

ALTAIR NANOTECHNOLOGIES INC  
Form 10-Q  
August 15, 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 **JUNE 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 August 8, 2005 the registrant had 58,919,289 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)

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 29,686,129	\$ 7,357,843
Accounts receivable	380,377	499,599
Prepaid expenses and other current assets	94,538	182,595
<b>Total current assets</b>	<b>30,161,044</b>	<b>8,040,037</b>
<b>Investment in Available for Sale Securities</b>	<b>420,000</b>	<b>-</b>
<b>Property, Plant and Equipment, net</b>	<b>6,579,867</b>	<b>6,513,907</b>
<b>Patents, net</b>	<b>932,470</b>	<b>974,877</b>
<b>Other Assets</b>	<b>23,200</b>	<b>18,200</b>
<b>Total Assets</b>	<b>\$ 38,116,581</b>	<b>\$ 15,547,021</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 757,088	\$ 81,030
Accrued liabilities	615,893	295,743
Note payable, current portion	600,000	-
<b>Total current liabilities</b>	<b>1,972,981</b>	<b>376,773</b>
<b>Note Payable, Long-Term Portion</b>	<b>2,382,603</b>	<b>2,880,311</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock, no par value, unlimited shares authorized; 58,898,789 and 49,775,694 shares issued and outstanding at June 30, 2005 and December 31, 2004	91,483,656	65,505,630
Accumulated deficit	(57,380,730)	(53,215,693)
Deferred compensation expense	(166,929)	-
Accumulated other comprehensive loss	(175,000)	-

<b>Total Stockholders' Equity</b>		33,760,997		12,289,937
<b>Total Liabilities and Stockholders' Equity</b>	\$	38,116,581	\$	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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Revenues</b>				
License fees	\$ -	\$ -	\$ 695,000	\$ -
Product sales	42,485	1,221	65,593	2,843
Commercial collaborations	160,775	117,244	257,041	234,915
Contracts and grants	299,621	35,768	512,827	56,224
Total revenues	502,881	154,233	1,530,461	293,982
<b>Operating Expenses</b>				
Cost of product sales	12,461	189	16,007	536
Research and development	744,142	595,185	1,525,677	987,855
Sales and marketing	190,670	67,579	921,108	199,716
General and administrative expenses	1,355,698	1,400,002	2,921,133	2,476,415
Depreciation and amortization	251,455	220,314	496,085	441,510
Total operating expenses	2,554,426	2,283,269	5,880,010	4,106,032
<b>Loss from Operations</b>	<b>2,051,545</b>	<b>2,129,036</b>	<b>4,349,549</b>	<b>3,812,050</b>
<b>Other (Income) Expense</b>				
Interest expense	51,592	48,114	102,292	95,396
Interest income	(184,383)	(23,436)	(287,659)	(43,374)
Loss on foreign exchange	324	318	855	717
Total other (income) expense, net	(132,467)	24,996	(184,512)	52,739
<b>Net Loss</b>	<b>\$ 1,919,078</b>	<b>\$ 2,154,032</b>	<b>\$ 4,165,037</b>	<b>\$ 3,864,789</b>
<b>Loss per common share - Basic and diluted</b>				
	\$ 0.03	\$ 0.04	\$ 0.07	\$ 0.08
<b>Weighted average shares - Basic and diluted</b>				
	58,814,970	48,740,271	56,524,538	48,036,745

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	Deferred	Accumulated	Total
	Shares	Amount	Deficit	Compensation Expense	Other Comprehensive Loss	
BALANCE, JANUARY 1, 2005	49,775,694	\$ 65,505,630	\$ (53,215,693)	\$ -	\$ -	\$ 12,289,937
Comprehensive loss:						
Net loss	-	-	(4,165,037)	-	-	(4,165,037)
Other comprehensive loss, net of taxes of \$0	-	-	-	-	(175,000)	(175,000)
Comprehensive loss:	-	-	-	-	-	(4,340,037)
Variable accounting on stock options	-	477,364	-	-	-	477,364
Exercise of stock options	1,145,500	1,740,190	-	-	-	1,740,190
Exercise of warrants	2,879,281	4,259,672	-	-	-	4,259,672
Issuance of restricted stock	60,000	171,000	-	(171,000)	-	-
Amortization of deferred compensation expense	-	-	-	4,071	-	4,071
Common stock issued, net of issuance costs	5,038,314	19,329,800	-	-	-	19,329,800
BALANCE, JUNE 30, 2005	58,898,789	\$ 91,483,656	\$ (57,380,730)	\$ (166,929)	\$ (175,000)	\$ 33,760,997

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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Cash flows from operating activities:</b>				
Net loss	\$ (1,919,078)	\$ (2,154,032)	\$ (4,165,037)	\$ (3,864,789)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	251,455	220,314	496,085	441,510
Stock options issued to non-employees	-	135,426	-	253,700
Stock options issued to employees	-	39,001	-	39,001
Variable accounting on stock options	(170,975)	(178,662)	477,364	(78,078)
Securities received in payment of license fees	-	-	(595,000)	-
Amortization of discount on note payable	51,592	48,114	102,292	95,396
Amortization of deferred compensation expense	4,071	-	4,071	-
Loss on disposal of fixed assets	-	33,393	-	33,393
Changes in assets and liabilities:				
Accounts receivable, net	(87,276)	32,826	119,222	(45,406)
Prepaid expenses and other current assets	(9,217)	69,314	88,057	38,422
Other assets	(5,000)	-	(5,000)	-
Trade accounts payable	482,960	54,090	676,058	191,514
Accrued liabilities	(413,361)	303,473	320,150	350,930
<b>Net cash used in operating activities</b>	<b>(1,814,829)</b>	<b>(1,396,743)</b>	<b>(2,481,738)</b>	<b>(2,544,407)</b>
<b>Cash flows from investing activities:</b>				
Purchase of property and equipment	(254,928)	(142,935)	(519,638)	(178,857)
<b>Cash flows from financing activities:</b>				
Issuance of common shares for cash, net of issuance costs	9,400	-	19,329,800	-
	114,200	32,595	1,740,190	737,709

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Proceeds from exercise of stock options				
Proceeds from exercise of warrants	-	197,335	4,259,672	8,296,356
<b>Net cash provided by financing activities</b>	123,600	229,930	25,329,662	9,034,065
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,946,157)	(1,309,748)	22,328,286	6,310,801
<b>Cash and cash equivalents, beginning of period</b>	31,632,286	11,490,218	7,357,843	3,869,669
<b>Cash and cash equivalents, end of period</b>	\$ 29,686,129	\$ 10,180,470	\$ 29,686,129	\$ 10,180,470
<b>Supplemental disclosures:</b>				
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, 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 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 four to five years at current working capital expenditure levels.

The results of operations for the three- and six-month periods ended June 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.

**Investment in Available for Sale Securities** - Available for sale securities 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 loss on the investment in available for sale securities. The components of comprehensive loss for the three- and six-month periods ended June 30, 2005 and 2004 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss	\$ 1,919,078	\$ 2,154,032	\$ 4,165,037	\$ 3,864,789
Unrealized loss on investment in available for sale securities, net of taxes of \$0	177,000	-	175,000	-
Comprehensive loss	\$ 2,096,078	\$ 2,154,032	\$ 4,340,037	\$ 3,864,789

**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:

	Six Months Ended June 30,	
	2005	2004
Dividend yield	None	None
Expected volatility	106%	61%
Risk-free interest rate	3.84%	3.29%
Expected life (years)	3.06	4.20

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss (basic and diluted) as reported	\$ 1,919,078	\$ 2,154,032	\$ 4,165,037	\$ 3,864,789
Add (Deduct): change in stock-based employee compensation included in reported net loss, net of \$0 related tax effects	170,975	139,661	(477,364)	39,077
Add: total stock-based employee compensation expense determined under fair value based method for all awards, net of \$0 related tax effects	196,029	649,218	614,454	964,409
Pro forma net loss applicable to shareholders	\$ 2,286,082	\$ 2,942,911	\$ 4,302,127	\$ 4,868,275

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Loss per common share (basic  
and diluted):

As reported	\$	0.03	\$	0.04	\$	0.07	\$	0.08
Pro forma	\$	0.04	\$	0.06	\$	0.08	\$	0.10

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**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 six months ended June 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 and there are no future obligations. 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 six months ended June 30, 2005 is \$500,000 that was paid to a consultant 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 SFAS123. 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.

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**Note 3. Notes Payable**

	June 30, 2005	December 31, 2004
Note payable to BHP Minerals International, Inc.	\$ 2,982,603	\$ 2,880,311
Less current portion	600,000	-
Long-term portion of notes payable	\$ 2,382,603	\$ 2,880,311

The note payable to BHP Minerals International, Inc. is in the face amount of \$3,000,000 and is secured by the property we acquired. Interest on the note does 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, an amount that is being amortized to interest expense over the life of the note. 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. In accordance with SFAS No. 142, we are amortizing these assets over their useful lives. The amortized intangible asset balance as of June 30, 2005 was:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and related expenditures	\$ 1,517,736	\$ (585,266)	\$ 932,470

The weighted average amortization period for patents and related expenditures is approximately 16.5 years. Amortization expense was \$42,407 for the six months ended June 30, 2005, which represented the amortization relating to the identified amortizable intangible assets. 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. In March 2005, ATG performed certain consulting services for us for which we paid \$2,833.

**Note 6. Business Segment Information**

In accordance with SFAS No. 131, *Disclosure about Segments of an Enterprise and Related 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 six-month periods ended June 30, 2005 and 2004 is as follows:

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	Net Sales	(Income) Loss From Operations	Depreciation and Amortization	Assets
<b>Three Months Ended June 30, 2005</b>				
Performance Materials	\$ 476,999	\$ 259,186	\$ 228,133	\$ 5,493,323
Life Sciences	25,882	89,008	303	457,294
Tennessee Mineral Property	-	36,318	-	18,200
Altair Jig	-	732	-	-
Corporate and other	-	1,666,301	23,019	32,147,764
Consolidated Total	\$ 502,881	\$ 2,051,545	\$ 251,455	\$ 38,116,581
<b>Three Months Ended June 30, 2004</b>				
Performance Materials	\$ 154,234	\$ 1,057,227	\$ 205,926	\$ 5,126,306
Life Sciences	-	170,947	-	-
Tennessee Mineral Property	-	82,079	-	-
Altair Jig	-	18	-	-
Corporate and other	-	818,765	14,388	12,555,188
Consolidated Total	\$ 154,234	\$ 2,129,037	\$ 220,314	\$ 17,681,494
<b>Six Months Ended June 30, 2005</b>				
Performance Materials	\$ 809,579	\$ 1,349,915	\$ 449,030	\$ 5,493,323
Life Sciences	720,882	(440,583)	2,993	457,294
Tennessee Mineral Property	-	39,533	-	18,200
Altair Jig	-	3,182	-	-
Corporate and other	-	3,397,503	44,062	32,147,764
Consolidated Total	\$ 1,530,461	\$ 4,349,549	\$ 496,085	\$ 38,116,581
<b>Six Months Ended June 30, 2004</b>				
Performance Materials	\$ 293,982	\$ 1,963,644	\$ 409,535	\$ 5,126,306
Life Sciences	-	193,854	-	-
Tennessee Mineral Property	-	144,479	-	-
Altair Jig	-	2,154	-	-
Corporate and other	-	1,507,919	31,975	12,555,188
Consolidated Total	\$ 293,982	\$ 3,812,050	\$ 441,510	\$ 17,681,494

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 June 30, 2005, 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 June 30, 2005 and the balance of their accounts receivable at June 30, 2005 were as follows:

Customer	Sales - 3 Months Ended June 30, 2005	Accounts Receivable at June 30, 2005
<b><u>Performance Materials Division:</u></b>		
Western Michigan University	\$ 138,730	\$ 98,930
Western Oil Sands	69,854	56,674
UNLV Research Foundation	160,890	104,702

For the three months ended June 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 June 30, 2004 and the balance of their accounts receivable at June 30, 2004 were as follows:

Customer	Sales - 3 Months Ended June 30, 2004	Accounts Receivable at June 30, 2004
<b><u>Performance Materials Division:</u></b>		
Western Oil Sands	\$ 71,534	\$ 16,651
Western Michigan University	35,768	27,511
Kumba Resources	20,000	-

For the six months ended June 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 six months ended June 30, 2005 and the balance of their accounts receivable at June 30, 2005 were as follows:

Customer	Sales - 6 Months Ended June 30, 2005	Accounts Receivable at June 30, 2005
<b><u>Performance Materials Division:</u></b>		
Western Michigan University	\$ 248,439	\$ 98,930
Western Oil Sands, Inc.	165,235	56,674
UNLV Research Foundation	231,054	104,702
<b><u>Life Sciences Division:</u></b>		
Spectrum Pharmaceuticals, Inc.	720,881	25,881

For the six months ended June 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 six months ended June 30, 2004 and the balance of their accounts receivable at June 30, 2004 were as follows:

<b>Customer</b>	<b>Sales - 6 Months Ended June 30, 2004</b>	<b>Accounts Receivable at June 30, 2004</b>
<b><u>Performance Materials Division:</u></b>		
Titanium Metals Corp.	\$ 75,000	\$ -
Western Michigan University	56,224	27,511
Western Oil Sands, Inc.	114,205	16,651

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

<b><u>Geographic information (a):</u></b>	<b>Revenues - 3 Months Ended June 30, 2005</b>	<b>Revenues - 3 Months Ended June 30, 2004</b>
United States	\$ 416,527	\$ 62,699
Canada	82,354	71,534
Other foreign countries	4,000	20,000
Total	\$ 502,881	\$ 154,233

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

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

<b><u>Geographic information (a):</u></b>	<b>Revenues - 6 Months Ended June 30, 2005</b>	<b>Revenues - 6 Months Ended June 30, 2004</b>
United States	\$ 1,363,404	\$ 179,777
Canada	166,416	114,205
Other foreign countries	641	-
Total	\$ 1,530,461	\$ 293,982

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

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

Investment in available for sale securities consists of 100,000 restricted shares of Spectrum Pharmaceuticals, Inc. ("Spectrum") common stock received in January 2005. 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 June 30, 2005, their fair value was \$420,000, representing an unrealized holding loss of \$175,000. We do not believe that there is an other than temporary impairment at June 30, 2005. As of August 12, 2005, \$90,000 of the unrealized holding loss has been recovered.

#### **Note 8. Other Transactions**

On February 14, 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. In June 2005, the Board of Directors granted 60,000 shares of restricted stock under the Plan. A total of 30,000 shares vest on the later of March 21, 2006 or the date of the 2006 annual shareholders meeting of the Company, and the remaining 30,000 shares vest on the later of March 21, 2007 or the date of the 2007 annual shareholders meeting of the Company. 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 June 30, 2005 and the material changes in our results of operations and financial condition between the three- and six-month periods ended June 30, 2004 and June 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/A for the year ended December 31, 2004.

### 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 a research program 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.

##### 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.

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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.

## **General Outlook**

During the six-month period ended June 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 margins 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™, which we expect to be performed by September 2005. Successful completion of this milestone under our license agreement with Spectrum will result in Spectrum's release of the associated milestone payment to Altair, an additional 100,000 restricted shares of Spectrum common stock. In the meantime, Altair and Spectrum are continuing with their development work, and Altair will receive additional revenues if and when specified milestone results are achieved.
- Licensing and product purchase commitments for our Nanocheck™ swimming pool product are currently under discussion. Successful completion of potential license agreement(s) and product purchase commitments are essential for the commercialization of the Nanocheck™ product, which could bring manufacturing and licensing revenue in late 2005, 2006 and beyond.
- 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 have completed phase one work under a National Science Foundation grant to produce materials enabling a next generation of rechargeable batteries and have been awarded a phase two grant of \$476,850. The ultimate commercialization of our battery materials will be dependant upon our ability to secure a technology license or similar agreement 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. Revenues from leasing the office and pilot plant space are expected to be minor.

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*Thermal Spray Grade Powders*

During the quarter ended June 30, 2005, we made additional shipments of titanium dioxide coating materials for thermal spray applications, and we began marketing of our yttria stabilized zirconia coating powders for the industrial engine market where potential applications could include coatings for turbine blades used in power production turbines.

*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 2005, we have provided TIMET with over 100 pounds of titania electrode materials in accordance with the agreement. This agreement has been extended by TIMET, and we will continue to ship titanium dioxide feedstock materials to TIMET as requested for this research and development project.

*Air Cleansing*

In February 2005, we entered into a partnership agreement with Genesis Air to develop specialized, surface activated, nano-sized titanium dioxide compounds for use in an innovative HVAC air cleaning system. Under the terms of the partnership agreement, Altair is providing Genesis with product design services, proprietary nano-sized titanium dioxide materials and ongoing chemical engineering support services. Genesis filtration systems incorporating Altair nanomaterials are being tested in 12 sites worldwide.

*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.

On June 30, 2005, we announced that we received 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,” our battery materials will 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. 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 significantly improved recharging capability. We are currently producing additional anode materials at ABAT's request. We anticipate that ABAT will be able to produce batteries for testing in standard battery test protocols and in real world tests using electric vehicles (i.e. cars and buses) in late 2005.

#### *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 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. In connection with this, we are providing thin films of transparent iron oxide for use in solar generation cells. The project is on track for completion by December 31, 2005.

#### *Manufacturing Operations*

We have created a manufacturing group within Altair to provide production control, quality assurance, current good manufacturing practices (cGMP) capabilities and to address issues related to the possible production of large, multiple-product orders for lithium ion anode and cathode electrode materials and for NanoCheck™, RenaZorb™ and Renalan products.

### **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. They expect to complete this testing by the end of summer 2005 in preparation for pre-Investigational New Drug consultations with the FDA.

#### *Renalan Products*

We are also 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 failure. Renalan, as a phosphate binder, has the potential to alleviate hyperphosphatemia, a condition associated with chronic renal failure in companion animals.

#### *TiNanoSpheres™*

We have identified initial target applications where TiNanoSpheres™ may be used as a chemical delivery device. These include cancer therapy, where TiNanoSpheres™ may be used as a drug delivery mechanism targeting very localized areas of the human body, and cell-based immune response applications such as viral vaccine delivery. We are currently negotiating agreements for investigation and possible testing of these and other applications.

### **Other Developments**

With respect to the Tennessee mineral property, we are continuing our efforts to terminate leases. Our remediation plan, which is expected to cost between \$100,000 and \$200,000, has been approved by the applicable regulatory authorities. We expect to perform the remediation work during the third quarter of 2005 and will then be responsible for site monitoring for a period of two years. In May 2005, we completed the sale of the pilot plant processing equipment and reserved the proceeds for payment of remediation costs.

## Liquidity and Capital Resources

### Current and Expected Liquidity

Our cash and short-term investments increased from \$7,357,843 at December 31, 2004 to \$29,686,129 at June 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.

We expect to see an increase in our net cash outflow to approximately \$550,000 per month in 2005 compared to average cash outflow of \$530,000 per month in 2004. During the second half of 2004 and the first half of 2005, we added eleven new employees in both technical and administrative positions in order to meet the demand for contract research services, comply with regulatory requirements and improve our marketing capabilities. This increase in staffing, combined with increased expenses for patent work, other internal R&D projects, capital asset expenditures, and compliance with the Sarbanes-Oxley Act, will significantly increase our expenses. However, we expect an increase in revenue in 2005 that will largely offset these increased expense levels.

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 five contracts in place that will generate revenues in 2005. These are:

- a licensing agreement with Spectrum Pharmaceuticals, Inc. for RenaZorb™ under which we realized \$695,000 of revenue in the first quarter of 2005. We expect to receive approximately \$500,000 of additional revenue during the remainder of 2005 in the form of restricted shares of Spectrum common stock, contingent on successful completion of animal testing.
- a contract with Western Oil Sands, Inc. for the production of titanium dioxide pigment and pigment-related products from oil sands. We have approximately \$30,000 of work remaining to be done on an existing contract and expect to enter into a second phase contract for additional work in late 2005 or early 2006.
- a contract with Western Michigan University to develop nanosensors for the detection of chemical, biological and radiological agents. We have approximately \$10,000 of work to be done under existing contracts during the remainder of 2005.
- 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 for joint research activities related to solar hydrogen production. We have approximately \$150,000 of work remaining to be done in 2005 under the agreement.
- a contract with NSF for Phase II work on the development of advanced battery materials which begins October 1, 2005. We expect to generate approximately \$80,000 of revenues during the remainder of 2005 in connection with this contract.

In addition to these existing collaborations, contracts and grants, we hope to commence generating revenue from certain of our products, including Nanocheck™, a lanthanum-based compound that can be used to treat water for the removal of a wide range of deleterious impurities, and yttria stabilized zirconia, a product that may be used in solid oxide fuel cells and as a thermal barrier coating. Contributions to total revenues from these products during 2005 will not likely be significant, but such increases may lay the foundation for more substantial revenue in future years.

At August 8, 2005, we had 58,919,289 common shares issued and outstanding. As of that same date, there were outstanding warrants to purchase up to 1,867,453 shares of common stock and options to purchase up to 2,514,200 shares of common stock.

### Capital Commitments

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

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Contractual Obligations	Total	Less Than 1			After 5 Years
		Year	1-3 Years	4-5 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**	124,509	40,362	56,548	27,599	-
Contractual Service Agreements	326,803	289,303	37,500	-	-
Unfulfilled Purchase Orders	94,985	94,985	-	-	-
Total Contractual Obligations	\$ 4,071,297	\$ 1,129,650	\$ 1,588,048	\$ 1,353,599	\$ -

\* Before discount of \$17,397.

\*\* Although we expect to terminate substantially all mineral leases by the end of 2005, 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.

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 June 30, 2005, the carrying value of these assets was \$7,512,339, 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 six months ended June 30, 2005, our revenues were derived from license fees, product sales, commercial collaborations and contracts and grants. License fees are recognized when 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 June 30, 2005 Compared to Three Months Ended June 30, 2004*

The net loss for the quarter ended June 30, 2005, which was the second quarter of our 2005 fiscal year, totaled \$1,919,078 (\$.03 per share) compared to a net loss of \$2,154,032 (\$.04 per share) in the second quarter of 2004.

Total revenues for the three months ended June 30, 2005 were \$502,881. Revenues from contracts and grants increased by \$263,853, from \$35,768 in the quarter ended June 30, 2004 to \$299,621 in the same quarter of 2005. Revenues were generated under two contracts to (1) provide research involving a technology used in the detection of chemical, biological and radiological agents, and (2) provide research utilizing nanotechnology processes for the production and commercialization of solar-based hydrogen technologies. At June 30, 2005, our backlog of work under existing contracts was approximately \$884,000. We anticipate that \$250,000 to \$300,000 of this work may be completed during the remainder of 2005.

Revenues from commercial collaborations increased from \$117,244 in the second quarter of 2004 to \$160,775 in the second quarter of 2005 as a result of work on a project to provide custom oxide feedstocks for a titanium metal research program funded by the Department of Defense, billings for work on the joint development of Nanocheck™ and billings to Spectrum Pharmaceuticals in connection with Renazorb™.

Product sales increased by \$41,264, from \$1,221 in the second quarter of 2004 to \$42,485 in the second quarter of 2005, primarily due to increased sales of thermal spray grade powders and sales of Nanocheck™.





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Research and development (“R&D”) expenses increased by \$148,957, from \$595,185 in the quarter ended June 30, 2004 to \$744,142 in the same quarter of 2005. Labor costs increased significantly, from \$216,000 in the second quarter of 2004 to \$364,000 in the same quarter of 2005 due to new employee additions, salary increases and benefit cost 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 \$123,091, from \$67,579 in the second quarter of 2004 to \$190,670 in the second quarter of 2005. The increase is due to increased payroll expense resulting from the addition of a senior vice president of sales and marketing in January 2005 and increased business development activities.

General and administrative expenses decreased by \$44,304, from \$1,400,002 in second quarter of 2004 to \$1,355,698 in the second quarter of 2005. Investor relations expense decreased by \$320,000 as a result of a cutback in our investor relations programs; general consulting decreased by \$160,000 and stock option compensation expense decreased by \$31,000. These decreases were partially offset by an increase in legal expenses of \$125,000, primarily due to increased patent attorney fees paid in connection with patent work and increased attorney fees in connection with regulatory work. Consulting fees associated with Sarbanes-Oxley Act compliance increased by \$170,000; shareholder information expenses increased by \$35,000 and payroll expense increased by \$123,000 as a result of additional staff, salary increases and benefit cost increases.

Interest income increased by \$160,947, from \$23,436 in the second quarter of 2004 to \$184,383 in the second 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.

### *Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004*

For the six months ended June 30, 2005, the net loss was \$4,165,037 (\$.07 per share) compared to a net loss of \$3,864,789 (\$.08 per share) for the same period of 2004.

Total revenues for the six months ended June 30, 2005 were \$1,530,461. Included in revenues was \$695,000 representing the initial license fee paid by Spectrum Pharmaceuticals in connection with the license of Renazorb™. Contract and grant revenues increased by \$456,603, from \$56,224 in the six months ended June 30, 2004 to \$512,827 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). Product sales increased by \$62,750, from \$2,843 in the six months ended June 30, 2004 to \$65,593 in the same period of 2005, primarily due to increased sales of thermal spray grade powders and sales of Nanocheck™.

R&D expenses increased by \$537,822, from \$987,855 in the six months ended June 30, 2004 to \$1,525,677 in the same period of 2005. Labor costs increased from \$444,000 in the six months ended June 30, 2004 to \$686,000 in the same period of 2005 due to new employee additions, salary increases and benefit cost 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 \$721,392, from \$199,716 in the six months ended June 30, 2004 to \$921,108 in the same period of 2005. The increase is due to payment of a \$500,000 fee to a consultant in connection with the RenaZorb™ licensing agreement and increased payroll expense resulting from the addition of a senior vice president of sales and marketing in January 2005 and increased business development activities.

G&A expenses increased by \$444,718, from \$2,476,415 in the six months ended June 30, 2004 to \$2,921,133 in the same period of 2005. Stock option compensation expense, a non-cash item, increased by \$500,678, from \$(23,313) in the six months ended June 30, 2004 to \$477,365 in the same period of 2005 due to an increase in value of stock options repriced in prior years. Legal expense increased by \$239,947, from \$271,911 in the six months ended June 30, 2004 to \$511,858 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. Payroll increased from \$838,000 in the six months ended June 30, 2004 to \$1,160,000 in the same period of 2005 due to staff increases, salary increases and increased costs for employee benefits. In addition, consulting fees associated with Sarbanes-Oxley Act compliance increased by \$173,000. These increases were partially offset by decreases in certain expenses. Investor relations expense decreased by \$463,000 as a result of a cutback in our investor relations programs and general consulting decreased by \$231,000. In addition, facilities overhead costs transferred from G&A to R&D increased by \$63,000.

Interest income increased by \$244,285, from \$43,374 in the six months ended June 30, 2004 to \$287,659 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 \$4,349,549 in the six months ended June 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.

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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 August 8, 2005, there were outstanding warrants to purchase up to 1,867,453 shares of common stock and options to purchase up to 2,514,200 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 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 feature 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. 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 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 August 8, 2005, we had \$28.3 million in cash, an amount which we believe will be sufficient to fund our ongoing operations for approximately four to five 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 and Roy Graham, our Senior Vice Presidents and Edward Dickinson, our Chief Financial Officer. 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.

***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 SmallCap 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.

### **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 June 30, 2005, our disclosure controls and procedures were effective.

(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 June 2005, have implemented attendant operating controls that substantially enhance the controls over the processing, recording and reporting of financial transactions.

## **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, in late July 2005, Mr. Moerck offered to have judgment entered against him in the case. The Company is evaluating Mr. Moerck's offer and is confident that the case can be resolved in the near future in a manner that will fully preserve and protect the Company's interests in

its proprietary information.

On July 29, 2005, the Company was served by mail with a complaint in the matter of Louis Schnur v. Al Moore, Altair Nanotechnologies, Inc. and Does 1 through 10, filed in the U.S. District court, Central District of California. The complaint alleges that Mr. Moore visited the offices of the Company together with William P. Long, our former CEO, on February 7-8, 2005, that they received nonpublic information related to the Company's battery electrode materials program during the course of such visit, that Mr. Moore proceeded to contact Mr. Schnur and offer to purchase 100,000 shares at \$2.25 per share, that such offer was accepted by Mr. Schnur without knowledge of the nonpublic information and that, following the Company's release of such information in its February 10, 2005 press release regarding its battery materials program, the price of the Company's common stock increased dramatically. Mr. Schnur alleges that such facts constitute a violation of Rule 10b-5 by Mr. Moore and the Company, constitute a violation of Section 20A of the Securities Exchange Act of 1934, as amended, by Mr. Moore and the Company, constitute common law fraud by Mr. Moore and constitute a breach of a fiduciary duty by the Company. Mr. Schnur seeks \$375,000 in damages, punitive damages, costs and other relief as the court deems proper, all for himself.

The Company believes that Mr. Moore is a long-term acquaintance of Mr. Schnur and has acted at the request of Mr. Schnur at various times, including in connection with the February 2005 visit to the Company. Mr. Moore and Mr. Long did, in fact, visit the Company on or about February 7 and/or 8, 2005 and, in the course of such visit, received a standard investor presentation from management. The Company does not believe that Mr. Moore received any material, nonpublic information in the course of his visit and believes that the material factual and legal claims of the complaint are baseless. The Company is disappointed that Mr. Schnur continues to force the Company to expend time and resources in responding to his personal agenda and expects to aggressively defend the lawsuit.

**Item 4. Submission of Matters to a Vote of Security Holders.**

We held an Annual Meeting of Shareholders on May 26, 2005 at which the shareholders considered and voted as follows on the items described below:

1. The shareholders considered whether to elect the following persons as directors, each to serve until the next annual meeting of shareholders and until his respective successor shall have been duly elected and shall qualify:

Name of Nominee	Votes		Broker Non-Votes
	Votes For	Withheld/Abstentions	
Michel Bazinet	48,132,790	114,408	-0-
Jon Bengtson	47,971,274	275,924	-0-
James Golla	48,124,190	123,008	-0-
Alan J. Gotcher	48,133,990	113,208	-0-
George Hartman	47,972,374	274,824	-0-
Christopher Jones	47,969,474	277,724	-0-
David King	47,970,174	277,024	-0-

2. The shareholders considered whether to appoint Deloitte & Touche, LLP as auditors and authorize the Board of Directors to fix their remuneration. There were 47,856,782 votes cast in favor, no votes cast against, 138,101 votes withheld, and no broker non-votes, which vote was sufficient for approval.

3. The shareholders considered a proposal to approve the Altair Nanotechnologies Inc. 2005 Stock Incentive Plan. There were 2,797,232 votes cast in favor, 1,477,248 votes cast against, 86,226 votes withheld, and 43,886,492 broker non-votes, which vote was sufficient for approval.

4. The shareholders considered a proposal to approve a bylaw amendment increasing the quorum requirement for shareholders meeting from two shareholders to 33 % of the shares entitled to vote at the meeting. There were 4,168,195 votes cast in favor, 133,593 votes cast against, 58,918 votes withheld, and 43,886,492 broker non-votes, which vote was sufficient for approval.

**Item 6. Exhibits**

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

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**SIGNATURES**

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

Altair Nanotechnologies Inc.

Date: August 15, 2005

By: /s/ Alan J. Gotcher

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Alan J. Gotcher, Chief Executive Officer

Date: August 15, 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>
10.1	Subcontract between the UNLV Research Foundation and Altair Nanomaterials, Inc.	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