ALTAIR NANOTECHNOLOGIES INC
Form 10-Q
November 14, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] 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 [X[NO [ ].

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

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
ASSETS				
Current Assets				
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
Total current assets		27,769,322		8,040,037
Investment in Available for Sale Securities		496,000		-
Property, Plant and Equipment, net		6,698,837		6,513,907
Patents, net		911,266		974,877
Other Assets		75,200		18,200
Total Assets	$	35,950,625	$	15,547,021
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Trade accounts payable	$	672,647	$	81,030
Accrued liabilities		537,132		295,743
Note payable, current portion		600,000		-
Total current liabilities		1,809,779		376,773
Note Payable, Long-Term Portion		2,400,000		2,880,311
Commitments and Contingencies				
Stockholders' Equity				
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)		-

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

See notes to the consolidated financial statements.

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

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues				
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
Operating Expenses				
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
Loss from Operations	(2,354,160)	(1,420,055)	(6,703,709)	(5,232,105)
Other Income (Expense)				
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)
Net Loss	$ (2,176,826)	$ (1,440,324)	$ (6,341,863)	$ (5,305,113)
Loss per common share - Basic and diluted	$ (0.04)	$ (0.03)	$ (0.11)	$ (0.11)
Weighted average shares - Basic and diluted	58,940,760	49,121,984	57,338,796	48,401,132

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 Shares	Common Stock Amount	Accumulated Deficit	Deferred Compen-sation Expense	Accumulated Other Compre-hensive Income (Loss)	Total
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, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Cash flows from operating activities:				
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
Net cash used in operating activities	(2,524,488)	(1,558,977)	(5,006,226)	(4,103,384)
Cash flows from investing activities:				
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)
Net cash used in investing activities	(16,089,084)	(162,576)	(16,608,722)	(341,433)

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
Net cash provided by financing activities	78,063	409,505	25,407,725	9,443,570
Net increase (decrease) in cash and cash equivalents	(18,535,509)	(1,312,048)	3,792,777	4,998,753
Cash and cash equivalents, beginning of period	29,686,129	10,180,470	7,357,843	3,869,669
Cash and cash equivalents, end of period	$ 11,150,620	$ 8,868,422	$ 11,150,620	$ 8,868,422
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, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 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	Nine Months Ended September 30, 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, 2005	2004	Nine Months Ended September 30, 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.

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:

	(Income)	Depreciation