

ALTAIR NANOTECHNOLOGIES INC

Form 10-Q

November 14, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2012
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

ALTAIR NANOTECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other  
jurisdiction  
of  
incorporation)

1-12497  
(Commission  
File No.)

33-1084375  
(IRS  
Employer  
Identification  
No.)

204 Edison  
Way  
Reno, Nevada  
89502

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (775) 856-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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submit and post such files). YES x NO o .

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

Large accelerated filer ☐ Accelerated  
filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒  
X ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): YES ☐ NO  
[X]

As of November 8, 2012 the registrant had 69,537,911 shares of Common Stock outstanding.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Expressed in thousands of United States Dollars, except shares)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$32,213	\$46,519
Restricted cash	293	
Accounts receivable, net	949	333
Product inventories, net	8,648	7,220
Prepaid expenses and other assets	897	1,562
Deferred contract costs	3,330	678
Other assets, related party	1,700	
Total current assets	48,030	56,312
Property, plant and equipment, net	6,117	6,870
Patents, net	293	350
Total Assets	\$54,440	\$63,532
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$5,667	\$5,870
Accrued salaries and benefits	852	1,132
Accrued warranty	397	354
Accrued liabilities	445	421
Deferred revenues	5,326	1,616
Warrant liabilities	742	654
Note payable, current	1,000	
Capital lease obligation	16	12
Total current liabilities	14,445	10,059
Total Liabilities	14,445	10,059
Stockholders' equity		
Common stock, no par value, unlimited shares authorized; 69,537,911 shares issued and outstanding at September 30, 2012 and December 31, 2011	246,667	245,617
Additional paid in capital	12,349	12,279
Accumulated deficit	(218,828 )	(204,423 )

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Accumulated other comprehensive loss	(193	)
Total stockholders' equity	39,995	53,473
Total Liabilities and Stockholders' Equity	\$54,440	\$63,532

See notes to the consolidated financial statements.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Expressed in thousands of United States Dollars, except shares and per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues</b>				
Product sales	\$ 296	\$ 795	\$ 869	\$ 3,335
License fees	60	60	180	180
Commercial collaborations	4		22	80
Contracts and grants				287
Total revenues	360	855	1,071	3,882
<b>Cost of goods sold</b>				
Product	773	559	1,792	3,484
Commercial collaborations		(124 )		73
Contracts and grants				296
Warranty and inventory reserves	15	97	490	155
Total cost of goods sold	788	532	2,282	4,008
Gross (loss) profit	(428 )	323	(1,211 )	(126 )
<b>Operating expenses</b>				
Research and development	1,423	1,594	5,046	4,933
Sales and marketing	499	834	2,344	2,798
General and administrative	1,837	2,730	5,010	6,107
Depreciation and amortization	252	259	771	1,013
Loss on disposal of assets		2		18
Total operating expenses	4,011	5,419	13,171	14,869
Loss from operations	(4,439 )	(5,096 )	(14,382 )	(14,995 )
<b>Other (expense) income</b>				
Interest income (expense), net	37	(97 )	67	(155 )
Change in market value of warrants	(267 )	(676 )	(88 )	346
Loss on foreign exchange	(2 )	(4 )	(2 )	(5 )
Total other (expense) income, net	(232 )	(777 )	(23 )	186
Net loss	\$ (4,671 )	\$ (5,873 )	\$ (14,405 )	\$ (14,809 )
<b>Loss per common share - basic and diluted</b>				
	\$ (0.07 )	\$ (0.10 )	\$ (0.21 )	\$ (0.38 )

Weighted average shares - basic and diluted	69,537,911	60,222,433	69,537,911	39,286,178
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See notes to the consolidated financial statements.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(Expressed in thousands of United States Dollars)  
(Unaudited)

	Three Months Ended September 30,	
	2012	2011
Net loss	\$(4,671	) \$(5,873
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(61	) -
Comprehensive loss	\$(4,732	) \$(5,873

	Nine Months Ended September 30,	
	2012	2011
Net loss	\$(14,405	) \$(14,809
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(193	) -
Comprehensive loss	\$(14,598	) \$(14,809

See notes to the consolidated financial statements.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Expressed in thousands of United States Dollars, except shares)  
(Unaudited)

	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, July 1, 2011	30,701,104	\$ 193,436	\$ 12,510	\$ (193,426 )	-	\$ 12,520
Net loss				(5,873 )		(5,873 )
Share-based compensation		78	309			387
Common stock issued	1,800,000					
Common stock issued, net of issuance costs of \$5.4M	37,036,807	52,103				52,103
Warrant redemption			(530 )			(530 )
Balance, September 30, 2011	69,537,911	\$ 245,617	\$ 12,289	\$ (199,299 )		\$ 58,607

	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, July 1, 2012	69,537,911	\$ 245,617	\$ 12,276	\$ (214,157 )	\$ (132 )	\$ 43,604
Net loss				(4,671 )		(4,671 )
Other comprehensive loss					(61 )	(61 )
Reduction in issuance costs from legal claims settlement		1,050				1,050
Share-based compensation			73			73
Balance, September 30, 2012	69,537,911	\$ 246,667	\$ 12,349	\$ (218,828 )	\$ (193 )	\$ 39,995

	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2011	27,101,104	\$ 189,491	\$ 12,297	\$ (184,490 )	-	\$ 17,298
Net loss				(14,809 )		(14,809 )
Share-based compensation		228	522			750
Common stock issued, net of issuance costs of \$698	3,600,000	3,795				3,795



## and warrant liabilities

Common stock issued	1,800,000
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Common stock issued, net of issuance costs of \$5.4M	37,036,807	52,103	52,103
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Warrant redemption	(530 )	(530 )
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Balance, September 30, 2011	69,537,911	\$ 245,617	\$ 12,289	\$ (199,299 )	\$ 58,607
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	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2012	69,537,911	\$ 245,617	\$ 12,279	\$ (204,423 )		\$ 53,473
Net loss				(14,405 )		(14,405 )
Other comprehensive loss					(193 )	(193 )
Reduction in issuance costs from legal claims settlement		1,050				1,050
Share-based compensation			70			70
Balance, September 30, 2012	69,537,911	\$ 246,667	\$ 12,349	\$ (218,828 )	\$ (193 )	\$ 39,995

See notes to the consolidated financial statements.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in thousands of United States Dollars)  
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(14,405 )	\$(14,809 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	771	1,013
Share-based compensation	70	750
Loss on disposal of assets		18
Change in fair value of warrants	88	(346 )
Changes in operating assets and liabilities:		
Accounts receivable, net	(616 )	479
Product inventories	(1,211 )	246
Prepaid expenses and other current assets	(3,687 )	36
Trade accounts payable	(203 )	(740 )
Accrued salaries and benefits	(280 )	694
Accrued warranty	43	68
Deferred revenues	3,710	(1,029 )
Accrued liabilities	24	98
Net cash used in operating activities	(15,696 )	(13,522 )
Cash flows from investing activities:		
Increase in restricted cash	(293 )	
Purchase of property, plant and equipment	(170 )	(343 )
Proceeds from disposition of assets		5
Net cash used in investing activities	(463 )	(338 )
Cash flows from financing activities:		
Issuance of common shares for cash, net of issuance costs	1,050	61,851
Payment on warrant redemption		(530 )
Proceeds from notes payable	1,000	1,500
Payment of note payable		(198 )
Repayment of capital lease obligation	(4 )	(17 )
Net cash provided by (used in) financing activities	2,046	62,606
Effect of exchange rate changes on cash and cash equivalents	(193 )	
Net (decrease) increase in cash and cash equivalents	(14,306 )	48,746
Cash and cash equivalents, beginning of period	46,519	4,695
Cash and cash equivalents, end of period	\$32,213	\$53,441
Supplemental disclosures:		

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Cash paid for interest	\$28	\$153
Cash paid for income taxes	None	None
Non-cash transactions:		
Acquisition of assets included in accounts payable	\$	\$38

See notes to the consolidated financial statements.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note 1. Basis of Presentation and Going Concern

The interim consolidated financial statements of Altair Nanotechnologies Inc. and its subsidiaries (the “Company”) are unaudited. These consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company’s results of operations, financial position, and cash flows. The results reported in these consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year. The 2011 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). This Form 10-Q (this “Report”) should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, which includes all disclosures required by GAAP.

The interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis, to obtain additional financing or refinancing as may be required, including our expansion into China, to develop commercially viable products and processes, and ultimately to establish profitable operations. The Company expects to rely on debt, the issuance of equity securities and incentives and concessions from the Wu’an China Government sufficient to fund consolidated operations including the planned expansion to China. However, no assurances can be given that the Company will be able to meet these financing objectives.

The interim consolidated financial statements include Altair Nanotechnologies (China) Co., Ltd. (“Altair China”), established in the first quarter of 2012.

The interim consolidated financial statements include a new Wu’an China subsidiary of Altair China, called Northern Altair Nanotechnologies Co., Ltd., established in the second quarter of 2012.

On May 15, 2012, Altair Nanotechnologies Inc., domesticated from Canada to the United States of America and is now a Delaware Corporation.

Note 2. Recently Adopted and Recently Issued Accounting Guidance

Adopted

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Other than the additional disclosure requirements (see Note 3.) the adoption of this guidance had no impact on the financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder’s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. Management elected to present the two-statement option. Other than the change in presentation, the adoption of these

changes had no impact on the financial statements.

#### Foreign Currency

The consolidated financial statements are presented in our reporting currency, U.S. Dollars. The functional currency for the subsidiaries in China is the Chinese Yuan or RMB. Accordingly, the balance sheet of the Chinese subsidiaries is translated into U.S. Dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rates in effect during the period. Translation differences are recorded in accumulated other comprehensive income (loss) as foreign currency translation. Gains or losses on transactions denominated in a currency other than the subsidiaries' functional currency which arise as a result of changes in foreign exchange rates are recorded as foreign exchange gain or loss in the statements of operations.

## Note 3. Fair Value Measurements and Other Financial Measurements

Our financial instruments are accounted for at fair value on a recurring basis. We have no financial instruments accounted for on a non-recurring basis as of September 30, 2012 or December 31, 2011. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no assets recorded at fair value on a recurring basis at September 30, 2012 or December 31, 2011.

In arriving at fair-value estimates, we utilize the most observable inputs available for the valuation technique employed. If a fair-value measurement reflects inputs at multiple levels within the hierarchy, the fair-value measurement characterized based upon the lowest level of input that is significant is applied to the fair-value measurement. For us, recurring fair-value measurements are performed for warrant liabilities.

All warrant liability financial instruments are recognized in the balance sheet at their fair value. Changes in the fair values of warrant liability financial instruments are reported in earnings. We do not hold any derivative liability financial instruments that reduce risk associated with hedging exposure and we have not designated any of our warrant liability financial instruments as hedge instruments.

The Company has no items valued using Level 1 and Level 2 inputs. The fair values and corresponding classifications under the appropriate level of the fair value hierarchy of outstanding warrants recorded as recurring liabilities in the consolidated balance sheet were as follows:

	Level	September 30, 2012	December 31, 2011
Warrant liabilities:	3	\$ 742	\$ 654

The following table presents quantitative information for Level 3 measurements:

	Fair value at September 30, 2012	Valuation technique	Unobservable input
Liabilities:			
Warrant liabilities	\$ 742	Black-Scholes-	Prevailing

Merton option pricing model interest rates, Company's stock price volatility, expected warrant term

There have been no transfers between Level 1, Level 2, or Level 3 categories.

The following table summarizes current warrant liabilities recorded at fair value at September 30, 2012:

	Fair Value	Carrying Value
Warrant liabilities:	\$ 742	\$ 742
Total	\$ 742	\$ 742

Financial instruments classified as Level 3 in the fair value hierarchy represent warrant liabilities in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of activity for such warrant liabilities:

Warrant liabilities	
Opening balance – December 31, 2011	\$ 654
Purchases, sales, issuances, and settlements	—
Transfers into and (or) out of Level 3	—
Change in fair value	88
Unrealized gains / (losses)	—
Other adjustments	—
Closing balance – September 30, 2012	\$ 742

There were no purchases, sales, transfers, issuances or settlements of Level 3 financial instruments. There were no assets or liabilities measured on a non-recurring basis as of September 30, 2012 and December 31, 2011.

#### Other Financial Instruments

The carrying values and fair values of the Company's other financial instruments were as follows:

		September 30, 2012		December 31, 2011	
		Carrying value	Fair value	Carrying value	Fair value
Accounts receivable, net	2	\$ 949	\$ 949	\$ 333	\$ 333
Trade accounts payable	2	\$ 5,667	\$ 5,667	\$ 5,870	\$ 5,870
Capital lease obligation	2	\$ 16	\$ 16	\$ 12	\$ 12
Note payable	2	\$ 1,000	\$ 1,000	\$ -	\$ -

The following methods were used to estimate the fair values of other financial instruments:

Accounts receivable, Trade accounts payable, Capital lease obligation and Note payable. The carrying amounts approximate fair value due to their short term nature.



## Note 4. Product Inventories

Product inventories consist of the following:

In thousands of dollars

	September 30, 2012	December 31, 2011
Raw materials	\$ 3,254	\$ 4,193
Work in process	5,349	2,982
Finished goods	45	45
Total product inventories	\$ 8,648	\$ 7,220

As of September 30, 2012 and December 31, 2011, inventory relates to the production of battery systems targeted at the electric grid, transportation, and industrial markets.

Inventory valuation allowances, as a result of quality issues related to product inventories totaled \$663,000 and \$264,000 at September 30, 2012 and December 31, 2011, respectively.

## Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

In thousands of dollars

	September 30, 2012	December 31, 2011
Deferred contract costs	\$ 3,330	\$ 678
Other assets, related party	\$ 1,700	\$ -
Prepaid inventory purchases	\$ 12	\$ 801
Prepaid insurance	369	259
Deposits	341	341
Other prepaid expenses and current assets	175	161
Total prepaid expenses and other current assets	\$ 897	\$ 1,562

Other prepaid expenses and current assets consist primarily of prepaid property taxes, service contracts, marketing expenses and rent. Other assets, related party, relates to a payment made to Yintong Energy (YTE) (an affiliate of Canon) as the Company will be working with YTE to supply the initial order of fifty electric buses by Wu'an China.

## Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

In thousands of dollars

	September 30, 2012	December 31, 2011
Machinery and equipment	\$ 10,919	\$ 11,117
Building and improvements	4,323	4,447
Furniture, office equipment & other	1,798	1,826

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Furniture, office equipment & other - China	108	-
	17,148	17,390
<b>Total</b>	<b>17,148</b>	<b>17,390</b>
Less accumulated depreciation	(11,031 )	(10,520 )
<b>Total property, plant and equipment</b>	<b>\$ 6,117</b>	<b>\$ 6,870</b>

Depreciation expense for the nine months ended September 30, 2012 and 2011, totaled \$714,000 and \$948,000, respectively.

Note 7. Patents

Our patents are associated with the nanomaterials and titanium dioxide pigment technology. We are amortizing these assets on a straight-line basis over their useful lives. The amortized patents' balances as of September 30, 2012 and December 31, 2011 were:

In thousands of dollars

	September 30, 2012	December 31, 2011
Patents and patent applications	\$ 1,366	\$ 1,366
Less accumulated amortization	(1,073 )	(1,016 )
Total patents and patent applications	\$ 293	\$ 350

The weighted average amortization period for patents is approximately 16.7 years. Amortization expense, which represents the amortization relating to the identified amortizable patents, for the nine months ended September 30, 2012 and 2011, was \$57,000. For each of the next three years, amortization expense relating to patents is expected to be approximately \$76,000 per year. Amortization expense for the fourth year is expected to be approximately \$65,000.

#### Note 8. Stock-Based Compensation

As of September 30, 2012, we have the Altair Nanotechnologies Inc. 2005 Stock Incentive Plan (the “Plan”), administered by the Board of Directors, which provides for the granting of options and restricted shares to employees, officers, directors and other service providers of ours. This Plan is described in more detail below.

The total number of shares authorized to be granted under the Plan was increased from 750,000 to an aggregate of 2,250,000 based on the proposal approved at the annual and special meeting of shareholders on May 30, 2007. On June 23, 2011, we held an annual and special meeting of shareholders. The proposal to increase the number of authorized shares under the Plan from 2,250,000 to 7,250,000 shares was approved at this meeting. The additional 5,000,000 shares approved by the stockholders are not available for stock option issuance at this time, as the Board of Directors has not authorized the filing of the related Registration Statement on Form S-8. Prior stock option plans, under which we may not make future grants, authorized a total of 1,650,000 shares, of which options for 1,069,692 shares of common stock were granted (net of expirations) and options for 7,500 shares of common stock are outstanding and unexercised at September 30, 2012. Options granted under the plans are granted with an exercise price equal to the fair value of a common share at the date of grant, have five-year or ten-year terms and typically vest over periods ranging from immediately to four years from the date of grant. The estimated fair value of equity-based awards, less expected forfeitures, is amortized over the awards’ vesting period utilizing the graded vesting method. Under this method, unvested amounts begin amortizing at the beginning of the month in which the options are granted.

#### Note 9. Warrants

##### Warrants Issued to Investors

The fair value of the warrants was determined using the Black-Scholes-Merton option-pricing model and the following weighted average assumptions were used:

	September 30, 2012	September 30, 2011
Stock Price	\$ 0.74	\$ 1.34
Exercise Price	\$ 2.56	\$ 2.56
Expected Volatility	112 %	101 %
Expected Dividend Yield	None	None

Expected Term (in years)	4.0		5.0	
Risk-free Interest Rate	0.37	%	0.38	%

As of September 30, 2012, the value of the warrant liability was \$742,000 and the change in fair value during the nine months ended September 30, 2012 was a loss of \$88,000. The loss was recorded as other expense in the statement of operations.

Warrant activity for the nine months ended September 30, 2012 and 2011 is summarized as follows:

	2012	Weighted Average Exercise Price	2011	Weighted Average Exercise Price
	Warrants		Warrants	
Outstanding at January 1,	2,476,654	\$ 2.49	1,757,115	\$ 4.61
Issued			1,800,000	2.56
Expired			(50,000 )	14.56
Warrant redemption			(972,590 )	3.28
Exercised				
Outstanding at September 30,	2,476,654	\$ 2.49	2,534,525	\$ 2.74
Currently exercisable	2,476,654	\$ 2.49	2,534,525	\$ 2.74

The following table summarizes information about warrants outstanding at September 30, 2012:

			Warrants Outstanding and Exercisable		
				Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Range of Exercise Prices			Warrants		
\$1.00 to \$2.30			676,654	3.5	\$ 2.30
\$2.31 to \$4.00			1,800,000	4.0	2.56
			2,476,654	4.1	\$ 2.49

#### Note 10. Note Payable

On August 8, 2012, we entered into a Note payable secured by, a Deed of Trust, corporate guaranty and hazardous materials indemnity agreement (collectively, the “Loan Documents”) for the provision of a \$1 million loan (the “Loan”) secured by the Company’s Reno, Nevada Facility. Under the terms of the loan documents, interest accrues on the outstanding principal balance at the rate of 11% per annum. We are obligated to pay five months of prepaid interest to the lender upon closing and make interest-only payments on a monthly basis during the remaining term of the loan and to repay all principal and any outstanding interest on or before August 1, 2013. Although we may prepay the loan, we are obligated to pay a minimum of five months’ interest. Proceeds of the Loan have been used for general working capital requirements.

#### Note 11. Business Segment Information

Management views the Company as operating in two major business segments: Power and Energy Group, and All Other operations.

The Power and Energy Group develops, produces, and sells battery systems. The All Others group consists of the remaining portions of the previous Life Sciences and Performance Materials groups. Management completed a thorough review of operations and strategies and determined that it was in the best interests of the shareholders of the

Company to focus primarily on the Power and Energy Group. As a result of this assessment resources devoted to the Performance Materials Group and Life Sciences Group were considerably reduced and no new development is being pursued in those areas by the Company. For both quarters presented, the activity relating to the Performance Materials and Life Sciences divisions have been reclassified into All Other operations.

During the nine months ended September 30, 2012, the Company and its affiliates received a total of \$3.2 million in payments for its various Power and Energy Group projects. The bulk of these cash payments were associated with contractual milestone payments for our larger utility-scale energy storage system projects. However, the total amount of these cash payments has not been recognized in our reportable segment data for the quarter, as the related contracts are recognized under the completed contract method.

Reportable segment data reconciled to the consolidated financial statements as of the three-month and nine-month periods ended September 30, 2012 and September 30, 2011 is as follows:

In thousands of dollars

Three Months	Net Sales	Loss (Income) From Operations	Depreciation and Amortization	Assets
September 30, 2012				
Power & Energy Group	\$ 296	\$ 4,483	\$ 233	\$ 54,087
All Other	64	(44 )	19	353
Consolidated Total	\$ 360	\$ 4,439	\$ 252	\$ 54,440

September 30, 2011				
Power & Energy Group	\$ 795	\$ 5,136	\$ 240	\$ 71,166
All Other	60	(40 )	19	424
Consolidated Total	\$ 855	\$ 5,096	\$ 259	\$ 71,590

Nine Months	Net Sales	Loss (Income) From Operations	Depreciation and Amortization	Assets
September 30, 2012				
Power & Energy Group	\$ 886	\$ 14,507	\$ 714	\$ 54,087
All Other	185	(125 )	57	353
Consolidated Total	\$ 1,071	\$ 14,382	\$ 771	\$ 54,440

September 30, 2011				
Power & Energy Group	\$ 3,219	\$ 15,028	\$ 956	\$ 71,166
All Other	663	(33 )	57	424
Consolidated Total	\$ 3,882	\$ 14,995	\$ 1,013	\$ 71,590

In the table above, the Loss from Operations column includes such expenses as business consulting, general legal expense, accounting and audit, general insurance expense, stock-based compensation expense, shareholder information expense, investor relations, and general office expense. As noted in the prior section, \$3.2 million in contractual milestone and other payments associated with our utility-scale energy storage system projects were not deemed as recognizable revenue for the quarter, and thus were not included in the table.

For the nine months ended September 30, 2012, long-lived assets decreased by \$180,401 for the Power and Energy Group. For the nine months ended September 30, 2011, long-lived asset increased by \$572,746.

For the nine months ended September 30, 2012, we had sales to four major customers, each of which accounted for 10% or more of recognizable revenues. The company had no sales to related parties during the nine months ended September 30, 2012. Total sales to these customers for the nine months ended September 30, 2012 and the balance of their accounts receivable at September 30, 2012 were as follows:

In thousands of dollars

Customer	Sales Nine Months Ended September 30, 2012	Accounts Receivable Balance at September 30, 2012
Power and Energy Group:		
Emrol	\$ 139	
Hybricon	131	
Proterra	121	\$ 121
ABB Secheron	111	2

For the nine months ended September 30, 2011, we had sales to two major customers, each of which accounted for 10% or more of revenues. Total sales to these customers for the nine months ended September 30, 2011 and the balance of their accounts receivable at September 30, 2011 were as follows:

In thousands of dollars

Customer	Sales Nine Months Ended September 30, 2011	Accounts Receivable Balance at September 30, 2011
Power and Energy Group:		
Yintong Energy (YTE)*	\$ 1,779	\$ -
Proterra, LLC	1,045	\$ 6

\*YTE (an affiliate of Canon) became a related party, as of July 21, 2011.

Revenues for the nine-month periods ended September 30, 2012, and 2011 by geographic area were as follows:

In thousands of dollars

Geographic information (a):	Sales Nine Months Ended September 30, 2012	Sales Nine Months Ended September 30, 2011
United States	\$ 251	\$ 1,861
Germany	145	
Belgium	139	
Sweden	131	
Switzerland	111	



Other foreign countries	294	242
China		1,779
Total	\$ 1,071	\$ 3,882

## Note 12. Commitments and Contingencies

**Commitments** — In March 2012, the Company was requested to obtain a stand by letter of credit in the amount of \$293,000 in connection with the execution of a customer contract. The Company obtained the \$293,000 stand by letter of credit and was required to transfer \$293,000 to a restricted bank account.

On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system ("ESS") manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair will acquire the right to use the 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land use fee of approximately \$12 million and land transfer taxes and fees of approximately \$1.9 million and agreed to make fixed asset investments on the land of approximately \$167 million over an unspecified period of time, with initial construction to begin by March 31, 2013. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement, Northern Altair is in the midst of negotiating with Wu'an City regarding a package of incentives to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

**Contingencies** — We are subject to claims in the normal course of business. Except for the items noted below, management, after consultation with legal counsel, believes that liabilities, if any, resulting from such claims will not materially affect our financial position or results of operations.

**JMP Dispute.** On or about September 9, 2011, JMP Securities LLC ("JMP") filed a complaint against the Company in the United States District Court in the Northern District of California. JMP alleges breach of contract, promissory estoppel, fraud and negligence misrepresentation and seeks damages and punitive damages in an unspecified amount. This dispute arises from JMP's engagement as the Company's financial advisor in July 2010, and the key issue in this dispute is the amount of the fee JMP is entitled to receive as a result of the closing of the common share issuance to an affiliate of Canon. Under governing agreements, the amount of JMP's fee differs depending upon whether the common share issuance is a "Sale or Merger" (defined to include an acquisition of a majority of voting securities of the Company) or whether it is a "Strategic Investment", and whether certain gross up provisions apply. The Company asserts that the correct fee amount is approximately \$0.8 million, while JMP asserts that the correct fee amount is approximately \$2.3 million. The Company filed an answer to JMP's complaint. The Company filed motion to dismiss certain claims on the pleadings, which was denied. A second motion related to interpretation of the indemnity provisions of the underlying agreement was decided in favor of the Company. In October 2012, the Company entered into a settlement agreement with JMP, pursuant to which, in exchange for a full release, the Company is obligated to pay an aggregate of \$1.65 million to JMP, \$962,500 payable upon signing and \$137,500 on each of December 15, 2012, January 15, 2013, February 15, 2013, March 15, 2013 and April 15, 2013. The obligations of the Company are guaranteed by Canon Investment Holdings, Ltd.

Charles Cheng Fee Dispute. On or about October 12, 2011, Altairnano, an indirect subsidiary of the Company, filed a complaint against Zhiyuan (Charles) Cheng in the United States District Court in the Northern District of Nevada. Altairnano seeks a declaratory judgment that it owes Mr. Cheng no fee and seeks damages for breach of contract in an unspecified amount. The dispute arises from Mr. Cheng's engagement as a consultant to seek customers and strategic partners for Altairnano in China. Mr. Cheng has asserted in various communications that his efforts were significant in the arranging of the common share issuance with Canon and that, as a result, he is entitled to a \$1.7 million fee in consideration of the closing of such transaction. Altairnano claims that Mr. Cheng is entitled to no fee, and that Altairnano is entitled to damages, as a result of Mr. Cheng's numerous breaches of material provisions of the agreement. Altairnano has filed the complaint, and Mr. Cheng has filed an answer denying key allegations of the complaint and a counterclaim seeking payment of the fee, and damages, under various theories. Mr. Cheng has joined Zhuhai Yintong Energy Company Ltd. ("YTE") and Wei Yincang into the action by means of a complaint against them alleging a breach of an agreement between them and Mr. Cheng. In October 2012, Altairnano entered into a settlement agreement with Mr. Cheng pursuant to which, in exchange for a fully release, a subsidiary of Altairnano will pay Mr. Cheng \$1.3 million.

An accounts payable accrual of \$4.0 million and \$2.95 million was accrued in the Company's balance sheet as of December 31, 2011 and September 30, 2012, respectively (See Note 13).

Supplier Concentration — We rely on certain suppliers as the sole-source, or as a primary source, of certain services, raw materials and other components of our products. We do not yet have long-term supply or service agreements engaged with any such suppliers, which are subject to claims in the normal course of business.

#### Note 13. Subsequent Events

In October 2012, the Company entered into a contract with TSK Solar, a leading energy EPC contractor and engineering firm, to provide an ALTI ESS Advantage system for a renewable integration project at the San Fermin 26 MW photovoltaic solar farm in Loiza, Puerto Rico. The system shall be delivered and commissioned by the end of December 2012. The Company received an initial down payment of \$343,000 in October for the system. In November 2012, the 2 MW ALTI ESS Advantage system successfully shipped to Puerto Rico.

In October 2012, the Company and Northern Altair entered into a series of transactions, wherein, Northern Altair set aside, as restricted cash, \$2 million with the Bank of China. In return, the Bank of China loaned the Company \$2 million for use as operating capital. The proceeds of the loan were \$1.98 million after prepaid fees were deducted.

In October 2012, the Company settled the JMP matter and made an initial settlement payment on October 31, 2012. The remainder of the five settlement payments shall be paid over the next six months. Our affiliate, Canon Investment Holdings Co., Ltd. guaranteed the Company's settlement payments, which facilitated the payment plan. The Company also settled the Charles Cheng matter and made a single lump sum payment to Mr. Cheng on November 1, 2012 through its China-based affiliate, Northern Altair Nanotechnologies Co., Ltd. ("Northern Altair"). The total agreed upon settlement amount for both matters was \$2.95 million. The Company reduced the total accrual to \$2.95 million, as of September 30, 2012 and stock issuance cost included within common stock, as the settlement is directly related to the Canon Stock Subscription agreement completed in 2011.

On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system ("ESS") manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair will acquire the right to use the 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land

use fee of approximately \$12 million and land transfer taxes and fees of approximately \$1.9 million and agreed to make fixed asset investments on the land of approximately \$167 million over an unspecified period of time, with initial construction to begin by March 31, 2013. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement, Northern Altair is in the midst of negotiating with Wu'an City regarding a package of incentives to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

On November 1, 2012, Altair Nanotechnologies Inc. (the "Company") entered into a Commercial/Investment Property Purchase Agreement with Wayne Rankin, Lee Rankin and Randy Rankin related to the sale of the Company's Reno, Nevada Facility for a purchase price of \$2,200,000. Under the Agreement, Altair has agreed to lease the facility for 10 months following closing at a rate of \$21,000 per month. Closing is conditioned upon the buyers' approval of a Phase 2 Environmental Survey and soil report and, assuming satisfaction of such conditions, is expected to occur within 30 days.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Report contains various forward-looking statements. Such statements can be identified by the use of the forward-looking words "anticipate," "estimate," "project," "likely," "believe," "intend," "expect," or similar words. statements discuss future expectations, contain projections regarding future developments, operations, or financial conditions, or state other forward-looking information. When considering such forward-looking statements, you should keep in mind the risk factors noted under "Risk Factors" below and other cautionary statements throughout this Report and our other filings with the SEC. You should also keep in mind that all forward-looking statements are based on management's existing beliefs about present and future events outside of management's control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report or any other applicable filings materializes, or any other underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected, or intended.

Overview

Our primary focus is marketing advanced energy storage solutions for the electric grid, transportation, and industrial markets. In 2010, we expanded our sales focus to include original equipment manufacturers in the commercial vehicle and industrial markets targeting applications that leveraged the key attributes of our technology. These markets include medium and heavy-duty trucks, rail, stationary industrial applications and micro-grid systems. We believe that in the aggregate, our target markets are multi-billion dollar emerging markets with room for a number of successful suppliers. We believe the markets for advanced energy storage are maturing and as a result of our differentiated product attributes and the growing recognition we are receiving in the marketplace, that we will be successful in expanding orders. Customers are now telling us that unique attributes of our nano lithium titanate chemistry create real value for their businesses by allowing them to use energy storage in ways previously unachievable. Customers are most interested in the safety of our batteries, the long calendar and cycle life and the very fast charging capabilities over the widest temperature operating range in the industry.

Our historical revenues have been generated by license fees, product sales, commercial collaborations, and government contracts and grants. We expect future revenues to consist primarily of product sales and turnkey projects. Our current customer backlog includes purchase orders to (1) supply a 1 MW ALTI-ESS energy storage system for a test of wind energy integration in Hawaii, (2) supply a 1 MW ALTI-ESS energy storage system for a test of solar energy integration in Hawaii, (3) supply a 1.8 MW ALTI-ESS energy storage system to an electric utility in New Jersey, (4) supply a 1.2 MW ALTI-ESS energy storage system to a wind turbine manufacturer for integration into their wind energy systems for testing in Europe, (5) supply a 2 MW ALTI-ESS energy storage system for integration with a solar energy system in Puerto Rico, (7) supply battery modules to an electric bus manufacturer, (8) supply Altair Power Rack systems to numerous integration firms, and (9) supply application kits to various OEMs for testing.

During the three months ending March 31, 2012 we formed Altair China. Our intention is to launch manufacturing and sales operations in China with the goal of supplying the Chinese government with advanced energy solutions for the electric grid, transportation and industrial market segments. Initially, the operation will focus on powering electric buses, taxis, and assembling energy storage systems for large residential complexes as well as for the electric grid. Consistent with this goal, in April 2012, Altair Northern signed an Agreement (the "Wu'an Agreement") with Wu'an Municipal People's Government ("Wu'an") and Handan Municipal People's Government ("Handan"). On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system ("ESS") manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair will acquire the right to use the 66

acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land use fee of approximately \$12 million and land transfer taxes and fees of approximately \$1.9 million and agreed to make fixed asset investments on the land of approximately \$167 million over an unspecified period of time, with initial construction to begin by March 31, 2013. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement, Northern Altair is in the midst of negotiating with Wu'an City regarding a package of incentives to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

During the quarter ended September 30, 2012, we made significant progress on our contract deliverables. Two energy storage systems totaling 2 MW were built for HNEI, and one of those systems was shipped to the end user, the Hawaii Electric Company ("HELCO") on September 5, 2012. We finished its installation work on October 4, 2012, and the HELCO energy storage system should be commissioned in mid- to late-November. Work on the second HNEI energy storage system has been completed and we anticipate that we will ship the system to the end user in the first quarter of 2013. A third ESS system was installed on October 12, 2012, for a renewable energy company based in Europe, who will use the system within a wind farm application. We recently completed production of a fourth energy storage system for another utility customer, but construction at the proposed installation site has not been completed by the end user. We also worked on a fifth ESS system during the third quarter, which was sold to TSK Solar, a leading energy EPC contractor and engineering firm, in September 2012. We have received contractual milestone payments during the third quarter for most of these systems, but not all of these payments have been recognized as revenue for the third quarter due to GAAP-related considerations.

#### General Outlook

Our current focus is on the development of battery systems that we anticipate will eventually bring a substantial amount of revenue volume and gross profit from product sales into the electric grid, transportation, and industrial markets. As we attempt to significantly expand our revenues from licensing, manufacturing and other sources, some of the key near-term events that will affect our long-term success prospects include the following:

- Based on the success of the 2008 AES 2 MW frequency regulation trial, as validated in the KEMA, Inc. analysis and report, we have experienced a substantial amount of interest in our large scale battery systems from other entities and are in active sales development discussions with a number of them. In 2011, we accepted purchase orders to supply the University of Hawaii - Hawaii Natural Energy Institute ("HNEI") with two 1 MW energy storage systems, one of which is for a test of wind energy integration and the other of which is for a test of solar energy integration. We shipped the wind system in the third quarter of 2012, and are in the final stages of the installation. We are currently scheduled to install the solar system in the first quarter of 2013.

- In addition, as noted above, we have recently delivered, or expect to deliver in the next few months, five 1-2 MW energy storage systems. We anticipate that these smaller-scale energy storage systems will help establish the value of our products and facilitate future sales of similarly sized, or larger, systems.
- On February 9, 2011, we signed an \$18 million contract with Inversiones Energéticas, S.A. de C.V. ("INE") for the supply and installation of a 10 MW ALTI-ESS advanced battery system in El Salvador. Total revenue under the Contract is expected to be recognized over an expected 14-month period following Altair's receipt of the notice to proceed. This project has been delayed as a result of obtaining necessary regulatory approvals to enable battery-based energy storage on the El Salvador electric grid. We believe the necessary regulatory approvals will eventually be received.
- We have supplied battery modules to Proterra, LLC, a Greenville, South Carolina based leading designer and manufacturer of heavy-duty drive systems, energy storage systems, vehicle control systems and transit buses for their all-electric and hybrid-electric buses. In 2011, we sold \$2.1 million of battery modules to Proterra. In May 2012, we signed a contract to supply battery modules to Proterra. On June 19, 2012, Proterra released its first purchase order under the agreement for deliveries in the first quarter of 2013.
- Based on the demonstrated success of our battery modules in the Proterra bus application, we have also entered into discussions with a number of other bus rail and systems integrators regarding joint development products or purchases of our battery products for transportation applications in the U.S., Europe and China. These customers are now testing and prototyping our products.
- We are in discussions with a number of industrial manufacturers of forklifts, elevators, mining, rail and other electric equipment whose use requires the long-life, rapid recharge, extreme operating temperature range or other differentiating attributes of our battery technology. We have supplied application kits to several of these companies for testing and evaluation.
- We are targeting China as a primary source of revenue for our battery systems targeted at the electric bus and electric grid markets. We recently formed Altair China in Zhuhai China, which signed the Wu'an Agreement related to a number of transactions between Altair China and Wu'an or Handan. Consistent with the Wu'an Agreement, we recently acquired rights to use approximately 66 acres of commercial land in Wu'an under an arrangement in which benefits received will directly offset the purchase price. This is to facilitate Altair China's construction of a manufacturing facility in an industrial park being promoted by Wu'an. We are still in the process of documenting the transfer. Under the Wu'an agreement, the city also agreed to place orders for electrical buses and energy storage systems for large residential complexes. Wu'an placed an initial deposit in August 2012 in the amount of \$1.9 million for its initial order of fifty electric buses.
- On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system ("ESS") manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair will acquire the right to use the 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land use fee of approximately \$12 million and land transfer taxes and fees of approximately \$1.9 million and agreed to make fixed asset investments on the land of approximately \$167 million over an unspecified period of time, with initial construction to begin by March 31, 2013. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement,

Northern Altair is in the midst of negotiating with Wu'an City regarding a package of incentives to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

- In August 2012, we entered into a memorandum of understanding with a leading coal company in China, which also operates utilities and railroads. We are currently in discussions about a possible pilot project that would test and demonstrate the Company's systems when integrated with a wind farm.
- In September 2012, we signed a memorandum of understanding with EnerDel, a manufacturer of lithium-ion batteries and systems, to collaborate on the joint marketing and sales of each other's products.

Although it is not essential that all of these markets become successful for our battery technology in order to permit substantial long-term revenue growth, we believe that full commercialization of several of our battery applications will be necessary in order to expand our revenues enough to create a likelihood of our becoming profitable in the long-term. We remain optimistic with respect to our current key projects, as well as others we are pursuing, but recognize that, with respect to each, there are development, marketing, partnering and other risks to be overcome.

## Liquidity and Capital Resources

### Current and Expected Liquidity

Altair's cash and cash equivalents decreased by \$14.3 million, from \$46.5 million at December 31, 2011 to \$32.2 million at September 30, 2012. The decrease in cash was primarily due to the \$15.7 million of cash used in operating activities during the nine months ending September 30, 2012. The bulk of the cash used in operations went to cover our net loss of \$14.4 million offset by \$1M in proceeds from a short-term note payable used towards the \$4.7 million build-up of work in process inventory related to the fulfillment of customer sales backlog, of which \$1.2 million is included in deferred contract costs.

During the nine months ending September 30, 2011 we issued shares of common stock and warrants to purchase shares of common stock for net proceeds of \$61.8 million. We recorded a \$1.9 million warrant liability related to this capital raise. We also paid off \$206,000 of debt and \$530,000 in warrant redemptions. On July 22, 2011 we issued 37,036,807 shares at \$1.55 each to Canon for gross proceeds of \$57.5 million. As of September 30, 2011, we had paid \$1.4 million in related expenses.

As of September 30, 2012, we had cash totaling \$32.2 million. In April 2012, \$32.0 million was transferred to Altair China in to be used towards our China operations. The Board of Directors has developed a funding process for both our U. S. operations and our China operations moving forward. For China, assuming our completion of the land transfer, development of suitable manufacturing plans and finalization of orders, we believe that project financing or indebtedness may be available to facilitate operations. In the U.S., our operations may be supported in the near term by selling inventory, equipment and services to Altair China, and receiving fees associated with intellectual property licensing; however, in the longer term, we may need to raise equity capital for the U.S. and China operation, particularly to build out inventory if orders from China, Central America or other areas increase.

We evaluate our capital needs and the availability of capital on an ongoing basis and, consistent with past practice, expect to seek capital when and on such terms as we deem appropriate based upon our assessment of our current liquidity, capital needs and the availability of capital. Given that we are not yet in a positive cash flow or earnings position, the options available to us are fewer than to a positive cash flow company. Specifically, we would not generally qualify for long-term institutional debt financing. Consistent with past practice, we expect to raise additional capital through loans, the sale of shares of common stock, convertible notes, stock options, and warrants. We do not expect the current economic environment to preclude our ability to raise capital, but the overall cost of doing so may be high.

Over the long-term, we anticipate substantially increasing revenues by entering into new contracts and increasing product sales in the stationary power, electric bus and selected other industrial markets.

### Capital Commitments and Expenditures

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due as of September 30, 2012:

In thousands of dollars

Contractual Obligations	Total	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
Note payable	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ -
	846	846	-	-	-



Contractual service  
agreements

Capital leases	16	10	6	-	-
Purchase obligations	635	635	-	-	-
Total	\$ 2,497	\$ 2,491	\$ 6	\$ -	\$ -

#### Off-Balance Sheet Arrangements

The company did not have any off-balance sheet transactions during the nine months ending September 30, 2012.

#### Recently Adopted and Recently Issued Accounting Guidance

See Note 2 to the interim consolidated financial statements in Part I Item 1 of this form 10-Q.

## Results of Operations

Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011

In thousands of dollars

	Power and Energy Group Three Months Ended September 30		All Other Three Months Ended September 30		Consolidated Three Months Ended September 30	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Product sales	\$ 296	\$ 795			\$ 296	\$ 795
License fees			\$ 60	\$ 60	60	60
Commercial collaborations			4		4	
Contracts and grants						
Total revenues	296	795	64	60	360	855
<b>Cost of goods sold</b>						
Product	773	559			773	559
Commercial collaborations		(124 )				(124 )
Contracts and grants						-
Warranty and inventory reserves	15	97			15	97
Total cost of goods sold	788	532			788	532
Gross (loss) profit	(492 )	263	64	60	(428 )	323
<b>Operating expenses</b>						
Research and development	1,422	1,593	1	1	1,423	1,594
Sales and marketing	499	834			499	834
General and administrative	1,837	2,730			1,837	2,730
Depreciation and amortization	233	240	19	19	252	259
Loss on disposal of assets		2				2
Total operating expenses	3,991	5,399	20	20	4,011	5,419
(Loss) income from operations	(4,483 )	(5,136 )	44	40	(4,439 )	(5,096 )
<b>Other income (expense)</b>						
Interest income (expense), net	37	(97 )			37	(97 )
	(267 )	(676 )			(267 )	(676 )

Change in market value  
of warrants

Loss on foreign exchange	(2 )	(4 )			(2 )	(4 )
Total other (expense) income, net	(232 )	(777 )			(232 )	(777 )
Net (loss) income	\$ (4,715 )	\$ (5,913 )	\$ 44	\$ 40	\$ (4,671 )	\$ (5,873 )

#### Revenues

Power and Energy Group revenue for the three months ending September 30, 2012 was \$296,000. This amount included revenue from battery modules sold to five customers. Revenues were lower by \$499,000, in the three months ending September 2012 compared to \$795,000 in the three months ending September 30, 2011. This was primarily as a result of decreased revenue recognition for product sales; however deferred revenues for six customers increased \$2.8 million to \$5.3 million as of September 30, 2012.

## Cost of Goods Sold

In the Power and Energy Group the cost of goods sold for product sales was \$788,000 for the three months ended September 30, 2012. Cost of goods sold (COGS) exceeded product sales by \$492,000. This was due to fixed manufacturing costs expensed during the period in light of low inventory production levels and due to cost increases associated with the launch of new electric grid products of \$337,000. This compared to \$532,000 of total COGS for the same period in 2011, which was less than total sales by \$263,000.

It is important to note that our gross margins in any quarter are not indicative of future gross margins. At this early stage of development, our product mix, volume, per-unit pricing and cost structure may change significantly from quarter to quarter, and our margins may expand or contract depending upon the mix and timing of orders in future quarters. In general, we expect our margins to increase as our volume of business increases and we completely transition from product prototypes to commercial, scalable manufacturing processes.

## Operating Expenses

Operating expenses overall decreased by \$1.4 million, from approximately \$5.4 million during the three months ending September 30, 2011 to approximately \$4.0 million during the three months ending September 30, 2012. The decrease during the three months ending September 30, 2012 compared to the three months ending September 30, 2011, was mainly in the general and administrative area by \$0.9 million which directly related to severance expensed in 2011. Average U.S. employee headcount decreased by 14%, from 91 employees during the three months ending September 30, 2011 to 78 employees for the corresponding 2012 period. Average employee headcount in China increased from zero employees during the three months ending September 30, 2011 to 14 employees for the corresponding 2012 period. Research and development expenses decreased \$0.2 million, from \$1.6 million during the three months ending September 30, 2011 to \$1.4 million during the three months ending September 30, 2012, while sales and marketing expenses also decreased by \$0.3 million, from approximately \$0.8 million during the three months ending September 30, 2011 to approximately \$0.5 million during the three months ending September 30, 2012. We are focusing on reducing our cost structure in areas that will not adversely affect growing our product revenues.

## Net Loss

Net loss generated during the three months ended September 30, 2012 totaled \$4.7 million (\$0.07 per share) compared to a net loss of \$5.9 million (\$0.10 per share) in the same three months of 2011.

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Expressed in thousands of United States Dollars)  
(Unaudited)

	Power and Energy Group Nine Months Ended September 30		All Other Nine Months Ended September 30		Consolidated Nine Months Ended September 30	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Product sales	\$ 869	\$ 3,258		\$ 77	\$ 869	\$ 3,335
License fees			180	180	180	180
Commercial collaborations	17	77	5	3	22	80
Contracts and grants		(116 )		403		287
Total revenues	886	3,219	185	663	1,071	3,882
<b>Cost of goods sold</b>						
Product	1,792	3,467		17	1,792	3,484
Commercial collaborations		73				73
Contracts and grants				296		296
Warranty and inventory reserves	490	152		3	490	155
Total cost of goods sold	2,282	3,692		316	2,282	4,008
Gross (loss) profit	(1,396 )	(473 )	185	347	(1,211 )	(126 )
<b>Operating expenses</b>						
Research and development	5,043	4,676	3	257	5,046	4,933
Sales and marketing	2,344	2,798			2,344	2,798
General and administrative	5,010	6,107			5,010	6,107
Depreciation and amortization	714	956	57	57	771	1,013
Gain on disposal of assets		18				18
Total operating expenses	13,111	14,555	60	314	13,171	14,869
(Loss) income from operations	(14,507 )	(15,028 )	125	33	(14,382 )	(14,995 )
<b>Other income (expense)</b>						
Interest income (expense), net	67	(155 )			67	(155 )

Change in market value of warrants	(88 )	346			(88 )	346
Loss on foreign exchange	(2 )	(5 )			(2 )	(5 )
Total other (expense) income, net	(23 )	186			(23 )	186
Net (loss) income	\$ (14,530 )	\$ (14,842 )	\$ 125	\$ 33	\$ (14,405 )	\$ (14,809 )

## Revenues

Power and Energy Group revenue for the nine months ending September 30, 2012 was \$.9 million. This amount included revenue from battery modules sold to five customers. Revenues decreased by \$2.3 million, from approximately \$3.2 million during the nine months ending September 30, 2011 to approximately \$0.9 million during the nine months ending September 30, 2012, as a result of the sale of \$1.8 million of products to YTE during the nine months ending September 30, 2011, which facilitated our entry into the China market. This included 25,000 11 amp hour cells, one ALTI-ESS system and nano-lithium titanate oxide. The decrease is also a result of the sale of batteries to Proterra for \$1.0 million in 2011 vs. \$0 in 2012 and due to decreased revenue recognition for product sales; however, deferred revenues for six customers increased \$3.7 million to \$5.3 million as of September 30, 2012.

All Other contracts and grants revenue for the nine months ending September 30, 2011 was from our ARO nanosensor grant with the U.S. Army. Our portion of this contract was completed as of December 31, 2010, with pass-through revenues from a subcontractor continuing through July 2, 2011.

## Cost of Goods Sold

In the Power and Energy Group the cost of goods sold for product sales was \$2.3 million for the nine months ended September 30, 2012. Cost of goods sold (COGS) exceeded product sales by \$1.4 million due primarily to fixed manufacturing costs expensed during the period due to low inventory production levels, an increase in our inventory reserve and also accrued contract losses from cost increases associated with the launch of new electric grid products. This compared to \$3.7 million of total COGS for the same period in 2011, due primarily to the YTE and Proterra revenue generated during 2011. The COGS associated with the YTE product sales during the first nine months of 2011 was higher than the revenue generated by those product sales, leading to a gross loss of \$.5 million in the first nine months of 2011 for the Power and Energy Group. We sold this product to YTE at less than our cost in order to expose our products to the potentially large China economic market.

It is important to note that our gross margins in any quarter are not indicative of future gross margins. At this early stage of development, our product mix, volume, per-unit pricing and cost structure may change significantly from quarter to quarter, and our margins may expand or contract depending upon the mix and timing of orders in future quarters. In general, we expect our margins to increase as our volume of business increases and we completely transition from product prototypes to commercial, scalable manufacturing processes.

## Operating Expenses

Operating expenses overall were down \$1.7 million during the nine months ending September 30, 2012, from \$14.9 million during the nine months ending September 30, 2011 to \$13.2 million during the nine months ending September 30, 2012. This reduction is the result of constrained spending in almost all areas of the company. Average U.S. employee headcount decreased by 15%, from 95 employees during the nine months ending September 30, 2011 to 81 employees for the corresponding 2012 period. Average employee headcount in China increased from zero employees during the nine months ending September 30, 2011 to 14 employees for the corresponding 2012 period. Research and development expenses increased \$0.1 million from \$4.9 million during the nine months ending September 30, 2011 to \$5.0 million during the nine months ending September 30, 2012. Sales and marketing expenses decreased by \$.5 million, or 18%, from \$2.8 million during the nine months ending September 30, 2011 to \$2.3 million during the nine months ending September 30, 2012. General and administrative expenses decreased by \$1.1 million, or 18%, from \$6.1 million during the nine months ending September 30, 2011 to \$5.0 million during the nine months ending September 30, 2012. We continue to focus on reducing our cost structure in areas that will not adversely affect growing our product revenues.

## Net Loss

Net loss generated during the nine months ended September 30, 2012 totaled \$14.4 million (\$0.21 per share) compared to a net loss of \$14.8 million (\$0.38 per share) in the same nine months of 2011.

## Risk Factors

Investing in our shares of common stock involves a high degree of risk. You should carefully consider the risks described below, and all of the other information set forth in this Report before deciding to invest in shares of our common stock. In addition to historical information, the information in this Report contains forward-looking statements about our future business and performance. Our actual operating results and financial performance may be different from what we expect as of the date of this Report. The risks described in this Report represent the risks that management has identified and determined to be material to our company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also materially harm our business operations and financial condition.

We may continue to experience significant losses from operations.

We have experienced a net loss in every fiscal year since our inception. Our loss from operations was \$19.9 million for the twelve months ended December 31, 2011. It is possible that we will not be profitable in the future. Even if we are profitable in one or more future years, subsequent developments in the economy, our industry, customer base, business or cost structure, or an event such as significant litigation or a significant transaction, may cause us to again experience losses.

We may not be able to raise sufficient capital to finance our operations due to our operating results, market conditions and similar factors.

As of September 30, 2012, we had approximately \$32.2 million in cash and cash equivalents; most of which, represents capital contributed to our Chinese subsidiaries to fund expansion of operations into China. Although it may be possible for the Company to repatriate a limited amount of capital for various intercompany transactions, these transactions will be governed by Chinese law. From time to time, administrative and legal issues may delay the timing of such transfers.



We expect that in the future we will again need to raise capital. With respect to any such capital raise, we may be unable to raise the amount of capital needed and may be forced to pay an extremely high price for capital. Factors affecting the availability and price of capital may include the following:

- market factors affecting the availability and cost of capital generally, including increases or decreases in major stock market indexes, the stability of the banking and investment banking systems and general economic stability or instability;
  - the price, volatility and trading volume of our shares of common stock;
- our financial results, particularly the amount of revenue we are generating from product sales;
- the market's perception of our ability to execute our business plan and any specific projects identified as uses of proceeds;
  - our ownership structure and recent or anticipated dilution;
  - the amount of our capital needs;
- the market's perception of our company and companies in our line of business; and
  - the economics of projects being pursued.

If we are unable to raise required capital or generate sufficient revenue to fund our operations, we may be forced to discontinue our operations.

We have entered into contractual provisions that may significantly limit our ability to raise capital in the near term.

In conjunction with the March 2011 “registered direct” offering, we entered a Securities Purchase Agreement pursuant to which we agreed that we would not sell securities at a price below \$2.23 per share for a two-year period ending March 2013, unless the March 2011 transaction is approved by our shareholders. We are seeking such approval at our annual and special meeting of shareholders on November 28, 2012. If such approval is obtained, it will permit sales of equity securities without restrictions but also eliminate the floor on an exercise price adjustment in the warrants issued as part of the March 2011 offering. If we do not either obtain shareholder approval or cause the parties to the Securities Purchase Agreement to waive or amend this restriction, our ability to raise capital prior to March 2013 will be significantly impaired. This may affect our ability to obtain cash necessary to continue operations.

In addition, in conjunction with the closing of purchase by an affiliate of Canon Investment Holdings Ltd. of shares representing over 50% of our outstanding shares in 2011, we granted certain rights to Canon, including the right to proportional representation on our Board of Directors, certain registration rights, and an option to purchase a sufficient number of our equity securities at market price to maintain their percentage of ownership should we offer, sell or issue new securities. These rights may dissuade potential investors from purchasing our capital or may require us to accept less than favorable terms in future financings.

Laws governing repatriation of investments in a China WFOE may contribute to a need to obtain capital to finance our non-China operations in the near future.

Any business that we conduct in China will likely be through Altair China, or its manufacturing subsidiary. We have designated registered capital of the equivalent of \$32 million for Altair China and have transferred that much to its

accounts. Although Chinese law permits intercompany transactions and certain intercompany transfers, it will strictly limit the ability of Altair China to repatriate money to its non-Chinese parent. In addition, distributions to the non-Chinese parent must derive from profits, as determined in accordance with Chinese accounting standards and regulations. Altair China will also be required to set aside at least 10% of its after-tax profit based on Chinese accounting standards each year to a statutory surplus reserve fund until the accumulative amount of such reserve reaches 50% of registered capital. These reserves are not distributable as dividends.

In addition, Altair China may be required to allocate a portion of its after-tax profit to a staff welfare and bonus fund. Moreover, if Altair China incurs debt on its own behalf in the future, the instruments governing the debt may restrict Altair China's ability to pay dividends or make other distributions to us. Any limitation on the ability of Altair China to distribute dividends and other distributions to us could materially and adversely limit our ability to make investments or enter into joint ventures that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

We may become subject to international economic and political risks over which we have little or no control and may be unable to alter our business practice in time to avoid the possibility of reduced revenues.

We conduct a portion of our business outside the United States and plan to significantly increase our presence in China. Doing business outside the United States subjects us to various risks, including changing economic and political conditions, major work stoppages, exchange controls, currency fluctuations, armed conflicts and unexpected changes in United States and foreign laws relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. We have no control over most of these risks and may be unable to anticipate or adapt to changes in international economic and political conditions. This may lead to sudden and unexpected revenue reductions or expense increases.

China's economic policies, laws and regulations could affect our business.

Our business plan currently anticipates that a substantial portion of our assets will be located in China and a portion of our revenue will be derived from Chinese operations. Accordingly, our results of operations and prospects will become subject, to a significant extent, to the economic, political and legal developments in China.

While China's economy has experienced significant growth in the past twenty years, such growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of China, but they may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by the government control over capital investments or changes in tax regulations. The economy of China has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces for economic reform and the reduction of state ownership of productive assets, and the establishment of corporate governance in business enterprises; however, a substantial portion of productive assets in China are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, the control of payment of foreign currency-denominated obligations, the setting of monetary policy and the provision of preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could directly harm our business or harm overall economic growth in China, which in either case could increase our expenses and decrease expected revenues.

We may have difficulty establishing adequate management, legal and financial controls internationally.

As a result of difference in management, accounting, legal, language and cultural norms, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting standard business practices for our international projects as well as in our China-based operations. Moreover, our international efforts may divert management attention and consume a significant amount of capital without anticipated results.

If relations between the United States and China worsen, our operations and stock price may be harmed.

At various times during recent years, the United States and China have had significant disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China, whether or not directly related to our business, could harm our results of operations and the price of our common stock.

The nature and application of many laws of China create an uncertain environment for business operations and they could have a negative effect on us.

The legal system in China is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. The promulgation of new laws, changes

of existing laws and the abrogation of local regulations by national laws could cause a decline in the price of our common stock. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

Furthermore, the political, governmental and judicial systems in China are sometimes impacted by corruption. There is no assurance that we will be able to obtain recourse in any legal disputes with suppliers, customers or other parties with whom we conduct business.

Following the acquisition of a majority interest in the company by an affiliate of Canon, we face risks associated with having a majority shareholder.

In July 2011, an affiliate of Canon acquired a majority of our outstanding shares of common stock which presents certain risks to us, including the following:

- The majority shareholder controls the appointments on the Board of Directors and may appoint persons less qualified, or more loyal to the majority shareholder, than would be appointed absent a controlling shareholder;
- The majority shareholders may be able to influence our Board of Directors to enter into transactions with related or third parties that are more favorable to such parties than would be negotiated by an independent Board of Directors;
- The majority shareholders controls all matters requiring approval by the shareholders, including any determination with respect to the acquisition or disposition of assets, future issuances of a material number of securities and other major transactions; and
- This concentration of ownership may also delay, defer or prevent a change in control and otherwise prevent shareholders other than our affiliates from influencing our direction and future.

If one or more of these risks, or other risks, materializes, our business will be harmed, and it may be harmed materially.

Our majority shareholder is, and a majority of our directors are, based in China.

Because of the physical distance, cultural differences and language difference between the United States and China, we may experience conflicts or inefficiencies in Board-management communication, management-employee communication, strategy formation and other parts of our business; this risk may be exacerbated by the fact that a majority of our directors do not speak English as a first language, or at all.

We may not realize anticipated benefits from our agreement with Inversiones Energeticas.

In February 2011, we entered into a purchase contract with Inversiones Energeticas, S.A. de C.V., or INE, related to the purchase of a turn-key 10 Megawatt ALTI-ESS advanced battery system for \$18 million. On April 15, 2011, as a result of unexpected regulatory issues, INE notified us that they needed to cancel the contract in accordance with its terms. INE subsequently stated that such letter was not intended to effect a termination of the contract, but merely to provide notice of its initial failure to obtain regulatory approval, which would automatically effect a termination of the contract if the issue was not resolved within 120 days, subject to extension by the parties. We have entered into several extensions in order to allow the various parties additional time to resolve these regulatory issues. However, we may be unable to resolve the regulatory issues with the existing agreement or may otherwise be unable to enter into a new agreement with INE. If not, we will lose anticipated revenue and lose the expected marketing benefits we expected following the completion of the installation of the ALTI-ESS system. This will harm our short-term revenue projections and possibly our long-term revenue potential.

Our nano lithium titanate battery materials and battery business is currently dependent upon a few customers and potential customers, which presents various risks.

Our nano lithium titanate battery materials and battery business is dependent upon a few current or potential customers, including a small number of power producers, smaller companies developing electric or hybrid electric buses and Chinese government agencies. In addition, many of these customers are, or are expected to be,

development partners who are subsidizing the research and development of products for which they may be the sole, or one of a few, potential purchasers. As a result of the small number of potential customers and partners, our existing or potential customers and partners may have significant leverage on pricing terms, exclusivity terms and other economic and noneconomic terms. This may harm our attempts to sell products at prices that reflect desired gross margins. In addition, the decision by a single or potential customer to chose not to purchase or abandon the use or development of a product may significantly harm both our financial results and the development track of one or more products.

We depend upon several sole-source and limited-source third-party suppliers.

We rely on certain suppliers as the sole-source, or as a primary source, of certain services, raw materials and other components of our products. We do not yet have long-term supply or service agreements engaged with any such suppliers. As a result, the providers of such services and components could terminate or alter the terms of service or supply with little or no advance notice. If our arrangements with any sole-source supplier were terminated, or if such a supplier failed to provide essential services or deliver essential components on a timely basis, failed to meet our product specifications and/or quality standards, or introduced unacceptable price increases, our production schedule would be delayed, possibly by as long as six months. Any such delay in our production schedule would result in delayed product delivery and may also result in additional production costs, customer losses and litigation.

An area in which our dependence upon a limited number of sources creates significant vulnerability is the manufacturing of our nano lithium titanate cells. As of the date hereof, we have two contract manufacturing sources for our nano lithium titanate cells. We have had quality issues with both contract manufacturers. Our nano lithium titanate battery cells are the building blocks of all of our products (other than our nano lithium titanate powder). If we continue to experience quality issues with our suppliers, we may be unable to meet our deadlines, or quality specifications, with respect to existing or future orders. This would harm our reputation and our ability to grow our business.

Our operating results have fluctuated significantly in the past and will continue to fluctuate in the future, which could cause our stock price to decline.

Our operating results have fluctuated significantly in the past, and we believe that they will continue to fluctuate in the future, due to a number of factors, many of which are beyond our control. If in future periods our operating results do not meet the expectations of investors or analysts who choose to follow our company, the price of our shares of common stock may fall. Factors that may affect our operating results include the following:

- fluctuations in the size, quantity and timing of customer orders;
- timing of delivery of our services and products;
- additions of new customers or losses of existing customers;
- positive or negative business or financial developments announced by us or our key customers;
- our ability to commercialize and obtain orders for products we are developing;
- costs associated with developing our manufacturing capabilities;
- the retention of our key employees;
- new product announcements by our competitors or potential competitors;
- the effect of variations in the market price of our shares of common stock on our equity-based compensation expenses;
- disruptions in the supply of raw materials or components used in the manufacture of our products;
- the pace of adoption of regulation facilitating our ability to sell our products in our target markets;
- technology and intellectual property issues associated with our products; and
- general political, social, geopolitical and economic trends and events.

Our patents and other protective measures may not adequately protect our proprietary intellectual property.

We regard our intellectual property, particularly our proprietary rights in our nano lithium titanate technology, as critical to our success. We have received various patents, and filed other patent applications, for various applications and aspects of our nano lithium titanate technology and other intellectual property. Such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various

reasons, including the following:

- Our pending patent applications may not be granted for various reasons, including the existence of conflicting patents or defects in our applications, if there was in existence relevant prior art or the invention was deemed by the examiner to be obvious to a person skilled in the art whether or not there were other existing patents. Risks associated with patent applications are enhanced because patent applications of others remain confidential for a period of approximately 18 months after filing; as a result, our belief that we are the first creator of an invention or the first to patent it may prove incorrect, as information related to conflicting patents is first published or first brought to our attention;
- The patents we have been granted may be challenged, invalidated, narrowed or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;
- The costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement cost prohibitive;
- We have not filed for complete patent protection in certain countries in which we are currently selling product or seeking to sell product; as a result, we may be unable to prevent competitors in such markets from selling infringing products;
- Even if we enforce our rights aggressively, injunctions, fines and other penalties may be insufficient to deter violations of our intellectual property rights; and
- Other persons may independently develop proprietary information and techniques that, although functionally equivalent or superior to our intellectual proprietary information and techniques, do not breach our proprietary rights.



Our inability to protect our proprietary intellectual property rights or gain a competitive advantage from such rights could harm our ability to generate revenues and, as a result, our business and operations.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive, time consuming and involve adverse publicity and adverse results.

Competitors or others may infringe our patents. To counter infringement or unauthorized use, we may be required to file patent infringement claims, which can be expensive and time-consuming. Interference proceedings brought by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications. Litigation or interference proceedings may result in substantial costs and be a distraction to our management.

Because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure. In addition, during the course of this litigation (even if ultimately successful), there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our shares of common stock.

In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover that technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

We may not prevail in any litigation or interference proceeding in which we are involved. Even if we do prevail, these proceedings can be expensive, result in adverse publicity and distract our management.

Other parties may bring intellectual property infringement claims against us, which would be time-consuming and expensive to defend, and if any of our products or processes is found to be infringing, we may not be able to procure licenses to use patents necessary to our business on reasonable terms, if at all.

Our success depends in part on avoiding the infringement of other parties' patents and proprietary rights. We may inadvertently infringe existing third-party patents or third-party patents issued on existing patent applications. Third party holders of such patents or patent applications could bring claims against us that, even if resolved in our favor, could cause us to incur substantial expenses and, if resolved against us, could cause us to pay substantial damages. Under some circumstances in the United States, these damages could be triple the actual damages the patent holder incurs.

If we have supplied infringing products to third parties for marketing or licensed third parties to manufacture, use or market infringing products, we may be obligated to indemnify these third parties for any damages they may be required to pay to the patent holder and for any losses the third parties may sustain themselves as the result of lost sales or damages paid to the patent holder. In addition, we have, and may be required to, make representations as to our right to supply and/or license intellectual property and to our compliance with laws. Such representations are usually supported by indemnification provisions requiring us to defend our customers and otherwise make them whole if we license or supply products that infringe on third party technologies or violate government regulations. Further, if a patent infringement suit were brought against us, we and our customers, development partners and licensees could be forced to stop or delay research, development, manufacturing or sales of products based on our technologies in the country or countries covered by the patent we infringe, unless we can obtain a license from the patent holder. Such a license may not be available on acceptable terms, or at all, particularly if the third party is developing or marketing a product competitive with products based on our technologies. Even if we were able to obtain a license, the rights may

be nonexclusive, which would give our competitors access to the same intellectual property.

Any successful infringement action brought against us may also adversely affect marketing of products based on our technologies in other markets not covered by the infringement action. Furthermore, we may suffer adverse consequences from a successful infringement action against us even if the action is subsequently reversed on appeal, nullified through another action or resolved by settlement with the patent holder. As a result, any infringement action against us would likely harm our competitive position, be costly and require significant time and attention of our key management and technical personnel.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We rely on trade secrets to protect our proprietary technologies, especially where we do not believe patent protection is appropriate or obtainable. Trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, contractors, consultants, outside scientific collaborators and other advisors to protect our trade secrets and other proprietary information. Parties to the confidentiality agreements may have such agreements declared unenforceable or, even if the agreements are enforceable, may breach such agreements. Remedies available in connection with the breach of such agreements may not be adequate, or enforcing such agreements may be cost prohibitive. Courts outside the United States may be less willing to protect trade secrets. In addition, others may independently discover our trade secrets or independently develop processes or products that are similar or identical to our trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection would harm our competitive business position.

If we are sued on a product liability claim, our insurance policies may not be sufficient.

Our insurance may not cover all potential types of product liability claims to which manufacturers are exposed or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of our insurance coverage could harm our business, including our relationships with current customers and our ability to attract and retain new customers. In addition, if the liability were substantial relative to the size of our business, any uncovered liability could harm our liquidity and ability to continue our operations.

Laws regulating the manufacture or transportation of batteries may be enacted which could result in a delay in the production of our batteries or the imposition of additional costs that could harm our ability to be profitable.

At the present time, international, federal, state and local laws do not directly regulate the storage, use and disposal of the component parts of our batteries. However, laws and regulations may be enacted in the future which could impose environmental, health and safety controls on the storage, use and disposal of certain chemicals and metals used in the manufacture of lithium and lithium-ion batteries. Satisfying any future laws or regulations could require significant time and resources from our technical staff, including those related to possible redesign which may result in substantial expenditures and delays in the production of our product, all of which could harm our business and reduce our future profitability.

The transportation of lithium and lithium-ion batteries is regulated both domestically and internationally. Under recently revised United Nations recommendations and as adopted by the International Air Transport Association, our batteries and battery systems currently fall within the level such that they are not exempt and require a Class 9 designation for transportation. The revised United Nations recommendations and other recommendations are not U.S. law until such time as they are incorporated into the Hazardous Material Regulations of the U.S. Department of Transportation, or DOT. However, DOT has proposed new regulations harmonizing with the U.N. guidelines and is reviewing other proposed changes under consideration for inclusion. At present it is not known if or when the proposed regulations would be adopted by the United States. Although we fall under the equivalency levels for the United States and comply with all safety packaging requirements worldwide, future DOT or IATA approval processes could require significant time and resources from our technical staff and, if redesign were necessary, could delay the introduction of new products.

If our warranty expense estimates differ materially from our actual claims, or if we are unable to estimate future warranty expense for new products, our business and financial results could be harmed.

Our warranty for our products ranges from one to three years from the date of sale, depending on the type of product and its application. We expect that in the future some of our warranties may extend for longer periods. Because our

supply arrangements are negotiated, the scope of our product warranties differ substantially depending upon the product, the purchaser and the intended use; however, we have granted and may grant broad warranties, addressing such issues as leakage, cycle life and decline in power. We have a limited product history on which to base our warranty estimates. Because of the limited operating history of our batteries and battery systems, our management is required to make assumptions and to apply judgment regarding a number of factors, including anticipated rate of warranty claims, the durability and reliability of our products, and service delivery costs. Our assumptions could prove to be materially different from the actual performance of our batteries and battery systems, which could cause us to incur substantial expense to repair or replace defective products in the future and may exceed expected levels against which we have reserved. If our estimates prove incorrect, we could be required to accrue additional expenses from the time we realize our estimates are incorrect and also face a significant unplanned cash burden at the time our customers make a warranty claim, which could harm our operating results.

In addition, with our new products and products that remain under development, we will be required to base our warranty estimates on historical experience of similar products, testing of our batteries under laboratory conditions and limited performance information learned during our development activities with the customer. As a result, actual warranty claims may be significantly different from our estimates and our financial results could vary significantly from period-to-period.

Product liability or other claims could cause us to incur losses or damage our reputation.

The risk of product liability claims and associated adverse publicity is inherent in the development, manufacturing and sale of batteries and battery systems. Certain materials we use in our batteries, as well as our battery systems, could, if used improperly, cause injuries to others. Improperly charging or discharging our batteries could cause fires. Any accident involving our batteries or other products could decrease or even eliminate demand for our products. Because some of our batteries are designed to be used in electric and hybrid electric buses, and because vehicle accidents can cause injury to persons and damage to property, we are subject to a risk of claims for such injuries and damages. In addition, we could be harmed by adverse publicity resulting from problems or accidents caused by third party products that incorporate our batteries. We could even be harmed by problems or accidents involving competing battery systems, if the market viewed our batteries as being vulnerable to similar problems. Any such claims, loss of customers or reputation harm would harm our financial results and ability to continue our operations.

Continuing adverse economic conditions could reduce or delay demand for our products.

Although improving compared to recent years, the financial markets and general economic conditions are still relatively weak in certain geographic markets worldwide. Our products are targeted primarily at large power producers, worldwide bus manufacturers and other industrial parties. Due to economic factors, companies and government agencies in some of our target markets have reduced, delayed or eliminated many research and development initiatives, including those related to energy storage. This reduction or delay in development spending by targeted key customers is hindering our development and production efforts and will continue to do so until development spending increases from current depressed levels.

The commercialization of many of our products is dependent upon the efforts of commercial partners and other third parties over which we have no or little control.

The commercialization of our principal products requires the cooperation and efforts of commercial partners and customers. For example, because completion and testing of our large-scale stationary batteries for power suppliers requires input from utilities and connection to a power network, commercialization of such batteries can only be done in conjunction with a power or utility company. The commercialization of transportation and other applications of our technology are also dependent, in part, upon the expertise, resources and efforts of our commercial partners. This presents certain risks, including the following:

- we may not be able to enter into development, licensing, supply and other agreements with commercial partners with appropriate resources, technology and expertise on reasonable terms or at all;
- our commercial partners may not place the same priority on a project as we do, may fail to honor contractual commitments, may not have the level of resources, expertise, market strength or other characteristics necessary for the success of the project, may dedicate only limited resources to, and/or may abandon, a development project for reasons, including reasons such as a shift in corporate focus, unrelated to its merits;
- our commercial partners may be in the early stages of development and may not have sufficient liquidity to invest in joint development projects, expand their businesses and purchase our products as expected or honor contractual commitments;
- our commercial partners may terminate joint testing, development or marketing projects on the merits of the projects for various reasons, including determinations that a project is not feasible, cost-effective or likely to lead to a marketable end product;
- our commercial partners may not protect our intellectual property adequately or they may infringe our intellectual property rights;

- at various stages in the testing, development, marketing or production process, we may have disputes with our commercial partners, which may inhibit development, lead to an abandonment of the project or have other negative consequences; and
- even if the commercialization and marketing of jointly developed products is successful, our revenue share may be limited and may not exceed our associated development and operating costs.

As a result of the actions or omissions of our commercial partners, or our inability to identify and enter into suitable arrangements with qualified commercial partners, we may be unable to commercialize apparently viable products on a timely and cost-effective basis, or at all.

Interest in our nano lithium titanate batteries is affected by energy supply and pricing, political events, popular consciousness and other factors over which we have no control.

Currently, our marketing and development efforts for our batteries and battery materials are focused primarily on the electric grid, industrial and transportation applications. In the transportation and industrial markets, batteries containing our nano lithium titanate materials are designed to replace or supplement gasoline and diesel engines. In the stationary power applications, our batteries are designed to conserve and regulate the stable supply of electricity, including from renewable sources. The interest of our potential customers and business partners in our products and services is affected by a number of factors beyond our control, including:

- economic conditions and capital financing and liquidity constraints;
- short-term and long-term trends in the supply and price of natural gas, gasoline, diesel, coal and other fuels;
- the anticipated or actual granting or elimination by governments of tax and other financial incentives favoring electric or hybrid electric vehicles and renewable energy production;
- the ability of the various regulatory bodies to define the rules and procedures under which this new technology can be deployed into the electric grid;
  - the anticipated or actual funding, or elimination of funding, for programs that support renewable energy programs and electric grid improvements;
- changes in public and investor interest for financial and/or environmental reasons, in supporting or adopting alternatives to gasoline and diesel for transportation and other purposes;
- the overall economic environment and the availability of credit to assist customers in purchasing our large battery systems;
- the expansion or contraction of private and public research and development budgets as a result of global and U.S. economic trends; and
  - the speed of incorporation of renewable energy generating sources into the electric grid.

Adverse trends in one or more of these factors may inhibit our ability to commercialize our products and expand revenues from our battery materials and batteries.

If we combine with other companies, we may be unable to successfully integrate our business, technology, management or other aspects of our business with the other party to the transaction.

As evidenced by our closing of our transaction with Canon and related agreements with YTE, we routinely consider entering into acquisition, strategic or combination transactions with other companies for strategic and/or financial reasons. We do not have extensive experience in conducting diligence on, evaluating, purchasing, merging with, selling to or integrating new businesses or technologies with other entities. If we do succeed in closing a combination with another company, we will be exposed to a number of risks, including:

- we may have difficulty integrating our assets, technologies, operations and personnel in connection with a business combination;
- our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing, or being a part of, a geographically or culturally diverse enterprises;

- we may find that the transaction does not further our business strategy or that the economic and strategic assumptions underlying the transaction have proved inaccurate;
- we may encounter difficulty entering and competing in new product or geographic markets;
- we may face business, product, structural or other limitations or prohibitions as our business becomes subject to the laws or customs of other jurisdictions; and
- we may experience significant problems or liabilities associated with product quality, technology and legal contingencies relating to the integrated business or technology, such as intellectual property or employment matters.

In addition, from time to time we may enter into negotiations for acquisitions, dispositions, mergers or other transactions that are not ultimately consummated. These negotiations could result in significant diversion of management time, substantial out-of-pocket costs and, while such transactions are pending, limitations on the operation of our business (including negotiation of alternative business combinations and capital raising transactions). To the extent we issue shares of capital stock or other rights to purchase capital stock in any such transactions, including options and warrants, existing stockholders would be diluted. Any of these issues will harm our business and financial condition.



Our competitors have more resources than we do, and may be supported by more prominent partners, which may give them a competitive advantage.

We have limited financial, personnel and other resources and, because of our early stage of development, have limited access to capital. We compete or may compete against entities that are much larger than we are, have more extensive resources than we do and have an established reputation and operating history. In addition, certain of our early stage competitors are partnered with, associated with or supported by larger business or financial partners. This may increase their ability to raise capital, attract media attention, develop products and attract customers. Because of their size, resources, reputation and history (or that of their business and financial partners), certain of our competitors may be able to exploit acquisition, development and joint venture opportunities more rapidly, easily or thoroughly than we can. In addition, potential customers may choose to do business with our more established competitors, without regard to the comparative quality of our products, because of their perception that our competitors are more stable, are more likely to complete various projects, are more likely to continue our operations and lend greater credibility to any joint venture.

As manufacturing becomes a larger part of our operations, we will become exposed to accompanying risks and liabilities.

In-house and outsourced manufacturing is becoming an increasingly significant part of our business. As a result, we expect to become increasingly subject to various risks associated with the manufacturing and supply of products, including the following:

- If we fail to supply products in accordance with contractual terms, including terms related to time of delivery and performance specifications, we may be required to repair or replace defective products and may become liable for direct, special, consequential and other damages, even if manufacturing or delivery was outsourced;
- Raw materials used in the manufacturing process, labor and other key inputs may become scarce and expensive, causing our actual costs to exceed cost projections and associated revenues;
- Manufacturing processes typically involve large machinery, fuels and chemicals, any or all of which may lead to accidents involving bodily harm, destruction of facilities and environmental contamination and associated liabilities;
- As our manufacturing operations expand, we expect that a significant portion of our manufacturing will be done overseas, either by third-party contractors or in a plant owned by the company. Any manufacturing done overseas presents risks associated with quality control, currency exchange rates, foreign laws and customs, timing and loss risks associated with overseas transportation and potential adverse changes in the political, legal and social environment in the host country; and
- We have made, and may be required to make, representations as to our right to supply and/or license intellectual property and to our compliance with laws. Such representations are usually supported by indemnification provisions requiring us to defend our customers and otherwise make them whole if we license or supply products that infringe on third-party technologies or violate government regulations.

Any failure to adequately manage risks associated with the manufacture and supply of materials and products could lead to losses (or smaller than anticipated gross profits) from that segment of our business and/or significant liabilities, which would harm our business, operations and financial condition.

Our past and future operations may lead to substantial environmental liability.

Virtually any prior or future production of our nanomaterials and titanium dioxide pigment technology is subject to federal, state and local environmental laws. Under such laws, we may be jointly and severally liable with prior property owners for the treatment, cleanup, remediation and/or removal of any hazardous substances discovered at any property we use. In addition, courts or government agencies may impose liability for, among other things, the improper release, discharge, storage, use, disposal or transportation of hazardous substances. If we incur any significant environmental liabilities, our ability to execute our business plan and our financial condition would be harmed.

Certain of our experts and directors reside in Canada or China and may be able to avoid civil liability.

We are a U.S. corporation, and a majority of our directors reside outside the United States in Canada or China. As a result, investors may be unable to effect service of process upon such persons within the United States and may be unable to enforce court judgments against such persons predicated upon civil liability provisions of the U.S. securities laws. It is uncertain whether Canadian or Chinese courts would enforce judgments of U.S. courts obtained against us or such directors, officers or experts predicated upon the civil liability provisions of U.S. securities laws or impose liability in original actions against us or our directors, officers or experts predicated upon U.S. securities laws.

We are dependent on key personnel.

We have experienced, and may continue to experience, turnover in key positions, which could result in the loss of company-specific knowledge, experience and expertise. Our success will depend, to a significant extent, on the services of our executive management team and certain key scientists and engineers. We do not have key man insurance on any of these individuals. Nor do we have agreements requiring any of our key personnel to remain with our company. The loss or unavailability of any or all of these individuals could harm our ability to execute our business plan, maintain important business relationships and complete certain product development initiatives, which would harm our business.

We may issue substantial amounts of additional shares without stockholder approval.

Our certificate of incorporation authorizes the issuance of 200 million shares of common stock that may be issued without any action or approval by our stockholders. In addition, we have various stock option plans that have potential for diluting the ownership interests of our stockholders. The issuance of any additional shares of common stock would further dilute the percentage ownership of our company held by existing stockholders.

The market price of our shares of common stock is highly volatile and may increase or decrease dramatically at any time.

The market price of our shares of common stock is highly volatile. Our stock price may change dramatically as the result of announcements of product developments, new products or innovations by us or our competitors, uncertainty regarding the viability of our technology or our product initiatives, significant customer contracts, significant litigation, our liquidity situation, revenues or losses, or other factors or events that would be expected to affect our business, financial condition, results of operations and future prospects.

The market price for our shares of common stock may be affected by various factors not directly related to our business or future prospects, including the following:

- intentional manipulation of our stock price by existing or future shareholders or a reaction by investors to trends in our stock rather than the fundamentals of our business;
- a single acquisition or disposition, or several related acquisitions or dispositions, of a large number of our shares, including by short sellers covering their position;
- the interest of the market in our business sector, without regard to our financial condition, results of operations or business prospects;
- positive or negative statements or projections about our company or our industry, by analysts, stock gurus and other persons;
- the adoption of governmental regulations or government grant programs and similar developments in the United States or abroad that may enhance or detract from our ability to offer our products and services or affect our cost structure; and
- economic and other external market factors, such as a general decline in market prices due to poor economic conditions, investor distrust or a financial crisis.

We have never declared a cash dividend and do not intend to declare a cash dividend in the foreseeable future.

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings, if any, for use in our business and, therefore, do not anticipate paying dividends on our common stock in the foreseeable future.

We are subject to various regulatory regimes, and may be adversely affected by inquiries, investigations and allegations that we have not complied with governing rules and laws.

In light of our status as a public company and our lines of business, we are subject to a variety of laws and regulatory regimes in addition to those applicable to all businesses generally. For example, we are subject to the reporting requirements applicable to the United States reporting issuers, such as the Sarbanes-Oxley Act of 2002, the rules of the NASDAQ Capital Market and certain state and provincial securities laws. We are also subject to state and federal environmental, health and safety laws. Such laws and rules change frequently and are often complex. In connection with such laws, we are subject to periodic audits, inquiries and investigations. Any such audits, inquiries and investigations may divert considerable financial and human resources and adversely affect the execution of our business plan.

Through such audits, inquiries and investigations, we or a regulator may determine that we are out of compliance with one or more governing rules or laws. Remedying such non-compliance diverts additional financial and human resources. In addition, in the future, we may be subject to a formal charge or determination that we have materially violated a governing law, rule or regulation. We may also be subject to lawsuits as a result of alleged violation of the securities laws or governing corporate laws. Any charge or allegation, and particularly any determination, that we had materially violated a governing law would harm our ability to enter into business relationships, recruit qualified officers and employees and raise capital.

We may be delisted from the Nasdaq Capital Market if we do not come into compliance with the audit committee and minimum bid requirements.

Our bid price has been trading below the \$1.00 minimum bid price required by the Nasdaq Capital Market. On July 6, 2012, we received a letter from The Nasdaq Stock Market, or Nasdaq, indicating that we had not regained compliance with the \$1.00 per share minimum bid requirement prior to the July 6, 2012 deadline set out in a previous letter from Nasdaq. Nasdaq stated, however, that on July 6, 2012, we satisfied all initial inclusion criteria for the Nasdaq Capital Market other than the minimum bid price requirement and that, as a result, we would be provided an additional 180 day period, or until January 2, 2013, to regain compliance. If the bid price of our common stock does not close at \$1.00 per share or more for a minimum of 10 consecutive business days, as a result of a reverse stock split or otherwise, by January 2, 2013, we will likely be delisted from the Nasdaq Capital Market.

In addition, On May 1, 2012, we received a letter from Nasdaq we are not in compliance with the audit committee requirements in Nasdaq Marketplace Rule 5605. Among other things, Rule 5605 requires that we have an audit committee composed of at least three independent directors. Alexander Lee, a member of our audit committee, was appointed Interim Chief Executive Officer on April 1, 2012 and, as a result, ceased to be independent. We have not yet appointed a third independent director to fill the vacancy on the audit committee. According to the letter, pursuant to Rule 5605(c) (4), we have been provided a cure period in order to regain compliance, which cure will expire at our annual shareholders meeting on November 28, 2012. If we do not replace Mr. Lee on the audit committee by that date, we may be delisted from the Nasdaq Capital Market.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, we are not required to provide the information required by this item.

### Item 4. Controls and Procedures

(a) Based on their evaluation as of September 30, 2012, which is the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) are effective, based upon an evaluation of those controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Exchange Act.

(b) There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

**JMP Dispute.** On or about September 9, 2011, JMP Securities LLC ("JMP") filed a complaint against the Company in the United States District Court in the Northern District of California. JMP alleges breach of contract, promissory estoppel, fraud and negligence misrepresentation and seeks damages and punitive damages in an unspecified amount. This dispute arises from JMP's engagement as the Company's financial advisor in July 2010, and the key issue in this dispute is the amount of the fee JMP is entitled to receive as a result of the closing of the common share issuance to an affiliate of Canon. Under governing agreements, the amount of JMP's fee differs depending upon whether the common share issuance is a "Sale or Merger" (defined to include an acquisition of a majority of voting securities of the Company) or whether it is a "Strategic Investment", and whether certain gross up provisions apply. The Company asserts that the correct fee amount is approximately \$0.8 million, while JMP asserts that the correct fee amount is approximately \$2.3 million. The Company filed an answer to JMP's complaint. The Company filed motion to dismiss certain claims on the pleadings, which was denied. A second motion related to interpretation of the indemnity provisions of the underlying agreement was decided in favor of the Company. In October 2012, the Company entered into a settlement agreement with JMP, pursuant to which, in exchange for a full release, the Company is obligated to pay an aggregate of \$1.65 million to JMP, \$962,500 payable upon signing and \$137,500 on each of December 15, 2012, January 15, 2013, February 15, 2013, March 15, 2013 and April 15, 2013. The obligations of the Company are guaranteed by Canon Investment Holdings, Ltd.

Charles Cheng Fee Dispute. On or about October 12, 2011, Altairnano, an indirect subsidiary of the Company, filed a complaint against Zhiyuan (Charles) Cheng in the United States District Court in the Northern District of Nevada. Altairnano seeks a declaratory judgment that it owes Mr. Cheng no fee and seeks damages for breach of contract in an unspecified amount. The dispute arises from Mr. Cheng's engagement as a consultant to seek customers and strategic partners for Altairnano in China. Mr. Cheng has asserted in various communications that his efforts were significant in the arranging of the common share issuance with Canon and that, as a result, he is entitled to a \$1.7 million fee in consideration of the closing of such transaction. Altairnano claims that Mr. Cheng is entitled to no fee, and that Altairnano is entitled to damages, as a result of Mr. Cheng's numerous breaches of material provisions of the agreement. Altairnano has filed the complaint, and Mr. Cheng has filed an answer denying key allegations of the complaint and a counterclaim seeking payment of the fee, and damages, under various theories. Mr. Cheng has joined Zhuhai Yintong Energy Company Ltd. ("YTE") and Wei Yincang into the action by means of a complaint against them alleging a breach of an agreement between them and Mr. Cheng. In October 2012, Altairnano entered into a settlement agreement with Mr. Cheng pursuant to which, in exchange for a full release, a subsidiary of Altairnano will pay Mr. Cheng \$1.3 million.

An accounts payable accrual of \$4.0 million and \$2.95 million was accrued in the Company's balance sheet as of December 31, 2011 and September 30, 2012, respectively

#### Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information required by this Item; however, certain risk factors are identified under the title "Risk Factors" as part of Part I, Item 2.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

#### Item 3. Defaults upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

None.

#### Item 5. Other Information

On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system ("ESS") manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair will acquire the right to use the 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land use fee of approximately \$12 million and land transfer taxes and fees of approximately \$1.9 million and agreed to make fixed asset investments on the land of approximately \$167 million over an unspecified period of time, with initial construction to begin by March 31, 2013. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement,

Northern Altair is in the midst of negotiating with Wu'an City regarding a package of incentives to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

Item 6. Exhibits

- a) See Exhibit Index attached hereto following the signature page.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Altair Nanotechnologies Inc.

November 14, 2012  
Date

By: /s/ Alexander Lee  
Alexander Lee,  
Chief Executive Officer

November 14, 2012  
Date

By: /s/ Stephen B. Huang  
Stephen B. Huang,  
Chief Financial Officer and Secretary

EXHIBIT INDEX

Exhibit No.	Exhibit	Incorporated by Reference/ Filed Herewith**
10.1	Note Secured by a Deed of Trust with Suncrest Homes 30, LLC	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 13, 2012
10.2	Deed of Trust Suncrest Homes 30, LLC	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 13, 2012
10.3	Guaranty in favor of Suncrest Homes 30, LLC	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 13, 2012
10.4	Amendment to Contract with INE	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on September 13, 2012
10.5	Loan Agreement with Bank of China Ltd.	Filed herewith
10.6	Commercial/Investment Property Purchase Agreement	Filed herewith
10.7	Contract on Assignment of State-owned Construction Land Use Right	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Chief Executive Officer	Filed herewith
32.2	Section 1350 Certification of Chief Financial Officer	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

\*\* SEC File No. 1-12497.