

ALTAIR NANOTECHNOLOGIES INC  
Form 10-Q  
August 10, 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 June 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 submit and post such files). YES  NO .

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):

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Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
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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 August 10, 2012 the registrant had 69,452,487 shares of Common Stock outstanding.

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## 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)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$35,275	\$46,519
Restricted cash	293	
Accounts receivable, net	576	333
Product inventories, net	9,860	7,220
Prepaid expenses and other current assets	2,022	2,240
Total current assets	48,026	56,312
Property, plant and equipment, net	6,297	6,870
Patents, net	312	350
Total Assets	\$54,635	\$63,532
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$6,225	\$5,870
Accrued salaries and benefits	928	1,132
Accrued warranty	383	354
Accrued liabilities	438	421
Deferred revenues	2,561	1,616
Warrant liabilities	475	654
Capital lease obligation	21	12
Total current liabilities	11,031	10,059
Total Liabilities	11,031	10,059
Stockholders' equity		
Common stock, no par value, unlimited shares authorized; 69,452,487 shares issued and outstanding at June 30, 2012 and December 31, 2011	245,617	245,617
Additional paid in capital	12,276	12,279
Accumulated deficit	(214,157 )	(204,423 )
Accumulated other comprehensive loss	(132 )	
Total stockholders' equity	43,604	53,473

Total Liabilities and Stockholders' Equity	\$54,635	\$63,532
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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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenues</b>				
Product sales	\$376	\$174	\$573	\$2,540
License fees	60	60	120	120
Commercial collaborations	18	78	18	80
Contracts and grants		164		287
Total revenues	454	476	711	3,027
<b>Cost of goods sold</b>				
Product	613	314	1,019	2,925
Commercial collaborations		197		197
Contracts and grants		168		296
Warranty and inventory reserves	461	12	475	58
Total cost of goods sold	1,074	691	1,494	3,476
Gross loss	(620 )	(215 )	(783 )	(449 )
<b>Operating expenses</b>				
Research and development	1,789	1,284	3,622	3,340
Sales and marketing	925	913	1,845	1,964
General and administrative	1,425	1,204	3,174	3,376
Depreciation and amortization	250	379	519	754
Loss on disposal of assets				16
Total operating expenses	4,389	3,780	9,160	9,450
Loss from operations	(5,009 )	(3,995 )	(9,943 )	(9,899 )
<b>Other (expense) income</b>				
Interest income (expense), net	32	(52 )	30	(59 )
Change in market value of warrants	102	1,022	179	1,022
Total other income, net	134	970	209	963
Net loss	\$(4,875 )	\$(3,025 )	\$(9,734 )	\$(8,936 )
Loss per common share - basic and diluted	\$(0.07 )	\$(0.10 )	\$(0.14 )	\$(0.31 )
Weighted average shares - basic and diluted	69,452,487	30,424,730	69,452,487	28,644,546

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 June 30,	
	2012	2011
Net loss	\$ (4,875 )	\$ (3,025 )
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(132 )	
Comprehensive loss	\$ (5,007 )	\$ (3,025 )
	Six Months Ended June 30,	
	2012	2011
Net loss	\$ (9,734 )	\$ (8,936 )
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(132 )	
Comprehensive loss	\$ (9,866 )	\$ (8,936 )

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		Additional	Accumulated	Accumulated	
	Shares	Amount	Paid In	Deficit	Other	Total
			Capital		Comprehensive	
					Loss	
Balance, April 1, 2011	30,615,680	\$ 193,373	\$ 12,425	\$ (190,401 )		\$ 15,397
Net loss				(3,025 )		(3,025 )
Share-based compensation		73	85			158
Issuance cost adj of \$10		(10 )				(10 )
Balance, June 30, 2011	30,615,680	\$ 193,436	\$ 12,510	\$ (193,426 )	\$ -	\$ 12,520
	Common Stock		Additional	Accumulated	Other	
	Shares	Amount	Paid In	Deficit	Comprehensive	Total
			Capital		Loss	
Balance, April 1, 2012	69,452,487	\$ 245,617	\$ 12,351	\$ (209,282 )		\$ 48,686
Net loss				(4,875 )		(4,875 )
Other comprehensive loss					(132 )	(132 )
Share-based compensation			(75 )			(75 )
Balance, June 30, 2012	69,452,487	\$ 245,617	\$ 12,276	\$ (214,157 )	\$ (132 )	\$ 43,604
	Common Stock		Additional	Accumulated	Accumulated	
	Shares	Amount	Paid In	Deficit	Other	Total
			Capital		Comprehensive	
					Loss	
Balance, January 1, 2011	27,015,680	\$ 189,491	\$ 12,297	\$ (184,490 )		\$ 17,298
Net loss				(8,936 )		(8,936 )
Share-based compensation		150	213			363
Common stock issued, net of						
issuance						
costs of \$698 and warrant						
liabilities	3,600,000	3,795				3,795
Balance, June 30, 2011	30,615,680	\$ 193,436	\$ 12,510	\$ (193,426 )	\$ -	\$ 12,520
	Common Stock		Additional	Accumulated	Accumulated	
	Shares	Amount	Paid In	Deficit	Other	Total
			Capital		Comprehensive	
					Loss	
Balance, January 1, 2012	69,452,487	\$ 245,617	\$ 12,279	\$ (204,423 )		\$ 53,473
Net loss				(9,734 )		(9,734 )
Other comprehensive loss					(132 )	(132 )
Share-based compensation			(3 )			(3 )



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Balance, June 30, 2012	69,452,487	\$245,617	\$12,276	\$ (214,157 )	\$ (132 )	\$43,604
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See notes to the consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net loss	\$(9,734	) \$(8,936
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	519	754
Share-based compensation	(3	) 363
Loss on disposal of assets		16
Change in fair value of warrants	(179	) (1,022
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(243	) 409
Product inventories	(2,478	) 810
Prepaid expenses and other current assets	218	(19
Trade accounts payable	355	(1,000
Accrued salaries and benefits	(204	) 542
Accrued warranty	29	28
Deferred revenues	945	(865
Accrued liabilities	17	80
Net cash used in operating activities	(10,758	) (8,840
<b>Cash flows from investing activities:</b>		
Increase in restricted cash	(293	)
Purchase of property, plant and equipment	(56	) (300
Proceeds from disposition of assets		5
Net cash used in investing activities	(349	) (295
<b>Cash flows from financing activities:</b>		
Issuance of common shares for cash, net of issuance costs		5,723
Proceeds from notes payable		1,500
Payment of notes payable		(197
Repayment of capital lease obligation	(5	) (9
Net cash (used in) provided by financing activities	(5	) 7,017
Effect of exchange rate changes on cash and cash equivalents	(132	)
Net decrease in cash and cash equivalents	(11,244	) (2,118
Cash and cash equivalents, beginning of period	46,519	4,695
Cash and cash equivalents, end of period	\$35,275	\$2,577
<b>Supplemental disclosures:</b>		
Cash paid for interest	\$1	\$32

Cash paid for income taxes	None	None
Non-cash transactions:		
Acquisition of assets included in accounts payable		\$16

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. We have financed operations through operating revenues and through the issuance of equity securities (shares of common stock, stock options and warrants), and debt (term notes). Until we are able to generate positive operating cash flows, additional funds will be required to support operations. We believe that current working capital, cash receipts from anticipated sales and funding through additional financing or raising additional capital in 2012 to fund our China expansion as well as sustain our U.S. operations will be sufficient to enable us to continue as a going concern through June 30, 2013.

The interim consolidated financial statements include a new Wu’an China subsidiary, Northern Altair Nanotechnologies Co., Ltd., established in the second 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 June 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 June 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	June 30, 2012	December 31, 2011
Warrant liabilities:	3	\$ 475	\$ 654

The following table presents quantitative information for Level 3 derivative contracts:

	Fair value at June 30, 2012	Valuation technique	Unobservable input
Liabilities:			

Warrant liabilities	\$	475	Black-Scholes-Merton option pricing model	Prevailing interest rates, Company's stock price volatility, expected warrant term
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The Company utilizes inputs that are not observable from objective sources, such as the Company's internally developed assumptions used in pricing the liability and Company market data or assumptions that market participants would use in pricing the liability. The unobservable inputs are described in Note 9. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy. These instruments are valued using a Black-Scholes-Merton option-pricing model using market information as of the reporting date such as prevailing interest rates, the Company's stock price volatility, and expected 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 June 30, 2012:

		Cost	Fair Value	Carrying Value
Warrant liabilities:	\$	1,928	\$ 475	\$ 475

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	(179)
Unrealized gains / (losses)	—
Other adjustments	—
Closing balance – June 30, 2012	\$ 475

\* There were no purchases, sales, transfers, issuances or settlements of Level 3 financial instruments.

#### Other Financial Instruments

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

Level		June 30, 2012		December 31, 2011	
		Carrying value	Fair value	Carrying value	Fair value
Accounts receivable, net	2	576	576	333	333
Trade accounts payable	2	6,225	6,225	5,870	5,870
Capital lease obligation	2	21	21	12	12

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

Cash and cash equivalents, Restricted cash, Accounts receivable, Trade accounts payable and Capital lease obligation. 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

	June 30, 2012	December 31, 2011
Raw materials	\$ 4,055	\$ 4,193
Work in process	5,656	2,982
Finished goods	149	45
Total product inventories	\$ 9,860	\$ 7,220

As of June 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 on product inventories totaled \$663,000 and \$264,000 at June 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

	June 30, 2012	December 31, 2011
Prepaid inventory purchases	\$ 4	\$ 801
Prepaid insurance	37	259
Deposits	341	341
Deferred contract costs	1,533	678
Other prepaid expenses and current assets	107	161
Total prepaid expenses and other current assets	\$ 2,022	\$ 2,240

Other prepaid expenses and current assets consist primarily of prepaid property taxes, service contracts, marketing expenses and rent.

## Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

In thousands of dollars

	June 30, 2012	December 31, 2011
Machinery and equipment	\$ 10,820	\$ 11,117
Building and improvements	4,324	4,447
Furniture, office equipment & other	1,897	1,826
Total	17,041	17,390
Less accumulated depreciation	(10,744 )	(10,520 )
Total property, plant and equipment	\$ 6,297	\$ 6,870

Depreciation expense for the six months ended June 30, 2012 and 2011, totaled \$481,000 and \$716,000, 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 June 30, 2012 and December 31, 2011 were:

In thousands of dollars

	June 30, 2012	December 31, 2011
Patents and patent applications	\$ 1,366	\$ 1,366
Less accumulated amortization	(1,054 )	(1,016 )
Total patents and patent applications	\$ 312	\$ 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 six months ended June 30, 2012 and 2011, was \$38,000. For each of the next four years, amortization expense relating to patents is expected to be approximately \$76,000 per year. Amortization expense for the fifth year is expected to be approximately \$8,000.

Note 8. Stock-Based Compensation

As of June 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 8,750 shares of common stock are outstanding and unexercised at June 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:

	June 30, 2012		June 30, 2011	
Stock Price	\$	0.52	\$	0.86
Exercise Price	\$	2.56	\$	2.56
Expected Volatility		110 %		96 %
Expected Dividend Yield		None		None
Expected Term (in years)		4.3		5.3
Risk-free Interest Rate		0.39 %		1.84 %

As of June 30, 2012, the value of the warrant liability was \$475,000 and the change in fair value during the six months ended June 30, 2012 was a gain of \$179,000. The gain was recorded as other income in the statement of operations.

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

	2012		2011	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1,	2,476,654	\$ 2.49	1,757,115	\$ 4.61
Issued			1,800,000	2.56
Expired				
Warrant redemption				
Exercised				
Outstanding at June 30,	2,476,654	\$ 2.49	3,557,115	\$ 3.23
Currently exercisable	2,476,654	\$ 2.49	1,757,115	\$ 4.61

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

Range of Exercise Prices		Warrants	Warrants Outstanding and Exercisable Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 1.00 to	\$ 2.30	676,654	3.8	\$ 2.30
\$ 2.31 to	\$ 4.00	1,800,000	4.3	2.56
		2,476,654	4.1	\$ 2.49

## Note 10. 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.

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

In thousands of dollars

Three Months	Net Sales	Loss (Gain) From Operations	Depreciation and Amortization	Assets
<b>June 30, 2012</b>				
Power & Energy Group	\$394	\$5,047	\$ 230	\$54,263
All Other	60	(38 )	20	372
Consolidated Total	\$454	\$5,009	\$ 250	\$54,635
<b>June 30, 2011</b>				
Power & Energy Group	\$229	\$3,918	\$ 360	\$19,973
All Other	247	77	19	510
Consolidated Total	\$476	\$3,995	\$ 379	\$20,483
<b>Six Months</b>				
<b>June 30, 2012</b>				
Power & Energy Group	\$591	\$10,022	\$ 481	\$54,263
All Other	120	(79 )	38	372
Consolidated Total	\$711	\$9,943	\$ 519	\$54,635
<b>June 30, 2011</b>				
Power & Energy Group	\$2,525	\$9,794	\$ 716	\$19,973
All Other	502	105	38	510
Consolidated Total	\$3,027	\$9,899	\$ 754	\$20,483

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.

For the six months ended June 30, 2012, long-lived assets decreased by \$611,000 for the Power and Energy Group. For the six months ended June 30, 2011, long-lived asset increased by \$316,000 for the Power and Energy Group.

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

In thousands of dollars

Customer	Sales Six Months Ended June 30, 2012	Accounts Receivable Balance at June 30, 2012
<b>Power and Energy Group:</b>		
Hybricon	\$ 131	
ABB Secheron	98	
Cargotec	90	
Bombardier	79	\$ 79
Ocean Power Te	74	

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

In thousands of dollars

Customer	Sales Six Months Ended June 30, 2011	Accounts Receivable Balance at June 30, 2011
<b>Power and Energy Group:</b>		
Yintong Energy (YTE)*	\$ 1,713	\$ 15
Proterra, LLC	512	
<b>All Other Division:</b>		
US Army	\$ 303	\$ 116

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

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

In thousands of dollars

Geographic information (a):	Sales Six Months Ended June 30, 2012	Sales Six Months Ended June 30, 2011
United States	\$ 205	\$ 1,211
Germany	142	
Sweden	131	
Switzerland	103	
Other foreign countries	130	103
China		1,713
<b>Total</b>	<b>\$ 711</b>	<b>\$ 3,027</b>



Note 11. Commitments and Contingencies

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.

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**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 \$.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. Meanwhile, discovery continues.

**Charles Cheng Fee Dispute.** On or about October 12, 2011, Altair filed a complaint against Zhiyuan (Charles) Cheng in the United States District Court in the Northern District of Nevada. Altair 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 Altair 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. Altair claims that Mr. Cheng is entitled to no fee, and that Altair is entitled to damages, as a result of Mr. Cheng's numerous breaches of material provisions of the agreement. Altair 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. The parties have engaged in settlement discussions and, the case is not actively proceeding while settlement discussions are pending.

#### Note 12. Subsequent Events

On August 1, 2012, Wu'an paid Northern Altair Nanotechnologies Co., Ltd., \$1.9 million (12 million RMB), as a down payment for its first electric bus order under the Agreement (the "Wu'an Agreement") among Altair China and the Wu'an Municipal People's Government ("Wu'an") and Handan Municipal People's Government ("Handan"). This payment shall be applied by Altair China to purchase and deliver 50 electric buses from a third party manufacturer to Wu'an by the end of 2012.

On August 8, 2012, we entered into a Note Secured by Deed of Trust, a Deed of Trust, 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 will be used for general working capital requirements.

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 in 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. Our current customer backlog includes purchase orders to (1) supply a one-megawatt ALTI-ESS energy storage system for a test of wind energy integration, (2) supply a one-megawatt ALTI-ESS energy storage system for a test of solar energy integration, (3) supply a 1.8-megawatt ALTI-ESS energy storage system to an electric utility and (4) supply a 1.2-megawatt ALTI-ESS energy storage system to a wind turbine manufacturer for integration into their wind energy systems for testing.

During the three months ending March 31, 2012 we formed Altair Nanotechnologies (China) Co., Ltd. ("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 China signed an Agreement (the "Wu'an Agreement") with Wu'an Municipal People's Government ("Wu'an") and Handan Municipal People's Government ("Handan"). This Wu'an Agreement anticipates a number of transactions between Altair China and Wu'an or Handan, the first of which is the agreement of Wu'an to make approximately 330 acres of commercial land available to Altair China free of rent or land transfer fees for a 50 year commercial term to facilitate Altair China's construction of a manufacturing facility in an industrial park being promoted by Wu'an. The Wu'an agreement also anticipates purchases of electric buses and other products over time.

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 China signed an Agreement (the "Wu'an Agreement") with Wu'an Municipal People's Government ("Wu'an") and Handan Municipal People's Government ("Handan"). This Wu'an Agreement anticipates a number of transactions between Altair China and Wu'an or Handan, the first of which is the agreement of Wu'an to make approximately 330 acres of commercial land available to Altair China free of rent or land transfer fees for a 50 year commercial term to facilitate Altair China's construction of a manufacturing facility in an industrial park being promoted by Wu'an. The Wu'an agreement also anticipates purchases of electric buses and other products over time.

#### 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 megawatt 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 megawatt ALTI-ESS energy storage systems for a test of wind and solar energy integration. We are currently scheduled to install the wind system in the fourth quarter of 2012 and are currently scheduled to install the solar system in the first quarter of 2013.

- 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 ten megawatt ALTI-ESS advanced battery system in El Salvador. Total revenue under the Contract shall 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 Golden, Colorado 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 manufacturers or 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 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, which signed the Wu’an Agreement related to a number of transactions between Altair China and Wu'an or Handan, the first of which is the agreement of Wu’an to make approximately 330 acres of commercial land available to Altair China free of rent or land transfer fees for a 50 year commercial term 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.

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 \$11.2 million, from \$46.5 million at December 31, 2011 to \$35.3 million at June 30, 2012. The decrease in cash was primarily due to the \$10.8 million of cash used in operating activities during the six months ending June 30, 2012. The bulk of the cash used in operations went to cover our net loss of \$9.7 million, along with \$2.5 million build-up of work in process inventory related to the fulfillment of customer sales backlog.

During the six months ending June 30, 2011 we issued shares of common stock and warrants to purchase shares of common stock for net proceeds of \$5.7 million. We recorded a \$1.9 million warrant liability related to this capital raise. We also paid off \$206,000 of debt.

As of June 30, 2012, we had cash totaling \$35.3 million. Of this amount, \$32 million was transferred to Altair China in April 2012 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. The company expects to have adequate cash based on current levels and planned capital raises to operate for at least twelve months from June 30, 2012.

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 June 30, 2012:

In thousands of dollars

Contractual Obligations	Total	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
Notes payable	\$ -	\$ -	\$ -	\$ -	\$ -
Contractual service agreements	666	599	67		
Capital leases	21	14	7		
Operating leases					
Purchase obligations	1,084	1,084			
Total	\$ 1,771	\$ 1,697	\$ 74	\$ -	\$ -

## Off-Balance Sheet Arrangements

The company did not have any off-balance sheet transactions during the six months ending June 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 Six Months Ended June 30, 2012 Compared to Three and Six Months Ended June 30, 2011

In thousands of dollars

	Power and Energy Group		All Other		Consolidated	
	Three Months Ended June 30		Three Months Ended June 30		Three Months Ended June 30	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Product sales	\$ 376	\$ 161	\$ -	\$ 13	\$ 376	\$ 174
License fees			60	60	60	60
Commercial collaborations	18	78			18	78
Contracts and grants		(10 )		174		164
Total revenues	394	229	60	247	454	476
<b>Cost of goods sold</b>						
Product	613	302		12	613	314
Commercial collaborations		197				197
Contracts and grants		(30 )		198		168
Warranty and inventory reserves	461	12			461	12
Total cost of goods sold	1,074	481	-	210	1,074	691
Gross (loss) profit	(680 )	(252 )	60	37	(620 )	(215 )
<b>Operating expenses</b>						
Research and development	1,787	1,189	2	95	1,789	1,284
Sales and marketing	925	913			925	913
General and administrative	1,425	1,204			1,425	1,204
Depreciation and amortization	230	360	20	19	250	379
Total operating expenses	4,367	3,666	22	114	4,389	3,780
(Loss) income from operations	(5,047 )	(3,918 )	38	(77 )	(5,009 )	(3,995 )
<b>Other income (expense)</b>						
Interest income (expense), net	32	(52 )			32	(52 )
Change in market value of warrants	102	1,022			102	1,022
Total other income, net	134	970	-	-	134	970
(Loss) income from continuing operations	(4,913 )	(2,948 )	38	(77 )	(4,875 )	(3,025 )



Net (loss) income	\$ (4,913 )	\$ (2,948 )	\$ 38	\$ (77 )	\$ (4,875 )	\$ (3,025 )
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#### Revenues

Power and Energy Group revenue for the three months ending June 30, 2012 was \$394,000. This amount included revenue from battery modules sold to six customers testing our battery systems. Revenues were higher by \$165,000 in the first three months of 2012, primarily as a result of increased product sales.

#### Cost of Goods Sold

In the Power and Energy Group the cost of goods sold for product sales was \$1.1 million for the three months ended June 30, 2012. Cost of goods sold (COGS) exceeded product sales by \$680,000 due primarily to fixed manufacturing costs expensed during the period due to low inventory production levels and an increase of \$399,000 in our inventory reserve. This compared to \$481,000 of total COGS for the same period in 2011, which exceeded total sales by \$252,000.

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 were increased by \$609,000, from approximately \$3.8 million during the three months ending June 30, 2011 to approximately \$4.4 million during the three months ending June 30, 2012. Most of the increase was in the research and development area which included increased expenses associated with our LTO chemistry and LTO cell development. Average employee headcount decreased by 12%, from 94 employees during the three months ending June 30, 2011 to 83 employees for the corresponding 2012 period. Research and development expenses increased \$0.5 million, from \$1.3 million during the three months ending June 30, 2011 to \$1.8 million during the three months ending June 30, 2012, while sales and marketing expenses were the same quarter over quarter and general and administrative expenses increased by \$221,000, from approximately \$1.2 million during the three months ending June 30, 2011 to approximately \$1.4 million during the three months ending June 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 June 30, 2012 totaled \$4.9 million (\$0.07 per share) compared to a net loss of \$3.0 million (\$0.10 per share) in the first 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		All Other		Consolidated	
	Six Months Ended June 30		Six Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Product sales	\$ 573	\$ 2,463	\$ -	\$ 77	\$ 573	\$ 2,540
License fees			120	120	120	120
Commercial collaborations	18	78		2	18	80
Contracts and grants		(16 )		303		287
Total revenues	591	2,525	120	502	711	3,027
<b>Cost of goods sold</b>						
Product	1,019	2,908		17	1,019	2,925
Contracts and grants		197		296		493
Warranty and inventory reserves	475	58			475	58
Total cost of goods sold	1,494	3,163	-	313	1,494	3,476
Gross (loss) profit	(903 )	(638 )	120	189	(783 )	(449 )
<b>Operating expenses</b>						
Research and development	3,619	3,084	3	256	3,622	3,340
Sales and marketing	1,845	1,964			1,845	1,964
General and administrative	3,174	3,376			3,174	3,376
Depreciation and amortization	481	716	38	38	519	754
Gain on disposal of assets		16				16
Total operating expenses	9,119	9,156	41	294	9,160	9,450
(Loss) income from operations	(10,022 )	(9,794 )	79	(105 )	(9,943 )	(9,899 )
<b>Other income (expense)</b>						
Interest income (expense), net	30	(59 )			30	(59 )
Change in market value of warrants	179	1,022			179	1,022
Total other income, net	209	963	-	-	209	963
(Loss) income from continuing operations	(9,813 )	(8,831 )	79	(105 )	(9,734 )	(8,936 )

Net (loss) income	\$ (9,813 )	\$ (8,831 )	\$ 79	\$ (105 )	\$ (9,734 )	\$ (8,936 )
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#### Revenues

Power and Energy Group revenue for the six months ending June 30, 2012 was \$591,000. This amount included revenue from battery modules sold to six customers testing our battery systems. Revenues decreased by \$1.9 million, from approximately \$2.5 million during the six months ending June 30, 2011 to approximately \$0.6 million during the six months ending June 30, 2012, primarily as a result of the sale of \$1.7 million of products to YTE during the six months ending June 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.

All Other contracts and grants revenue for the six months ending June 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 \$1.5 million for the six months ended June 30, 2012. Cost of goods sold (COGS) exceeded product sales by \$903,000 due primarily to fixed manufacturing costs expensed during the period due to low inventory production levels and an increase in our inventory reserve. This compared to \$3.2 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 six months of 2011 was higher than the revenue generated by those product sales, leading to a gross loss of \$638,000 in the first six 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 were down \$0.3 million during the six months ending June 30, 2012, from \$9.5 million during the six months ending June 30, 2011 to \$9.2 million during the six months ending June 30, 2012. This reduction is the result of constrained spending in almost all areas of the company. Average employee headcount decreased by 14%, from 97 employees during the six months ending June 30, 2011 to 83 employees for the corresponding 2012 period. Research and development expenses increased \$0.3 million from \$3.3 million during the six months ending June 30, 2011 to \$3.6 million during the six months ending June 30, 2012. Sales and marketing expenses decreased by \$0.2 million, or 6%, from \$2.0 million during the six months ending June 30, 2011 to \$1.8 million during the six months ending June 30, 2012. General and administrative expenses decreased by \$0.2 million, or 6%, from \$3.4 million during the six months ending June 30, 2011 to \$3.2 million during the six months ending June 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 six months ended June 30, 2012 totaled \$9.7 million (\$0.14 per share) compared to a net loss of \$8.9 million (\$0.31 per share) in the first six 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. We may never 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 June 30, 2012, we had approximately \$35.3 million in cash and cash equivalents; however, \$32 million of this amount was transferred to our China operations to fund expansion of operations into China. Although it may be possible for the Company to repatriate 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 shares;
- 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. Such approval will 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, investors may be unwilling to hold or buy our stock and our stock price may decrease.

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 shareholder 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 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 some of the directors nominated by Canon 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. Projected revenue under this agreement represented a substantial portion of our expected revenue in 2011 and represents a substantial portion of our projected revenue for 2012. 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 many countries, including China, 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 as a going concern.

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 as a going concern.

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 signing the Share Subscription Agreement 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 as a going concern 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 US 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 continued 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 articles of incorporation authorize 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 and Canadian 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. Remediating 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

(a) Based on their evaluation as of June 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 \$.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 in the underlying agreement was recently decided in favor of the Company.. Meanwhile, discovery continues.

**Charles Cheng Fee Dispute.** On or about October 12, 2011, Altair filed a complaint against Zhiyuan (Charles) Cheng in the United States District Court in the Northern District of Nevada. Altair 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 Altair 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. Altair claims that Mr. Cheng is entitled to no fee, and that Altair is entitled to damages, as a result of Mr. Cheng's numerous breaches of material provisions of the agreement. Altair 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. The parties have engaged in settlement discussions and, the case is not actively proceeding while settlement discussions are pending.

#### 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

None.

Item 6. Exhibits

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

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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.

August 10, 2012  
Date

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

August 10, 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	Agreement dated April 19, 2012, with Wu'an Municipal People's Government and Handan Municipal People's Government*	Filed herewith.
10.2	Client Lease (Renewal) dated July 1, 2012 between Altairnano, Inc. and Flagship Enterprise Center, Inc.	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on June 21, 2012
10.3	Revised Amended and Restated Shareholder Rights Agreement dated May 31, 2012 with Registrar and Transfer Company	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 10, 2012.
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
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

\* Portions of this Exhibit have been omitted pursuant to Rule 24b-2, are filed separately with the SEC and are subject to a confidential treatment request.

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

