

ALTAIR NANOTECHNOLOGIES INC

Form 10-Q

November 19, 2013

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **September 30, 2013**

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.**

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(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**

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(Address of principal executive offices, including zip code)

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

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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):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

**As of November 12, 2013 the registrant had 11,590,067 shares of Common Stock outstanding.**

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**ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of United States Dollars, except shares)

|   | <b>September<br/>30,<br/>2013<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2012</b> |
|---|---|----------------------------------|
| <b>ASSETS</b>   |   |                                  |
| <b>Current assets</b>                                       |   |                                  |
| Cash and cash equivalents                                   | \$ 3,293  | \$ 12,372                        |
| Restricted cash   | 15,515  | 6,245                            |
| Accounts receivable, net                                    | 1,473   | 1,498                            |
| Product inventories, net                                    | 5,229   | 7,416                            |
| Prepaid expenses and other assets, current                  | 1,846   | 937                              |
| Deferred contract costs                                     | 1,831   | 4,532                            |
| Other assets, related party                                 | 1,791   | 1,754                            |
| Total current assets  | 30,978  | 34,754                           |
| <b>Restricted cash</b>                                      |   | 11,803                           |
| <b>Property, plant and equipment, net</b>                   | 11,702  | 4,076                            |
| <b>Property, plant and equipment, net held and not used</b> |   | 1,857                            |
| <b>Patents, net</b>   | 217   | 274                              |
| <b>Prepaid equipment purchases</b>                          | 1,351   |                                  |
| <b>Land use right, net</b>                                  | 22,359  | 13,625                           |
| <b>Total Assets</b>   | <b>\$ 66,607</b>                                  | <b>\$ 66,389</b>                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                 |   |                                  |
| <b>Current Liabilities</b>                                  |   |                                  |
| Trade accounts payable                                      | \$ 2,860  | \$ 2,599                         |
| Accrued salaries and benefits                               | 676   | 632                              |
| Accrued warranty  | 634   | 418                              |
| Accrued liabilities   | 376   | 384                              |
| Deferred revenues   | 5,639   | 7,218                            |
| Warrant liabilities   | 120   | 90                               |
| Notes payable, current                                      | 11,533  | 6,680                            |
| Capital lease obligation                                    | 6   | 5                                |
| Total current liabilities                                   | 21,844  | 18,026                           |
| <b>Deferred income</b>                                      | 17,627  | 11,803                           |
| <b>Capital lease obligation, less current portion</b>       |   | 4                                |

|   |           |           |        |
|---|-----------|-----------|--------|
| <b>Total Liabilities</b>  |           | 39,471    | 29,833 |
| <b>Commitments and Contingencies</b>  |           |           |        |
| <b>Stockholders' equity</b>   |           |           |        |
| Common stock, \$.001 par value, 200,000,000 shares authorized; 11,590,067 shares issued and outstanding at September 30, 2013 and December 31, 2012 | 12        | 12        |        |
| Additional paid in capital  |           |           |        |
|   | 259,198   | 259,065   |        |
| Accumulated deficit   |           |           |        |
|   | (232,558) | (222,409) |        |
| Accumulated other comprehensive income (loss)   |           |           |        |
|   | 484       | (112)     |        |
| <b>Total stockholders' equity</b>   |           |           |        |
|   | 27,136    | 36,556    |        |
| <b>Total Liabilities and Stockholders' Equity</b>   |           |           |        |
|   | \$66,607  | \$66,389  |        |

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)

|  | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                    |
|--|---------------------------|-------------------|--------------------------|--------------------|
|  | <b>September 30,</b>      |                   | <b>September 30,</b>     |                    |
|  | <b>2013</b>               | <b>2012</b>       | <b>2013</b>              | <b>2012</b>        |
| <b>Revenues</b>                                    |                           |                   |                          |                    |
| Product sales                                      | \$ 1,072                  | \$ 300            | \$ 5,958                 | \$ 891             |
| License fees                                       | 60                        | 60                | 180                      | 180                |
| Total revenues                                     | 1,132                     | 360               | 6,138                    | 1,071              |
| <b>Cost of goods sold</b>                          |                           |                   |                          |                    |
| Product  | 1,206                     | 788               | 6,586                    | 2,282              |
| Total cost of goods sold                           | 1,206                     | 788               | 6,586                    | 2,282              |
| <b>Gross loss</b>                                  | (74 )                     | (428 )            | (448 )                   | (1,211 )           |
| <b>Operating expenses</b>                          |                           |                   |                          |                    |
| Research and development                           | 1,079                     | 1,423             | 3,124                    | 5,046              |
| Sales and marketing                                | 201                       | 499               | 883                      | 2,344              |
| General and administrative                         | 1,908                     | 1,837             | 4,843                    | 5,010              |
| Depreciation and amortization                      | 444                       | 252               | 1,063                    | 771                |
| Gain on disposal of assets                         | 49                        |                   | 31                       |                    |
| Total operating expenses                           | 3,681                     | 4,011             | 9,944                    | 13,171             |
| <b>Loss from operations</b>                        | (3,755 )                  | (4,439 )          | (10,392 )                | (14,382 )          |
| <b>Other income (expense)</b>                      |                           |                   |                          |                    |
| Interest income, net                               | 25                        | 37                | 237                      | 67                 |
| Change in market value of warrants                 | (20 )                     | (267 )            | (30 )                    | (88 )              |
| Other income                                       | 7                         | (2 )              | 36                       | (2 )               |
| Total other income (expense), net                  | 12                        | (232 )            | 243                      | (23 )              |
| <b>Net loss</b>                                    | <b>\$(3,743 )</b>         | <b>\$(4,671 )</b> | <b>\$(10,149 )</b>       | <b>\$(14,405 )</b> |
| <b>Loss per common share - basic and diluted</b>   | <b>\$(0.32 )</b>          | <b>\$(0.40 )</b>  | <b>\$(0.88 )</b>         | <b>\$(1.24 )</b>   |
| <b>Weighted average shares - basic and diluted</b> | <b>11,590,067</b>         | <b>11,590,067</b> | <b>11,590,067</b>        | <b>11,590,067</b>  |

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)

|   | <b>Three Months<br/>Ended</b> |             |
|---|-------------------------------|-------------|
|   | <b>September 30,<br/>2013</b> | <b>2012</b> |
| Net loss                                | \$ (3,743)                    | \$ (4,671)  |
| Other comprehensive loss, net of tax:   |                               |             |
| Foreign currency translation adjustment | (17 )                         | (61 )       |
| Comprehensive loss                      | \$ (3,760)                    | \$ (4,732)  |

|   | <b>Nine Months<br/>Ended</b>  |             |
|---|-------------------------------|-------------|
|   | <b>September 30,<br/>2013</b> | <b>2012</b> |
| Net loss                                | \$ (10,149)                   | \$ (14,405) |
| Other comprehensive loss, net of tax:   |                               |             |
| Foreign currency translation adjustment | 596                           | (193 )      |
| Comprehensive loss                      | \$ (9,553 )                   | \$ (14,598) |

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                       | Total     |
|---|--------------|--------|------------|---------------|-----------------------------------|-----------|
|   | Shares       | Amount | Paid In    | Deficit       | Other                             |           |
|   |              |        | Capital    |               | Comprehensive<br>Income<br>(Loss) |           |
| <b>Balance, July 1, 2012</b>                                | 11,590,067   | \$ 12  | \$ 257,881 | \$ (214,157 ) | \$ (132 )                         | \$ 43,604 |
| Net loss  |              |        |            | (4,671 )      |                                   | (4,671 )  |
| Other comprehensive loss                                    |              |        |            |               | (61 )                             | (61 )     |
| Reduction in issuance costs from legal<br>claims settlement |              |        | 1,050      |               |                                   | 1,050     |
| Share-based compensation                                    |              |        | 73         |               |                                   | 73        |
| <b>Balance, September 30, 2012</b>                          | 11,590,067   | \$ 12  | \$ 259,004 | \$ (218,828 ) | \$ (193 )                         | \$ 39,995 |

|                                    | Common Stock |        | Additional | Accumulated   | Accumulated                    | Total     |
|------------------------------------|--------------|--------|------------|---------------|--------------------------------|-----------|
|                                    | Shares       | Amount | Paid In    | Deficit       | Other                          |           |
|                                    |              |        | Capital    |               | Comprehensive<br>Income (Loss) |           |
| <b>Balance, July 1, 2013</b>       | 11,590,067   | \$ 12  | \$ 259,154 | \$ (228,815 ) | \$ 501                         | \$ 30,852 |
| Net loss                           |              |        |            | (3,743 )      |                                | (3,743 )  |
| Other comprehensive loss           |              |        |            |               | (17 )                          | (17 )     |
| Share-based compensation           |              |        | 44         |               |                                | 44        |
| <b>Balance, September 30, 2013</b> | 11,590,067   | \$ 12  | \$ 259,198 | \$ (232,558 ) | \$ 484                         | \$ 27,136 |

| Common Stock | Additional | Accumulated | Accumulated |
|--------------|------------|-------------|-------------|
|              | Paid In    |             | Other       |



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|   | Shares     | Amount | Capital    | Deficit       | Comprehensive<br>Income<br>(Loss) | Total    |
|---|------------|--------|------------|---------------|-----------------------------------|----------|
| <b>Balance, January 1, 2012</b>                             | 11,590,067 | \$ 12  | \$ 257,884 | \$ (204,423 ) |                                   | \$53,473 |
| Net loss  |            |        |            | (14,405 )     |                                   | (14,405) |
| Other comprehensive loss                                    |            |        |            |               | (193 )                            | (193 )   |
| Reduction in issuance costs from legal<br>claims settlement |            |        | 1,050      |               |                                   | 1,050    |
| Share-based compensation                                    |            |        | 70         |               |                                   | 70       |
| <b>Balance, September 30, 2012</b>                          | 11,590,067 | \$ 12  | \$ 259,004 | \$ (218,828 ) | \$ (193 )                         | \$39,995 |

|                                    | Common Stock |        | Additional<br>Paid In | Accumulated<br>Deficit | Accumulated<br>Other | Comprehensive<br>Income (Loss) | Total    |
|------------------------------------|--------------|--------|-----------------------|------------------------|----------------------|--------------------------------|----------|
|                                    | Shares       | Amount | Capital               | Deficit                |                      |                                |          |
| <b>Balance, January 1, 2013</b>    | 11,590,067   | \$ 12  | \$ 259,065            | \$ (222,409 )          | \$ (112 )            |                                | \$36,556 |
| Net loss                           |              |        |                       | (10,149 )              |                      |                                | (10,149) |
| Other comprehensive income         |              |        |                       |                        | 596                  |                                | 596      |
| Share-based compensation           |              |        | 133                   |                        |                      |                                | 133      |
| <b>Balance, September 30, 2013</b> | 11,590,067   | \$ 12  | \$ 259,198            | \$ (232,558 )          | \$ 484               |                                | \$27,136 |

See notes to the consolidated financial statements.

## ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States Dollars)

(Unaudited)

|   | <b>Nine Months<br/>Ended September<br/>30,<br/>2013      2012</b> |                 |
|---|---|-----------------|
| <b>Cash flows from operating activities:</b>                                      |   |                 |
| Net loss  | \$(10,149)  | \$(14,405)      |
| <b>Adjustments to reconcile net loss to cash flows from operating activities:</b> |   |                 |
| Depreciation and amortization   | 1,063   | 771             |
| Share-based compensation  | 133   | 70              |
| Change in fair value of warrants  | 30  | 88              |
| <b>Changes in operating assets and liabilities:</b>                               |   |                 |
| Accounts receivable, net  | 27  | (616 )          |
| Product inventories   | 645   | (1,211 )        |
| Prepaid expenses and other current assets   | (858 )  | (356 )          |
| Deferred contract costs   | 2,701   | (3,331 )        |
| Trade accounts payable  | 263   | (203 )          |
| Accrued salaries and benefits   | 45  | (280 )          |
| Accrued warranty  | 216   | 43              |
| Deferred revenues   | (1,527 )  | 3,710           |
| Accrued liabilities   | (8 )  | 24              |
| <b>Cash flows from operating activities</b>                                       | <b>(7,419 )</b>   | <b>(15,696)</b> |
| <b>Cash flows from investing activities:</b>                                      |   |                 |
| Decrease (increase) in restricted cash  | 3,007   | (293 )          |
| Purchase of land use right  | (8,591 )  |                 |
| Purchase of property, plant and equipment   | (6,268 )  | (170 )          |
| <b>Cash flows from investing activities</b>                                       | <b>(11,852)</b>   | <b>(463 )</b>   |
| <b>Cash flows from financing activities:</b>                                      |   |                 |
| Issuance of common shares for cash, net of issuance costs                         |   | 1,050           |
| Deferred income   | 6,162   |                 |
| Proceeds from notes payable   | 5,893   | 1,000           |
| Repayment of notes payable  | (1,025 )  |                 |
| Repayment of capital lease obligation   | (3 )  | (4 )            |
| <b>Cash flows from financing activities</b>                                       | <b>11,027</b>   | <b>2,046</b>    |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>               | <b>(835 )</b>   | <b>(193 )</b>   |

|  |          |          |
|--|----------|----------|
| <b>Decrease in cash and cash equivalents</b>           | (9,079 ) | (14,306) |
| <b>Cash and cash equivalents, beginning of period</b>  | 12,372   | 46,519   |
| <b>Cash and cash equivalents, end of period</b>        | \$3,293  | \$32,213 |
| <b>Supplemental disclosures:</b>                       |          |          |
| Cash paid for interest                                 | \$221    | \$28     |
| Cash paid for income taxes                             | None     | None     |
| <b>Non-cash transactions:</b>                          |          |          |
| Transfer of inventory to property, plant and equipment | \$1,593  |          |

See notes to the consolidated financial statements.

### **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 2012 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, 2012, which includes all disclosures required by GAAP.

The Company incurred net losses of \$10.1 million for the nine months ended September 30, 2013 and has an accumulated deficit of \$232.6 million as of September 30, 2013. The Company used \$7.4 million in its operations for the nine months ended September 30, 2013 and working capital levels have decreased from \$16.7 million at December 31, 2012 to \$9.1 million at September 30, 2013. The Company has substantial debt coming due in the next 12 months. We expect to continue to have negative cash flows from operations as we ramp up production at our new manufacturing facilities. If we are not able to refinance this debt or obtain additional capital, we will not be able to pay off our current debt obligations. This matter raises substantial doubt about the Company’s ability to continue as a going concern. To address this matter, management is taking actions to refinance existing loans, obtain additional loans collateralized by the land use rights and to obtain approval for the remaining grant incentives from the Government of Wu’an, China. Restricted cash is available to fund development of operations (both capital and non-capital) in China subject to meeting certain guidelines agreed upon by the Wu’an government and the Company. Based on our current forecast, we expect to use the existing restricted cash to support the non-capital development of our China operations. If the non-capital needs are met, excess restricted cash or additional grant funds received will be used for capital needs. The consolidated financial statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments if the Company were unable to do so.

### **Note 2. Recently Adopted and Recently Issued Accounting Guidance**

#### Adopted

On January 1, 2013, the Company adopted changes to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity’s financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and

derivative instruments. The adoption of these changes had no impact on the Consolidated Financial Statements or related disclosures.

On January 1, 2013, the Company adopted changes to the information provided about the amounts reclassified out of accumulated other comprehensive income by component. These changes require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of these changes had no impact on the Consolidated Financial Statements or related disclosures.

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

Our financial instruments are accounted for at fair value on a recurring basis. We have no financial instruments accounted for on a non-recurring basis as of September 30, 2013 or December 31, 2012. 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.

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:

In thousands of dollars

|                      |              | <b>September</b> | <b>December</b> |
|----------------------|--------------|------------------|-----------------|
|                      | <b>Level</b> | <b>30,</b>       | <b>31,</b>      |
|                      |              | 2013             | 2012            |
| Warrant liabilities: | 3            | \$ 120           | \$ 90           |

The following table presents quantitative information for Level 3 measurements:

In thousands of dollars

|                     | <b>Fair value<br/>at<br/>September<br/>30,<br/>2013</b> | <b>Valuation<br/>technique</b>      | <b>Unobservable<br/>input</b>  |
|---------------------|---|-------------------------------------|--|
| Liabilities:        |   |                                     |  |
| Warrant liabilities | \$ 120  | Monte Carlo option simulation model | Prevailing interest rates, Company's stock price volatility, expected warrant term |

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

The following table summarizes current warrant liabilities recorded at fair value at September 30, 2013:

In thousands of dollars

|                      | <b>Fair<br/>Value</b> | <b>Carrying<br/>Value</b> |
|----------------------|-----------------------|---------------------------|
| Warrant liabilities: | \$ 120                | \$ 120                    |
| Total                | \$ 120                | \$ 120                    |

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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:

In thousands of dollars

**Warrant liabilities**

|  |       |
|--|-------|
| Opening balance – December 31, 2012          | \$90  |
| Purchases, sales, issuances, and settlements |       |
| Transfers into and (or) out of Level 3       |       |
| Change in fair value                         | 30    |
| Unrealized gains / (losses)                  |       |
| Other adjustments                            |       |
| Closing balance – September 30, 2013         | \$120 |

There were no purchases, sales, transfers, issuances or settlements of Level 3 financial instruments. There were no assets or liabilities measured on a non-recurring basis as of September 30, 2013 and December 31, 2012.

**Other Financial Instruments**

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

In thousands of dollars

|                          |   | <b>September 30,<br/>2013</b> |             | <b>December 31,<br/>2012</b> |             |
|--------------------------|---|-------------------------------|-------------|------------------------------|-------------|
|                          |   | <b>Carrying</b>               | <b>Fair</b> | <b>Carrying</b>              | <b>Fair</b> |
|                          |   | <b>value</b>                  | value       | value                        | value       |
| Accounts receivable, net | 2 | \$1,473                       | \$1,473     | \$1,498                      | \$1,498     |
| Trade accounts payable   | 2 | \$2,860                       | \$2,860     | \$2,599                      | \$2,599     |
| Capital lease obligation | 2 | \$6                           | \$6         | \$9                          | \$9         |
| Note payable             | 2 | \$11,533                      | \$11,533    | \$6,680                      | \$6,680     |

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



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

**Note 4. Product Inventories**

Product inventories consist of the following:

In thousands of dollars

|                           | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|---------------------------|-------------------------------|------------------------------|
| Raw materials             | \$ 1,359                      | \$ 2,337                     |
| Work in process           | 1,614                         | 3,666                        |
| Finished goods            | 2,256                         | 1,413                        |
| Total product inventories | \$ 5,229                      | \$ 7,416                     |

As of September 30, 2013 and December 31, 2012, inventory relates to the production of battery systems targeted at the electric grid, transportation, and industrial markets.

Inventory valuation allowances, totaled \$250,000 and \$331,000 at September 30, 2013 and December 31, 2012, respectively.

**Note 5. Prepaid Expenses and Other Assets**

Prepaid expenses and other assets consist of the following:

In thousands of dollars

|   | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|---|-------------------------------|------------------------------|
| Deferred contract costs                         | \$ 1,831                      | \$ 4,532                     |
| Other assets, related party                     | \$ 1,791                      | \$ 1,754                     |
| Prepaid equipment purchases                     | \$ 1,351                      | \$ -                         |
| Prepaid inventory purchases                     | 1,039                         | 159                          |
| Deposits  | 342                           | 342                          |
| Prepaid insurance                               | 395                           | 258                          |
| Other prepaid expenses and current assets       | 70                            | 178                          |
| Total prepaid expenses and other current assets | \$ 1,846                      | \$ 937                       |

Other prepaid expenses and current assets consist primarily of prepaid property taxes, service contracts, marketing expenses and rent. Other assets, related party, relates to a payment made to Yintong Energy (YTE) (an affiliate of Canon) as the Company will be working with YTE to supply the initial order of fifty electric buses to Wu'an, China. The deferred contract costs were incurred, under the completed contract method, for multiple large scale projects for which revenue has not been recognized. Prepaid equipment purchases relate to payments made for production equipment to be used by our Northern Altair facilities.

**Note 6. Property, Plant and Equipment**

In thousands of dollars

|  | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|--|-------------------------------|------------------------------|
| Machinery and equipment, held and used | \$ 11,241                     | \$ 6,643                     |
| Building and improvements              | 4,324                         | 4,324                        |
| Furniture, office equipment & other    | 1,669                         | 1,930                        |
| Leased assets                          | 1,593                         |                              |

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|   |           |          |
|---|-----------|----------|
| Construction in progress                        | 4,345     |          |
|   | 23,172    | 12,897   |
| Less accumulated depreciation                   | (11,470 ) | (8,821 ) |
| Total property, plant and equipment held & used | \$ 11,702 | \$ 4,076 |

Property, plant and equipment held and not used in operations consists of the following:

In thousands of dollars

|   | <b>September</b> | <b>December</b> |
|---|------------------|-----------------|
|   | <b>30, 2013</b>  | <b>31, 2012</b> |
| Machinery and equipment, held and not used            | \$ -             | \$ 4,249        |
| Less accumulated depreciation                         |                  | (2,392 )        |
| Total property, plant and equipment held and not used | \$ -             | \$ 1,857        |

The construction in progress relates to our new facilities under construction in Wu'an, China. Three new facilities are expected to be operational and fully accepted during the fourth quarter of 2013. Property, plant and equipment held and not used relates to machinery and equipment that was decommissioned at our Reno, Nevada facility and shipped to our China subsidiary. This machinery and equipment was received and installed during the third quarter by our China subsidiary for use in operations.

The lease asset includes a 1.8 megawatt system for Energy Storage Holdings, LLC. (ESH), which is providing commercial frequency regulation services in the PJM market on the East Coast. This system went into operation in January 2013. We are leasing the ALTI-ESS *Advantage*<sup>TM</sup> system to ESH and receive lease payments of approximately \$20,000 per month and a share of the revenue generated by the system under the agreed upon terms. The lease term ends February 2016, and ESH has an option to purchase the system during the lease term.

Depreciation expense, for the nine months ended September 30, 2013 and 2012, totaled \$721,000 and \$714,000, respectively.

### Note 7. Land Use Right and Patents

Northern Altair signed an agreement in April 2012 to receive a Land Use Right for a period of 50 years with respect to approximately 66 acres of industrial land in Wu'an, China from Heibei Wu'an Municipal People's Government. Northern Altair was required to bid for the Land Use Right. Northern Altair completed the bidding process and paid approximately \$13,670,000 which included various land transfer taxes and fees of approximately \$1,670,000. Closing occurred on November 9, 2012 and Northern Altair received the Land Use Right (Wu State-Used, State-Owned Land Use) on this date. This Land will be used for the Company's nLTO and energy storage system manufacturing operations in China.

Northern Altair signed an agreement in May 2013 to receive a second Land Use Right for a period of 50 years with respect to approximately 40 acres of industrial land in Wu'an, China from Heibei Wu'an Municipal People's Government. Northern Altair was required to bid for the Land Use Right. Northern Altair completed the bidding process and paid approximately \$8,600,000 which included various land transfer taxes and fees of approximately \$1,200,000. Closing occurred on May 27, 2013 and Northern Altair received the Land Use Right (Wu State-Used, State-Owned Land Use) on this date. This Land will be used for the Company's nLTO and energy storage system manufacturing operations in China. Shortly after closing, Northern Altair applied for approximately \$8.6 million in cash incentives from the City of Wu'an, China. The amortized land use right's balances as of September 30, 2013 and December 31, 2012 were:

In thousands of dollars

|                               | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|-------------------------------|-------------------------------|------------------------------|
| Land use right                | \$ 22,689                     | \$ 13,670                    |
| Less accumulated amortization | (330 )                        | (45 )                        |
| Total land use right, net     | \$ 22,359                     | \$ 13,625                    |

The land use rights were recorded at cost and will be amortized on a straight-line basis over their 50 year useful life at approximately \$445,000 per year. Amortization expense for the nine months ended September 30, 2013 totaled \$285,000.

Our patents are associated with the nanomaterials and titanium dioxide pigment technology. We are amortizing these assets on a straight-line basis over their useful lives. The amortized patents' balances as of September 30, 2013 and December 31, 2012 were:

In thousands of dollars

|                                       | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|---------------------------------------|-------------------------------|------------------------------|
| Patents and patent applications       | \$ 1,366                      | \$ 1,366                     |
| Less accumulated amortization         | (1,149 )                      | (1,092 )                     |
| Total patents and patent applications | \$ 217                        | \$ 274                       |

The weighted average amortization period for patents is approximately 2.9 years. Amortization expense, which represents the amortization relating to the identified amortizable patents, for the nine months ended September 30, 2013 and December 31, 2012, was \$57,000. For each of the next two years, amortization expense relating to patents is expected to be approximately \$76,000 per year. Amortization expense is expected to be approximately \$65,000 in the third year.

#### **Note 8. Stock-Based Compensation**

As of September 30, 2013, 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 125,000 to an aggregate of 375,000 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 375,000 to 1,208,333 shares was approved at this meeting. The additional 833,333 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 275,000 shares, of which options for 127,667 shares of common stock were granted (net of expirations) and options for 1,041 shares of common stock are outstanding and unexercised at September 30, 2013. 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 Monte Carlo Simulation model and the following weighted average assumptions were used:

|                          | <b>September<br/>30, 2013</b> |   | <b>September<br/>30, 2012</b> |   |
|--------------------------|-------------------------------|---|-------------------------------|---|
| Stock Price              | \$ 2.57                       |   | \$ 4.44                       |   |
| Exercise Price           | \$ 14.93                      |   | \$ 14.93                      |   |
| Expected Volatility      | 77                            | % | 112                           | % |
| Expected Dividend Yield  | None                          |   | None                          |   |
| Expected Term (in years) | 2.8                           |   | 4.0                           |   |
| Risk-free Interest Rate  | 0.66                          | % | 0.37                          | % |

As of September 30, 2013, the value of the warrant liabilities was \$120,000 and the change in fair value during the first nine months of 2013 was a loss of \$30,000. The loss was recorded as other expense in the statement of operations.

Warrant activity for the nine months ended September 30, 2013 and 2012 is summarized as follows:

| <b>2013</b>              | <b>2012</b>              |
|--------------------------|--------------------------|
| <b>Warrants Weighted</b> | <b>Warrants Weighted</b> |
| Average                  | Average                  |

|                              |         | Exercise |         | Exercise |
|------------------------------|---------|----------|---------|----------|
|                              |         | Price    |         | Price    |
| Outstanding at January 1,    | 412,776 | \$ 14.93 | 412,776 | \$ 14.93 |
| Issued                       |         |          |         |          |
| Expired                      |         |          |         |          |
| Warrant redemption Exercised |         |          |         |          |
| Outstanding at September 30, | 412,776 | \$ 14.93 | 412,776 | \$ 14.93 |
| Currently exercisable        | 412,776 | \$ 14.93 | 412,776 | \$ 14.93 |

The following table summarizes information about warrants outstanding at September 30, 2013:

| <b>Range of Exercise Prices</b> |         | <b>Warrants</b> |     | <b>Warrants Outstanding and Exercisable</b>                |  |
|---------------------------------|---------|-----------------|-----|--|--|
|                                 |         |                 |     | <b>Weighted Average Remaining Contractual Life (Years)</b> | <b>Weighted Average Exercise Price</b> |
| \$13.80                         |         | 112,776         | 2.6 | \$ 13.80   |  |
| \$13.86 to                      | \$24.00 | 300,000         | 3.0 | 15.36  |  |
|                                 |         | 412,776         | 2.8 | \$ 14.93   |  |

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The warrants expire on various dates ranging to September 2016.

## Note 10. Note Payable

Notes payable consisted of the following at September 30, 2013 and December 31, 2012:

In thousands of dollars

|                            | <b>September<br/>30, 2013</b> | <b>December<br/>31, 2012</b> |
|----------------------------|-------------------------------|------------------------------|
| Note payable Mortgage      | \$ 975                        | \$ 1,000                     |
| Note payable Bank of China | 1,980                         | 1,980                        |
| Note payable ICBC          | 3,700                         | 3,700                        |
| Note payable Handan Bank   | 4,878                         |                              |
| Total                      | \$ 11,533                     | \$ 6,680                     |

On August 8, 2012, we entered into a Note payable secured by, a Deed of Trust, corporate guaranty and hazardous materials indemnity agreement for the provision of a \$1,000,000 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 were 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. The required interest payments were made and the proceeds of the loan were used for general working capital requirements.

On August 1, 2013, the Company entered into a First Modification of Note and First Modification of Deed of Trust (the "Modification Agreement") pursuant to which the maturity date for the above-described loan was extended until August 1, 2014. As part of the Modification Agreement, the Company agreed to pay a \$19,750 amendment fee and agreed to make a payment of \$12,500 to reduce the outstanding principal amount and to make three additional principal payments of \$12,500 each on September 1, 2013, October 1, 2013 and November 1, 2013. The \$975,000 modified loan is secured by the Company's Reno, Nevada Facility.

In October 2012, the Company and Northern Altair entered into a series of transactions, wherein, Northern Altair set aside, as restricted cash, \$2,057,900 with the Bank of China. In return, the Bank of China loaned the Company \$1,980,000 for use as operating capital. The interest rate on this loan is .0053% daily and the maturity date

is October 18, 2013. This loan was paid off in October 2013. See Note 13 for additional information.

In November 2012, the Company and Northern Altair entered into a series of transactions, wherein, Northern Altair set aside, as restricted cash, \$3,894,180 with the Industrial and Commercial Bank of China (“ICBC”). In return, the ICBC loaned the Company \$3,700,000 for use as operating capital. The interest rate on this loan is .0056% daily and the maturity date is November 15, 2013. This loan was paid off in November 2013. See Note 13 for additional information.

In August 2013, Northern Altair entered into a loan agreement for \$8,130,000 with Handan Bank. On September 27, 2013, Northern Altair received approximately \$4,878,000 with the final balance of approximately \$3,252,000 received on October 15, 2013. The due date of the loan is August 27, 2014 and it is secured by the second land use right in Wu'an.

#### **Note 11. Business Segment Information**

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

The Power and Energy Group develops, produces, and sells battery systems. The All Other group consists of the remaining portions of the previous Life Sciences and Performance Materials groups.

During the nine months ended September 30, 2013, the Company and its affiliates received a total of \$4,924,000 in cash payments for its various Power and Energy Group projects. Of this received amount, \$2,766,000 was associated with contractual milestone payments for our larger utility-scale energy storage system projects, two of which have not been recognized in our reportable segment data for the year, as the related contracts are recognized under the completed contract method.

Reportable segment data reconciled to the consolidated financial statements as of the three and nine months ended September 30, 2013 and September 30, 2012 is as follows:

In thousands of dollars:

| Three Months              | Net<br>Revenue | Loss<br>(Income)   | Depreciation        | Assets   |
|---------------------------|----------------|--------------------|---------------------|----------|
|                           |                | From<br>Operations | and<br>Amortization |          |
| <b>September 30, 2013</b> |                |                    |                     |          |
| Power & Energy Group      | \$ 1,072       | \$ 3,796           | 425                 | \$66,330 |
| All Other                 | 60             | (41 )              | 19                  | 277      |
| Consolidated Total        | \$ 1,132       | \$ 3,755           | \$ 444              | \$66,607 |

|                           |        |          |        |          |
|---------------------------|--------|----------|--------|----------|
| <b>September 30, 2012</b> |        |          |        |          |
| Power & Energy Group      | \$ 296 | \$ 4,483 | \$ 233 | \$54,087 |
| All Other                 | 64     | (44 )    | 19     | 353      |
| Consolidated Total        | \$ 360 | \$ 4,439 | \$ 252 | \$54,440 |

| Nine Months               | Net<br>Revenue | Loss<br>(Income)   | Depreciation        | Assets   |
|---------------------------|----------------|--------------------|---------------------|----------|
|                           |                | From<br>Operations | and<br>Amortization |          |
| <b>September 30, 2013</b> |                |                    |                     |          |
| Power & Energy Group      | \$ 5,958       | \$ 10,515          | 1,006               | \$66,330 |
| All Other                 | 180            | (123 )             | 57                  | 277      |
| Consolidated Total        | \$ 6,138       | \$ 10,392          | \$ 1,063            | \$66,607 |

|                           |          |           |        |          |
|---------------------------|----------|-----------|--------|----------|
| <b>September 30, 2012</b> |          |           |        |          |
| Power & Energy Group      | \$ 886   | \$ 14,507 | \$ 714 | \$54,087 |
| All Other                 | 185      | (125 )    | 57     | 353      |
| Consolidated Total        | \$ 1,071 | \$ 14,382 | \$ 771 | \$54,440 |

In the table above, the Loss (Income) 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 nine months ended September 30, 2013, we had revenue to three major customers, which accounted for 10% or more of revenues. The Company did not have material related party revenue during the nine months ended September 30, 2013. Total revenue to the customer for the nine months ended September 30, 2013 and the balance of the accounts receivable at September 30, 2013 were as follows:

In thousands of dollars

| Customer                              | Revenue                 | Accounts                 |
|---------------------------------------|-------------------------|--------------------------|
|                                       | Nine<br>Months<br>Ended | Receivable<br>Balance at |
|                                       | September<br>30, 2013   | September<br>30, 2013    |
| <b><u>Power and Energy Group:</u></b> |                         |                          |
| Hawaiian Electric Light Company       | \$ 2,082                |                          |
| Proterra, LLC                         | 1,529                   | \$ 676                   |
| Vestas                                | 1,291                   | 62                       |

For the nine months ended September 30, 2012, we had revenue to four major customers, each of which accounted for 10% or more of revenues. Total revenue from these customers for the nine months ended September 30, 2012 and the balance of their accounts receivable at September 30, 2012 were as follows:

In thousands of dollars

| Customer                              | Revenue                 | Accounts                 |
|---------------------------------------|-------------------------|--------------------------|
|                                       | Nine<br>Months<br>Ended | Receivable<br>Balance at |
|                                       | September<br>30, 2012   | September<br>30, 2012    |
| <b><u>Power and Energy Group:</u></b> |                         |                          |

|              |        |        |
|--------------|--------|--------|
| Emrol        | \$ 139 |        |
| Hybricon     | 131    |        |
| Proterra     | 121    | \$ 121 |
| ABB Secheron | 111    | 2      |

Revenues for the nine-month period ended September 30, 2013, and 2012 by geographic area were as follows:

In thousands of dollars

|                                   | <b>Revenue</b>                         | <b>Sales</b>                           |
|-----------------------------------|--|--|
|                                   | Nine<br>Months<br>Ended<br><b>2013</b> | Nine<br>Months<br>Ended<br><b>2012</b> |
| <b>Geographic information (a)</b> |  |  |
| United States                     | \$ 4,542                               | \$ 251                                 |
| Denmark                           | 1,291                                  |  |
| Belgium                           | 137                                    | 139                                    |
| Germany                           |  | 145                                    |
| Sweden                            | 43                                     | 131                                    |
| Switzerland                       |  | 111                                    |
| Other foreign countries           | 125                                    | 294                                    |
| Total                             | \$ 6,138                               | \$ 1,071                               |

(a) Revenues are attributed to countries based on location of customer.

Geographic information for long-lived assets was as follows (based on physical location of the assets):

In thousands of dollars

|                           | <b>Balance<br/>at</b> | <b>Balance<br/>at</b> |
|---------------------------|-----------------------|-----------------------|
| <b>Long-lived assets:</b> | September<br>30, 2013 | December<br>31, 2012  |
| United States             | \$ 4,841              | \$ 6,207              |
| China                     | 29,436                | 13,625                |
| Total                     | \$ 34,277             | \$ 19,832             |



## Note 12. Commitments and Contingencies

On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right as described in Note 7. As consideration for the land use right, Northern Altair agreed to make fixed asset investments on the land of approximately \$167 million, subject to loan guarantees and other incentives from Wu'an, China, over an unspecified period of time up to the 50 year life of the land use right, with initial construction being required to begin by March 31, 2013. In January 2013, initial construction on a manufacturing facility began on the Company's land use right in China. The costs incurred to date by the Company total \$4.3 million. The Company estimates the remaining costs of this project will cost approximately \$1.4 million and will be completed in the fourth quarter of 2013. The remaining costs of this project are expected to be funded by loan guarantees or other incentives from Wu'an, China. Additional construction is contingent upon loan guarantees and other incentives from Wu'an, China as well as other market conditions. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the required fixed asset investments amount and completed 25% of the project. Closing occurred on November 9, 2012.

On May 16, 2013, Northern Altair entered into a second Contract on Assignment of State-owned Construction Land Use Right as described in Note 7. As consideration for the second land use right, Northern Altair agreed to make fixed asset investments on the land of approximately \$99.1 million, subject to loan guarantees and other incentives from Wu'an, China, over an unspecified period of time up to the 50 year life of the land use right, with initial construction being required to begin by May 16, 2014. In November 2013, initial construction on a manufacturing facility began on the Company's second land use right in China. There are minimal costs incurred to date by the Company, although the expected total is approximately \$4 million. The Company estimates this next phase will be completed in the first quarter 2014. The remaining costs of this project are expected to be funded by loan guarantees or other incentives from Wu'an, China. Additional construction is contingent upon loan guarantees and other incentives from Wu'an, China as well as other market conditions. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Northern Altair may transfer and sublease portions of the granted land once it has made 25% of the required investments. Closing occurred on May 27, 2013.

**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.

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

## Note 13. Subsequent Events



In the third quarter, Northern Altair entered into a loan agreement for \$8.1 million with the Bank of Handan. On September 27, 2013 Northern Altair received \$4.9 million with the final balance of \$3.3 million deposited on October 15, 2013. The due date of the loan is August 27, 2014 and is secured by the Company's Land Use Right with respect to industrial land in Wu'an, China.

In September 2013, the Company and Northern Altair entered into a series of agreements, wherein, Northern Altair set aside restricted cash of \$2.8 million with the ICBC. In return, the ICBC loaned the Company \$2.7 million which was received in October 2013. The interest rate on this loan is .0053% daily and the maturity date is September 27, 2014. A portion of the loan proceeds was used to pay off the \$1.98 million loan with the Bank of China in October 2013 and released restricted cash of \$2.06 million.

On October 31, 2013, Northern Altair received approximately \$12.2 million of a \$16.1 million loan from the Rural Credit Cooperative. The due date of the loan is October 31, 2014 and is secured by the Company's Land Use Right with respect to industrial land in Wu'an, China.

In November 2013, the Company and Northern Altair entered into a series of agreements, wherein, Northern Altair set aside restricted cash of approximately \$4.0 million with the Bank of China. In return, the Bank of China loaned the Company \$3.8 million which was received in November 2013. The interest rate on this loan is .0053% daily and the maturity date is November 7, 2014. A portion of the loan proceeds was used to pay off the \$3.7 million loan with the ICBC in November 2013 and released restricted cash of \$3.9 million.

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



## Overview

We are a Delaware company that develops, manufactures and sells nano lithium titanate batteries and energy storage systems. Our nano lithium titanate battery systems offer higher power density, longer cycle life, rapid charge and discharge capabilities, a wider operating temperature range and higher levels of safety than conventional lithium-ion batteries. We target applications that effectively utilize the key attributes of our technology, and these applications can be found primarily in the electric grid, transportation (commercial vehicles), and industrial market segments.

We believe that in the aggregate, our target markets are multi-billion dollar emerging markets with room for a number of successful suppliers. At the present time, we perceive no dominant provider and we believe that as a result of our significant differentiated product attributes, the overall strength of our management team, and the recognition we are receiving in the marketplace, that we have a reasonable chance of becoming one of the successful suppliers. Our proprietary technology platform gives our products a number of unique, highly sought after attributes that clearly differentiate our products from their alternatives. Included in these attributes are substantially longer cycle and calendar lives, a rapid recharge time, the ability to provide instantaneous high power, a wide operating temperature range and increased operational safety. Generally speaking, our systems are projected to have a longer useful life and a lower total cost of ownership than competing battery systems.

Our historical revenues have been generated by license fees, product sales, commercial collaborations, and government contracts and grants. We expect future revenues to consist primarily of product sales and government contracts. We currently have agreements in place to deliver: (1) energy storage systems for electric grid applications; (2) battery modules to EV integrators and manufacturers; and (3) battery systems for various industrial applications.

In 2012, we formed Altair Nanotechnologies (China) Co., Ltd. (“Altair China”) and Northern Altair Nanotechnologies Co., Ltd. (“Northern Altair”) in order to aggregate key elements of our supply chain and expand into the Chinese market. We anticipate this expansion will allow us to participate in the fast-growing China market.

## General Outlook

Our current focus is on the development and sale of energy storage 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 expand our revenues from product sales, manufacturing and other sources in 2013, some of the key near-term events that will affect our long-term success prospects include the following:

In 2012, we adopted a new manufacturing and supply chain strategy. Given that our contract cell manufacturers were all based in Asia, we decided to move our nano lithium titanate materials production to China. In addition, we decided to enhance our battery module and energy storage system manufacturing capabilities by building a new plant in China. In this way, we are better able to aggregate critical portions of our supply chain in order to reduce lead times, cost, and ultimately support the emerging Asian markets. Previously, we expected to be manufacturing our nano lithium titanate materials in Reno, Nevada, shipping those materials to our contract cell manufacturer in Asia, and then shipping those cells back to Anderson, Indiana to produce battery modules and packs. We expect that, when implementation is complete, our new manufacturing strategy will greatly streamline this process.

In April 2012, we entered into an economic development deal with the cities of Wu'an and Handan in Hebei Province in China. Under our multi-year contract with the City of Wu'an, Northern Altair is required to sell and deliver 200 electric buses to Wu'an over a multi-year period. In August 2012, we received a \$1.9 million down payment on the first \$6.3 million electric bus order from Wu'an. We are currently procuring these buses from an affiliate, Yintong Energy. We anticipate that the deliveries will occur in 2014, 2015 and 2016 for this order and the corresponding \$4.4 million payment will be made based on the delivery schedule, at which time we will be able to recognize the revenue and gross margin associated with this order.

On October 25, 2012, Northern Altair successfully completed a bidding process for a 66 acre parcel of land in Wu'an China, which will be used for the Company's nLTO and energy storage system manufacturing operations in China. On October 31, 2012, Northern Altair entered into a Contract on Assignment of State-owned Construction Land Use Right (the "Land-Use Agreement"), pursuant to which Northern Altair acquired the right to use the 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China for a period of 50 years subject to the terms and conditions of the Land-Use Agreement. As consideration for the land use right, Northern Altair paid a land use fee of approximately \$11.8 million and land transfer taxes and fees of approximately \$1.7 million and agreed to make fixed asset investments on the land of approximately \$167 million, subject to loan guarantees and other incentives from Wu'an, China, over an unspecified period of time up to the 50 year life of the land use right, with initial construction being required to begin by March 31, 2013.

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In January 2013, initial construction on a manufacturing facility began on the Company's first land use right in China. The Company is building a 136,760 square foot nano lithium titanate production facility and a 130,200 square foot assembly facility for battery modules and energy storage systems. The Company estimates the remaining costs of the initial phase of this project to cost approximately \$1.4 million and is scheduled to be completed in the fourth quarter of 2013. Additional construction phases will be contingent upon loan guarantees and other incentives from Wu'an, China as well as other market conditions. The Company has not yet obtained loan guarantees for these costs, but has entered into discussions with a number of banks regarding potential project financing. Northern Altair may transfer and sublease portions of the granted land once it has invested 25% of the total fixed asset investments amount and completed 25% of the project. The total fixed asset investments shall include the cost of buildings, structures, auxiliary facilities, and equipment, as well as the land-use fee. Closing occurred on November 9, 2012. Separate from the Land-Use Agreement, Northern Altair received \$11.8 million package of cash incentives in November 2012 to facilitate Northern Altair's establishment of operations and construction efforts. The actual scope of Northern Altair's construction project and manufacturing operations will be based on the anticipated market demand for the Company's products and on the level of negotiated incentives.

In May 2013, Northern Altair bid for and acquired a second conditional 50-year land use right with respect to approximately 40 acres of industrial land in Wu'an, China with an acquisition price of approximately \$8,600,000 which includes various land transfer taxes and fees that are equal to approximately \$1,200,000. In turn, we expect to receive cash incentives as part of our economic development deal, which shall be equal to our acquisition price. The closing occurred on May 27, 2013 and Northern Altair received the Land Use Right (Wu State-Used, State-Owned Land Use) on this date. This Land will be used for the Company's nano lithium titanate and energy storage system manufacturing operations in China. As consideration for the second land use right, Northern Altair agreed to make fixed asset investments on the land of approximately \$99.1 million, subject to loan guarantees and other incentives from Wu'an, China, over an unspecified period of time up to the 50 year life of the land use right, with initial construction being required to begin by May 16, 2014. In November 2013, initial construction on a manufacturing facility began on the Company's second land use right in China. There are minimal costs incurred to date by the Company, although the expected total is approximately \$4 million. The Company estimates this next phase will be completed in the first quarter 2014. The Company has obtained loan guarantees for these costs. Northern Altair may transfer and sublease portions of the granted land once it has made 25% of the required investments.

In 2012, we built five 1 to 2 megawatt energy storage systems for our energy storage system customers. Four of these systems were shipped during the year.

Two 1 megawatt systems were built for the Hawaiian Electric Light Company ("HELCO") and Hawaii Natural Energy Institute ("HNEI"). The first HELCO/HNEI system was commissioned at the Hawi Wind Farm on Hawaii's oBig Island in March 2013. The second HNEI system, which is slated for installation on Oahu, was built in 2012. We are currently finalizing the site location details with our customer and anticipate that this system will be commissioned in the first quarter of 2014.

We built a 1.2 megawatt system for Vestas Wind Systems, which is being used to integrate wind power at a wind ofarm in Denmark. This system was fully commissioned in March 2013. We received a final payment of \$117,035 in July 2013.

We built a 1.8 megawatt system for Energy Storage Holdings, LLC. (ESH), which is providing commercial frequency regulation services in the PJM market on the East Coast. This system went into operation in January o2013. We are leasing the ALTI-ESS *Advantage*<sup>TM</sup> system to ESH and receive monthly lease payments and a share of the revenue generated by the system under the agreed upon terms. The lease term ends February 2016, and ESH has an option to purchase the system during the lease term.

We built a 2 megawatt ALTI-ESS *Advantage*<sup>TM</sup> system for TSK Solar, which shall be used for the integration of solar power at the San Fermin 26 MW photovoltaic solar farm in Loiza, Puerto Rico. This system was delivered in oDecember 2012 and installed in January 2013 and is scheduled to be commissioned in the fourth quarter of 2013 upon the completion of the solar farm.

We anticipate that the deployment, demonstration and commercial use of these energy storage systems will further establish the commercial value of our products and facilitate the future sale of our systems.

In June 2013, we entered into a memorandum of understanding with Tauron Dystrybucja SA. to jointly determine the necessary infrastructure needs for stationary energy storage systems based on nano lithium titanate batteries, and for the construction of power and frequency stabilization systems in Poland. TAURON is a subsidiary of TAURON Polska Energia S.A., Poland's second largest energy company.

In January 2013, the Hawaii Natural Energy Institute agreed to purchase its third energy storage system from us. They ordered our new 2 megawatt ALTI-ESS Advantage™, and we are working with them to schedule the installation of this system in early-2014.

In May 2012, we signed a contract to supply nano lithium titanate battery modules to Proterra, a leading developer of all-electric transit buses. Proterra uses Altair's battery modules to create a rapid charging electric bus, which can recharge in as little as six minutes. Proterra's buses can deliver 22.5 miles per gallon (mpg) equivalent versus 3.8 mpg for a comparable diesel bus. The running cost per mile for a Proterra electric bus is just \$0.18 versus \$1.05 for a diesel bus. In June 2012, Proterra released its first purchase order under the agreement. We commenced shipments to Proterra in February 2013 and are scheduled to ship modules through the end of the year. Proterra's customers include Foothill Transit and San Joaquin Regional Transit District in California; the City of Seneca in South Carolina; Star Metro in Florida; and Via Metropolitan in Texas. In 2013, Proterra expanded their target market to include commercial customers.

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We have entered into discussions with a number of transportation and industrial customers in the U.S, Europe and Asia regarding joint development products or purchases of our battery products. Some of these customers are now testing our modules, application kits and Power Rack battery systems in a variety of applications, where the unique attributes of a nano lithium titanate battery system are a critical consideration.

In August 2012, we entered into a memorandum of understanding with Shenhua Science & Technology and the National Institute of Low Carbon Energy (NICE) in China. We entered into discussions about a possible pilot project that would test and demonstrate the commercial use of our systems. We continue to work with Shenhua to identify the best commercial applications of our technology.

In 2012, we submitted our nano lithium titanate battery cells for testing at the 201 Institute, which regulates the sale of batteries in China. We received approval for the sale of our nano lithium titanate batteries in China in December 2012.

The Company operates in emerging markets for energy storage. We remain optimistic with respect to our current key projects, but we continue to face development, marketing, partnering and other risks. However, we now have a growing number of reference customers, including AES, Vestas, HNEI, HELCO and ESH, which should help us validate the technical merits and commercial operation of our systems to our prospective customers.

### *Liquidity and Capital Resources*

#### **Current and Expected Liquidity**

Altair's cash and cash equivalents decreased by \$9.1 million, from \$12.4 million at December 31, 2012 to \$3.3 million at September 30, 2013. The net decrease of \$9.1 million resulted from the net change in operating activities of \$(7.4) million, net change in investing activities of \$(11.8) million and the net change in financing activities of \$11.0 million. The investing activities included the acquisition of the second land use right from the Government of Wu'an, China, which was paid for by using restricted cash and the purchase of fixed assets by Northern Altair. The financing activity included the increase of deferred income against the amortization period cost for the second land use right and the receipt of the \$5.5 million in grant incentives which were applied for after the receipt of the first land use right.

Cash inflows included receipts related to closing three large projects during the nine months ending September 30, 2013. Two of these projects were completed contracts; one for an ALTI-ESS *Advantage*<sup>TM</sup> to Vestas Wind Systems A/S and one for an ALTI-ESS to Hawaiian Electric Light Company ("HELCO") and Hawaii Natural Energy Institute ("HNEI"). The third project was for an ALTI-ESS *Advantage*<sup>TM</sup> system which was delivered as an equipment lease to Energy Storage Holdings, LLC.

The Company incurred net losses of \$10.1 million for the nine months ended September 30, 2013 and has an accumulated deficit of \$232.6 million as of September 30, 2013. The Company used \$7.4 million in its operations for

the nine months ended September 30, 2013 and working capital levels have decreased from \$16.7 million at December 31, 2012 to \$9.1 million at September 30, 2013. The Company has substantial debt coming due in the next 12 months. We expect to continue to have negative cash flows from operations as we ramp up production at our new manufacturing facilities. If we are not able to refinance this debt or obtain additional capital, we will not be able to pay off our current debt obligations. This matter raises substantial doubt about the Company's ability to continue as a going concern. To address this matter, management is taking actions to refinance existing loans, obtain additional loans collateralized by the land use rights and to obtain approval for the remaining grant incentives from the Government of Wu'an, China. Restricted cash is available to fund development of operations (both capital and non-capital) in China subject to meeting certain guidelines agreed upon by the Wu'an government and the Company. Based on our current forecast, we expect to use the existing restricted cash to support the non-capital development of our China operations. If the non-capital needs are met, excess restricted cash or additional grant funds received will be used for capital needs.

A summary of our cash position at September 30, 2013 included cash and cash equivalents of \$3.3 million. In addition, we had \$15.5 million in restricted cash of which \$6.7 million, related to collateral for indebtedness, is classified as short-term leaving \$8.8 million in short-term grant incentives. In May 2013, we applied for additional grant incentives in the amount of approximately \$8.6 million. We received \$3.6 million of the expected grant incentives in the third quarter and expect the remaining amount of \$5.0 million in the fourth quarter of 2013. We received \$4.9 million in customer receipts during the nine months ended September 30, 2013.

In the near term, U.S. operations may be supported from revenues from product sales, by selling inventory, equipment and services to Altair China and receiving fees associated with intellectual property licensing and royalties. In the longer term, U.S. operations will need to obtain capital, which we anticipate it would obtain through the issuance of equity securities, strategic partnerships or investments or loans supported by its Chinese assets.

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We evaluate our capital needs and the availability of capital on an ongoing basis and, consistent with past practice, expect to seek capital when appropriate and on such terms as are available to us and we deem appropriate, based upon our assessment of our current liquidity, capital needs and the availability of capital. We continue to use significant amounts of cash for our operations and have no commitments to receive capital and can provide no assurance adequate capital will be available when and as required.

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

### Capital Commitments and Expenditures

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due as of September 30, 2013:

In thousands of dollars

| <b>Contractual Obligations</b> | <b>Total</b>    | <b>&lt; 1 yr</b> | <b>1-3 yrs</b>  | <b>3-5 yrs</b> | <b>&gt; 5 yrs</b> |
|--------------------------------|-----------------|------------------|-----------------|----------------|-------------------|
| Note payable                   | \$11,533        | \$11,533         | \$-             | \$ -           | \$ -              |
| Contractual service agreements | 601             | 601              |                 |                |                   |
| Capital leases                 | 6               | 6                |                 |                |                   |
| Purchase obligations           | 25,050          | 13,636           | 11,414          |                |                   |
| <b>Total</b>                   | <b>\$37,190</b> | <b>\$25,776</b>  | <b>\$11,414</b> | <b>\$ -</b>    | <b>\$ -</b>       |

\*Purchase obligations include a commitment to "YTE" a related party.

### Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet transactions during the nine months ending September 30, 2013.

### 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.

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**Results of Operations**

*Three and Nine Months Ended September 30, 2013 and Compared to Three and Nine Months Ended September 30, 2012*

In thousands of dollars

|   | <b>Power and<br/>Energy Group</b> |             | <b>All Other</b>                  |             | <b>Consolidated</b>           |             |
|---|-----------------------------------|-------------|-----------------------------------|-------------|-------------------------------|-------------|
|   | <b>Three Months<br/>Ended</b>     |             | <b>Three<br/>Months<br/>Ended</b> |             | <b>Three Months<br/>Ended</b> |             |
|   | <b>September 30</b>               |             | <b>September<br/>30</b>           |             | <b>September 30</b>           |             |
|   | <b>2013</b>                       | <b>2012</b> | <b>2013</b>                       | <b>2012</b> | <b>2013</b>                   | <b>2012</b> |
| <b>Revenues</b>                                 |                                   |             |                                   |             |                               |             |
| Product sales                                   | \$1,072                           | \$296       | \$-                               | \$-         | \$1,072                       | \$296       |
| License fees                                    |                                   |             | 60                                | 64          | 60                            | 64          |
| Total revenues                                  | 1,072                             | 296         | 60                                | 64          | 1,132                         | 360         |
| <b>Cost of goods sold</b>                       |                                   |             |                                   |             |                               |             |
| Product   | 1,206                             | 788         |                                   |             | 1,206                         | 788         |
| Total cost of goods sold                        | 1,206                             | 788         | -                                 | -           | 1,206                         | 788         |
| <b>Gross (loss) profit</b>                      | (134 )                            | (492 )      | 60                                | 64          | (74 )                         | (428 )      |
| <b>Operating expenses</b>                       |                                   |             |                                   |             |                               |             |
| Research and development                        | 1,079                             | 1,422       |                                   | 1           | 1,079                         | 1,423       |
| Sales and marketing                             | 201                               | 499         |                                   |             | 201                           | 499         |
| General and administrative                      | 1,908                             | 1,837       |                                   |             | 1,908                         | 1,837       |
| Depreciation and amortization                   | 425                               | 233         | 19                                | 19          | 444                           | 252         |
| Gain on disposal of assets                      | 49                                |             |                                   |             | 49                            |             |
| Total operating expenses                        | 3,662                             | 3,991       | 19                                | 20          | 3,681                         | 4,011       |
| <b>(Loss) income from operations</b>            | (3,796)                           | (4,483)     | 41                                | 44          | (3,755)                       | (4,439)     |
| <b>Other income (expense)</b>                   |                                   |             |                                   |             |                               |             |
| Interest (expense) income, net                  | 25                                | 37          |                                   |             | 25                            | 37          |
| Change in market value of warrants              | (20 )                             | (267 )      |                                   |             | (20 )                         | (267 )      |
| Other income                                    | 7                                 | (2 )        |                                   |             | 7                             | (2 )        |
| Total other income, net                         | 12                                | (232 )      | -                                 | -           | 12                            | (232 )      |
| <b>(Loss) income from continuing operations</b> | (3,784)                           | (4,715)     | 41                                | 44          | (3,743)                       | (4,671)     |

|                          |            |            |       |       |            |            |
|--------------------------|------------|------------|-------|-------|------------|------------|
| <b>Net (loss) income</b> | \$ (3,784) | \$ (4,715) | \$ 41 | \$ 44 | \$ (3,743) | \$ (4,671) |
|--------------------------|------------|------------|-------|-------|------------|------------|

### *Revenues*

Power and Energy Group revenue for the quarter ended September 30, 2013 was \$1.1 million. This amount included product revenue from selling 537 battery modules sold to three customers and 255 battery cells sold to four customers. Revenues increased by \$0.8 million, from approximately \$0.3 million in 2012 to approximately \$1.1 million during the quarter ending September 30, 2013.

### *Cost of Goods Sold*

Power and Energy Group cost of goods sold for product sales for the quarter ending September 30, 2013 was \$1.2 million. Cost of goods sold (COGS) exceeded product sales by \$0.1 million, compared to \$0.5 million for the same period in 2012. The gross margin includes decreases to our warranty and inventory reserves of approximately \$140,000.

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 as we completely transition from product prototypes to commercial, scalable manufacturing processes.

### *Operating Expenses*

Operating expenses overall were down \$0.3 million during the quarter ending September 30, 2013, from \$4.0 million to \$3.7 million. This reduction is the result of constrained spending in almost all areas of the Company during the quarter ending September 30, 2013. Average employee headcount in the U.S. decreased by 40%, from 78 employees during 2012 to 47 employees for the corresponding 2013 period. Employee headcount in China had an increase of 103 employees for the quarter ending September 30, 2013. Research and development expenses decreased \$0.3 million or 24% from \$1.4 million during the quarter ending September 30, 2012 to \$1.1 million during the same period in 2013. Sales and marketing expenses decreased by \$0.3 million, or 60%, from \$0.5 million during 2012 to \$0.2 million during 2013. General and administrative expenses increased by \$0.1 million, or 4%, from \$1.8 million during 2012 to \$1.9 million during 2013, primarily due to the ramp up of our China operations. We continue to focus on reducing our cost structure in areas that will not adversely affect growing our product revenues.



*Net Loss*

Overall net loss for the quarter ending September 30, 2013 decreased \$0.9 million from \$4.6 million (\$.40 per share) in 2012 to \$3.7 million (\$.32 per share) in 2013, primarily due to a decrease in overall operating expenses and an improved gross margin.

|   | <b>Power and Energy Group</b> |                     | <b>All Other</b>         |                     | <b>Consolidated</b>      |                     |
|---|-------------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
|   | <b>Nine Months Ended</b>      |                     | <b>Nine Months Ended</b> |                     | <b>Nine Months Ended</b> |                     |
|   | <b>September 30</b>           | <b>September 30</b> | <b>September 30</b>      | <b>September 30</b> | <b>September 30</b>      | <b>September 30</b> |
|   | <b>2013</b>                   | <b>2012</b>         | <b>2013</b>              | <b>2012</b>         | <b>2013</b>              | <b>2012</b>         |
| <b>Revenues</b>                                 |                               |                     |                          |                     |                          |                     |
| Product sales                                   | \$5,958                       | \$886               | \$-                      | \$-                 | \$5,958                  | \$886               |
| License fees                                    |                               |                     | 180                      | 185                 | 180                      | 180                 |
| Total revenues                                  | 5,958                         | 886                 | 180                      | 185                 | 6,138                    | 1,071               |
| <b>Cost of goods sold</b>                       |                               |                     |                          |                     |                          |                     |
| Product   | 6,586                         | 2,282               |                          |                     | 6,586                    | 2,282               |
| Total cost of goods sold                        | 6,586                         | 2,282               | -                        | -                   | 6,586                    | 2,282               |
| <b>Gross (loss) profit</b>                      | (628 )                        | (1,396 )            | 180                      | 185                 | (448 )                   | (1,211 )            |
| <b>Operating expenses</b>                       |                               |                     |                          |                     |                          |                     |
| Research and development                        | 3,124                         | 5,043               |                          | 3                   | 3,124                    | 5,046               |
| Sales and marketing                             | 883                           | 2,344               |                          |                     | 883                      | 2,344               |
| General and administrative                      | 4,843                         | 5,010               |                          |                     | 4,843                    | 5,010               |
| Depreciation and amortization                   | 1,006                         | 714                 | 57                       | 57                  | 1,063                    | 771                 |
| Gain on diposal of assets                       | 31                            |                     |                          |                     | 31                       |                     |
| Total operating expenses                        | 9,887                         | 13,111              | 57                       | 60                  | 9,944                    | 13,171              |
| <b>(Loss) income from operations</b>            | (10,515)                      | (14,507)            | 123                      | 125                 | (10,392)                 | (14,382)            |
| <b>Other income (expense)</b>                   |                               |                     |                          |                     |                          |                     |
| Interest income                                 | 237                           | 67                  |                          |                     | 237                      | 67                  |
| Change in market value of warrants              | (30 )                         | (88 )               |                          |                     | (30 )                    | (88 )               |
| Other income                                    | 36                            | (2 )                |                          |                     | 36                       | (2 )                |
| Total other income, net                         | 243                           | (23 )               | -                        | -                   | 243                      | (23 )               |
| <b>(Loss) income from continuing operations</b> | (10,272)                      | (14,530)            | 123                      | 125                 | (10,149)                 | (14,405)            |
| <b>Net (loss) income</b>                        | \$ (10,272)                   | \$ (14,530)         | \$ 123                   | \$ 125              | \$ (10,149)              | \$ (14,405)         |

*Revenues*

Power and Energy Group revenue for the nine months ending September 30, 2013 was \$6.0 million. This amount included product revenue from commissioning two ALTI ESS systems, leasing an ALTI ESS *Advantage*<sup>TM</sup> system to Energy Storage Holdings, LLC, 975 battery modules sold to ten customers and 313 battery cells sold to 6 customers. Revenues increased by \$5.1 million, from approximately \$0.9 million in 2012 to approximately \$6.0 million during the nine months ending September 30, 2013, primarily as a result of revenue recognized for the sale of one ALTI ESS *Advantage*<sup>TM</sup> system sold to Vestas Wind Systems A/S, one sold to HELCO and HNEI.

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### *Cost of Goods Sold*

Power and Energy Group cost of goods sold for product sales for the nine months ending September 30, 2013 was \$6.6 million. Cost of goods sold (COGS) exceeded product sales by \$0.6 million, compared to \$1.4 million for the same period in 2012, primarily due to inventory cost adjustments and an increase in our warranty and inventory reserves.

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

### *Operating Expenses*

Operating expenses overall were down \$3.3 million during the nine months ending September 30, 2013, from \$13.2 million to \$9.9 million. This reduction is the result of constrained spending in almost all areas of the Company during the nine months ending September 30, 2013. Average employee headcount in the U.S. decreased by 31%, from 81 employees during 2012 to 56 employees for the corresponding 2013 period. Employee headcount in China increased during the nine months ending September 30, 2013 from 14 to 181 employees. Research and development expenses decreased \$1.9 million or 38% from \$5.0 million during the nine months ending September 30, 2012 to \$3.1 million during the same period in 2013. Sales and marketing expenses decreased by \$1.4 million, or 61%, from \$2.3 million during the nine months ending September 30, 2012 to \$0.9 million during the same corresponding nine months in 2013. General and administrative expenses decreased by \$0.2 million, or 4%, from \$5.0 million during the nine months ending September 30, 2012 to \$4.8 million during the same corresponding nine months of 2013. We continue to focus on reducing our cost structure in areas that will not adversely affect growing our product revenues.

### *Net Loss*

Overall net loss for the nine months ending September 30, 2013 decreased \$4.3 million from \$14.4 million (\$1.24 per share) in 2012 to \$10.1 million (\$.88 per share) in 2013, primarily due to a decrease in overall operating expenses and improved gross margins.



***Risk Factors***

An investment in our shares of common stock and related derivative securities involves significant risks. You should carefully consider the risks described in this Report before making an investment decision. Any of these risks could materially and adversely affect our business, financial condition or results of operations. In such case, you may lose all or part of your investment. Some factors in this section are forward-looking statements.

***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 \$10.1 million for the nine months ended September 30, 2013. 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 equity capital to finance our operations due to our operating results, market conditions and similar factors.***

As of September 30, 2013, we had approximately \$3.3 million in cash and cash equivalents and \$15.5 million in restricted cash. Of the restricted cash, approximately \$6.7 million serves as collateral for short-term loans and the balance represents cash incentives received from Wu'an as part of our economic development deal. This capital is earmarked for the development of our operations in Wu'an, China. We expect that in the future we will again need to raise capital. With respect to any such capital raise, we may be unable to raise the amount of capital needed and may be forced to pay an extremely high price for capital. Factors affecting the availability and price of capital may include the following:

market factors affecting the availability and cost of capital generally, including increases or decreases in major stock market indexes, the stability of the banking and investment banking systems and general economic stability or instability;

the price, volatility and trading volume of our shares of common stock;  
our financial results, particularly the amount of revenue we are generating from product sales;  
the market's perception of our ability to execute our business plan and any specific projects identified as uses of proceeds;  
our ownership structure and recent or anticipated dilution;  
the amount of our capital needs;  
our project investment requirements in China;  
Nasdaq Capital Market rules prohibiting, with limited exceptions, the issuance in a single financing of securities representing more than 20% of our outstanding shares of common stock;  
volume limitations on the use of our shelf registration statement;  
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, we may be forced to discontinue operations.

***We have entered into contractual provisions that may significantly limit our ability to raise capital.***

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.***

We have established a Wholly Foreign Owned Enterprise, or WFOE, in China through which we conduct our Chinese operations. When establishing a WFOE, we have been required to designate a minimum registered capital amount and contribute at least such amount to the WFOE. Chinese law severely limits the ability of a WFOE to repatriate money to its non-Chinese parent. In general, any distributions to the non-Chinese parent must derive from profits, as determined in accordance with Chinese accounting standards and regulations. Our WFOE 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, our WFOE may be required to allocate a portion of its after-tax profit to a staff welfare and bonus fund. Moreover, if our WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict our WFOEs' ability to pay dividends or make other distributions to us. Any limitation on the ability of our WFOE 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.

***U.S. news sources report that the Chinese government has recently placed, or began enforcing, limitations on lending by Chinese banks, which limits may affect our ability to borrow capital for our Chinese capital investment projects and operations.***

Many U.S. news sources recently reported that, due to an increase in bad loans and other reasons, the Chinese government has imposed, or began enforcing, limitations on lending by Chinese banks. Northern Altair has been seeking loans from Chinese banks for its proposed capital investments and operations. This increased regulation and scrutiny may decrease the likelihood that Northern Altair can qualify for debt financing to fund proposed projects. Even if Northern Altair does qualify, terms of financing may be more onerous than anticipated. Any inability to finance our Chinese operations through debt would likely slow our growth in China and may prevent us from completing all aspects of our proposed nano lithium titanate and energy storage system manufacturing facility in China.

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***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.***

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, operating results and financial conditions 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 differences in management, accounting, legal, language and cultural norms, we may experience difficulty in establishing and enforcing management, legal and financial controls. We may also experience difficulty 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. Any failure to maintain controls, institute business practices or accurately collect information may have an effect on the efficiency of our business and could lead to a restatement, a regulatory action or a legal action. In addition, 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 reduce the price of our common stock.

*China could change its policies toward private enterprise or even nationalize or expropriate private enterprises.*

Our business is expected to be subject to significant political and economic uncertainties and may be affected by political, economic and social developments in China. Over the past several years, the PRC government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The PRC government may not continue to pursue these policies or may significantly alter them to our detriment from time to time with little, if any, prior notice.

Changes in policies, laws and regulations or in their interpretation or the imposition of confiscatory taxation, restrictions on currency conversion, restrictions or prohibitions on dividend payments to shareholders, or devaluations of currency could cause a decline in the price of our common stock.

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***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 harm our business operations and financial condition. 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.

***We may not be able to sell the land use rights in China we have acquired, and expect to acquire, at appraised value or at all, in part due to applicable restrictions.***

In October 2012, we acquired a 50-year land use right in China related to 66 acres of commercial land north of Dongzhuchang Village in Wu'an City, China. In May 2013, we acquired a 50-year land use right for an adjoining 40 acre parcel. Our land use rights are subject to certain requirements and limitations. The requirements on the existing land use right include an obligation, over the life of the land use right, to invest approximately \$266.1 million in the project. The limitations include a prohibition on the transfer of the land use right prior to our investment of at least 25% of our committed investment. These requirements and limitations may harm the value of the land use right.

We have disclosed the appraised value of the land use right. Appraisals are inherently subjective and may overstate the value of the land use right. The actual value of the land use right may be less than the appraised value. In addition, the market for the land use rights in Dongzhuchang Village, which is distant from China's major industrial centers, may be limited. As a result, regardless of the apparent value of any land use rights, were we to need to sell all or part of any land use right, we may be unable to find suitable buyers. Investors should not place undue reliance on the appraised value of any land use rights.

***We may face delays or related issues if we cannot effectively transfer know-how from our U.S.-based employees to our China-based employees.***

We are constructing a facility in China to be the sole site for our nLTO manufacturing and an additional site for our energy storage system assembly. The processes of manufacturing nLTO and assembling energy storage systems are complex. We will need to transfer the complex know-how for the nLTO manufacturing and energy storage system assembly from our U.S.-based employees to our existing or new Chinese employees. Language and cultural differences, as well as the inherent difficulty of communicating skills learned through experience, may lead to

difficulties in the education and training of Chinese employees. Any failure to adequately educate and train Chinese employees in company-specific know-how may result in additional costs, delays, quality concerns, warranty costs and other issues.

***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 shareholder 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.

***Cultural, language and other differences between the U.S. and China may create inefficiencies in our management and operations.***

Our majority shareholder, and a majority of our directors, reside in China and several of our directors exclusively speak Chinese. As we ramp up our China-based operations, we may experience conflicts or misunderstandings within our management structure that are primarily or partially rooted in language and cultural differences, particularly differences in management and communication styles. Language and cultural differences may also affect strategy formation and create inefficient and limited communication among technical and management employees located in different countries. The occurrence of any of these events may harm our growth potential, increase costs and decrease operational efficiency.

***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. 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 one year. 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 one contract manufacturing source for our nano lithium titanate cells, and we are currently working with a second manufacturer to qualify their cells. We have had quality issues with some of our past 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 were to experience quality issues with any of 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 or introductions 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;

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technology and intellectual property issues associated with our products; general political, social, geopolitical and economic trends and events; and availability of components sourced from Korea if tensions between North Korea and South Korea erupt into a greater military conflict.

***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, the existence of relevant prior art or the determination by an examiner that an invention was 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 patents we have been granted have a limited life span, and many will expire in the coming years and offer no legal protection to the technologies and processes described therein;

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 patent protection in many countries in which we are currently selling product or seek 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 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.

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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 at 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 agreement 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 process 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 system. 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, as could a puncture, collision or other event. 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, such as those used in Tesla automobiles that have recently been subject to fires, 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.*

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.

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***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 stationary power and transportation applications. In the transportation market, 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 source, and to displace coal, gas and diesel generators used in frequency regulation. 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;
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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. If we do enter into such transactions 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 may 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 competitors may be 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.***

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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 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 county; 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 United Arab Emirates, or the UAR, or China and may be able to avoid civil liability.***

A majority of our directors reside outside the United States in the UAR 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 UAR 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.***

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. 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. 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.***

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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.

***If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our shares of common stock, our stock price and trading volume could decline.***

The trading market for our shares of common stock is influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us

change their recommendation regarding our shares of common stock adversely, or provide more favorable relative recommendations about our competitors, the price of our shares of common stock would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial market, which in turn could cause the price or trading volume of our shares of common stock to decline.

***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 shares of 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 shares of 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 United States reporting issuers, such as the Sarbanes-Oxley Act of 2002, the rules of the NASDAQ Capital Market and certain other securities laws. We are also subject to state and federal environmental, health, safety and similar 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.

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Through such audits, inquiries and investigations, we or a regulator may determine that we are out of compliance with one or more governing rules or laws. Remedying such non-compliance would divert 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**

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

### **Item 4. Controls and Procedures**

(a) Based on their evaluation as of September 30, 2013, 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.

(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.**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the results of our operations or financial position.

### **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.

November 19, 2013    By: /s/ Richard W. Lee  
Date                    Richard W. Lee,  
                                 Chief Executive Officer

November 19, 2013    By: /s/ Paula Conroy  
Date                    Paula Conroy,  
                                 Chief Financial Officer

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit</b>  | <b>Incorporated by Reference/ Filed Herewith**</b>  |
|--------------------|---|---|
| 10.1               | Employment Agreement dated October 23, 2013 with Richard Lee  | Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 29, 2013 |
| 10.2               | Client Lease (Renewal) dated July 1, 2013 between Altairnano, Inc. and Flagship Enterprise Center, Inc.         | Incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 2, 2013    |
| 10.3               | First Modification of Note and First Modification of Deed of Trust dated August 1, 2013.                        | Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 1, 2013  |
| 10.4               | Mortgage Contract dated August 27, 2013 with the Bank of Handan Co., Ltd. Wu'an Sub-branch                      | Filed herewith  |
| 10.5               | Working Capital Loan Contract dated August 27, 2013 with the Bank of Handan Co., Ltd. Wu'an Sub-branch          | Filed herewith  |
| 10.6               | Working Capital Loan Contract dated September 27, 2013 with the Industrial and Commercial Bank of China Limited | Filed herewith  |
| 31.1               | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer   | Filed herewith  |
| 31.2               | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer   | Filed herewith  |
| 32.1               | Section 1350 Certification of Chief Executive Officer   | Filed herewith  |
| 32.2               | Section 1350 Certification of Chief Financial Officer   | Filed herewith  |
| 101.INS            | XBRL Instance Document  | Filed herewith  |
| 101.SCH            | XBRL Taxonomy Extension Schema Document   | Filed herewith  |
| 101.CAL            | XBRL Taxonomy Extension Definition Linkbase Document  | Filed herewith  |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document  | Filed herewith  |

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101.LAB XBRL Taxonomy Extension Label Linkbase Document Filed herewith

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document Filed herewith

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