any coming changes to the NRC's budget will have any negative impact at all on Lightbridge's fuel technology.

Gary Sharpe - Head, Investor Relations

Here is another question, written question via ir@ltbridge.com. Areva the French nuclear entity is reporting problems with its business. The French government wants EDF, that operates close to 60 power reactors in France, to increase the efficiency from that reactor fleet. Do you think these developments could present an opportunity for Lightbridge's metallic fuel, to offer it as a solution to EDF and Areva?

Seth Grae - Chief Executive Officer

Yes, EDF, Électricité de France is the French national utility that operates all 59 reactors in France and is deploying a 60th as we speak, and has plans or more. Areva fuels every one of those reactors and both of them operate internationally as well outside France, particularly in Europe and in Areva's case of many places around the world including huge operations here in the United States. We do think there are great opportunities with us exactly as posed in that question that the French fleet just like the U.S. fleet would benefit tremendously from power uprates from enhanced safety margins, from longer fuel cycles.

We think that the current French government seems less likely to fund building new reactors to replace old reactors in France the way to add new nuclear energy in France as the longer fuel cycles and power uprates with Lightbridge fuel and that is definitely a market we will be targeting.

Gary Sharpe - Head, Investor Relations

Here is another question, how is nuclear energy's competitive position changing in the wake of current oil and gas prices and by the global movement toward reducing carbon dioxide emissions?

Seth Grae - Chief Executive Officer

Well, on the fossil fuel prices, I think it depends on the country. Clearly lower natural gas prices -- lower natural gas prices in countries that have a lot of natural gas like the United States make nuclear less competitive versus natural gas. However for countries that don't have natural gas like Japan that imports it, it remains fantastically expensive due to the high transportation cost of natural gas, which is one reason why there is lot of pressure in Japan to start reopening reactors. So it depends on the country, but in general that particularly hurts nuclear, helps natural gas.

Natural gas prices are very volatile. Most major companies in that industry and government agencies expect those prices to be going back up. So I won't count on natural gas prices staying as low as they have forever. In fact they have gone up quite a bit already over the last couple of years. And also remember natural gas is not a direct competitor for nuclear power; natural gas is more of an intermediate producer, whereas nuclear is more of a base load producer meeting the demand 24/7. And when you run nuclear 24/7 for decades, over the life of that

plant it is cheaper than natural gas, then you start kicking into natural gas as you peak up during the day and people are turning on the air conditioners and businesses are turning on lights and then you peak up above that to other methods as well.

They are not exactly direct competitors; that doesn't hurt nuclear as much as you might think at first. And also the lower petroleum prices don't really affect nuclear because in the U.S. and around the world burning oil is not only an extremely polluting CO2 emitting way of generating energy, but is not much used, it's used a bit in the New York City, it's used a bit in other places, but actually oil is mostly a transportation fuel not an electricity generating fuel. So lower prices don't really hurt nuclear and I'll say that in general what lower gas prices are hurting is coal. Coal plants are closing and being replaced by natural gas plants because they are much more direct competitors. I'll leave it at that. Gary?

[Gary Sharpe](#) - Head, Investor Relations

Here is another fresh question via the Internet. A follow up on the Argentina question. Can you comment on the relationship between the United Arab Emirates and Argentina? There is a recent article refers to increased cooperation between those two countries, and UAE is a major client for Lightbridge.

[Seth Grae](#) - Chief Executive Officer

The UAE is a major client for Lightbridge and we have some long standing relationships in Argentina that have been refreshed very recently. But we have no involvement or knowledge of anything going on between the UAE and Argentina. Zero, we've heard nothing about that. So I really can't comment.

[Gary Sharpe](#) - Head, Investor Relations

Hilda, will you please poll for additional live questions.

Operator

Yes, thank you. [Operator Instructions].

[Gary Sharpe](#) - Head, Investor Relations

One more question, it looks like from the Internet. What has changed in the developments with the written expression of interest to the NRC that gives you the confidence that that milestone will be achieved before 2016?

[Seth Grae](#) - Chief Executive Officer

Well, a lot has changed, one is that they told us they would. And other is that they've been meeting with us more frequently, more extensively with very valuable advice to us, preparing to move forward with NRC. Another is that they've been communicating more among themselves. And finally they were with us, with DOE, with Jim Malone and with Andrey at DOE and included in those meeting with discussion with what would be going forward with planning with the NRC. So that's all new since our last conference call.

[Gary Sharpe](#) - Head, Investor Relations

Operator Hilda, do you have any other live questions?

Operator

We have a question from Matt Paolucci from Darwin Asset Management. Please go ahead.

[Matt Paolucci](#) - Darwin Asset Management

That question that you just covered answered my question. I was just curious about the written letter in the second quarter versus more like 2016. So I think we just got that covered. Thank you.

[Seth Grae](#) - Chief Executive Officer

Again I can't tell you the exact date but my sense is that lot sooner than the first quarter of 2016.

[Gary Sharpe](#) - Head, Investor Relations

So operator Hilda, if there are no further questions...

Operator

We are showing no further questions.

[Seth Grae](#) - Chief Executive Officer

Great. Thank you, Hilda; thank you, Gary. Everybody, we thank you for calling in, for sending in all these questions by e-mail and one by phone. We hope you share our optimism for Lightbridge's improving position in the expanding global nuclear power market and the opportunity to serve that market with our fuel. Until our next conference call, the lines are always open at ir@ltbridge.com and 1-571-730-1213. Thank you and goodbye.

Operator

Ladies and gentlemen, this concludes today's conference. We thank you for participating. You may now disconnect.

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