NATURAL ALTERNATIVES INTERNATIONAL INC
Form 10-Q
May 15, 2017

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 MARCH 31, 2017

000-15701

(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1007839**
(State of incorporation)	(IRS Employer Identification No.)

1535 Faraday Drive

Carlsbad, California 92008 **(760) 744-7340**
(Address of principal executive offices) (Registrant's telephone number)

Indicate by check mark whether Natural Alternatives International, Inc. (NAI) (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 NAI was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [_] No

Indicate by check mark whether NAI has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).

[X] Yes [__] No

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company.

Large accelerated filer [__] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [X] Emerging Growth Company [__]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [__]

Indicate by check mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[_] Yes [X] No

As of May 15, 2017, 6,938,352 shares of NAI's common stock were outstanding, net of 1,043,325 treasury shares.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs, or other statements that are not statements of historical fact. Words such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “predicts,” “forecasts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;
- our ability to maintain or increase our patent and trademark licensing revenues;
- our ability to develop market acceptance for and increase sales of new products, develop relationships with new customers and maintain or improve existing customer relationships;
- our ability to protect our intellectual property;
- the outcome of currently pending litigation, regulatory and tax matters, the costs associated with such matters and the effect of such matters on our business and results of operations;
- our ability to improve operation efficiencies, manage costs and business risks and improve or maintain profitability;
- the costs associated with defending and resolving potential new claims, even if such claims are without merit;
- currency exchange rates, their effect on our results of operations, including amounts that may be reclassified as earnings, the availability of foreign exchange facilities, our ability to effectively hedge against foreign exchange risks and the extent to which we may seek to hedge against such risks;
- future levels of our revenue concentration risks;

- sources and availability of raw materials, including the limited number of suppliers of beta-alanine;
- inventories, including the adequacy of raw material and other inventory levels to meet future customer demand and the adequacy and intended use of our facilities;
- manufacturing and distribution channels, product sales and performance, and timing of product shipments;
- current or future customer orders, product returns, and potential product recalls;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- our ability to operate within the standards set by the U.S. Food and Drug Administration's (FDA) Good Manufacturing Practices (GMP);
- our ability to successfully expand our operations, including outside the United States (U.S.);
- the adequacy of our reserves and allowances;
- the sufficiency of our available cash, cash equivalents, and potential cash flows from operations to fund our current working capital needs and capital expenditures through the next 12 months;
- current and future economic and political conditions;
- the impact of accounting pronouncements and our adoption of certain accounting guidance; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A of Part II and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, Natural Alternatives International Europe S.A. (NAIE).

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2017 (Unaudited)		**June 30, 2016**	
Assets				
Current assets:				
Cash and cash equivalents	$	22,593	$	19,747
Accounts receivable - less allowance for doubtful accounts of $21 at March 31, 2017 and $45 at June 30, 2016		7,919		13,217
Inventories, net		15,966		20,768
Income tax receivable		14		14
Prepaids and other current assets		2,699		2,136
Total current assets		49,191		55,882
Property and equipment, net		17,788		15,167
Deferred income taxes		2,227		2,227
Other noncurrent assets, net		781		899
Total assets	$	69,987	$	74,175
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	4,073	$	12,821
Accrued liabilities		2,367		2,242
Accrued compensation and employee benefits		989		2,802
Income taxes payable		1,207		1,340
Total current liabilities		8,636		19,205

Other noncurrent liabilities, net		908		758
Deferred rent		530		486
Total liabilities		10,074		20,449
Commitments and contingencies				
Stockholders’ equity:				
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding		—		—
Common stock; $.01 par value; 20,000,000 shares authorized; issued and outstanding (net of treasury shares) 6,933,352 at March 31, 2017 and 6,868,628 at June 30, 2016		79		77
Additional paid-in capital		21,933		21,138
Accumulated other comprehensive loss		(279)		(680)
Retained earnings		44,254		38,553
Treasury stock, at cost, 1,043,325 shares at March 31, 2017 and 958,049 at June 30, 2016		(6,074)		(5,362)
Total stockholders’ equity		59,913		53,726
Total liabilities and stockholders’ equity	$	69,987	$	74,175

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Statements Of Income And Comprehensive Income

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	**2016**	**2017**	**2016**
Net sales	$25,135	$30,006	$89,761	$78,502
Cost of goods sold	20,017	23,549	70,479	61,643
Gross profit	5,118	6,457	19,282	16,859
Selling, general and administrative expenses	4,125	3,352	11,640	9,291
Income from operations	993	3,105	7,642	7,568
Other income (expense):				
Interest income	109	26	358	82
Interest expense	(1)	2	(1)	(1)
Foreign exchange (loss) gain	(45)	(137)	158	(241)
Other, net	(6)	1,611	(21)	1,601
	57	1,502	494	1,441
Income before income taxes	1,050	4,607	8,136	9,009
Provision for income taxes	305	1,584	2,435	2,905
Net income	$745	$3,023	$5,701	$6,104
Unrealized (loss) gain resulting from change in fair value of derivative instruments, net of tax	(451)	(473)	401	(199)
Comprehensive income	$294	$2,550	$6,102	$5,905
Net income per common share:				
Basic	$0.11	$0.46	$0.87	$0.94
Diluted	$0.11	$0.46	$0.86	$0.92
Weighted average common shares outstanding:				
Basic	6,581,632	6,510,902	6,569,165	6,513,821
Diluted	6,613,955	6,562,577	6,648,091	6,628,883

See accompanying notes to condensed consolidated financial statements.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Statements Of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$5,701	$6,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,711	1,364
Non-cash compensation	729	463
Pension expense	149	38
Gain on disposal of assets	(23)	(1,848)
Deferred taxes	-	645
Changes in operating assets and liabilities:		
Accounts receivable	5,298	(2,473)
Inventories, net	4,802	(7,164)
Prepaids and other assets	182	380
Accounts payable and accrued liabilities	(8,579)	3,514
Income taxes	(291)	749
Accrued compensation and employee benefits	(1,813)	588
Net cash provided by operating activities	7,866	2,360
Cash flows from investing activities		
Purchases of property and equipment	(4,332)	(6,959)
Proceeds from sale of property and equipment	24	3,000
Net cash used in investing activities	(4,308)	(3,959)
Cash flows from financing activities		
Repurchase of common stock	(712)	(648)
Net cash used in financing activities	(712)	(648)
Net increase (decrease) in cash and cash equivalents	2,846	(2,247)
Cash and cash equivalents at beginning of period	19,747	18,551
Cash and cash equivalents at end of period	$22,593	$16,304
Supplemental disclosures of cash flow information		
Cash paid during the period for:		

Interest	$-	$-
Taxes	$2,761	$1,929
Disclosure of non-cash activities:		
Change in unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax	$401	$(199)

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the three and nine months ended March 31, 2017 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

You should read the financial statements and these notes, which are an integral part of the financial statements, together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 ("2016 Annual Report"). The accounting policies used to prepare the financial statements included in this report are the same as those described in the notes to the consolidated financial statements in our 2016 Annual Report unless otherwise noted below.

Net Income per Common Share

We compute net income per common share using the weighted average number of common shares outstanding during the period, and diluted net income per common share using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options account for the additional weighted average shares of common stock outstanding for our diluted net income per common share computation. We calculated basic and diluted net income per common share as follows (in thousands, except per share data):

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2017	**2016**	**2017**	**2016**
Numerator				
Net income	$745	$3,023	$5,701	$6,104
Denominator				
Basic weighted average common shares outstanding	6,582	6,511	6,569	6,514

Dilutive effect of stock options	32	52	79	115
Diluted weighted average common shares outstanding	6,614	6,563	6,648	6,629
Basic net income per common share	$0.11	$0.46	$0.87	$0.94
Diluted net income per common share	$0.11	$0.46	$0.86	$0.92

No shares related to stock options were excluded for the three or nine months ended March 31, 2017 and March 31, 2016.

Revenue Recognition

To recognize revenue, four basic criteria must be met: (1) there is evidence that an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (a) the seller's price to the buyer is substantially fixed or determinable at the date of sale; (b) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (c) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (d) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (e) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (f) the amount of future returns can be reasonably estimated. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

We record reductions to gross revenue for estimated returns of private label contract manufacturing products and beta-alanine raw material sales. The estimated returns are based on the trailing six months of private-label contract manufacturing gross sales and our historical experience for both private label contract manufacturing and beta-alanine raw material product returns. However, the estimate for product returns does not reflect the impact of a potential large product recall resulting from product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

We currently own certain U.S. patents, and each patent’s corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine marketed and sold under the CarnoSyn® and SR Carnosyn® trademarks. We recorded royalty and licensing income as a component of revenue in the amount of $6.6 million during the three months ended March 31, 2017 and $20.0 million during the nine months ended March 31, 2017. We recorded beta-alanine raw material sales and royalty and licensing income as a component of revenue in the amount of $5.5 million during the three months ended March 31, 2016 and $16.1 million during the nine months ended March 31, 2016. These royalty income and raw material sale amounts resulted in royalty expense paid to the original patent holders from whom NAI acquired its patents and its patent rights. We recognized royalty expense as a component of cost of goods sold in the amount of $233,000 during the three months ended March 31, 2017 and $799,000 during the nine months ended March 31, 2017. We recognized royalty expense as a component of cost of goods sold in the amount of $193,000 during the three months ended March 31, 2016 and $666,000 during the nine months ended March 31, 2016.

Stock-Based Compensation

We have an omnibus incentive plan that was approved by our Board of Directors effective as of October 15, 2009 and approved by our stockholders at the Annual Meeting of Stockholders held on November 30, 2009. Under the plan, we may grant nonqualified and incentive stock options and other stock-based awards to employees, non-employee directors and consultants.

We estimate the fair value of stock option awards at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which we assume to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based on the historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect in the period of grant. The expected life of stock option grants is derived from historical experience. The fair value of restricted stock shares granted is based on the market price of our common stock on the date of grant. We amortize the estimated fair value of our stock awards to expense over the related vesting periods.

On March 28, 2017, the Board of Directors approved the grant of 140,000 shares of restricted stock to the members of our Board of Directors and certain key members of our management team pursuant to our 2009 Omnibus Incentive Plan. On March 23, 2016, the Board of Directors approved the grant of 130,000 shares of restricted stock to the members of our Board of Directors and certain key members of our management team pursuant to our 2009 Omnibus Incentive Plan. These restricted stock grants will vest over three years and the unvested shares cannot be sold or otherwise transferred and the rights to receive dividends, if declared by our Board of Directors, are forfeitable until the shares become vested.

Our net income included stock based compensation expense of

Nil

Nil

Nil

140,000[4]

210,000

2011

70,000

Nil

Nil

66,666

Nil

Nil

Nil

136,666

Alexander Lee, Former Chief Executive Officer

2012

231,250[2]

Nil

Nil

66,666

Nil

Nil

Nil

297,916

2011

*

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*

*

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Liming Zou, Former President

2012

147,538(2)

Nil

Nil

66,666

Nil

Nil

51,111

265,315

2011

*

*

*

*

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*

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*

Bruce J. Sabacky, Vice President & Chief Technology Officer

2012

225,000

Nil

Nil

Nil

Nil

Nil

6,750(3)

231,750

2011

225,000

Nil

Nil

Nil

Nil

Nil

6,750(3)

231,750

* Compensation information not reported because such person was not a named executive officer during this calendar year.

(1) The amounts in column (f) represent the grant date fair value of the stock option awards determined in accordance with Accounting Standards Codification Topic 718 of the Financial Accounting Standards Board (“FASB ASC Topic 718”) pursuant to the Company’s stock incentive plans. Assumptions used in the calculation of these amounts are included in Note 11 to the Company’s audited financial statements for the year ended December 31, 2012 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2013, and Note 10 to the Company’s audited financial statements for the year ended December 31, 2011 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

(2) Excludes compensation received in his capacity as a director prior to the date he became an executive officer

(3) Reflects value of matching contributions made by the Company in connection with the 401(k) Plan, except as noted.

(4) Represents $140,000 pursuant to the Separation and Consulting Agreement and Release of All Claims dated April 4, 2012 with Mr. Gibbard.

Current Base Salary Information. The annualized base salaries of the continuing named executive officers, and the Company's Chief Executive Officer and President as of the date of this Proxy Statement are as follows:

Name	**Base Salary ($)**
Richard W. Lee, Chief Executive Officer	300,000
Paula Conroy, Chief Financial Officer & Corporate Secretary	200,000
Bruce J. Sabacky, Vice President & Chief Technology Officer	225,000

Richard W. Lee is subject to a written employment agreement. Paula Conroy is not subject to a written employment agreement until it is finalized. The additional material terms of the employment agreement with Mr. Sabacky are described in subsections (b) and (e) below.

(b) **Grant of Plan-Based Awards Table**

The following table provides details with respect to plan-based awards, if any, granted to the named executive officers during the year ended December 31, 2012:

Name	**Grant Date**	**Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)**	**Estimated Future Payouts Under Equity Incentive Plan Awards(1)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Under- Lying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($)(3)**

(a)	(b)	Target ($) (c)	Maxi-mum ($) (d)	Target (#) (e)	Maxi-mum (#) (f)	(g)	(h)	(i)	(j)
H. Frank Gibbard, Former President, Chief Executive Officer	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Alexander Lee, Former Chief Executive Officer	7/5/2012	Nil	Nil	Nil	Nil	Nil	66,666[2]	2.88	191,998
Liming Zou President	7/5/2012	Nil	Nil	Nil	Nil	Nil	66,666[2]	2.88	191,998
		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Bruce J. Sabacky, Vice President & Chief Technology Officer	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) With respect to 2012, the Compensation, Governance and Nominating Committee did not approve an annual incentive bonus plan for the executive officers and did consult with the executive officers regarding target bonuses under the respective employment agreements.

(2) Options vest over four years from April 1, 2012 date of grant: 25% vested on April 1, 2013; 25% vest on April 1, 2014; 25% vest on April 1, 2015; and 25% vest on April 1, 2016.

(3) The amounts in column (j) represent the grant date fair value of stock and option awards determined in accordance with ASC 718 “Stock Compensation” pursuant to the Stock Incentive Plans.

Annual *Incentive Compensation*. During 2012, Mr. Huang and Mr. Sabacky were eligible for target annual incentive bonuses. Mr. Sabacky was eligible for up to 60% of his base salary, based on performance objectives as determined by the Company's Board after consultation with the employee. In 2012 Mr. Huang, was entitled to special year-end performance pay of up to $25,000 based upon personal performance against objectives established by the Company's Board of Directors. No performance objectives were agreed to for 2012; however, the Compensation, Governance and Nominating Committee reserved the discretion to award, or to deny, annual incentive bonuses whether or not performance targets were achieved, as it deemed appropriate. The Compensation, Governance and Nominating Committee did not award any incentive bonuses to any named executive officer for 2012.

Mr. Gibbard, Alexander Lee and Liming Zou were not entitled to any annual incentive compensation in 2012.

Targets for 2013 for Continuing Named Executive Officers. With respect to 2013, the Compensation, Governance and Nominating Committee has not approved an annual incentive bonus plan for the named executive officers and, as of the date of this Report, has not consulted with the executive officers regarding target bonuses under the respective employment agreements.

(c) **Outstanding Equity Awards at Fiscal Year-End Table**

The following table provides information regarding equity awards held by the named executive officers as of December 31, 2012:

	Option Awards				
Name (a)	**Number of Securities Underlying Unexercised Options (#) Exercisable (b)**	**Number of Securities Underlying Unexercised Options (#) Un-Exercisable (c)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)**	**Option Exercise Price ($) (e)**	**Option Expiration Date (f)**
H. Frank Gibbard, President, Chief Executive Officer and Director	Nil	Nil	Nil	Nil	Nil
Alexander Lee, Chief Executive Officer and Director	16,668	50,000(1)	Nil	2.88	4/1/2022
Liming Zou, President and Director	16,668	50,000(1)	Nil	2.88	4/1/2022
Bruce J. Sabacky, Vice President & Chief Technology Officer	1,041	Nil	Nil	97.68	3/10/2015
	896	Nil	Nil	82.08	3/10/2016
	1,666	Nil	Nil	82.08	3/10/2016
	440	Nil	Nil	63.12	1/15/2017
	3,125	Nil	Nil	63.12	1/15/2017
	3,125	Nil	Nil	89.28	1/15/2018
	4,166	Nil	Nil	29.28	1/15/2019
	3,750	Nil	Nil	26.40	1/15/2020

(1) Options vest over four years from April 1, 2012 date of grant: 25% vested on April 1, 2013; 25% vest on April 1, 2014; 25% vest on April 10, 2015; and 25% vest on April 1, 2016.

Dr. Gibbard, the Company's former Chief Executive Officer, was granted an option to purchase 66,666 shares of common stock in connection with his appointment in September 2011. Mr. Gibbard's employment was terminated in April 2012 and the options were not exercised within the applicable period. As a result, all such options granted to Mr. Gibbard have terminated. Mr. Huang, the Company's former Chief Financial Officer, was granted an option to purchase 33,333 shares of common stock in connection with his appointment in September 2011. Mr. Alex Lee, the Company's former Chief Executive Officer and Mr. Liming Zou the Company's former President, were each granted an option to purchase 66,666 shares of common stock in connection with their appointments in April 2012. Mr. Richard W. Lee, the Company's Chief Executive Officer was granted an option to purchase 66,666 shares of common stock in connection with his appointment in August 2013. Ms. Conroy, the Company's Chief Financial Officer was granted an option to purchase 33,333 shares of common stock in connection with her appointment in September 2013.

(d) **Option Exercises and Stock Vested**

No stock options were exercised by the named executive officers during the fiscal year ended December 31, 2012.

(e) **Pension Benefits and Non-Qualified Deferred Compensation**

The Company does not sponsor, and is not obligated to provide, any benefits under any defined benefit or non-qualified deferred compensation plan. Executive officers are entitled to benefits generally available to all full-time salaried employees of the Company. These benefits include up to 5 weeks per-year of paid time off for medical and vacation leave, subsidized group health plan coverage offered to all salaried employees of the Company, and eligibility to participate in the Company's 401(k) Profit Sharing Plan (the "401(k) Plan"), matching contributions under the 401(k) Plan in an amount up to the greater of 50% of the first $2,500 contributed or 3% of the employee's base salary.

(f) **Potential Payments upon Termination or Change-in-Control**

Severance Provisions in Employment Agreements. The employment agreement of Mr. Richard Lee, the Company's Chief Executive Officer, includes the following severance provisions: If Mr. Lee's employment is terminated by the Company without cause or by Mr. Lee for good reason, which includes, among other things, (a) a material breach by the Company of any of its obligations, duties, agreements, representations or warranties under the employment agreement, (b) the Company requiring Mr. Lee to relocate his place of employment without Mr. Lee's consent, or (c) a material adverse change in Mr. Lee's title, position, and/or duties 90 days before or within one year after a change of control, Mr. Lee is entitled to a severance benefit equal to his base salary for a period of two months for each year of employment with the Company, and (ii) health benefits for eighteen months, all subject to any applicable limitations imposed by Section 409A of the Internal Revenue Code. Mr. Lee is not entitled to any severance if his employment is terminated at any time by the Company with cause or by Mr. Lee without good reason.

The employment agreement of the Mr. Sabacky provides that if his employment is terminated by the Company without cause, or by him for good reason, he is entitled to a severance benefit equal to his base salary for one year, a bonus equal to a pro-rated (based upon the elapsed days in the calendar year) portion of 60% of his base salary, and health benefits for one year (18 months if termination is by the Company). The one-year base salary severance benefit will be extended to 16 months if either he was required to relocate more than 50 miles in order to commence employment and the termination occurs within two years of commencement of employment, or he later consents to a relocation of his employment and the termination occurs within two years of such voluntary relocation. Good reason includes, among other things, (a) the Company requiring the officer to relocate his place of employment without the officer's consent, or (b) a material adverse change in the officer's title, position, and/or duties 90 days before or within one year after a change of control. Mr. Sabacky is not entitled to any severance if his employment is terminated at any time by the Company with cause or by the officer without good reason

The employment agreement of Mr. Alex Lee, the Company's former Chief Executive Officer, includes the following severance provisions: If Mr. Lee’s employment is terminated by the Company without cause or by Mr. Lee for good reason, which includes, among other things, (a) a material breach by the Company of any of its obligations, duties, agreements, representations or warranties under the employment agreement, (b) the Company requiring Mr. Lee to relocate his place of employment without Mr. Lee’s consent, or (c) a material adverse change in Mr. Lee’s title, position, and/or duties 90 days before or within one year after a change of control, Mr. Lee is entitled to a severance benefit equal to his base salary for a period of two months for each year of employment with the Company, and (ii) health benefits for eighteen months, all subject to any applicable limitations imposed by Section 409A of the Internal Revenue Code. Mr. Lee is not entitled to any severance if his employment is terminated at any time by the Company with cause or by Mr. Lee without good reason. Mr. Lee resigned in August 2013.

The employment agreement of Mr. Zou, the Company's former President, includes the following severance provisions: If Mr. Zou's employment is terminated by the Company without cause or by Mr. Zou for good reason, which includes, among other things, (a) a material breach by the Company of any of its obligations, duties, agreements, representations or warranties under the employment agreement, (b) the Company requiring Mr. Zou to relocate his place of employment without Mr. Zou's consent, or (c) a material adverse change in Mr. Zou's title, position, and/or duties 90 days before or within one year after a change of control, Mr. Zou is entitled to a severance benefit equal to his base salary for a period of two months for each year of employment with the Company, and (ii) health benefits for eighteen months, all subject to any applicable limitations imposed by Section 409A of the Internal Revenue Code. Mr. Zou is not entitled to any severance if his employment is terminated at any time by the Company with cause or by Mr. Zou without good reason. Mr. Zou resigned in September 2013.

The employment agreement of Mr. Huang, the Company's former Chief Financial Officer, includes the following severance provisions: If Mr. Huang's employment is terminated by the Company without cause or by Mr. Huang for good reason, which includes, (a) a material breach by the Company of any of its obligations, duties, agreements, representations or warranties under the employment agreement, (b) the Company requiring Mr. Huang to relocate his place of employment without Mr. Huang's consent, or (c) a material adverse change in Mr. Huang's title, position, and/or duties 90 days before or within one year after a change of control, Mr. Huang is entitled to a severance benefit equal to (i) his base salary for two months if the termination occurs during the six-months following the effective date, or his base salary for a period of two months for each year of employment with the Company if the termination occurs on or after the expiration of the six-month anniversary of the agreement's effective date, and (ii) health benefits for eighteen months, all subject to any applicable limitations imposed by Section 409A of the Internal Revenue Code. Mr. Huang is not entitled to any severance if his employment is terminated at any time by the Company with cause or by Mr. Huang without good reason. Mr. Huang's employment was terminated by the Company without cause in September 2013.

The Company has not yet negotiated written an employment agreement with its current Chief Financial Officer, Paula Conroy.

Acceleration of Vesting of Options. The employment agreements of each of the named executive officers require that all options and other equity awards granted to the named executive officer provide that the award immediately vests as of the effective date of a "Change of Control Event". A "Change of Control Event" is defined in the agreement to mean (a) any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor (other than a transaction effective solely for the purpose of changing the jurisdiction of incorporation of the Company), (b) the sale, transfer or other disposition of all or substantially all of the Company's assets to another entity, (c) the acquisition by a single person (or two or more persons acting as a group, as a group is defined for purposes of Section 13(d)(3) under the Securities Exchange Act of 1934, as amended) of more than 40% of the outstanding common stock. The closing of the common stock issuance with Canon qualified as Change of Control Event for Mr. Sabacky, since he was an officer of the Company on the date of such closing.

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Director Compensation

The following table presents information regarding the compensation for the fiscal year ended December 31, 2012 of all persons who served as directors of the Company during 2012, except for H. Frank Gibbard, former President and Chief Executive Officer, all of whose compensation is described in the previous tables. With respect to Alexander Lee, former Chief Executive Officer, and Liming Zou, former President, only compensation related to their service as a director is included.

Name	Fees Earned Or Paid in Cash(1) ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value And Nonqualified Deferred Compensation Earnings ($)	All Other Compen-sation(2) ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Yincang Wei	20,000	Nil	Nil	Nil	Nil	Nil	20,000
Guohua Sun	20,000	Nil	Nil	Nil	Nil	Nil	20,000
Alexander Lee(3)	26,250	Nil	Nil	Nil	Nil	Nil	26,250
Liming Zou*	5,000	Nil	Nil	Nil	Nil	Nil	5,000
Zhigang Zhao	25,000	Nil	Nil	Nil	Nil	Nil	25,000
Victor Sze*	2,583	Nil	Nil	Nil	Nil	Nil	2,583
Hong Guo*	20,000	Nil	Nil	Nil	Nil	Nil	20,000
Dr. Chin Chuen Chan	1,667	Nil	Nil	Nil	Nil	Nil	1,667
Jun Liu	15,000	Nil	Nil	Nil	Nil	Nil	15,000
Simon Xue*	10,000	Nil	Nil	Nil	Nil	Nil	10,000

* No longer serves as a director of the Company.

(1) Since January 2012, the Company has paid all directors who are not employees of the Company a fee of $20,000 per year. Additionally, Audit committee members are compensated $1,250 per quarter.

(2) Amounts were paid to Mr. Alexander Lee or Mr. Liming Zou in 2012 in their capacity as directors up until April 1, 2012, when they became officers of the Company.

(3) Directors of the Company and its subsidiaries are also entitled to participate in the 1998 Plan and the 2005 Plan. There were no stock option awards outstanding and held by directors as of December 31, 2012.

Audit Committee and Audit Committee Report

Audit Committee

The Audit Committee operates pursuant to a written charter adopted by the Board, a copy of which may be found on the Company's website under the heading "Investors". A copy may also be obtained free of charge by mailing a request in writing to: Secretary, Altair Nanotechnologies Inc., 3019 Enterprise Drive, Anderson, Indiana 46013, U.S.A.

From July 22, 2011 through November 28, 2012, the Audit Committee was comprised of Zhigang Zhao (Chair), Alexander Lee, and Hong Guo. On November 28, 2012, Mr. Lee was removed from the Audit Committee and Victor Sze was appointed to the Audit Committee. On September 26, 2013, Mr. Sze and Ms. Guo resigned from the Audit Committee, and Yuhong Li and Eqbal Al Yousuf were appointed to the Audit Committee. With the exception of Mr. Lee, all persons serving on the Audit Committee during the period described above were determined by the Board to be independent under the requirements of the Nasdaq listing standards and governing law. Mr. Lee has served on the Audit Committee, despite his appointment as Interim Chief Executive Officer in April 2012, pursuant to a temporary exemptions in Nasdaq Marketplace Rule 5605(c)(4)(A), which permits a non-independent director to serve on the Audit Committee under special circumstances for a period expiring on the Company's next annual stockholders meeting and the one-year anniversary of Mr. Lee's appointment as interim Chief Executive Officer.

The Audit Committee held five meetings via conference call during the fiscal year ended December 31, 2012. The members of the Audit Committee were in attendance at each meeting.

The Board has determined in its business judgment that each member of the Audit Committee satisfies the requirements with respect to financial literacy set forth in Nasdaq Marketplace Rule 4350(d)(2)(A)(iv); that Zhigang Zhao is an "audit committee financial expert" as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated under the Securities Act; that each member of the Audit Committee, with the exception of Alexander Lee as described above, is independent under Rule 10A-3(b)(1)(ii) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and are, as a result of their past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background, sophisticated with respect to financial matters.

The Audit Committee's responsibility is to assist the Board in its oversight of (a) the quality and integrity of the Company's financial reports, (b) the independence and qualifications of the Company's independent auditor, and (c) the compliance by the Company with legal and regulatory requirements. Management of the Company has the responsibility for the Company's financial statements as well as the Company's financial reporting process, principles and internal controls. The Company's independent public accounting firm is responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted in the United States of America.

Audit Committee Report

The Audit Committee reviewed and discussed the audited financial statements of the Company as of and for the year ended December 31, 2012 with management and with the independent public accounting firm. The Audit Committee has discussed with the independent public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as currently in effect. In addition, the Audit Committee has received the written disclosures and the letter from the independent public accounting firm required by applicable requirements of the Public Corporation Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and has discussed with the independent public accounting firm the independent auditor's independence.

The Audit Committee has also considered whether the independent auditor's provision of non-audit services to the Company is compatible with maintaining the auditors' independence.

The members of the Audit Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting including in respect of auditor independence. As such, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements fairly present the Company's financial position and results of operation and are in accordance with generally accepted accounting principles and applicable laws and regulations. Each member of the Audit Committee is entitled to rely on (i) the integrity of those persons within the Company and of the professionals and experts (such as the independent auditor) from which the Audit Committee receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons, professionals or experts absent actual knowledge to the contrary and (iii) representations made by management or the independent public accounting firm as to any information technology services of the type described in Rule 2-01(c)(4)(ii) of Regulation S-X and other non audit services provided by the independent auditor to the Company.

Based on the reports and discussions described above, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, for filing with the SEC.

AUDIT COMMITTEE

Zhigang Zhao, Chair

Victor Sze

Hong Guo

April 1, 2013

Meetings of Directors and Attendance at Stockholders Meetings

During the year ended December 31, 2012, the Board held eight meetings via conference call. Attendance at the meetings is summarized in the following table:

	Board Meetings Attended	Committee Meetings Attended	% of Board and Committee Meetings Attended
Board Member			
Yincang Wei	7	2 of 2 CC	60%
Guohua Sun	8	2 of 2 CC & 2 of 5 AC	80%
Frank Gibbard*	3	1 of 5 AC	27%
Alexander Lee	8	5 of 5 AC	87%
Liming Zou	8	N/A	53%
Zhigang Zhao	7	5 of 5 AC	80%
Victor Sze	1	N/A	7%
Hong Guo	6	5 of 5 AC	73%
Dr. Chin Chuen Chan	1	N/A	7%
Jun Liu	8	2 of 2 CC	67%
Simon Xue*	4	N/A	27%

AC – Audit Committee

CC - Compensation, Nominating and Governance Committee

N/A – Not applicable

* No longer serves as a director of the Company.

In addition, the Board considered and acted on certain matters throughout the year by executing consent resolutions as required.

The Company does not have a policy with respect to the attendance of stockholder meetings by directors. All members of the Board serving as of November 28, 2012, the date of the 2012 annual stockholders meeting were not in attendance of such meeting, except for Alex Lee, the company's former CEO and former Director and Liming Zou, the company's former President.

Compensation Policies and Practices Relating to Risk Management

The Compensation, Nominating and Governance Committee has reviewed the Company compensation program as it relates to all of the Company's full-time employees and believes there is no material risk in the program. As a matter of best practice, the Compensation Nominating and Governance Committee continues to monitor our compensation program to ensure that it continues to align the interests of our employees with those of our long-term stockholders while avoiding unnecessary or excessive risk.

Board Leadership Structure and Role in Risk Oversight

The Board believes that different people should hold the positions of chairman of the Board and CEO to aid in the Board's oversight of management. Yincang Wei currently serves as the Chairman of our Board of Directors in a non-executive capacity. As the Chairman of the Board of Directors, Yincang Wei has a number of responsibilities, which include setting board meeting agendas in collaboration with the CEO, presiding at Board meetings, executive sessions and the annual stockholders' meeting, assigning tasks to the appropriate committees, and ensuring that information flows openly between management and the Board. The Board believes its administration of its risk oversight function has not affected the Board's leadership structure.

The Board is actively involved in assessing and managing risks that could affect the Company. The Board's mandate calls for the Board to periodically assess the processes utilized by management with respect to risk assessment and risk management, including identification by management of the principal risks of the Company's business, and the implementation by management of appropriate systems to deal with such risks. The Board fulfills these responsibilities either directly, through delegation to committees of the Board, or, as appropriate, through delegation to individual directors.

When the Board determines to delegate any risk management oversight responsibilities, typically such delegation is made to the standing committees of the Board. The Audit Committee would typically be tasked with oversight of risks to the Company such as those relating to the quality and integrity of the Company's financial reports, the independence and qualifications of the Company's independent auditor and inquiries regarding allegations of ethical, financial and legal issues. The Compensation, Governance and Nominating Committee would typically be tasked with overseeing risks such as relating to employment policies, the Company's compensation and benefits systems, the identification and recommendation of individuals qualified to become directors, management of the Company and succession planning. Each of these committees satisfies its oversight responsibilities through regular reports from officers of the Company responsible for each of these risk areas, regular meetings to discuss and analyze such risks, and, when necessary, consultation with outside advisors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers, directors and persons who own more than 10% of the Company's common stock to file reports concerning their ownership of common stock with the SEC and to furnish the Company with copies of such reports. Based solely upon the Company's review of the reports required by Section 16 and amendments thereto furnished to the Company, the Company believes that all reports required to be filed pursuant to Section 16(a) of the Exchange Act during 2011 were filed with the SEC on a timely basis, except for the following: (1) A Form 3 which was filed by Albert Zou approximately one and one half months after its due date; (2) a Form 3, which was filed by Jun Liu approximately one and one half months after its due date; (3) a Form 3, which was filed by Yingcang Wei approximately one and one half months after its due date; (4) a Form 3, which was filed by Simon Xue approximately one and one half months after its due date; (5) a Form 3, which was filed by Sun Guohua approximately one and one half months after its due date; (6) a Form 3, which was filed by Zhigang Zhao approximately one and one half months after its due date; (7) a Form 4 reporting one transaction in the Company's common stock, which was filed by Stephen B. Huang approximately six days after its due date; (8) a Form 3, which was filed by Energy Storage (China) approximately two months after its due date; (9) a Form 4 reporting one transaction in the Company's common stock, which was filed by H. Frank Gibbard approximately seven days after its due date; (10) a Form 3, which was filed by Guo Hong approximately twenty-four days after its due date; and (11) a Form 4, which was filed by Stephen A. Balogh approximately three days after its due date.

Code of Ethics and Code of Conduct

The Company has adopted the Code of Ethics for Senior Executives, Financial Officers, Members of the Management Executive Committee, and Directors (the "Code of Ethics"), which constitutes a code of ethics that applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as defined in Item 406 of Regulation S-K under the Exchange Act. The Code of Ethics is available on the Company's website at www.altairnano.com under "Investors" – "Governance."

The Company has adopted the Altair Nanotechnologies Inc. Code of Conduct (the "Code of Conduct"), which constitutes a code of conduct applicable to all officers, directors and employees that complies with Nasdaq Rule 4350(n). The Code of Conduct is available on the Company's website at www.altairnano.com under "Investors" – "Governance."

PROPOSAL NO. 2 - APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

Approval of the appointment of Crowe Horwath LLP as the independent public accounting firm for the Company for the fiscal year ending December 31, 2013, and authorization of the Audit Committee to set their remuneration, is to be voted upon at the Meeting. Representatives of Crowe Horwath LLP are expected to be attending the meeting by phone, but will not have an opportunity to make a statement. Representatives of Crowe Horwath LLP will be available to respond to appropriate questions. Crowe Horwath LLP, then known as Perry-Smith, was first appointed auditors of the Company on September 26, 2005.

Perry-Smith LLP was the Company's independent registered public accounting firm until October 31, 2011.

	2012	2011
Audit Fees	$ -	$67,025
Audit-Related Fees		11,000
Tax Fees		34,935
All Other Fees		-
	$ -	$112,960

Crowe Horwath LLP, the Company's current independent registered public accounting firm was appointed as of November 1, 2011.

	2012		2011	
Audit Fees	$	232,715	$	160,030
Audit-Related Fees				-
Tax Fees		66,255		13,205
All Other Fees				-
	$	298,970	$	173,235

Audit Fees.

Audit Fees include fees for services rendered in connection with the audit of the Company's financial statements for such fiscal years including the cost of auditing internal controls over financial reporting, for the reviews of the Company's interim financial statements and for the review of SEC registration statements.

Audit-Related Fees.

Audit-Related Fees include fees for services rendered in connection with the audit of the Company's employee benefit plan.

Tax Fees.

Tax Fees include fees for services rendered in connection with the preparation of federal, state and foreign tax returns and other filings and tax consultation services.

All Other Fees.

All Other Fees include fees for services pertaining to the domestication.

Audit Committee Pre-Approval Policy. The Audit Committee pre-approves the services provided to the Company by its independent public accounting firm in connection with the audit of the Company's annual financial statements, the review of the Company's quarterly financial statements and tax preparation and consultation. Management is not permitted to engage its independent public accounting firm for other audit or permitted non-audit services without the case-by-case pre-approval of the Audit Committee. The Audit Committee approved all the services provided to the Company by its independent public accounting firm described above.

<u>Vote Required and Recommendation of the Board</u>

The affirmative vote of a majority of the votes cast on this proposal shall constitute approval of the appointment of Crowe Horwath LLP and authorization of the Audit Committee to set their remuneration.

The Board recommends a vote FOR approval of the appointment of Crowe Horwath LLP as the Company's independent public accounting firm for the fiscal year ending December 31, 2013 and authorization of the Audit Committee to set their remuneration.

OTHER MATTERS

<u>Proposals of Stockholders</u>

Pursuant to rules adopted by the SEC, if a stockholder intends to propose any matter for a vote at the annual meeting of the stockholders to be held in 2014, but fails to notify the Company of such intention prior to September 15, 2014 (as such date may be updated by a disclosure in the Form 10-Q the Company), then a proxy solicited by the Board may be voted on such matter in the discretion of the proxy holder, without discussion of the matter in the proxy statement soliciting such proxy and without such matter appearing as a separate item on the proxy card.

In order to be included in the proxy statement and form of proxy relating to the Company's annual meeting of stockholders to be held in 2014, proposals which stockholders intend to present at such annual meeting must be received by the Secretary of the Company, at the Company's principal business office, 3019 Enterprise Drive, Anderson, Indiana 46013, U.S.A. no later than June 30, 2014 (as such date may be updated by disclosure in a Form 10-Q of the Company).

In addition, pursuant to our bylaws, all stockholder proposals must be made by written notice, which notice must be received by the Company no later than June 23, 2014, and no earlier than April 23, 2014; *provided*, that if the date of the annual meeting of stockholders to be held in 2014 is advanced or delayed by more than 30 days from the anniversary of the 2013 annual meeting, notice by stockholders regarding Board nominations must be received by the Company no later than the later of (i) the 120^{th} day prior to the 2014 annual meeting or (ii) the 10^{th} day following the day on which public announcement of the new meeting date is made, and no earlier than 180 days prior to the 2014 annual meeting. The written notice must contain, with respect to each matter the stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, (A) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and (B) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

Our bylaws also require that stockholder nominations of persons for election to the Board must be made in accordance with the deadlines set forth in the preceding paragraph; *provided*, that in the event that the number of directors to be elected to the Board is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board made by the Company at least 70 days prior to the first anniversary of the 2013 annual meeting, a stockholder's notice must be delivered to the Company not later than the 10th day following the day on which such public announcement is first made by the Company (which public announcement shall in no event be made less than 10 days prior to the then current year's annual meeting). A notice relating to the nomination of a director must contain the following information: (i) as to each person whom the stockholder proposes to nominate for election or re-election as a director and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made, (A) the name, age, business address and residence address of each such person, (B) the principal occupation or employment of each such person, (C) the class and number of shares of stock of the Company which are owned beneficially and of record by each such person and (D) any other information relating to each such person that is required to be disclosed in connection with the solicitation of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Exchange Act or any successor provision thereto (including, without limitation, such nominee's written consent to being named in a proxy statement as a nominee and to serving as a director if elected).

Undertakings

The Company will provide without charge to any person from whom a proxy is solicited by the Board of Directors, upon the written request of that person, a copy of the Company's Annual Report on Form 10-K for the Fiscal Year ended December 31, 2012, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Commission. Written requests for that information should be directed to Paula Conroy, Chief Financial Officer, at 3019 Enterprise Drive, Anderson, Indiana, U.S.A. 46013**.**

Delivery of Documents to Multiple Persons at the Same Address

Unless the Company has received contrary instructions, the Company intends to deliver only one copy of this Proxy Statement and one copy of the Annual Report for the year ended December 31, 2012 to multiple stockholders sharing the same address. Upon written or oral request, the Company will provide, without charge, an additional copy of such documents to each stockholder at a shared address to which a single copy of such documents was delivered. Stockholders at shared addresses that are receiving a single copy of such documents but wish to receive multiple copies, and stockholders at shared addresses that are receiving multiple copies of such documents but wish to receive a single copy, should contact Paula Conroy, Chief Financial Officer, at 3019 Enterprise Drive, Anderson, Indiana, U.S.A. 46013, U.S.A., or at the following telephone number: (317) 333-7617**.**

Additional Information

A copy of this Proxy Statement has been filed with the SEC. You may read and copy this Proxy Statement at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of this Proxy Statement by mail from the Public Reference Section of the SEC at prescribed rates. To obtain information on the operation of the Public Reference Room, you can call the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers, including Altair Nanotechnologies, Inc., that file electronically with the SEC. The address of the SEC's Internet website is http://www.sec.gov.

Financial information is provided in the Company's comparative financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2012. Stockholders may contact Paula Conroy, Chief Financial Officer, at 3019 Enterprise Drive, Anderson, Indiana, U.S.A. 46013, U.S.A., or at the following telephone number: (317) 333-7617, to request copies of the Company's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition stockholders may download copies of the Company's proxy and latest annual report directly from its website at **www.proxyvote.com.**

Upon written or oral request, the Company will provide, without charge, to each person to whom a copy of this Proxy Statement has been delivered a copy of any or all of the documents incorporated by reference herein (other than certain exhibits to such documents not specifically incorporated by reference). Requests for such copies should be directed to:

Altair Nanotechnologies Inc.

Attn: Paula Conroy, Chief Financial Officer

3019 Enterprise Drive
Anderson, Indiana 46013 U.S.A.

(317) 333-7617

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The contents and sending of this Proxy Statement have been approved by the directors of the Company.

Dated as of the 25th day of October, 2013.

ALTAIR NANOTECHNOLOGIES INC.

/s/ Richard W. Lee
Richard W. Lee, Chief Executive Officer

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PROXY

Altair Nanotechnologies Inc.
Annual Meeting of Stockholders

on December 4, 2013

This Proxy Is Solicited By The Board of Directors Of
Altair Nanotechnologies Inc.

The undersigned stockholder of Altair Nanotechnologies Inc. (the "Company") hereby nominates, constitutes and appoints Richard W. Lee, Chief Executive Officer, or failing him, Paula Conroy, Chief Financial Officer, or instead of either of them, ____________________________, as nominee of the undersigned to attend and vote for and on behalf of the undersigned at the Annual meeting of stockholders of the Company (the "Meeting") to be held on the 4th day of December 2013 and at any adjournment or adjournments thereof, to the same extent and with the same power as if the undersigned were personally present at the said Meeting or such adjournment or adjournments thereof, and without limiting the generality of the power hereby conferred, the nominees are specifically directed to vote the shares represented by this proxy as indicated below.

This proxy also confers discretionary authority to vote in respect of any amendments or variations to the matters identified in the Notice of Meeting, matters incident to the conduct of the Meeting and any other matter which may properly come before the Meeting about which the Company did not have notice as of the date 45 days before the date on which the Company first mailed proxy material to stockholders and in such manner as such nominee in his judgement may determine.

A stockholder has the right to appoint a person to attend and act for him and on his behalf at the Meeting other than the persons designated in this form of proxy. Such right may be exercised by filling the name of such person in the blank space provided or by completing another proper form of proxy and, in either case, depositing the proxy as instructed below.

To be valid, this proxy must be received by Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717, not later than 48 hours (excluding Saturdays and holidays) before the time of holding the Meeting or adjournment thereof, or delivered to the chairman on the day of the Meeting or adjournment thereof.

The nominees are directed to vote the shares represented by this proxy as follows:

(1) ELECTION OF DIRECTORS, each to serve until the next annual meeting of stockholders of the Company or until their respective successor shall have been duly elected, unless earlier terminated in accordance with the bylaws of the Company (Proposal 1 in the Notice of Meeting):

FOR all nominees listed below (except as marked to the contrary).

WITHHOLD AUTHORITY to vote for all nominees listed below.

(INSTRUCTION: To withhold authority to vote for any individual nominee, strike a line through the nominee's name in the list below.)

Yincang Wei	Guohua Sun	Yuhong Li
Richard W. Lee	Zhigang Zhao	Dr. Chin Chuen Chan
Guohua Wei	Eqbal Al Yousuf	Jun Liu

(2) PROPOSAL TO APPOINT AUDITORS, to appoint Crowe Horwath LLP as independent public accounting firm of the Company for the fiscal year ending December 31, 2013 and to authorize the Audit Committee of the Board to fix their remuneration (Proposal 2 in the Notice of Meeting):

FOR AGAINST ABSTAIN

(3) At the nominee's discretion upon any amendments or variations to matters specified in the notice of the Meeting, matters incident to the conduct of the Meeting, and upon any other matters as may properly come before the Meeting or any adjournments thereof about which the Company did not have notice as of the date 45 days before the date on which the Company first mailed proxy materials to stockholders.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED OR WITHHELD FROM VOTING IN ACCORDANCE WITH THE INSTRUCTIONS GIVEN ON ANY VOTE OR BALLOT CALLED FOR AT THE MEETING AND, WHERE A STOCKHOLDER HAS SPECIFIED A CHOICE, WILL BE VOTED OR WITHHELD FROM VOTING ACCORDINGLY. UNLESS A SPECIFIC INSTRUCTION IS INDICATED, SAID SHARES WILL BE VOTED IN FAVOR OF ALL OF THE NOMINEES OF THE BOARD FOR DIRECTOR AND IN FAVOR OF THE APPOINTMENT OF THE AUDITORS, BOTH OF WHICH ARE SET FORTH IN THE PROXY STATEMENT, ACCOMPANYING THIS PROXY, WHICH IS INCORPORATED HEREIN BY REFERENCE AND RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED.

This proxy revokes and supersedes all proxies of earlier date.

DATED this ____ day of ________________, 2013.

PRINT NAME: _______________________________

SIGNATURE: ________________________________

NOTES:

1) This proxy must be signed by the stockholder or the stockholder’s attorney duly authorized in writing, or if the stockholder is a corporation, by the proper officers or directors under its corporate seal, or by an officer or attorney thereof duly authorized.

2) A person appointed as nominee to represent a stockholder need not be a stockholder of the Company.

3) If not dated, this proxy is deemed to bear the date on which it was mailed on behalf of the management of the Company.

4) Each stockholder who is unable to attend the Meeting is respectfully requested to mark, date and sign this proxy card and return it in the postage-paid envelope we have provided or return it to: Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting to be held on December 4, 2013. The Company's Annual Report to Stockholders and Proxy Statement are available on the Internet at www.proxyvote.com.