

ALTAIR NANOTECHNOLOGIES INC  
Form 10-Q  
November 14, 2005

**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, 2005**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

**ALTAIR NANOTECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

Canada

1-12497

33-1084375

(State or other jurisdiction of incorporation)

(Commission File No.)

(IRS Employer Identification No.)

**204 Edison Way  
Reno, Nevada 89502**

(Address of principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES  NO

**As of November 4, 2005 the registrant had 58,990,252 Common Shares outstanding.**

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States Dollars)  
(Unaudited)

	September 30, 2005	December 31, 2004
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,150,620	\$ 7,357,843
Investment in available for sale securities	15,728,213	-
Accounts receivable	514,291	499,599
Prepaid expenses and other current assets	376,198	182,595
<b>Total current assets</b>	<b>27,769,322</b>	<b>8,040,037</b>
<b>Investment in Available for Sale Securities</b>	<b>496,000</b>	<b>-</b>
<b>Property, Plant and Equipment, net</b>	<b>6,698,837</b>	<b>6,513,907</b>
<b>Patents, net</b>	<b>911,266</b>	<b>974,877</b>
<b>Other Assets</b>	<b>75,200</b>	<b>18,200</b>
<b>Total Assets</b>	<b>\$ 35,950,625</b>	<b>\$ 15,547,021</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 672,647	\$ 81,030
Accrued liabilities	537,132	295,743
Note payable, current portion	600,000	-
<b>Total current liabilities</b>	<b>1,809,779</b>	<b>376,773</b>
<b>Note Payable, Long-Term Portion</b>	<b>2,400,000</b>	<b>2,880,311</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock, no par value, unlimited shares authorized; 58,990,252 and 49,775,694 shares issued and outstanding at September 30, 2005 and December 31, 2004	91,603,870	65,505,630
Accumulated deficit	(59,557,556)	(53,215,693)
Deferred compensation expense	(206,468)	-
Accumulated other comprehensive loss	(99,000)	-

<b>Total Stockholders' Equity</b>		31,740,846		12,289,937
<b>Total Liabilities and Stockholders' Equity</b>	\$	35,950,625	\$	15,547,021

See notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Revenues</b>				
License fees	\$ -	\$ -	\$ 695,000	\$ -
Product sales	8,494	3,728	74,087	6,571
Commercial collaborations	327,479	140,603	584,520	375,518
Contracts and grants	249,432	202,576	762,259	258,800
Total revenues	585,405	346,907	2,115,866	640,889
<b>Operating Expenses</b>				
Cost of product sales	1,427	613	17,434	1,149
Research and development	1,290,354	520,376	2,816,031	1,508,231
Sales and marketing	238,151	46,070	1,159,259	245,786
General and administrative	1,146,528	973,080	4,067,661	3,449,495
Depreciation and amortization	263,105	226,823	759,190	668,333
Total operating expenses	2,939,565	1,766,962	8,819,575	5,872,994
<b>Loss from Operations</b>	<b>(2,354,160)</b>	<b>(1,420,055)</b>	<b>(6,703,709)</b>	<b>(5,232,105)</b>
<b>Other Income (Expense)</b>				
Interest expense	(52,397)	(50,336)	(154,689)	(145,732)
Interest income	227,503	29,706	515,162	73,080
Gain (Loss) on foreign exchange	2,228	361	1,373	(356)
Total other income (expense), net	177,334	(20,269)	361,846	(73,008)
<b>Net Loss</b>	<b>\$ (2,176,826)</b>	<b>\$ (1,440,324)</b>	<b>\$ (6,341,863)</b>	<b>\$ (5,305,113)</b>
<b>Loss per common share -</b>				
<b>Basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.11)</b>	<b>\$ (0.11)</b>
<b>Weighted average shares -</b>				
<b>Basic and diluted</b>	<b>58,940,760</b>	<b>49,121,984</b>	<b>57,338,796</b>	<b>48,401,132</b>

See notes to the consolidated financial statements.

**ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Expressed in United States Dollars)  
(Unaudited)

	Common Stock		Accumulated Deficit	Deferred Compen- sation Expense	Accumulated Other Compre- hensive Income (Loss)	Total
	Shares	Amount				
BALANCE, JANUARY 1, 2005	49,775,694	\$ 65,505,630	\$ (53,215,693)	\$ -	\$ -	12,289,937
Comprehensive loss:						
Net loss	-	-	(6,341,863)	-	-	(6,341,863)
Other comprehensive loss, net of taxes of \$0	-	-	-	-	(99,000)	(99,000)
Comprehensive loss:	-	-	-	-	-	(6,440,863)
Variable accounting on stock options	-	433,115	-	-	-	433,115
Exercise of stock options	1,166,000	1,777,290	-	-	-	1,777,290
Exercise of warrants	2,920,244	4,300,635	-	-	-	4,300,635
Issuance of restricted stock	90,000	257,400	-	(257,400)	-	-
Amortization of deferred compensation expense	-	-	-	50,932	-	50,932
Common stock issued, net of issuance costs of \$1,617,044	5,038,314	19,329,800	-	-	-	19,329,800
BALANCE, SEPTEMBER 30, 2005	58,990,252	\$ 91,603,870	\$ (59,557,556)	(206,468)	(99,000)	\$ 31,740,846

See notes to the consolidated financial  
statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Cash flows from operating activities:</b>				
Net loss	\$ (2,176,826)	\$ (1,440,324)	\$ (6,341,863)	\$ (5,305,113)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	263,105	226,823	759,190	668,333
Stock options issued to non-employees	-	8,345	-	262,045
Stock options issued to employees	-	-	-	39,001
Shares issued for services	-	178,000	-	178,000
Variable accounting on stock options	(44,249)	(328,770)	433,115	(406,848)
Securities received in payment of license fees	-	-	(595,000)	-
Amortization of discount on note payable	17,397	48,962	119,689	144,358
Amortization of deferred compensation expense	46,861	-	50,932	-
Loss on disposal of fixed assets	-	-	-	33,393
Changes in assets and liabilities:				
Accounts receivable, net	(133,914)	(154,954)	(14,692)	(200,360)
Prepaid expenses and other current assets	(281,660)	(78,121)	(193,603)	(39,699)
Other assets	(52,000)	-	(57,000)	-
Trade accounts payable	(84,441)	(52,195)	591,617	139,319
Accrued liabilities	(78,761)	33,257	241,389	384,187
<b>Net cash used in operating activities</b>	<b>(2,524,488)</b>	<b>(1,558,977)</b>	<b>(5,006,226)</b>	<b>(4,103,384)</b>
<b>Cash flows from investing activities:</b>				
Purchase of available for sale securities	(15,728,213)	-	(15,728,213)	-
Purchase of property and equipment	(360,871)	(162,576)	(880,509)	(341,433)
<b>Net cash used in investing activities</b>	<b>(16,089,084)</b>	<b>(162,576)</b>	<b>(16,608,722)</b>	<b>(341,433)</b>

**Cash flows from financing activities:**

Issuance of common shares for cash, net of issuance costs	-	-	19,329,800	-
Proceeds from exercise of stock options	37,100	-	1,777,290	737,709
Proceeds from exercise of warrants	40,963	409,505	4,300,635	8,705,861
<b>Net cash provided by financing activities</b>	<b>78,063</b>	<b>409,505</b>	<b>25,407,725</b>	<b>9,443,570</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(18,535,509)</b>	<b>(1,312,048)</b>	<b>3,792,777</b>	<b>4,998,753</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>29,686,129</b>	<b>10,180,470</b>	<b>7,357,843</b>	<b>3,869,669</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 11,150,620</b>	<b>\$ 8,868,422</b>	<b>\$ 11,150,620</b>	<b>\$ 8,868,422</b>

**Supplemental disclosures:**

Cash paid for interest	None	None	None	None
Cash paid for income taxes	None	None	None	None

See notes to the consolidated financial statements.

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

**Note 1. Basis of Preparation of Financial Statements**

These unaudited interim financial statements of Altair Nanotechnologies Inc. and its subsidiaries (collectively, “Altair”, “we” or the “Company”) have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “Commission”). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, so long as the statements are not misleading. In the opinion of Company management, these financial statements and accompanying notes contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position and results of operations for the periods shown. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in our Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2004, as filed with the Commission on March 10, 2005.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis, to obtain additional financing or refinancing as may be required, to develop commercially viable products and processes, and ultimately to establish profitable operations. We have financed operations through operating revenues and through the issuance of equity securities (common stock, convertible debentures, stock options and warrants), and debt (term notes). Until we are able to generate positive operating cash flows, additional funds will be required to support operations. We believe that current working capital, cash receipts from anticipated sales and funding through sales of common stock will be sufficient to enable us to fund our ongoing operations for approximately three to four years at current working capital expenditure levels.

The results of operations for the three- and nine-month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

**Note 2. Summary of Significant Accounting Policies**

**Net Loss Per Common Share** - Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon the exercise of stock options and warrants. Potentially dilutive shares are excluded from the computation if their effect is antidilutive. We had a net loss for all periods presented herein; therefore, none of the stock options and warrants outstanding during each of the periods presented were included in the computation of diluted loss per share as they were antidilutive.

**Cash, Cash Equivalents and Investment in Available for Sale Securities (short-term)** - Cash, cash equivalents and investment in available for sale securities (short-term) consist principally of bank deposits, institutional money market funds and corporate notes. Short-term investments which are highly liquid, have insignificant interest rate risk and maturities of 90 days or less are classified as cash and cash equivalents. Investments which do not meet the definition of cash equivalents are classified as held-to-maturity or available-for-sale in accordance with the provisions of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Investments purchased with the intent to hold for more than one year are classified as long-term investments.



**Investment in Available for Sale Securities (long-term)** - Available for sale securities (long-term) includes publicly-traded equity investments which are classified as available for sale and recorded at market using the specific identification method. Unrealized gains and losses (except for other than temporary impairments) are recorded in other comprehensive income (loss), which is reported as a component of stockholders' equity. We evaluate our investments on a quarterly basis to determine if a potential other than temporary impairment exists. Our evaluation considers the investees' specific business conditions as well as general industry and market conditions.

**Accumulated Other Comprehensive Income (Loss)** - Accumulated other comprehensive income (loss) consists entirely of unrealized gain (loss) on the investment in available for sale securities. The components of comprehensive loss for the three- and nine-month periods ended September 30, 2005 and 2004 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss	\$ 2,176,826	\$ 1,440,324	\$ 6,341,863	\$ 5,305,113
Unrealized (gain) loss on investment in available for sale securities, net of taxes of \$0	(76,000)	-	99,000	-
Comprehensive loss	\$ 2,100,826	\$ 1,440,324	\$ 6,440,863	\$ 5,305,113

**Long-Lived Assets** - We evaluate the carrying value of long-term assets, including intangibles, when events or circumstance indicate the existence of a possible impairment, based on projected undiscounted cash flows, and recognize impairment when such cash flows will be less than the carrying values. Measurement of the amounts of impairments, if any, is based upon the difference between carrying value and fair value. Events or circumstances that could indicate the existence of a possible impairment include obsolescence of the technology, an absence of market demand for the product, and/or continuing technology rights protection. Management believes the net carrying amount of long-lived assets will be recovered by future cash flows generated by commercialization of the titanium processing technology.

**Deferred Income Taxes** - We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the bases of assets and liabilities as reported for financial statement purposes and income tax purposes. We have recorded a valuation allowance against all net deferred tax assets. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

**Stock-Based Compensation** - Our stock option plans are subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. Under the provisions of SFAS 123, employee and director stock-based compensation expense can be measured using either the intrinsic-value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, or the fair value method described in SFAS 123. We have elected to follow the accounting provisions of APB 25 for our employee and director stock-based awards and to furnish the pro forma disclosures required under SFAS 123.

In calculating pro forma compensation related to employee stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions:

	Nine Months Ended September 30,	
	2005	2004
Dividend yield	None	None
Expected volatility	105%	73%
Risk-free interest rate	3.89%	4.23%
Expected life (years)	2.83	6.40

To estimate compensation expense that would be recognized under SFAS 123 for all stock-based awards, we have used the modified Black-Scholes option pricing model. If we had accounted for our stock options issued to employees

and directors using the accounting method prescribed by SFAS 123, our net loss and loss per share would be as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss (basic and diluted) as reported	\$ (2,176,826)	\$ (1,440,324)	\$ (6,341,863)	\$ (5,305,113)
Add (Deduct): change in stock-based employee compensation included in reported net loss, net of \$0 related tax effects	44,249	328,770	(433,115)	367,847
Add: total stock-based employee compensation expense determined under fair value based method for all awards, net of \$0 related tax effects	218,260	208,030	832,714	1,172,439
Pro forma net loss applicable to shareholders	\$ (1,914,317)	\$ (903,524)	\$ (5,942,264)	\$ (3,764,827)
Loss per common share (basic and diluted):				
As reported	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.11
Pro forma	\$ (0.03)	\$ 0.04	\$ (0.10)	\$ 0.14

**Revenue Recognition** - We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or service has been performed, the fee is fixed and determinable, and collectibility is probable. During the nine months ended September 30, 2005, our revenues were derived from license fees, product sales, commercial collaborations and contracts and grants. License fees are recognized when the agreement is signed, we have performed all material obligations related to the particular milestone payment or other revenue component and the earnings process is complete. Revenue for product sales is recognized at the time the purchaser has accepted delivery of the product. Based on the specific terms and conditions of each contract/grant, revenues are recognized on a time and materials basis, a percentage of completion basis and/or a completed contract basis. Revenue under contracts based on time and materials is recognized at contractually billable rates as labor hours and expenses are incurred. Revenue under contracts based on a fixed fee arrangement is recognized based on various performance measures, such as stipulated milestones. As these milestones are achieved, revenue is recognized. From time to time, facts develop that may require us to revise our estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract is recognized in the period in which it becomes known.

Included in sales and marketing expenses for the nine months ended September 30, 2005 is \$500,000 that was paid to a sales and marketing firm in connection with the RenaZorb™ licensing agreement.

**Recent Accounting Pronouncements** - As described above in *Stock-Based Compensation*, we account for stock-based compensation awards issued to employees using the intrinsic value measurement provisions of APB 25. Accordingly, no compensation expense has been recorded for stock options granted to employees with exercise prices greater than or equal to the fair value of the underlying common stock at the option grant date. On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (“SFAS 123R”), *Share-Based Payment*, which eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. The new standard requires enterprises to measure the cost

of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

We have not yet quantified the effects of the adoption of SFAS 123R, but it is expected that the new standard will result in significant stock-based compensation expense. The pro forma effects on net loss and loss per share if we had applied the fair value recognition provisions of original SFAS 123 on stock compensation awards (rather than applying the intrinsic value measurement provisions of APB 25) are disclosed above in *Stock-Based Compensation*. Although such pro forma effects of applying original SFAS 123 may be indicative of the effects of adopting SFAS 123R, the provisions of these two statements differ in some important respects. The actual effects of adopting SFAS 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by the Company to value stock-based awards, the assumed award forfeiture rate, the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period, and the transition method (as described below) chosen for adopting SFAS 123R.

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SFAS 123R will be effective for our fiscal year beginning January 1, 2006, and requires the use of either the Modified Prospective Application Method or the Modified Retrospective Method. Under the Modified Prospective Method, SFAS 123R is applied to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (such as unvested options) that are outstanding as of the date of adoption shall be recognized as the remaining requisite services are rendered. The compensation cost relating to unvested awards at the date of adoption shall be based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS 123. In addition, companies may use the Modified Retrospective Application Method. This method may be applied to all prior years for which the original SFAS 123 was effective or only to prior interim periods in the year of initial adoption. If the Modified Retrospective Application Method is applied, financial statements for prior periods shall be adjusted to give effect to the fair-value-based method of accounting for awards on a consistent basis with the pro forma disclosures required for those periods under the original SFAS 123.

**Overhead Allocation** - Facilities overhead, which is comprised primarily of occupancy and related expenses, is allocated to research and development based on labor costs.

**Deferred Compensation Expense** - The issuance of restricted stock under our stock incentive plan is recorded as deferred compensation expense in the shareholders' equity section of the balance sheet and is amortized to expense over the period in which the shares are subject to restriction.

**Reclassifications** - Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current period.

### Note 3. Notes Payable

	September 30, 2005	December 31, 2004
Note payable to BHP Minerals International, Inc.	\$ 3,000,000	\$ 2,880,311
Less current portion	(600,000)	-
Long-term portion of notes payable	\$ 2,400,000	\$ 2,880,311

The note payable to BHP Minerals International, Inc., in the face amount of \$3,000,000, was entered into on August 8, 2002 and is secured by the property we acquired. Interest on the note did not begin to accrue until August 8, 2005. As a result, we imputed the interest at a rate of 11% and reduced the face amount of the note payable by \$566,763 at the date of issuance, then amortized that amount to interest expense from August 8, 2002 through August 8, 2005. The first payment of \$600,000 of principal plus accrued interest is due February 8, 2006. Additional payments of \$600,000 plus accrued interest are due annually on February 8, 2007 through 2010.

### Note 4. Intangible Assets

Our intangible assets consist of patents and related expenditures associated with the nanomaterials and titanium dioxide pigment technology. We are amortizing these assets over their useful lives. The amortized intangible asset balance as of September 30, 2005 was:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and related expenditures	\$ 1,517,736	\$ (606,470)	\$ 911,266



The weighted average amortization period for patents and related expenditures is approximately 16.5 years. Amortization expense, which represents the amortization relating to the identified amortizable intangible assets, was \$63,611 and \$64,270 for the nine months ended September 30, 2005 and 2004, respectively, and \$21,204 and \$21,430 for the three months ended September 30, 2005 and 2004, respectively. For each of the next five years, amortization expense relating to intangibles is expected to be \$84,816 per year. Management believes the net carrying amount of intangible assets will be recovered by future cash flows generated by commercialization of the titanium processing technology.

### Note 5. Related Party Transactions

On December 31, 2003, we entered into a consulting agreement with Advanced Technology Group LLC (“ATG”), whose managing partner is David King, a Director of the Company. The agreement stipulates that ATG will furnish consulting services in reviewing potential federal grant opportunities and providing proposal development assistance on selected programs for a period of one year. The agreement was subsequently extended for an additional year through December 31, 2005. Under the terms of the agreement, ATG is paid on a contingency basis at a rate of 6% of the first \$1,000,000 in grant monies secured from applications prepared in any calendar year plus 3.5% of any cumulative amounts over \$1,000,000. ATG also agreed to provide consulting services at a rate of \$200 per hour upon request of the Company. Through September 30, 2005, ATG earned \$2,833 for certain consulting services and \$28,611 in connection with our National Science Foundation Phase II grant application.

### Note 6. Business Segment Information

Management views the Company as operating in four business segments: Performance Materials, Life Sciences, Tennessee Mineral Property, and the Altair Jig. Reportable segment data reconciled to the consolidated financial statements as of and for the three- and nine-month periods ended September 30, 2005 and 2004 is as follows:

	Net Sales	(Income) Loss From Operations	Depreciation and Amortization	Assets
<b>Three Months Ended September 30, 2005</b>				
Performance Materials	\$ 581,515	\$ 960,275	\$ 237,746	\$ 5,645,287
Life Sciences	3,890	316,460	446	538,396
Tennessee Mineral Property	-	(138,095)	-	25,143
Altair Jig	-	7,526	-	-
Corporate and other	-	1,207,994	24,913	29,741,799
Consolidated Total	\$ 585,405	\$ 2,354,160	\$ 263,105	\$ 35,950,625
<b>Three Months Ended September 30, 2004</b>				
Performance Materials	\$ 346,907	\$ 1,052,190	\$ 212,477	\$ 5,263,759
Life Sciences	-	(22,686)	-	-
Tennessee Mineral Property	-	24,539	-	-
Altair Jig	-	5,734	-	-
Corporate and other	-	360,278	14,346	11,274,515
Consolidated Total	\$ 346,907	\$ 1,420,055	\$ 226,823	\$ 16,538,274



**Nine Months Ended September 30, 2005**

Performance Materials	\$	1,391,095	\$	2,310,192	\$	690,033	\$	5,645,287
Life Sciences		724,771		(124,123)		825		538,396
Tennessee Mineral Property		-		(98,563)		-		25,143
Altair Jig		-		10,708		-		-
Corporate and other		-		4,605,495		68,332		29,741,799
<b>Consolidated Total</b>	<b>\$</b>	<b>2,115,866</b>	<b>\$</b>	<b>6,703,709</b>	<b>\$</b>	<b>759,190</b>	<b>\$</b>	<b>35,950,625</b>

**Nine Months Ended September 30, 2004**

Performance Materials	\$	640,889	\$	3,015,834	\$	622,012	\$	5,263,759
Life Sciences		-		171,168		-		-
Tennessee Mineral Property		-		169,018		-		-
Altair Jig		-		7,888		-		-
Corporate and other		-		1,868,197		46,321		11,274,515
<b>Consolidated Total</b>	<b>\$</b>	<b>640,889</b>	<b>\$</b>	<b>5,232,105</b>	<b>\$</b>	<b>668,333</b>	<b>\$</b>	<b>16,538,274</b>

In the table above, corporate and other expense in the (Income) Loss From Operations column includes such expenses as investor relations, business consulting, general legal expense, accounting and audit, general insurance expense, non-employee and employee variable accounting stock option compensation expense, shareholder information expense and general office expense.

For the three months ended September 30, 2005, we had sales to four major customers, each of which accounted for 10% or more of revenues. Total sales to these customers for the three months ended September 30, 2005 and the balance of their accounts receivable at September 30, 2005 were as follows:

<b>Customer</b>	<b>Sales - 3 Months Ended September 30, 2005</b>	<b>Accounts Receivable at September 30, 2005</b>
<b><u>Performance Materials Division:</u></b>		
Western Michigan University	\$ 100,595	\$ 68,289
Western Oil Sands	262,846	272,162
UNLV Research Foundation	83,792	58,335
National Science Foundation	65,045	-

For the three months ended September 30, 2004, we had sales to three major customers, each of which accounted for 10% or more of revenues. Total sales to these customers for the three months ended September 30, 2004 and the balance of their accounts receivable at September 30, 2004 were as follows:

<b>Customer</b>	<b>Sales - 3 Months Ended September 30, 2004</b>	<b>Accounts Receivable at September 30, 2004</b>
<b><u>Performance Materials Division:</u></b>		
Titanium Metals Corp.	\$ 39,310	\$ 39,310
Western Michigan University	153,576	117,451
Western Oil Sands	101,013	54,047

For the nine months ended September 30, 2005, we had sales to four major customers, each of which accounted for 10% or more of revenues. Total sales to these customers for the nine months ended September 30, 2005 and the

balance of their accounts receivable at September 30, 2005 were as follows:

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Customer	Sales - 9 Months Ended September 30, 2005	Accounts Receivable at September 30, 2005
<b><u>Performance Materials Division:</u></b>		
Western Michigan University	\$ 349,034	\$ 68,289
Western Oil Sands	428,080	272,162
UNLV Research Foundation	314,847	58,335
<b><u>Life Sciences Division:</u></b>		
Spectrum Pharmaceuticals, Inc.	724,271	28,881

For the nine months ended September 30, 2004, we had sales to three major customers, each of which accounted for 10% or more of revenues. Total sales to these customers for the nine months ended September 30, 2004 and the balance of their accounts receivable at September 30, 2004 were as follows:

Customer	Sales - 9 Months Ended September 30, 2004	Accounts Receivable at September 30, 2004
<b><u>Performance Materials Division:</u></b>		
Titanium Metals Corp.	\$ 114,310	\$ 39,310
Western Michigan University	209,800	117,451
Western Oil Sands	215,218	54,047

Revenues for the three-month periods ended September 30, 2005 and 2004 by geographic area were as follows:

Geographic information (a):	Revenues - 3 Months Ended September 30, 2005	Revenues - 3 Months Ended September 30, 2004
United States	\$ 310,352	\$ 245,894
Canada	274,164	101,013
Other foreign countries	889	-
Total	\$ 585,405	\$ 346,907

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

Revenues for the nine-month periods ended September 30, 2005 and 2004 by geographic area were as follows:

Geographic information (a):	Revenues - 9 Months Ended September 30, 2005	Revenues - 9 Months Ended September 30, 2004
United States	\$ 1,673,756	\$ 425,671
Canada	440,580	215,218
Other foreign countries	1,530	-
Total	\$ 2,115,866	\$ 640,889

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

**Note 7. Investment in Available for Sale Securities**

Investments in available for sale securities (short-term) consist of auction rate corporate notes. The notes are long-term instruments with expiration dates through 2043. Interest is settled and the rate is reset every 7 to 28 days.

Investment in available for sale securities (long-term) consists of 100,000 restricted shares of Spectrum Pharmaceuticals, Inc. ("Spectrum") common stock received in January 2005. The shares are "restricted securities," as defined in Rule 144 and are not registered for resale. They will be eligible for resale under Rule 144 beginning in January 2006. The shares were received as partial payment of licensing fees when Spectrum entered into a license agreement for RenaZorb™. On receipt, the shares were recorded at their market value of \$595,000 as measured by their closing price on the Nasdaq SmallCap Stock Market. At September 30, 2005, their fair value was \$496,000, representing an unrealized holding loss of \$99,000. We do not believe that there is an other than temporary impairment at September 30, 2005.

**Note 8. Other Transactions**

On February 15, 2005, we sold 5,000,000 common shares to institutional investors. The sales were made at \$4.05 per share with net proceeds to the Company, after expenses, of approximately \$19.2 million. The placement agent also received a warrant to purchase 250,000 shares of our common stock at \$5.27 per share. The warrant has a four-year term. Using a Black-Scholes pricing model, we estimate these warrants have a value of approximately \$581,000 at their date of issuance.

In May 2005, shareholders approved the 2005 Stock Incentive Plan (the "Plan") under which 3,000,000 common shares are available for issuance to employees, officers and directors of Altair as well as selected service providers. Through September 30, 2005, the Board of Directors has granted 90,000 shares of restricted stock under the Plan. The shares were recorded as deferred compensation expense in the shareholders' equity section of the balance sheet at their fair value on the date of issue and are being amortized to expense over the vesting period.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the material changes in our financial condition between December 31, 2004 and September 30, 2005 and the material changes in our results of operations and financial condition between the three- and nine-month periods ended September 30, 2004 and September 30, 2005. This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as amended.

### Overview

We are a Canadian company, with principal assets and operations in the United States, whose primary business is developing and commercializing advanced ceramic nanomaterials and titanium dioxide pigment technologies. We are organized into two divisions, a Performance Materials Division and a Life Sciences Division. Our research, development, production and marketing efforts are currently directed toward six market applications that utilize our proprietary technologies:

#### The Performance Materials Division.

##### Advanced Materials

- o The marketing of titanium dioxide pigment production technology.
- o The marketing and production of nano-structured ceramic powders for thermal spray applications.
- o The development of nano-structured ceramic powders for nano-sensor applications.
- o The development of titanium dioxide electrode structures in connection with research programs aimed at developing a lower-cost process for producing titanium metals and related alloys.

##### Air and Water Treatment

- o The development of photocatalytic materials for air cleansing.
- o The marketing, licensing and production of Nanocheck™ products for phosphate binding to prevent or reduce algae growth in recreational and industrial water.

##### Alternative Energy

- o The development of materials for high performance batteries, photovoltaics and transparent electrodes for hydrogen generation and fuel cells.

#### The Life Sciences Division.

##### Pharmaceutical Products

- o The co-development of RenaZorb™, a test-stage active pharmaceutical ingredient, which is designed to be useful in the treatment of elevated serum phosphate levels in patients undergoing kidney dialysis.
- o The co-development of Renalan, a test stage active pharmaceutical ingredient, which is designed to be useful in the treatment of elevated serum phosphate levels in companion animals suffering from chronic renal failure.

##### Chemical Delivery Products

- o The development of TiNano Spheres™, which are rigid, hollow, porous, high surface area ceramic micro structures that are derived from Altair's proprietary process technology for the delivery of chemicals, drugs and biocides.

##### Biocompatible Materials

- o The development of nanomaterials for use in various products for dental fillings and dental products.

We also provide contract research services on select projects where we can utilize our resources to develop intellectual property for our core technology and/or new products.

We have generated, and expect to continue to generate, revenues from license fees, product sales, commercial collaborations, contracts and grants.

We have discontinued work on both the Tennessee mineral property and Altair jig segments and are in the process of disposing of the mineral leases and other property in Tennessee.

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## **General Outlook**

During the nine-month period ended September 30, 2005, we licensed RenaZorb™ to Spectrum Pharmaceuticals, Inc. ("Spectrum") and recognized \$695,000 of licensing revenue in connection with the licensing agreement. Prior to this transaction, substantially all of our revenues came from commercial collaborations, grants and other research or development work which we have undertaken primarily in order to benefit from the resulting technology. Our gross profit margin on such research and development work is very low, and in order that we may be profitable in the long run, our business plan focuses on the development of products and technologies that we expect will eventually bring a substantial amount of higher-margin revenues from licensing, product sales and other sources.

As we attempt to significantly expand our revenues from licensing, sales and other sources, some of the key near-term events that will affect our long term success prospects include the following:

- Spectrum must complete animal testing of our RenaZorb™ product demonstrating specified result levels for RenaZorb™. The tests were completed in September 2005 and, although we have been informed orally that the results were positive, we have not yet received a copy of the test results and Altair has not received the milestone payment of 100,000 shares of Spectrum Pharmaceuticals, Inc. stock. Altair and Spectrum entered the early stages of a dispute resolution process as required by our license agreement. This process may delay the product development process and our receipt of our next milestone payment.
- We are in discussions with American and European animal health companies with respect to development and licensing of Renalan, a potential drug for treatment of phosphate in dogs and cats with chronic renal disease. In order to commence production and sale of Renalan, we must license the product to an animal health company and it must successfully complete the testing and possibly the approval process of the FDA and/or other regulatory agencies.
- We must begin receiving commercial orders for NanoCheck™ from pool chemical companies. We are continuing to prepare for the market introduction of NanoCheck™ later this year or next year. Testing of NanoCheck™ products in pools owned or serviced by pool chemical companies that are major suppliers to the recreational water market is continuing, but we do not anticipate that we will generate significant commercial sales of the product in 2005.
- The initial phase of work for the Western Oil Sands license agreement is expected to be complete by December 31, 2005. In order for this project to move toward commercialization, we must successfully complete the initial phase, it must be determined that the oil sands tailings have sufficient economic value to allow the process to be viable, and Western Oil Sands must decide to proceed with phase two.
- We must successfully develop a profitable battery materials business. The ultimate commercialization of our battery materials will be dependent upon our ability to secure a technology license, product sales agreements or similar agreements with one or more battery manufacturers. We have entered into a development agreement or material evaluation agreement with a number of battery manufacturers and are currently in discussions with other battery manufacturers but cannot project when, or if, we will enter into a commercialization agreement with respect to our battery materials technology and what the terms of such agreement may be.

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

## **Recent Business Developments**

### **Performance Materials Division**

#### *Altair Hydrochloride Pigment Process*

Altair has entered into an additional agreement with Western Oil Sands, Inc. (“Western”) to provide pilot plant and office space within our facilities for Western’s five employees and consultants to facilitate on-site collaboration between the two companies in furthering the engineering study of manufacturing titanium dioxide pigment from Western’s tar sand tailings using the Altair Hydrochloride Pigment Process. We subsequently entered into an agreement with Western for the design and construction of the pilot separation plant in our Reno Nevada facility. Revenues from leasing the office and pilot plant space are expected to be minor.

#### *Catalyst Support and Electrode Structures for Titanium Metals*

In January 2004, we entered into a contract with Titanium Metals Corporation (“TIMET”) to provide custom oxide feedstocks for a titanium metal research program funded by the Department of Defense, Defense Advanced Research Projects Agency (“DARPA”). We became a subcontractor for the DARPA program with responsibility to design and develop a titanium oxide electrode structure and supply TIMET optimized titanium oxide feedstock to produce 50 pounds of titanium metal per day in batch production demonstrations. During the course of the contract, we provided TIMET with specified quantities of feedstock materials as their preferred supplier. We currently have reservations about the rate of progress of the project and, accordingly, are seeking alternative sponsors and partners.

#### *Lithium Ion Battery Electrode Materials*

In December 2004, we completed work under Phase I of a National Science Foundation (“NSF”) grant for development of electrode nanomaterials for next generation lithium ion power sources. The results of the research indicated that lithium ion batteries prepared with nano-structured lithium titanate spinel anode materials exhibit rapid charge and discharge rates, improved cycle life performance and a decrease in specific energy density when compared to conventional lithium ion, nickel cadmium and nickel metal hydride battery materials. In June 2005, we were awarded a grant of \$476,850 from the NSF for Phase II. Phase I work was designed to optimize the anode electrode materials and Phase II is designed to develop cathode electrode materials, thus resulting in matched anode-cathode electrode materials for optimum electrochemical performance.

We are focusing our marketing and development efforts on markets presently dominated by nickel cadmium or nickel metal hydride batteries, such as power tools and automobiles, in which rapid charging, long cycle life and the additional power from the rapid discharge should prove advantageous. Secondly, we intend to pursue markets, such as cell phone batteries, presently dominated by lithium ion batteries, which are characterized by slow charge and discharge rates and high specific energy density. A battery with high specific energy density requires less volume per Watt hour and, if the discharge rate is limited, discharges slower than a battery with low specific energy density. We believe that, as our battery materials improve and the market realizes the benefits of our rapid charge/discharge “contrarian strategy”, as well as the benefits of using environmentally friendly nano titanate spinal, our battery materials could become competitive in markets presently dominated by lithium ion batteries; however, because of the importance presently placed on specific energy density in such markets, we expect that our best short-term opportunities do not lie in this area.

Further, another aspect of our development focus is on product life, initially cycle life, then charge retention and calendar life. In cycle life, each charge/discharge cycle tends to cause a loss of capacity. Controlling this rate of capacity loss is essential to producing batteries that have 3,000 to 5,000 cycle life, important for electric vehicles and hybrid-electric vehicles. Charge retention life describes how fast a charged lithium ion battery loses its charge in storage. Calendar life describes how quickly lithium ion batteries lose their charge over time, whether in use or in



storage.

In April 2005, we signed a partnering agreement with Advanced Battery Technologies, Inc. (“ABAT”), a U.S. and Chinese-owned company, for the development of lithium polymer batteries in China. The agreement covers the incorporation of our battery electrode nanomaterials into ABAT's existing polymer battery product lines on a testing and development basis. It specifically focuses on development of high power, lithium polymer batteries for use in electric vehicles where long life cycles and fast charge times are desirable. We have provided ABAT with sample nanomaterials for their use in design and development of the batteries. ABAT’s phase I testing of batteries using our battery electrodes showed that the nano-structured electrode materials are performing as anticipated and have significantly improved recharging capability. We received an order for and have shipped 2,200 pounds of lithium titanate spinel electrode nanomaterials to ABAT for use in their development program for polymer lithium ion batteries for electric vehicles. These materials are intended for use in the construction of developmental polymer lithium ion batteries designated to power one electric bus and one electric sedan. We expect road testing of the batteries in these vehicles late in the fourth quarter of 2005.

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We have significantly expanded our battery initiative projects by adding thirteen highly qualified, advanced battery scientists, engineers, manufacturing and marketing specialists, several of whom will be located at a new facility in central Indiana. At both this and our Reno facility, we plan to install manufacturing equipment for the production of prototype lithium ion cells, batteries and battery packs in sufficient quantities to demonstrate end-user products in power tools, automobiles, trucks and buses.

#### *Hydrogen Generation*

In November 2004, we entered into an agreement with the University of Nevada, Las Vegas Research Foundation to act as a subcontractor under a \$3,000,000 grant awarded to them by the U.S. Department of Energy (“DOE”) for joint research activities related to solar hydrogen production at a refilling station under development in Las Vegas. The agreement, which is effective through December 31, 2005, provides for payments to Altair of \$400,000 for research and development work utilizing nanotechnology processes for the production and commercialization of solar-based hydrogen technologies. On November 1, 2005, we announced that we will receive \$750,000 under a Phase III grant award from the DOE for collaborative research and development work beginning October 1, 2005 and continuing through December 2006.

#### **Life Sciences Division**

##### *RenaZorb™ Products*

In January 2005, we signed a licensing agreement with Spectrum which grants them exclusive worldwide rights to develop, market and sell RenaZorb™. We have supplied Spectrum with test quantities of RenaZorb™ in order to conduct in-life animal testing. The tests were completed in September 2005 and, although we have been informed orally that the results were positive, we have not yet received a copy of the test results and Altair has not received the milestone payment of 100,000 shares of Spectrum Pharmaceuticals, Inc. stock. Altair and Spectrum entered the early stages of a dispute resolution process as required by our license agreement. This process may delay the product development process and our receipt of our next milestone payment.

##### *Renalan Products*

We are conducting third-party discussions toward the potential licensing of Renalan (similar chemistry to RenaZorb™) for use in companion animal applications, primarily dogs and cats with chronic renal disease. Renalan, as a phosphate binder, has the potential to alleviate hyperphosphatemia, a condition associated with chronic renal disease in companion animals.

#### **Other Developments**

The remediation work on the Tennessee mineral properties has been substantially completed. Certain re-vegetation measures, the planting of small trees, cannot be completed until late winter 2006. Once completed, the applicable regulatory authorities will review and, if acceptable, approve completion of remediation work and a multi-year monitoring plan.

#### **Liquidity and Capital Resources**

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

Our cash and short-term investments increased from \$7,357,843 at December 31, 2004 to \$26,878,833 at September 30, 2005 due primarily to the sale of 5,000,000 common shares on February 14, 2005, which provided net proceeds of \$19.2 million, and the exercise of stock options and warrants which provided \$6.1 million. We intend to use these funds for working capital, capital expenditures, research and development activities and the possible acquisition of

other technologies.

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Our average net cash outflow increased from \$530,000 per month during the calendar year 2004 to \$650,000 per month for the nine months ended September 30, 2005 due primarily to an increase in employees, increased expenses for patent work, an increase in internal R&D projects, capital asset expenditures, and compliance with the Sarbanes-Oxley Act. Our monthly cash outflow is expected to increase during the fourth quarter of 2005, primarily as the result of hiring additional employees and increasing capital expenditures.

During the remainder of 2005, we expect to generate revenues from licensing, product sales, commercial collaborations, contracts and grants by utilizing our nanomaterials and titanium dioxide pigment technology. We currently have four contracts in place that are expected to generate revenues during the fourth quarter of 2005. These are:

- a contract with Western Oil Sands, Inc. for a testing program related to the production of titanium dioxide pigment and pigment-related products from oil sands.
- a contract with Western Michigan University to develop nanosensors for the detection of chemical, biological and radiological agents.
- an agreement with the University of Nevada, Las Vegas Research Foundation to act as a subcontractor under a grant awarded to them by the U.S. Department of Energy for joint research activities related to solar hydrogen production.
- a contract with NSF for Phase II work on the development of advanced battery materials which began October 1, 2005.

We had anticipated receiving a milestone payment from Spectrum Pharmaceuticals, Inc. in the form of 100,000 shares of common stock during the fourth quarter of 2005. As explained above, receipt of this payment during 2005 now appears questionable.

At November 4, 2005, we had 58,990,252 common shares issued and outstanding. As of that same date, there were outstanding warrants to purchase up to 1,826,490 shares of common stock and options to purchase up to 2,556,200 shares of common stock.

### Capital Commitments

We intend to purchase equipment for both our Reno, Nevada and Anderson, Indiana facilities for use in the development of advanced battery materials and production of prototype batteries and battery packs. We expect to spend approximately \$2 million for this equipment and related facility upgrades through June 30, 2006.

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due as of September 30, 2005:

Contractual Obligations	Total	Less Than			After
		1 Year	1-3 Years	4-5 Years	5 Years
Notes Payable	\$ 3,000,000	\$ 600,000	\$ 1,200,000	\$ 1,200,000	\$ -
Interest on notes payable	525,000	105,000	294,000	126,000	-
Mineral Leases*	126,251	96,851	21,550	7,850	-
Contractual Service Agreements	169,991	144,991	25,000	-	-
Facilities Leases	210,872	12,000	198,872	-	-
Unfulfilled Purchase Orders	282,642	282,642	-	-	-
<b>Total Contractual Obligations</b>	<b>\$ 4,314,756</b>	<b>\$ 1,241,484</b>	<b>\$ 1,739,422</b>	<b>\$ 1,333,850</b>	<b>\$ -</b>

\* Although we expect to terminate all mineral leases as soon as is practicable, the obligations are included here because they are not yet terminated.

**Critical Accounting Policies and Estimates**

The following discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including those related to long-lived assets and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. These judgments and estimates affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Changes to these judgments and estimates could adversely affect the Company's future results of operations and cash flows.

- **Long-Lived assets.** Our long-lived assets consist principally of the nanomaterials and titanium dioxide pigment assets, the intellectual property (patents and patent applications) associated with those assets, and a building. At September 30, 2005, the carrying value of these assets was approximately \$7,337,000, or 20% of total assets. We evaluate the carrying value of long-lived assets when events or circumstances indicate that an impairment may exist. In our evaluation, we estimate the net undiscounted cash flows expected to be generated by the assets, and recognize impairment when such cash flows will be less than the carrying values. Events or circumstances that could indicate the existence of a possible impairment include obsolescence of the technology, an absence of market demand for the product, and/or the partial or complete lapse of technology rights protection.
- **Stock-Based Compensation.** We have stock option plans which provide for the issuance of common stock options to employees and service providers. Although SFAS No. 123, *Accounting for Stock Based Compensation*, encourages entities to adopt a fair-value-based method of accounting for stock options and similar equity instruments, it also allows an entity to continue measuring compensation cost for stock-based compensation for employees and directors using the intrinsic-value method of accounting prescribed by APB 25, *Accounting for Stock Issued to Employees*. We have elected to follow the accounting provisions of APB 25 and to furnish the pro forma disclosures required under SFAS 123 for employees and directors, but we also issue warrants and options to non-employees that are recognized as expense when issued in accordance with the provisions of SFAS 123. We calculate compensation expense under SFAS 123 using a modified Black-Scholes option pricing model. In so doing, we estimate certain key assumptions used in the model. We believe the estimates we use, which are presented in Note 2 of the Notes to Consolidated Financial Statements included above in this Form 10-Q, are appropriate and reasonable. As explained in Note 2 to the Consolidated Financial Statements, the Financial Accounting Standards Board has issued a revision to SFAS 123 that eliminates the alternative of applying the intrinsic value measurement provisions of APB 25. We are required to adopt the revised SFAS 123 no later than January 1, 2006. Although we have not yet quantified the effects of adoption, it is expected that the new standard will result in significant additional expense, depending upon the nature and amount of stock-based compensation awards which may be granted.
- **Revenue Recognition.** We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or the service has been performed, the fee is fixed and determinable, and collectibility is probable. During the nine months ended September 30, 2005, our revenues were derived from license fees, product sales, commercial collaborations and contracts and grants. License fees are recognized when the agreement is signed, we have performed all material obligations related to the particular milestone payment or other revenue component and the earnings process is complete. Revenue for product sales is recognized at the time the purchaser has accepted delivery of the product. Based on the specific terms and conditions of each contract or grant, revenues are recognized on a time and materials basis, a percentage of completion basis and/or a completed contract basis. Revenue under contracts based on time and materials is recognized at contractually billable rates as labor hours and expenses are incurred. Revenue under contracts based on a fixed fee arrangement is recognized based on various performance measures, such as stipulated milestones. As these milestones are achieved, revenue is recognized. From time to time, facts develop that may require us to revise our estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract is recognized in the period in which it becomes known.
- **Overhead Allocation.** Facilities overhead, which is comprised primarily of occupancy and related expenses, is initially recorded in general and administrative expenses and then allocated monthly to research and development expense based on labor costs. Facilities overhead allocated to research and development projects may be chargeable when invoicing customers under certain research and development contracts.



· Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of accounts receivable. We analyze historical bad debts, the aging of customer accounts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. From period to period, differences in judgments or estimates utilized may result in material differences in the amount and timing of our bad debt expenses.

## **Results of Operations**

### *Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004*

The net loss for the quarter ended September 30, 2005, which was the third quarter of our 2005 fiscal year, totaled \$2,176,826 (\$.04 per share) compared to a net loss of \$1,440,324 (\$.03 per share) in the third quarter of 2004.

Total revenues for the three months ended September 30, 2005 were \$585,405 compared to \$346,907 for the same period of 2004. Revenues from contracts and grants increased by \$46,856, from \$202,576 in the quarter ended September 30, 2004 to \$249,432 in the same quarter of 2005. Revenues were generated under three contracts to (1) provide research, under a contract with Western Michigan University, involving a technology used in the detection of chemical, biological and radiological agents, (2) provide research for the University of Nevada, Las Vegas Research Foundation utilizing nanotechnology processes for the production and commercialization of solar-based hydrogen technologies, and (3) supply nano-sized anode and cathode materials for design and development of high capacity lithium ion battery and super capacitor applications under a contract with the National Science Foundation. At September 30, 2005, our backlog of work under existing contracts was approximately \$635,000.

Revenues from commercial collaborations increased by \$186,876, from \$140,603 in the third quarter of 2004 to \$327,479 in the third quarter of 2005. The increase is due to additional revenues from the Western Oil Sands project resulting from billings for the design and construction of a pilot separation plant.

Research and development ("R&D") expenses increased by \$769,978, from \$520,376 in the third quarter of 2004 to \$1,290,354 in the same quarter of 2005. Labor costs increased from approximately \$334,000 in the third quarter of 2004 to approximately \$419,000 in the same quarter of 2005 due to new employee additions and salary increases. Costs also increased primarily as a result of expenditures on new contract R&D projects, including battery materials and materials for use in solar hydrogen production, increased expenditures for internal R&D and temporary employees hired for R&D projects.

Sales and marketing expenses increased by \$192,081, from \$46,070 in the third quarter of 2004 to \$238,151 in the third quarter of 2005. The increase is due to staff increases and increased business development activities.

General and administrative ("G&A") expenses increased by \$173,448, from \$973,080 in third quarter of 2004 to \$1,146,528 in the third quarter of 2005. Stock option compensation expense, a non-cash item, increased by approximately \$285,000, from approximately \$(329,000) in the third quarter of 2004 to \$(44,000) in the third quarter of 2005, due to an increase in value of stock options repriced in prior years, and consulting fees increased by approximately \$317,000 due primarily to costs related to compliance with the Sarbanes-Oxley Act. These increases were partially offset by a decrease in investor relations expense of approximately \$208,000 as a result of a cutback in our investor relations programs and a decrease in other general and office expenses of approximately \$225,000.

Interest income increased by \$197,797, from \$29,706 in the third quarter of 2004 to \$227,503 in the third quarter of 2005 due to the significant increase in cash available for investment that was generated through the sale of common shares and the exercise of warrants and options in early 2005.





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### *Nine months Ended September 30, 2005 Compared to Nine months Ended September 30, 2004*

For the nine months ended September 30, 2005, the net loss was \$6,341,863 (\$.11 per share) compared to a net loss of \$5,305,113 (\$.11 per share) for the same period of 2004.

Total revenues for the nine months ended September 30, 2005 were \$2,115,866 compared to \$640,889 for the same period in 2004. Included in revenues was \$695,000 representing the initial license fee paid by Spectrum Pharmaceuticals in connection with the license of Renazorb<sup>TM</sup>. Contract and grant revenues increased by \$503,459, from \$258,800 in the nine months ended September 30, 2004 to \$762,259 in the same period of 2005. The increase is due to increased revenues under the Western Michigan University contract (nanosensor technology) and new agreements with the University of Nevada, Las Vegas Research Foundation (solar hydrogen generation) and the NSF (advanced battery materials). Commercial collaborations revenues increased by \$209,002, from \$375,518 in the nine months ended September 30, 2004 to \$584,520 in the same period of 2005. The increase is due to additional revenues from the Western Oil Sands project resulting from billings for the design and construction of a pilot separation plant. Product sales increased by \$67,516, from \$6,571 in the nine months ended September 30, 2004 to \$74,087 in the same period of 2005, primarily due to increased sales of thermal spray grade powders and sales of Nanocheck<sup>TM</sup>.

R&D expenses increased by \$1,307,800, from \$1,508,231 in the nine months ended September 30, 2004 to \$2,816,031 in the same period of 2005. Labor costs increased from approximately \$784,000 in the nine months ended September 30, 2004 to approximately \$1,066,000 in the same period of 2005 due to new employee additions and salary increases. Costs also increased primarily as a result of expenditures on new contract R&D projects, including battery materials and materials for use in solar hydrogen production, increased expenditures for internal R&D and temporary employees hired for R&D projects.

Sales and marketing expenses increased by \$913,473, from \$245,786 in the nine months ended September 30, 2004 to \$1,159,259 in the same period of 2005. The increase is due to payment of a \$500,000 fee to RBC Capital Markets in connection with the RenaZorb<sup>TM</sup> licensing agreement, increased payroll expense resulting from additional staff and increased business development activities.

G&A expenses increased by \$618,166, from \$3,449,495 in the nine months ended September 30, 2004 to \$4,067,661 in the same period of 2005. Stock option compensation expense, a non-cash item, increased by approximately \$840,000, from approximately \$(407,000) in the nine months ended September 30, 2004 to approximately \$433,000 in the same period of 2005 due to an increase in value of stock options repriced in prior years. Legal expense increased by approximately \$372,000, from approximately \$404,000 in the nine months ended September 30, 2004 to approximately \$776,000 in the same period of 2005 due to increased patent attorney fees paid in connection with patent work and increased attorney fees in connection with regulatory work. In addition, consulting fees increased by approximately \$570,000 due primarily to costs related to compliance with the Sarbanes-Oxley Act. These increases were partially offset by decreases in certain expenses. Investor relations expense decreased by approximately \$671,000 as a result of a cutback in our investor relations programs and general consulting decreased by approximately \$209,000. In addition, facilities overhead costs transferred from G&A to R&D increased by approximately \$100,000 and audit fees decreased by approximately \$53,000.

Interest income increased by \$442,082, from \$73,080 in the nine months ended September 30, 2004 to \$515,162 in the same period of 2005 due to the significant increase in cash available for investment that was generated through the sale of common shares and the exercise of warrants and options in early 2005.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. Statements in this report regarding the ability of the Company to raise working capital necessary to fund our operations, development of the nanomaterials and titanium dioxide pigment processing technology and assets (including for pharmaceutical and battery uses), and other future activities are forward-looking statements. You should 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.

Among the key factors that may have a direct bearing on the Company's future results and value are various risks and uncertainties including, but not limited to, the following:

***We may continue to experience significant losses from operations.***

We have experienced a loss from operations in every fiscal year since our inception. Our losses from operations were \$6,904,955 in 2004 and \$6,703,709 in the nine months ended September 30, 2005. We will continue to experience a net operating loss at least until the applications of our nanomaterials and titanium dioxide pigment technology begin generating revenues in excess of our operating expenses. Even if any or all applications of the nanomaterials and titanium dioxide pigment technology begin generating such revenues, the revenues may not exceed our costs of production and operating expenses. We may not ever realize a profit from operations.

***Our patents and other protective measures may not adequately protect our proprietary intellectual property, and we may be infringing on the rights of others.***

We regard our intellectual property, particularly our proprietary rights in our nanomaterials and titanium dioxide pigment technology, as critical to our success. We have received various patents, and filed other patent applications, for various applications and aspects of our nanomaterials and titanium dioxide pigment technology and other intellectual property. In addition, we generally enter into confidentiality and invention agreements with our employees and consultants. 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 similar patents or defects in the applications;
  - The patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;
- Parties to the confidentiality and invention agreements may have such agreements declared unenforceable or, even if the agreements are enforceable, may breach such agreements;
- The costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement cost prohibitive;
- 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 proprietary intellectual information and techniques, do not breach our patented or unpatented proprietary rights.

Because the value of our company and common stock is rooted primarily in our proprietary intellectual property rights, our inability to protect these rights, or gain a competitive advantage from such rights, could have a material adverse effect on our business.

In addition, we may inadvertently be infringing on the proprietary rights of other persons and may be required to obtain licenses to certain intellectual property or other proprietary rights from third parties. Such licenses or proprietary rights may not be made available under acceptable terms, if at all. If we do not obtain required licenses or proprietary rights, we could encounter delays in product development or find that the development or sale of products requiring such licenses is foreclosed.

***We have a substantial number of warrants and options outstanding and may issue a significant number of additional shares upon exercise thereof.***

As of November 4, 2005, there were outstanding warrants to purchase up to 1,826,490 shares of common stock and options to purchase up to 2,556,200 shares of common stock. The existence of such warrants and options, and any

additional warrants and options we issue in the future, may hinder future equity offerings, and the exercise of such warrants and options may further dilute the interests of all shareholders. The shares of common stock issuable upon the exercise of many of our outstanding warrants are subject to resale registration statements, and all of our options are subject to a registration statement on Form S-8. Accordingly, future resale of the shares of common stock issuable on the exercise of such warrants and options in most cases occurs immediately after exercise and may have an adverse effect on the prevailing market price of the shares of common stock.

***Our competitors have more resources than we do, which may give them a competitive advantage.***

We have limited financial 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. Because of their size, resources, reputation, history and other factors, 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.

***We may not be able to generate substantial revenues from the licensing of RenaZorb™.***

On January 28, 2005, we entered into a license agreement with Spectrum Pharmaceuticals, Inc. under which we granted Spectrum the exclusive worldwide rights to develop, market and sell RenaZorb™, a potential drug candidate for patients with kidney disease, for human therapeutic and diagnostic applications. Under the terms of the license, we will not generate substantial recurring revenues unless and until Spectrum completes clinical testing of RenaZorb™ and applies for and receives marketing approval from the FDA and similar regulatory agencies worldwide, begins marketing products containing RenaZorb™ and experiences substantial, sustained market penetration with such products. There are substantial risks associated with that process, including the following:

- further testing conducted by Spectrum may indicate that RenaZorb™ is less effective than existing products, is unsafe, has significant side effects or is otherwise not viable;
- Spectrum may be unable to obtain FDA or other regulatory approval of RenaZorb™ for technical, political or other reasons or, even if it obtains such approval, may not obtain such approval on a timely basis;
- products containing RenaZorb™ may not be accepted in the market for various reasons, including questions about its efficacy, safety and side effects or because of poor marketing by Spectrum;
  - Spectrum may terminate the license agreement, experience financial or other problems or otherwise fail to effectively test, seek approval for and market RenaZorb™; and
- prior to or following regulatory approval, superior products may be developed and introduced into the market.

If any or the foregoing risks, or other risks associated with developing pharmaceutical products were to occur, we would not receive substantial, recurring revenue from our license with Spectrum.

***Our nanomaterial technology with potential applications in rechargeable batteries has not been incorporated into any commercial products.***

We are still testing and developing our Altairnano™ Lithium Titanate Spinel nanomaterial technology, which has potential applications in rechargeable batteries. Although we have entered a partnering agreement with Advanced Battery Technologies, Inc. (“ABAT”) for the development of lithium polymer batteries in China and have supplied them with nanomaterials for their use in design and development of the batteries, the project is in the early stages and substantial design, development and testing work remains to be done. Even if ABAT or other potential partners are successful in producing battery products with our nanomaterial technology:

- batteries utilizing the technology may not exhibit expected charge rates, discharge rates or durability run time or other features when used in real world applications;
- batteries incorporating the technology may not meet the distinct needs of potential customers, applications or industries or otherwise prove competitive with existing technologies or technologies under development on account of technical limitations such as a short run time between charges or excessive heat generation; and
- marketing and branding efforts by us, a potential strategic partner or others may be insufficient to attract a sufficient number of customers.



***We may not benefit from licenses to use our technology for titanium dioxide pigment production.***

Because of our relatively small size and limited resources, we do not plan to use our titanium processing technology for large-scale production of titanium dioxide pigments. We have entered into discussions with various minerals and materials companies about licensing our technology to such entities for large-scale production of titanium dioxide pigments. To date, we have entered into a license agreement with only one such entity, Western Oil Sands, Inc. Under our license agreement with Western Oil Sands, we expect to receive a limited amount of revenue during the early testing and development phase of the agreement but will receive significant royalties only if Western Oil Sands and licensees of Western Oil Sands determine in their discretion, after testing at a demonstration plant, to construct or license the construction of a full-scale titanium pigment production facility. If we enter into other license agreements, we expect that, as with the Western Oil Sands agreement, we would not receive significant revenues from such licenses unless and until feasibility testing yielded positive results and the licensee determined, in its discretion, to construct and operate a titanium pigment production facility.

***We may not be able to sell nanoparticles produced using the nanomaterials and titanium dioxide pigment technology.***

We plan to use the nanomaterials and titanium dioxide pigment technology to produce titanium dioxide nanoparticles for various applications. Titanium dioxide nanoparticles and other products we intend to initially produce with the nanomaterials and titanium dioxide pigment technology generally must be customized for a specific application working in cooperation with the end-user. We are still testing and customizing our titanium dioxide nanoparticle products for various applications and have no long-term agreements with end-users to purchase any of our titanium dioxide nanoparticle products. We may be unable to recoup our investment in the nanomaterials and titanium dioxide pigment technology and nanomaterials and titanium dioxide pigment equipment for various reasons, including the following:

- products utilizing our titanium dioxide nanoparticle products, most of which are in the research or development stage, may not be completed or, if completed, may not be readily accepted by expected end-users;
- we may be unable to customize our titanium dioxide nanoparticle products to meet the distinct needs of potential customers;
- potential customers may purchase from competitors because of perceived or actual quality or compatibility differences;
  - our marketing and branding efforts may be insufficient to attract a sufficient number of customers; and
- because of our limited funding, we may be unable to continue our development efforts until a strong market for nanoparticles develops.

***Our costs of production may be too high to permit profitability.***

We have not produced any pigments, nanoparticles or other products using our nanomaterials and titanium dioxide pigment technology and equipment on a sustained commercial basis. Our actual costs of production, or those of our licensees, may exceed those of competitors. Even if our costs of production are lower, competitors may be able to sell titanium dioxide and other products at a lower price than is economical for us or our licensees.

***We have issued a \$3,000,000 note to secure the purchase of the land and the building where our nanomaterials and titanium dioxide pigment assets are located.***

In August 2002, we entered into a purchase and sale agreement with BHP Minerals International Inc. to purchase the land, building and fixtures in Reno, Nevada where our nanomaterials and titanium dioxide pigment assets are located. In connection with this transaction, we issued to BHP a note in the amount of \$3,000,000, at an interest rate of 7%, secured by the property we acquired. The first payment of \$600,000 of principal plus accrued interest is due February 8, 2006. Additional payments of \$600,000 plus accrued interest are due annually on February 8, 2007 through 2010. If



we fail to make the required payments on the note, BHP has the right to foreclose and take the property. If this should occur, we would be required to relocate our primary operating assets and offices, causing a significant disruption in our business.

***We may not be able to raise sufficient capital to meet future obligations.***

As of November 4, 2005, we had \$25.2 million in cash and short-term investments, an amount which we believe will be sufficient to fund our ongoing operations for approximately three to four years at current expenditure levels. However, we may use our existing capital sooner than projected in connection with an acquisition or joint venture transaction, litigation or other unplanned event. We may also use more capital than projected as we expand our research, development and marketing efforts. Unless we experience a significant increase in revenue, we will need to raise additional capital in the future in order to sustain our ongoing operations, continue unfinished testing and additional development work and, if certain of our products have been commercialized, produce and market such products.

We may not be able to obtain the amount of additional capital needed or 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;
- the price, volatility and trading volume of our shares of common stock;
- our financial results, particularly the amount of revenue we are generating from operations;
  - the amount of our capital needs;
  - the market's perception of nanotechnology and/or chemical stocks;
  - the economics of projects being pursued; and
- the market's perception of our ability to generate revenue through the licensing or use of our nanoparticle technology for pharmaceutical, pigment production, nanoparticle production and other uses.

If we are unable to obtain sufficient capital or are forced to pay a high price for capital, we may be unable to meet future obligations or adequately exploit existing or future opportunities, and may be forced to discontinue operations.

***Operations using the nanomaterials and titanium dioxide pigment technology or our Tennessee mineral property may lead to substantial environmental liability.***

Virtually any prior or future use of the nanomaterials and titanium dioxide pigment technology is subject to federal, state and local environmental laws. In addition, we have constructed a pilot plant on, and are in the process of reclaiming, our Tennessee mineral property. Under such laws, we may be jointly and severally liable 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.

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

We are a Canadian corporation, and three of our directors and our Canadian legal counsel are residents of Canada. As a result, investors may be unable to effect service of process upon such persons within the United States and may be unable to enforce court judgments against such persons predicated upon civil liability provisions of the U.S. securities laws. It is uncertain whether Canadian courts would (i) 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 (ii) 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 Dr. Alan J. Gotcher, our Chief Executive Officer and President, Douglas Ellsworth, our Senior Vice President Edward Dickinson, our Chief Financial Officer, and Bruce Sabacky, our Vice President of Research and Engineering. The loss or unavailability of any or all of these individuals could have a material adverse effect on our business and the market price of our shares of common stock.

We do not carry key man insurance on the lives of any of our personnel.

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

Our articles of incorporation authorize the issuance of an unlimited number of shares of common stock that may be issued without any action or approval by our stockholders. In addition, we have various stock option plans and stock purchase 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.

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***The market price of our common stock may increase or decrease dramatically at any time for any or no rational reason.***

The market price of our common stock, like that of the securities of other early stage companies, may be highly volatile. Our stock price may change dramatically as the result of announcements of our quarterly results, new products or innovations by us or our competitors, uncertainty regarding the viability of the nanomaterials and titanium dioxide pigment technology, significant customer contracts, significant litigation or other factors or events that would be expected to affect our business, financial condition, results of operations and future prospects. In addition, the market price for our 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;
- Economic and other external market factors, such as a general decline in market prices due to poor economic indicators or investor distrust; and
- Speculation by short sellers of our common stock or other persons who stand to profit from a rapid increase or decrease in the price of our common stock.

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

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

***We are subject to various regulatory regimes, and may be adversely affected by 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 Canadian and United States reporting issuers, such as the Sarbanes-Oxley Act of 2002, the rules of the Nasdaq Capital Market and certain state and provincial securities laws. We are also subject to state and federal environmental, health and safety laws, and rules governing department of defense contracts. 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 our execution of our business plan. In addition, through such audits, inquiries and investigations, we or a regulator have from time to time determined, and may in the future determine, that we are out of compliance with one or more governing rules or laws. Remedying such non-compliance may 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. Any charge, and particularly any determination, that we had materially violated a governing law would likely have a material adverse effect on the market price of our stock, our ability to execute our business plan and our ability to retain and attract qualified management.

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

We do not have any derivative instruments, commodity instruments, or other financial instruments for trading or speculative purposes, nor are we presently at material risk for changes in interest rates on foreign currency exchange rates.

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

(a) Based on the evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by paragraph (b) of Rules 13a-15 or 15d-15, our chief executive officer and our chief financial officer have concluded that, as of September 30, 2005, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods required by governing rules and forms.

(b) We are not presently required to conduct quarterly evaluations of our internal control over financial reporting pursuant to paragraph (d) of Rules 13a-15 or 15d-15 promulgated under the Exchange Act. We are, however, in the process of designing, evaluating and implementing internal controls in anticipation of the date when we will become subject to such evaluation requirements. In connection with this, effective January 1, 2005, we implemented a new financial software system and, through September 2005, have implemented attendant operating controls that substantially enhance the controls over the processing, recording and reporting of financial transactions. Testing of our key internal controls has commenced and will be updated as required in the fourth quarter of 2005.

### **PART II - OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

In June 2005, the Company filed a Complaint against Rudi E. Moerck, former President and a director of the Company, alleging breach of his Employee Confidential Information and Inventions Agreement (the "Information Agreement") and seeking declaratory relief, injunctive relief and damages. Specifically, the Company requested that Mr. Moerck be ordered to assign his rights in certain patent applications to the Company, return all Company proprietary information in his possession to the Company and to delete/destroy Mr. Moerck's copies of all such information. Mr. Moerck filed a timely Answer to the Complaint. Subsequently, Mr. Moerck executed and delivered the requested patent application assignments. As of October 4, 2005, the Company executed a settlement agreement with Mr. Moerck, which the Company believes will fully preserve and protect the Company's interests in its proprietary information. Prior to the execution of the Settlement Agreement, Mr. Moerck provided the Company with several Offers of Judgment against him in this case. Effectiveness of the settlement agreement is conditioned upon the occurrence of certain events and, accordingly, there is a possibility that the matter will be re-opened in the future.

Please refer to the discussion in PART II, Item 1. of the Company's Form 10-Q for the quarter ended June 30, 2005 regarding Louis Schnur v. Al Moore, Altair Nanotechnologies, Inc. and Does 1 through 10. On October 13, 2005 the Company filed a counterclaim (the "Company's Counterclaim") against Mr. Schnur for declaratory relief, asking the Court to issue a declaration that: (1) Altair did not improperly disclose material, non-public information in violation of any statute; (2) Altair did not breach its fiduciary duties to its shareholders; and (3) Altair had no duty or ability to prevent an individual from purchasing Altair common stock from an individual shareholder. Mr. Schnur timely filed an Answer to the Company's Counterclaim on November 2, 2005 and the Company's Counterclaim is now pending.

#### **Item 6. Exhibits**

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

**SIGNATURES**

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

Altair Nanotechnologies Inc.

Date: November 14, 2005

By: /s/ Alan J. Gotcher

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Alan J. Gotcher, Chief Executive Officer

Date: November 14, 2005

By: /s/ Edward H. Dickinson

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Edward H. Dickinson, Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Incorporated by Reference/ Filed Herewith</b>
3.1	Articles of Continuance	Incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 18, 2002.
3.2	Bylaws	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 filed with the SEC on March 9, 2005
10.1	Lease (Indiana Office) with Flagship Enterprise Center	Filed herewith
31.1	Section 302 Certification of Chief Executive Officer	Filed herewith
31.2	Section 302 Certification of Chief Financial Officer	Filed herewith
32.1	Section 906 Certification of Chief Executive Officer	Filed herewith
32.2	Section 906 Certification of Chief Financial Officer	Filed herewith