ALTAIR NANOTECHNOLOGIES INC
Form 10-Q
November 08, 2007

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **SEPTEMBER 30, 2007**

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

ALTAIR NANOTECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Canada	**1-12497**	**33-1084375**
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

204 Edison Way
Reno, Nevada 89502

(Address of principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

As of November 1, 2007 the registrant had 70,457,477 Common Shares outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,847,392	$ 12,679,254
Investment in available for sale securities	3,907,733	14,541,103
Accounts receivable, net	1,244,378	1,129,825
Accounts receivable from related party, net	361,499	495,000
Notes receivable from related party, current portion	1,235,479	-
Product inventories	1,234,319	169,666
Prepaid expenses and other current assets	542,998	413,390
Total current assets	19,373,798	29,428,238
Investment in Available for Sale Securities	1,012,800	1,306,420
Property, Plant and Equipment, net	13,108,022	11,229,406
Patents, net	741,637	805,248
Notes Receivable from related party, long-term portion	356,957	330,000
Other Assets	122,718	21,261
Total Assets	$ 34,715,932	$ 43,120,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	$ 2,065,900	$ 1,533,047
Accrued salaries and benefits	1,821,910	840,219
Accrued liabilities	876,917	526,596
Note payable, current portion	600,000	600,000
Total current liabilities	5,364,727	3,499,862

Note Payable, Long-Term Portion		1,200,000		1,800,000
Minority Interest in Subsidiary		1,605,802		-
Stockholders' Equity				
Common stock, no par value, unlimited shares authorized; 70,148,787 and 69,079,270 shares issued and outstanding at September 30, 2007 and December 31, 2006		119,417,717		115,989,879
Additional paid in capital		4,348,533		2,002,220
Accumulated deficit		(97,095,447)		(80,353,188)
Accumulated other comprehensive (loss)/income		(125,400)		181,800
Total Stockholders' Equity		26,545,403		37,820,711
Total Liabilities and Stockholders' Equity	$	34,715,932	$	43,120,573

See notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues				
Product sales	$ 1,864,330	$ 22,940	$ 3,797,333	$ 33,598
License fees	-	-	-	364,720
Commercial collaborations	980,478	339,116	2,062,550	1,058,622
Contracts and grants	525,326	387,842	1,717,051	895,082
Total revenues	3,370,134	749,898	7,576,934	2,352,022
Operating Expenses				
Cost of product sales	2,083,729	28,237	4,486,467	30,953
Research and development	4,423,159	2,763,566	10,659,356	6,917,218
Sales and marketing	519,464	423,615	1,309,230	1,384,787
General and administrative	2,385,871	1,288,191	7,597,903	5,746,759
Depreciation and amortization	506,970	405,072	1,412,019	1,085,190
Total operating expenses	9,619,193	4,908,681	25,464,975	15,164,907
Loss from Operations	(6,549,059)	(4,158,783)	(17,888,041)	(12,812,885)
Other Income (Expense)				
Interest expense	(33,402)	(42,000)	(99,902)	(129,500)
Interest income	214,841	146,235	850,879	539,060
Gain/(Loss) on foreign exchange	892	(138)	607	(444)
Total other income, net	182,331	104,097	751,584	409,116
Loss from Continuing Operations Before Minority Interest Share	(6,366,728)	(4,054,686)	(17,136,457)	(12,403,769)
Minority Interest Share	236,518	-	394,198	-
Net Loss	$ (6,130,210)	$ (4,054,686)	$ (16,742,259)	$ (12,403,769)
Loss per common share - Basic and diluted	$ (0.09)	$ (0.07)	$ (0.24)	$ (0.21)
Weighted average shares - Basic and diluted	70,023,935	59,461,244	69,741,148	59,325,488

See notes to the unaudited condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Compre-hensive Income	Total
BALANCE, JANUARY 1, 2007	69,079,270	$ 115,989,879	$ 2,002,220	$ (80,353,188)	$ 181,800	$ 37,820,711
Comprehensive loss:						
Net loss	-	-	-	(16,742,259)	-	(16,742,259)
Other comprehensive loss, net of taxes of $0	-	-	-	-	(307,200)	(307,200)
Comprehensive loss	-	-	-	-	-	(17,049,459)
Share-based compensation	-	217,215	2,346,313	-	-	2,563,528
Exercise of stock options	70,085	118,824	-	-	-	118,824
Exercise of warrants	34,000	91,800	-	-	-	91,800
Issuance of restricted stock, net of cancellations/expired shares	69,909					
Common stock issued	895,523	3,000,000	-	-	-	3,000,000
BALANCE, SEPTEMBER 30, 2007	70,148,787	$ 119,417,717	$ 4,348,533	$ (97,095,447)	$ (125,400)	$ 26,545,403

See notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net loss	$ (16,742,259)	$ (12,403,769)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,412,019	1,085,190
Minority interest in operations	(394,198)	-
Securities received in payment of license fees	(13,580)	(521,472)
Share-based compensation	2,563,528	1,417,504
Loss on disposal of fixed assets	-	21,098
Accrued interest on notes receivable	(46,733)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(114,553)	384,706
Accounts receivable from related party, net	133,501	(495,000)
Notes receivable from related party, net	(1,215,703)	-
Product inventories	(1,018,718)	(407,104)
Prepaid expenses and other current assets	(129,608)	(203,708)
Other assets	5,061	49,939
Trade accounts payable	219,137	395,162
Accrued salaries and benefits	981,691	315,925
Accrued liabilities	243,803	177,202
Net cash used in operating activities	(14,116,612)	(10,184,327)
Cash flows from investing activities:		
Sale of available for sale securities	33,675,000	26,050,000
Purchase of available for sale securities	(23,041,630)	(12,973,949)
Purchase of property and equipment	(2,959,244)	(2,956,423)
Net cash provided by investing activities	7,674,126	10,119,628

(continued)

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

	Nine Months Ended September 30, 2007	2006
Cash flows from financing activities:		
Issuance of common shares for cash	3,000,000	-
Proceeds from exercise of stock options	118,824	340,685
Proceeds from exercise of warrants	91,800	166,670
Payment of notes payable	(600,000)	(600,000)
Minority interest	2,000,000	-
Net cash provided by (used in) financing activities	4,610,624	(92,645)
Net decrease in cash and cash equivalents	(1,831,862)	(157,344)
Cash and cash equivalents, beginning of period	12,679,254	2,264,418
Cash and cash equivalents, end of period	$ 10,847,392	$ 2,107,074
Supplemental disclosures:		
Cash paid for interest	$ 168,000	$ 105,000
Cash paid for income taxes	None	None

Supplemental schedule of non-cash investing and financing activities:

For the nine months ended September 30, 2007:

- We received 1,000,000 of common stock valued at $106,518 in connection with the Phoenix Motorcars, Inc. January 2007 purchase agreement. The investment was recorded with an offset to deferred revenue.

- We issued 75,575 shares of restricted stock to employees having a fair value of approximately $237,000 for which no cash will be received.

- We made property and equipment purchases of $313,716, which are included in trade accounts payable at September 30, 2007.

- We had an unrealized loss on available for sale securities of $307,200.

For the nine months ended
September 30, 2006:

- We issued 56,875 shares of restricted stock to employees having a fair value of approximately $180,000 for which no cash will be received.

- We made property and equipment purchases of $94,564, which are included in trade accounts payable at September 30, 2006.

- We had an unrealized gain on available for sale securities of $291,400.

(concluded)

See notes to the unaudited condensed consolidated financial statements.

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

Note 1. Basis of Preparation of Consolidated Financial Statements

These unaudited interim condensed consolidated financial statements of Altair Nanotechnologies Inc. and its subsidiaries (collectively, "Altair" "we" or the "Company") have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "Commission"). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, so long as the statements are not misleading. In the opinion of Company management, these consolidated 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 unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Commission on March 13, 2007.

The results of operations for the nine-month period ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Note 2. Summary of Significant Accounting Policies

Cash, Cash Equivalents and Investment in Available for Sale Securities (short-term) - Cash, cash equivalents and investment in available for sale securities (short-term) consist principally of bank deposits, institutional money market funds and corporate notes. Short-term investments that are highly liquid have insignificant interest rate risk and maturities of 90 days or less are classified as cash and cash equivalents. Investments that do not meet the definition of cash equivalents are classified as held-to-maturity or available-for-sale.

Our cash balances are maintained in bank accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of $100,000. At September 30, 2007 and December 31, 2006, we had cash deposits of approximately $2.0 million and $3.0 million, respectively, in excess of FDIC insurance limits.

Investment in Available for Sale Securities (long-term) - Available for sale securities (long-term) includes publicly traded equity investments that 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.

Inventory – The Company values its inventories at the lower of cost (first-in, first-out method) or market. We employ a full absorption procedure using standard cost techniques, which approximates actual cost. The standards are customarily reviewed and adjusted annually.

Accumulated Other Comprehensive Loss - Accumulated other comprehensive loss consists entirely of unrealized (gain)/loss on the investment in available for sale securities. The components of comprehensive loss for the nine-month periods ended September 30, 2007 and 2006 are as follows:

	Nine months ended September 30,	
	2007	**2006**
Net loss	$ 16,742,259	$ 12,403,769
Unrealized (gain)/loss on investment in available for sale securities, net of taxes of $0	307,200	(291,400)
Comprehensive loss	$ 17,049,459	$ 12,112,369

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.

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.

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. Our revenues were derived from product sales, commercial collaborations and contracts and grants. Revenue for product sales is recognized upon delivery of the product, unless specific contractual terms dictate otherwise. 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. Payments received in advance relating to the future performance of services or delivery of products are deferred until the performance of the service is complete or the product is shipped. Upfront payments received in connection with certain rights granted in contractual arrangements are deferred and amortized over the related time period over which the benefits are received. Based on specific customer bill and hold agreements, revenue is recognized when the inventory is shipped to a third party storage warehouse, the inventory is segregated and marked as sold, the customer takes the full rights of ownership and title to the inventory upon shipment to the warehouse per the bill and hold agreement. When contract terms include multiple components that are considered separate units of accounting, the revenue is attributed to each component and revenue recognition may occur at different points in time for product shipment, installation, and service contracts based on substantial completion of the earnings process.

Accrued Warranty - We provide a limited warranty for battery packs and energy storage systems. A liability is recorded for estimated warranty obligations at the date products are sold. Since these are new products, the estimated cost of warranty coverage is based on cell and module life cycle testing and compared for reasonableness to warranty rates on competing battery products. As sufficient actual historical data is collected on the new product, the estimated cost of warranty coverage will be adjusted accordingly.

Overhead Allocation - Facilities overhead, which is comprised primarily of occupancy and related expenses, is initially recorded in general and administrative expenses and then allocated to research and development and product inventories based on relative labor costs.

Minority Interest – In April 2007, the Company and The Sherwin-Williams Company ("Sherwin") entered into an agreement to form AlSher Titania LLC, a Delaware limited liability company ("AlSher"). AlSher is a joint venture combining certain technologies of the Company and Sherwin in order to develop and produce titanium dioxide pigment for use in paint and coatings and nano titanium dioxide materials for use in a variety of applications, including those related to removing contaminants from air and water. Pursuant to a Contribution Agreement dated April 24, 2007 among Altairnano, Sherwin, and AlSher, Altairnano contributed to AlSher an exclusive license to use Altairnano's technology (including its hydrochloride pigment process) for the production of titanium dioxide pigment and other titanium containing materials (other than battery or nanoelectrode materials) and certain pilot plants assets with a net book value of $3,110,000. Altairnano received no consideration for the license granted to AlSher other than its ownership interest in AlSher. Sherwin agreed to contribute to AlSher cash and a license agreement related to a technology for the manufacture of titanium dioxide using the digestion of ilmenite in hydrochloric acid. As a condition to enter into the second phase of the joint venture, we agreed to complete the pigment pilot processing plant and related development activities by January 2008. The costs associated with this effort are expected to be partially reimbursed by AlSher. Altairnano contributes any work in process and fixed assets associated with completion of the pigment pilot processing plant to the AlSher joint venture. For each reporting period, AlSher is consolidated with the Company's subsidiaries because the Company has a controlling interest in AlSher and any inter-company transactions are eliminated (refer to Note 1 – Basis of Preparation of Consolidated Financial Statements). The minority shareholder's interest in the net assets and net income or loss of AlSher are reported as minority interest in subsidiary on the condensed consolidated balance sheet and as minority interest share in the condensed consolidated statement of operations, respectively.

Net Loss Per Common Share - Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss 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 anti-dilutive. 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 anti-dilutive.

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

Note 3. Investment in Available for Sale Securities

Investments in available for sale securities (short-term) consist of auction rate corporate notes. The notes are long-term instruments with expiration dates through 2041. Interest is settled and the rate is reset every 7 to 28 days.

Investment in available for sale securities (long-term) consists of 240,000 shares of Spectrum Pharmaceuticals, Inc. ("Spectrum") common stock. Although the Spectrum shares are eligible for resale under Rule 144, the Company currently intends to hold them indefinitely. The shares were received as partial payment of licensing fees when Spectrum entered into a license agreement for RenaZorb in January 2005 and in payment of the first milestone achieved in June 2006. On receipt, the shares were recorded at their market value of $1,138,200 as measured by their closing price on the Nasdaq Capital Market. At September 30, 2007, their fair value was approximately $1,012,800, representing a cumulative unrealized holding loss of approximately $125,400. We evaluated this investment to determine if there is an other than temporary impairment at September 30, 2007. Our evaluation took into consideration published investment analysis, levels of institutional ownership of the investee's common stock and other factors. Based on our evaluation and our ability and intent to hold the investment for a reasonable period of time sufficient for an expected recovery of fair value, we do not consider this investment to be other than temporarily impaired at September 30, 2007.

Note 4. Product Inventories

Product inventories consist of the following:

	September 30, 2007	December 31, 2006
Raw Materials	$ 1,119,304	$ -
Work in Process	115,015	112,500
Demo Units	-	57,165
Total Product Inventories	$ 1,234,319	$ 169,666

As products reach the commercialization stage, the related inventory is recorded. The costs associated with products undergoing research and development are expensed as incurred. As of September 30, 2007 and December 31, 2006, inventory consisted primarily of battery cells and modules in various stages of the manufacturing process.

Note 5. Patents

Our patents are associated with the nanomaterials and titanium dioxide pigment technology. We are amortizing these assets over their useful lives. The amortized patents balances as of September 30, 2007 and December 31, 2006 were:

	September 30, 2007	December 31, 2006
Patents and patent applications	$ 1,517,736	$ 1,517,736
Less accumulated amortization	(776,099)	(712,488)
Total patents and patent applications	$ 741,637	$ 805,248

The weighted average amortization period for patents is approximately 16.5 years. Amortization expense, which represents the amortization relating to the identified amortizable patents, was $21,204 for the three months ended September 30, 2007 and 2006, and $63,611 for the nine months ended September 30, 2007 and 2006. For each of the next five years, amortization expense relating to patents is expected to be approximately $85,000 per year. Management believes the net carrying amount of patents will be recovered by future cash flows generated by commercialization of the titanium processing technology.

Note 6. Accounts Receivable and Notes Receivable from Related Party

Related Party Accounts Receivable activity consists of the following:

	September 30, 2007	December 31, 2006
Beginning Balance - January	$ 495,000	$ -
Additions	1,846,022	495,000
Less cash collected	(1,979,523)	-
Ending Balance	$ 361,499	$ 495,000

Based on battery pack orders fulfilled in the fourth quarter of 2006 for Phoenix Motorcars, Inc. (“Phoenix”), a total of $825,000 was recorded as revenue of which 60% - $495,000 was reflected in accounts receivable due in 30 days and 40% - $330,000 was recorded as a note receivable per terms of the 2006 orders (refer to notes receivable activity below).

Payment terms based on the January 2007 Purchase and Supply Agreement with Phoenix are as follows: 33% of the release order value is due upon placement of the order, 27% is due within 30 days of the receipt of the invoice by Phoenix, and 40% is due in the form of a note payable as described below. For the nine months ended September 30, 2007, $2,049,068 of cash was received from Phoenix, of which $1,072,500 was prepaid against release orders. Of the prepaid balance, $1,002,955 was applied to accounts receivable and $69,545 is recorded in deferred revenue.

Related Party Notes Receivable activity consists of the following:

	September 30, 2007	December 31, 2006
Beginning Balance - January	$ 330,000	$ -
Additions	1,215,703	330,000
Plus interest earned	46,733	-
Ending Balance	1,592,436	330,000
Less current portion	1,235,479	-
Long term portion	$ 356,957	$ 330,000

On December 31, 2006, we received a $330,000 unsecured note receivable from Phoenix Motorcars, Inc. (refer to Note 11 – Related Party Transactions) in connection with the sale of battery packs, which bears interest at 10.5%. The principal and interest are due by December 30, 2008 with no pre-payment penalty. Notes receivable issued in 2007 carry interest at prime plus 1% as set forth in the Wall Street Journal and are due within 360 days of the delivery date based on the terms of the January 2007 Phoenix Motorcars, Inc. supply agreement. The due date of these notes is accelerated if Phoenix sells the Zero Emission credits associated with the sales of motorcars containing the Altair Nanosafe battery packs.

Note 7. Note Payable

The curre