UQM TECHNOLOGIES INC
Form 10-Q
January 31, 2012

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 December 31, 2011

[ ] Transition Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-10869

UQM TECHNOLOGIES, INC.

(Exact name of registrant, as specified in its charter)

| | |
|---|---|
| Colorado | 84-0579156 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

4120 Specialty Place, Longmont, Colorado 80504

(Address of principal executive offices) (Zip code)

-

(303) 682-4900

(Registrant's telephone number, including area code)

-

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No ____ .

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes _X_ No ____ Not Applicable ____.

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 | [ X ] Accelerated filer | [ ] Non-accelerated filer | [ ] Smaller reporting company |

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

Yes ___ No _X_ .

The number of shares outstanding (including shares held by affiliates) of the registrant's common stock, par value $0.01 per share at January 30, 2012 was 36,531,530.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

toc

ITEM 1: FINANCIAL STATEMENTS

UQM TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)

**toc**

| | December 31, 2011 | March 31, 2011 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,545,184 | 15,878,752 |
| Short-term investments | 3,447,893 | 8,332,523 |
| Accounts receivable, net | 3,952,876 | 3,527,054 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 84,239 | 126,775 |
| Inventories | 7,992,353 | 2,213,441 |
| Facility held for sale | 1,621,257 | - |
| Prepaid expenses and other current assets | 1,151,932 | 367,154 |
| Total current assets | 29,795,734 | 30,445,699 |
| Property and equipment, at cost: | | |
| Land | 1,683,330 | 1,859,988 |

| | | |
|---|---|---|
| Building | 4,474,092 | 6,822,850 |
| Machinery and equipment | 7,517,846 | 6,766,539 |
| | 13,675,268 | 15,449,377 |
| Less accumulated depreciation | (4,494,696) | (4,696,942) |
| Net property and equipment | 9,180,572 | 10,752,435 |
| Patent costs, net of accumulated amortization of $807,689 and $781,608 | 256,611 | 264,091 |
| Trademark costs, net of accumulated amortization of $58,621 and $55,256 | 114,966 | 118,331 |
| Other assets | 374,353 | 223,364 |
| Total assets | $ 39,722,236 | 41,803,920 |

(Continued)

See accompanying notes to consolidated financial statements.

UQM TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited), Continued

| | | December 31, 2011 | March 31, 2011 |
|---|---|---|---|
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 1,903,876 | 1,373,403 |
| Other current liabilities | | 1,616,474 | 903,706 |
| Short-term deferred compensation under executive employment agreements | | - | 739,200 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | 54,236 | 15,726 |
| Total current liabilities | | 3,574,586 | 3,032,035 |
| Long-term deferred compensation under executive employment agreements | | 650,623 | 577,172 |
| Total liabilities | | 4,225,209 | 3,609,207 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock, $0.01 par value, 50,000,000 shares authorized; 36,326,516 and 36,213,293 shares issued and outstanding | | 363,265 | 362,133 |
| Additional paid-in capital | | 114,168,375 | 113,391,049 |

| | | |
|---|---|---|
| Accumulated deficit | (79,034,613) | (75,558,469) |
| Total stockholders' equity | 35,497,027 | 38,194,713 |
| Total liabilities and stockholders' equity | $ 39,722,236 | 41,803,920 |

See accompanying notes to consolidated financial statements.

UQM TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (unaudited)

toc

| | Quarter Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | |
| Contract services | $ 210,047 | 166,687 | 421,896 | 512,177 |
| Product sales | 2,509,276 | 1,923,787 | 5,946,710 | 6,161,179 |
| | 2,719,323 | 2,090,474 | 6,368,606 | 6,673,356 |
| Operating costs and expenses: | | | | |
| Costs of contract services | 127,229 | 97,094 | 258,922 | 447,844 |

| | | | | |
|---|---|---|---|---|
| Costs of product sales | 2,013,565 | 1,553,546 | 3,922,719 | 4,594,997 |
| Research and development | 5,861 | 10,537 | 10,671 | 282,484 |
| Production engineering | 1,210,506 | 874,054 | 4,407,492 | 2,534,370 |
| Reimbursement of costs under DOE grant | (937,273) | (546,803) | (3,169,943) | (3,098,747) |
| Selling, general and administrative | 1,149,659 | 1,045,845 | 4,438,287 | 4,046,667 |
| Gain on sale of long-lived asset | - | - | (3,138) | (1,004) |
| | 3,569,547 | 3,034,273 | 9,865,010 | 8,806,611 |
| Loss before other income | (850,224) | (943,799) | (3,496,404) | (2,133,255) |
| Other income: | | | | |
| Interest income | 3,386 | 11,150 | 19,281 | 70,803 |
| Other | 422 | 129 | 979 | 265,269 |
| | 3,808 | 11,279 | 20,260 | 336,072 |
| Net loss | $ (846,416) | (932,520) | (3,476,144) | (1,797,183) |
| Net loss per common share - | | | | |

| | | | | |
|---|---|---|---|---|
| basic and diluted | $ (0.03) | (0.03) | (0.10) | (0.05) |
| Weighted average number of shares of common stock outstanding - basic and diluted | 36,326,516 | 36,137,980 | 36,284,675 | 36,030,576 |

See accompanying notes to consolidated financial statements.

UQM TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)

**toc**

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | $ (3,476,144) | (1,797,183) |
| Adjustments to reconcile net loss to net cash used in | | |
| operating activities: | | |
| Depreciation and amortization | 858,483 | 616,305 |

| | | |
|---|---|---|
| Non-cash equity based compensation | 767,840 | 1,132,064 |
| Gain on sale of equipment | (3,138) | (1,004) |
| Change in operating assets and liabilities: | | |
| Accounts receivable and costs and estimated earnings in | | |
| excess of billings on uncompleted contracts | (884,010) | (1,100,964) |
| Inventories | (5,778,912) | (592,822) |
| Prepaid expenses and other current assets | (784,778) | (257,595) |
| Accounts payable and other current liabilities | 1,340,997 | (358,922) |
| Billings in excess of costs and estimated earnings on | | |
| uncompleted contracts | 38,510 | (9,134) |
| Deferred compensation under executive | | |
| employment agreements | (665,749) | 133,312 |
| Net cash used in operating activities | (8,586,901) | (2,235,943) |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (7,311,047) | (16,291,905) |
| Maturities of short-term investments | 12,195,677 | 16,807,566 |
| Increase in other long-term assets | (61,828) | 1,412 |
| Acquisition of property and equipment | (1,890,405) | (6,069,182) |
| Property and equipment reimbursements received from DOE under | | |
| grant | 1,325,094 | 3,004,234 |
| Increase in patent and trademark costs | (18,601) | (7,525) |

| | | |
|---|---|---|
| Cash proceeds from the sale of equipment | 3,825 | 1,004 |
| Net cash provided by (used in) investing activities | 4,242,715 | (2,554,396) |
| Cash flows from financing activities: | | |
| Issuance of common stock under employee stock purchase plan | 22,994 | 1,006 |
| Issuance of common stock upon exercise of employee stock options | - | 3,570 |
| Purchase of treasury stock | (12,376) | (143,751) |
| Net cash provided by (used in) financing activities | 10,618 | (139,175) |
| Decrease in cash and cash equivalents | (4,333,568) | (4,929,514) |
| Cash and cash equivalents at beginning of period | 15,878,752 | 17,739,600 |
| Cash and cash equivalents at end of period | $ 11,545,184 | 12,810,086 |
| Supplemental cash flow information: | | |
| Interest paid in cash during the period | $ - | - |

Non-cash investing and financing transactions:

During the nine months ended December 31, 2011 we reclassified a facility with a gross value of $2,645,793 and accumulated depreciation of $1,024,536 to facility held for sale.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

**toc**

1. The accompanying consolidated financial statements are unaudited; however, in the opinion of management, all adjustments, which were solely of a normal recurring nature, necessary to a fair presentation of the results for the interim periods, have been made. Certain Prior year amounts have been reclassified to conform to the current period presentation. The results for the interim periods are not necessarily indicative of the results to be expected for the fiscal year. The Notes contained herein should be read in conjunction with the Notes to our Consolidated Financial Statements filed on Form 10-K for the year ended March 31, 2011.

2. Allowance for Doubtful Accounts

   The Company periodically evaluates the credit worthiness of its customers and establishes credit limits for each customer. The Company also establishes estimates and records an allowance for doubtful accounts based upon a number of factors including the payment history of its customers, general business conditions, specific business developments that may impact a customer's creditworthiness, and other relevant factors that may impact the ability of customers to honor their payment obligation to the Company. At December 31, 2011 and March 31, 2011 we had established an allowance for doubtful accounts of $127,697 and zero, respectively.

3. Stock-Based Compensation

   Stock Option Plans

As of December 31, 2011, we had 258,291 shares of common stock available for future grant to employees, consultants and key suppliers under our 2002 Equity Incentive Plan ("Plan"). Under the Plan, the exercise price of each option is set at the fair value of the common stock on the date of grant and the maximum term of the option is 10 years from the date of grant. Options granted to employees generally vest ratably over a three-year period. The maximum number of shares that may be granted as options to an employee under the Plan in any calendar year is 500,000. Forfeitures under the Plan are available for re-issuance at any time prior to expiration of the Plan in 2013. Options granted under the Plan to employees require the option holder to abide by certain Company policies, which restrict their ability to sell the underlying common stock. Prior to the adoption of the Plan, we issued stock options under our 1992 Incentive and Non-Qualified Option Plan, which expired by its terms in 2002. Forfeitures under the 1992 Incentive and Non-Qualified Option Plan may not be re-issued.

Non-Employee Director Stock Option Plan

In February 1994 our Board of Directors ratified a Stock Option Plan for Non-Employee Directors ("Directors Plan") pursuant to which Directors may elect to receive stock options in lieu of cash compensation for their services as directors. As of December 31, 2011, we had no shares of common stock available for future grant under the Directors Plan. Option terms range from 3 to 10 years from the date of grant. Option exercise prices are equal to the fair value of the common shares on the date of grant. Options granted under the plan generally vest immediately. Forfeitures under the Directors Plan are available for re-issuance at a future date.

Stock Purchase Plan

We have established a Stock Purchase Plan under which eligible employees may contribute up to 10 percent of their compensation to purchase shares of our common stock at 85 percent of the fair market value at specified

dates. At December 31, 2011 we had 485,282 shares of common stock available for issuance under the Stock Purchase Plan. During the quarters and nine month periods ended December 31, 2011 and 2010, we issued zero and 11,497, and zero and 277 shares of common stock, respectively, under the Stock Purchase Plan. Cash received by us upon the purchase of shares under the Stock Purchase Plan for the quarters and nine month periods ended December 31, 2011 and 2010 was zero and $22,994, and zero and $1,006, respectively, and is included in cash provided by financing activities.

Stock Bonus Plan

We have a Stock Bonus Plan ("Stock Plan") administered by the Board of Directors. At December 31, 2011 there were 550,320 shares of common stock available for future grant under the Stock Plan. Under the Stock Plan, shares of common stock may be granted to employees and key consultants as additional compensation for services rendered. Vesting requirements for grants under the Stock Plan, if any, are determined by the Board of Directors at the time of grant. There were zero and 213,398 shares granted under the Stock Plan during both the quarter and nine month period ended December 31, 2011 and 7,903 and 243,076 shares granted under the Stock Plan during both the quarter and nine month period ended December 31, 2010.

We use the straight-line attribution method to recognize share-based compensation costs over the requisite service period of the award. Options granted by us generally expire ten years from the grant date. Options granted to existing and newly hired employees generally vest over a three-year period from the date of the grant. The exercise price of options is equal to the market price of our common stock (defined as the closing price reported by the NYSE Amex) on the date of grant.

We use the Black-Scholes-Merton option pricing model for estimating the fair value of stock option awards. The table below shows total share-based compensation expense for the quarters and nine month periods ended December 31, 2011 and 2010 and the classification of these expenses:

| | Quarter Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Costs of contract services | $ 4,523 | 22,077 | 13,309 | 63,547 |
| Costs of product sales | 29,313 | 27,230 | 72,174 | 77,693 |
| Research and development | 231 | 1,684 | 369 | 15,280 |
| Production engineering | 45,729 | 24,876 | 143,755 | 76,084 |
| Selling, general and administrative | 38,419 | 200,028 | 538,233 | 899,460 |
| | $ 118,215 | 275,895 | 767,840 | 1,132,064 |

Share-based compensation capitalized in inventories was insignificant in the quarters and nine month periods ended December 31, 2011 and December 31, 2010.

We adjust share-based compensation on a quarterly basis for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments in the quarters and nine month periods ended December 31, 2011 and December 31, 2010 were insignificant.

All shares granted under the Director's Plan are vested.

A summary of the status of non-vested shares under the 2002 Equity Incentive Plan as of December 31, 2011 and 2010 and changes during the quarters and nine month periods ended December 31, 2011 and 2010 are presented below:

| | Nine Months Ended December 31, 2011 | | Nine Months Ended December 31, 2010 | |
|---|---|---|---|---|
| | Shares Under Option | Weighted-Average Grant Date Fair Value | Shares Under Option | Weighted-Average Grant Date Fair Value |
| Non-vested at April 1 | 475,934 | $ 1.73 | 338,747 | $ 1.93 |
| Granted | - | $ - | - | $ - |
| Vested | - | $ - | - | $ - |
| Forfeited | (3,610) | $ 1.79 | (1,832) | $ 1.61 |
| Non-vested at June 30 | 472,324 | $ 1.73 | 336,915 | $ 1.94 |
| Granted | 389,588 | $ 1.68 | 510,132 | $ 1.37 |
| Vested | (149,126) | $ 1.41 | (297,594) | $ 1.21 |
| Forfeited | (931) | $ 1.61 | - | $ - |
| Non-vested at September 30 | 711,855 | $ 1.77 | 549,453 | $ 1.80 |

| | | | | |
|---|---|---|---|---|
| Granted | 25,000 | $ 1.12 | - | $ - |
| Vested | (64,435) | $ 2.38 | (64,435) | $ 2.38 |
| Forfeited | (1,985) | $ 1.61 | (7,119) | $ 1.58 |
| Non-vested at December 31 | 670,435 | $ 1.69 | 477,899 | $ 1.73 |

As of December 31, 2011, there was $748,644 of total unrecognized compensation costs related to stock options granted under the 2002 Equity Incentive Plan. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 26 months. The total fair value of stock options that vested during the quarter and nine month period ended December 31, 2011 was $153,658 and $363,239. The total fair value of stock options that vested during both the quarter and nine month period ended December 31, 2010 was $153,658 and $512,720. There were options to acquire 25,000 and 414,588 shares granted under the Equity Incentive Plan during the quarter and nine month period ended December 31, 2011 and there were options to acquire zero and 510,132 shares granted under the Equity Incentive Plan during both the quarter and nine month period ended December 31, 2010.

A summary of the non-vested shares under the Stock Bonus Plan as of December 31, 2011 and 2010 and changes during the quarters and nine month periods ended December 31, 2011 and 2010 are presented below:

| | Nine Months Ended December 31, 2011 | | Nine Months Ended December 31, 2010 | |
|---|---|---|---|---|
| | Shares Under Contract | Weighted-Average Grant Date Fair Value | Shares Under Contract | Weighted-Average Grant Date Fair Value |
| Non-vested at April 1 | 62,199 | $ 2.50 | 98,929 | $ 2.97 |
| Granted | - | $ - | - | $ - |
| Vested | - | $ - | - | $ - |
| Forfeited | - | $ - | - | $ - |
| Non-vested at June 30 | 62,199 | $ 2.50 | 98,929 | $ 2.97 |
| Granted | 213,398 | $ 2.34 | 235,173 | $ 2.51 |

| | | | | |
|---|---|---|---|---|
| Vested | (107,917) | $ 2.28 | (139,767) | $ 2.57 |
| Forfeited | - | $ - | - | $ - |
| Non-vested at September 30 | 167,680 | $ 2.44 | 194,335 | $ 2.70 |
| Granted | - | $ - | 7,903 | $ 1.92 |
| Vested | - | $ - | (140,039) | $ 2.74 |
| Forfeited | - | $ - | - | $ - |
| Non-vested at December 31 | 167,680 | $ 2.44 | 62,199 | $ 2.50 |

As of December 31, 2011, there was $321,513 of total unrecognized compensation costs related to common stock granted under our Stock Bonus Plan. The unrecognized compensation cost at December 31, 2011 is expected to be recognized over a weighted-average period of 28 months. The total fair value of common stock granted under the Stock Bonus Plan that vested during both the quarter and nine month period ended December 31, 2011 was zero and $245,745 and the total fair value of common stock granted under the Stock Bonus Plan that vested during both the quarter and nine month period ended December 31, 2010 was $383,667 and $743,454.

Expected volatility is based on historical volatility. The expected life of options granted is based on historical experience.

Additional information with respect to stock option activity during the quarter and nine month periods ended December 31, 2011 under our 2002 Equity Incentive Plan is as follows:

| | Shares Under Option | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at April 1, 2011 | 2,630,491 | $ 3.00 | 3.7 years | $ 959,001 |

| | | | | | |
|---|---|---|---|---|---|
| Granted | - | $ - | | | |
| Exercised | - | $ - | | $ | - |
| Forfeited | (6,309) | $ 3.08 | | | |
| Outstanding at June 30, 2011 | 2,624,182 | $ 3.00 | 3.5 years | $ | 39,661 |
| Granted | 389,588 | $ 2.40 | | | |
| Exercised | - | $ - | | $ | - |
| Forfeited | (35,931) | $ 3.54 | | | |
| Outstanding at September 30, 2011 | 2,977,839 | $ 2.92 | 4.1 years | $ | - |
| Granted | 25,000 | $ 2.10 | | | |
| Exercised | - | $ - | | $ | - |
| Forfeited | (1,985) | $ 2.40 | | | |
| Outstanding at December 31, 2011 | 3,000,854 | $ 2.91 | 3.9 years | $ | - |
| Exercisable at December 31, 2011 | 2,330,419 | $ 2.99 | 2.7 years | $ | - |
| Vested and expected to vest at December 31, 2011 | 2,960,329 | $ 2.92 | 3.8 years | $ | - |

Additional information with respect to stock option activity during the quarter and nine month periods ended December 31, 2010 under our 2002 Equity Incentive Plan is as follows:

| | | |
|---|---|---|
| | | Weighted |
| | Weighted | Average |

| | Shares Under Option | Average Exercise Price | Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at April 1, 2010 | 2,377,075 | $ 3.45 | 3.9 years | $ 2,509,155 |
| Granted | - | $ - | | |
| Exercised | (1,000) | $ 3.57 | | $ 600 |
| Forfeited | (3,166) | $ 3.57 | | |
| Outstanding at June 30, 2010 | 2,372,909 | $ 3.45 | 3.7 years | $ 1,264,435 |
| Granted | 510,132 | $ 2.52 | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (6,334) | $ 3.59 | | |
| Outstanding at September 30, 2010 | 2,876,707 | $ 3.28 | 4.0 years | $ 328,687 |
| Granted | - | $ - | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (7,119) | $2.37 | | |
| Outstanding at December 31, 2010 | 2,869,588 | $ 3.29 | 3.7 years | $ 74,736 |
| Exercisable at December 31, 2010 | 2,391,689 | $ 3.34 | 3.1 years | $ 58,346 |
| Vested and expected to vest at December 31, 2010 | 2,844,869 | $ 3.29 | 3.7 years | $ 73,875 |

Additional information with respect to stock option activity during the quarter and nine month periods ended December 31, 2011 under our Director's Plan is as follows:

| | Shares Under Option | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at April 1, 2011 | 329,786 | $ 2.86 | 3.1 years | $ 129,642 |
| Granted | - | $ - | | |
| Exercised | - | $ - | | $ - |
| Forfeited | - | $ - | | |
| Outstanding at June 30, 2011 | 329,786 | $ 2.86 | 2.9 years | $ 9,734 |
| Granted | 155,122 | $ 2.04 | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (25,996) | $ 2.33 | | |
| Outstanding at September 30, 2011 | 458,912 | $ 2.61 | 3.7 years | $ - |
| Granted | - | $ - | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (13,158) | $ 3.40 | | |
| Outstanding at December 31, 2011 | 445,754 | $ 2.59 | 3.6 years | $ - |

| | | | | |
|---|---|---|---|---|
| Exercisable at December 31, 2011 | 445,754 | $ 2.59 | 3.6 years | $ - |
| Vested and expected to vest at December 31, 2011 | 445,754 | $ 2.59 | 3.6 years | $ - |

Additional information with respect to stock option activity during the quarter and nine month periods ended December 31, 2010 under our Director's Plan is as follows:

| | Shares Under Option | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at April 1, 2010 | 256,653 | $ 3.15 | 2.6 years | $ 303,651 |
| Granted | - | $ - | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (977) | $ 7.63 | | |
| Outstanding at June 30, 2010 | 255,676 | $ 3.13 | 2.4 years | $ 143,003 |
| Granted | 100,136 | $ 2.63 | | |
| Exercised | - | $ - | | $ - |
| Forfeited | (24,039) | $ 3.57 | | |
| Outstanding at September 30, 2010 | 331,773 | $ 2.96 | 3.3 years | $ 45,771 |
| Granted | 19,697 | $ 1.92 | | |

| | | | | |
|---|---|---|---|---|
| Exercised | - | $ - | | $ - |
| Forfeited | (21,684) | $ 3.40 | | |
| Outstanding at December 31, 2010 | 329,786 | $ 2.86 | 3.4 years | $ 14,384 |
| Exercisable at December 31, 2010 | 329,786 | $ 2.86 | 3.4 years | $ 14,384 |
| Vested and expected to vest at December 31, 2010 | 329,786 | $ 2.86 | 3.4 years | $ 14,384 |

4. Cash received by us upon the exercise of stock options for both the quarter and nine month period ended December 31, 2011 was zero. Cash received by us upon the exercise of stock options for the quarter and nine month period ended December 31, 2010 was zero and $3,570, respectively. The source of shares of common stock issuable upon the exercise of stock options is from authorized and previously unissued common shares.

We have an investment policy approved by the Board of Directors that governs the quality, acceptability and dollar concentration of our investments. Investments are comprised of marketable securities and consist primarily of commercial paper, asset-backed and mortgage-backed notes and bank certificates of deposits with original maturities beyond three months. All marketable securities and corporate bonds are held in our name at three major financial institutions who hold custody of the investments. All of our investments are held-to-maturity investments as we have the positive intent and ability to hold until maturity. These securities are recorded at amortized cost.

The amortized cost and unrealized gain or loss of our investments at December 31, 2011 and March 31, 2011 were:

| | December 31, 2011 | | March 31, 2011 | |
|---|---|---|---|---|
| | Amortized Cost | Gain (Loss) | Amortized Cost | Gain (Loss) |
| Short-term investments: | | | | |
| U.S. government and government agency | | | | |
| securities | $ 225,436 | (4,325) | 795,451 | (17,197) |
| | 3,222,457 | (43,023) | 7,227,820 | (59,777) |

| | | | | |
|---|---|---|---|---|
| Commercial paper, corporate and foreign bonds | | | | |
| Certificates of deposit | - | - | 309,252 | - |
| | - | | | |
| | $ 3,447,893 | (47,348) | 8,332,523 | (76,974) |
| Long-term investments: | | | | |
| Certificates of deposit (included in other assets) | 61,828 | - | - | - |
| | $ 3,509,721 | (47,348) | 8,332,523 | (76,974) |

The time to maturity of held-to-maturity securities were:

| | December 31, 2011 | March 31, 2011 |
|---|---|---|
| Less than three months | $ 2,851,308 | 3,432,312 |
| Three to six months | 423,744 | 3,086,533 |
| Six months to one year | 172,841 | 1,813,678 |
| Over one year | 61,828 | - |
| | $ 3,509,721 | 8,332,523 |

5. On both December 31, 2011 and March 31, 2011, the estimated period to complete contracts in process ranged from one to thirteen months. We expect to collect all related accounts receivable within sixty days of billing. The following summarizes contracts in process:

| | December 31, 2011 | March 31, 2011 |
|---|---|---|

| | | |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 976,905 | 4,105,858 |
| Estimated earnings | 286,709 | 424,184 |
| | 1,263,614 | 4,530,042 |
| Less billings to date | (1,233,611) | (4,418,993) |
| | $ 30,003 | 111,049 |

Included in the accompanying balance sheets as follows:

| | | |
|---|---|---|
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 84,239 | 126,775 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (54,236) | (15,726) |
| | $ 30,003 | 111,049 |

6. Inventories at December 31, 2011 and March 31, 2011 consist of:

| | December 31, 2011 | March 31, 2011 |
|---|---|---|
| Raw materials | $ 5,843,982 | 1,769,614 |
| Work-in-process | 282,444 | 388,647 |
| Finished products | 1,865,927 | 55,180 |
| | $ 7,992,353 | 2,213,441 |

Our raw material inventory is subject to obsolescence and potential impairment due to bulk purchases in excess of customers' requirements. We periodically assess our inventories for recovery of carrying value based on available information, expectations and estimates, and adjust inventory carrying values to the lower of cost or market for estimated declines in the realizable value. During the quarters and nine month periods ended December 31, 2011 and 2010, there was no impairment of inventory.

7. Facility Held for Sale

In July 2010, the Company relocated a substantial portion of its staff and equipment from its facility in Frederick, Colorado to a new facility in Longmont, Colorado. The Company continued limited operations at its Frederick, Colorado facility through June 2011, at which time the Company ceased operations at the Frederick facility and listed it for sale with a commercial real estate broker.

The facility has been reclassified as a current asset and the Company has discontinued depreciating the asset pending its sale, which is expected to occur within one year. The facility is recorded at the lower of fair value or cost.

8. Government Grants

We have a $45,145,534 grant with the U.S. Department of Energy ("DOE") under the Stimulus Act (the "Grant"). The Grant provides funds to facilitate the manufacture and deployment of electric drive vehicles, batteries and electric drive vehicle components in the United States. Pursuant to the terms of the Grant, the DOE will reimburse us for 50 percent of qualifying costs for the purchase of facilities, tooling and manufacturing equipment, and for engineering related to product qualification and testing of our electric propulsion systems and other products. The period of the Grant is through January 12, 2013.

We recognize government grants when it is probable that the Company will comply with the conditions attached to the grant arrangement and the grant will be received.

Funding for qualifying project costs incurred is initially limited to $32.0 million until we provide the DOE with an updated total estimated cost of the project along with evidence of firm commitments for our 50 percent share of the total estimated cost of the project no later than April 12, 2012. If all such funds have not been secured, we must submit, by such date, a funding plan to obtain the remainder of such funds, which is acceptable to the DOE. In the event we do not satisfy the foregoing contingency, the Grant may be terminated. In addition, the Grant may be terminated at any time at the convenience of the government.

The Grant is also subject to our compliance with certain reporting requirements. The Stimulus Act imposes minimum construction wage and labor standards for projects funded by the Grant.

If we dispose of assets acquired using Grant funding, we may be required to reimburse the DOE upon such sale date if the fair value of the asset on the date of disposition exceeds $5,000. The amount of any such reimbursement shall be equal to 50 percent of the fair value of the asset on the date of disposition.

While UQM has exclusive patent ownership rights for any technology developed with Grant funds, we are required to grant the DOE a non-exclusive, non-transferable, paid-up license to use such technology.

At December 31, 2011 we have received reimbursements from the DOE under the Grant totaling $14.9 million and have grant funds receivable of $1.1 million.

The application of grant funds to eligible capital asset purchases under the Grant as of December 31, 2011 and March 31, 2011 are as follows:

| | December 31, 2011 | | |
|---|---|---|---|
| | Purchase Cost | Grant Funding | Recorded Value |
| Land | $ 896,388 | 448,194 | 448,194 |
| Building | 9,844,571 | 4,922,286 | 4,922,285 |
| Machinery and Equipment | 6,853,693 | 3,426,846 | 3,426,847 |
| | $ 17,594,652 | 8,797,326 | 8,797,326 |

| | March 31, 2011 | | |
|---|---|---|---|
| | Purchase Cost | Grant Funding | Recorded Value |
| Land | $ 896,388 | 448,194 | 448,194 |
| Building | 9,611,560 | 4,805,780 | 4,805,780 |
| Machinery and Equipment | 5,437,965 | 2,718,982 | 2,718,983 |
| | $ 15,945,913 | 7,972,956 | 7,972,957 |

9. Other current liabilities at December 31, 2011 and March 31, 2011 consist of:

| | December 31, 2011 | March 31, 2011 |
|---|---|---|

| | | |
|---|---|---|
| Accrued payroll and employee benefits | $ 191,912 | 193,670 |
| Accrued personal property and real estate taxes | 332,155 | 223,714 |
| Accrued warranty costs | 91,302 | 89,463 |
| Unearned revenue | 896,747 | 219,751 |
| Accrued royalties | 94,734 | 71,398 |
| Construction retainage | - | 97,756 |
| Other | 9,624 | 7,954 |
| | $ 1,616,474 | 903,706 |

10. Stockholders' Equity

Changes in the components of stockholders' equity during the nine month period ended December 31, 2011 were as follows:

| | Number of common shares issued | Common stock | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
|---|---|---|---|---|---|
| Balances at April 1, 2011 | 36,213,293 | $ 362,133 | 113,391,049 | (75,558,469) | 38,194,713 |
| Issuance of common stock under | | | | | |
| employee stock purchase plan | 10,974 | 110 | 21,509 | - | 21,619 |
| Compensation expense from | | | | | |
| employee and director stock | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| option and common stock grants | - | - | 91,087 | - | 91,087 |
| Net loss | - | - | - | (1,043,543) | (1,043,543) |
| Balances at June 30, 2011 | 36,224,267 | 362,243 | 113,503,645 | (76,602,012) | 37,263,876 |
| Issuance of common stock under | | | | | |
| stock bonus plan | 107,917 | 1,079 | 167,545 | - | 168,624 |
| Issuance of common stock under | | | | | |
| employee stock purchase plan | 523 | 5 | 1,370 | - | 1,375 |
| Purchase of treasury stock | (6,191) | (62) | (12,314) | - | (12,376) |
| Compensation expense from | | | | | |
| employee and director stock | | | | | |
| option and common stock grants | - | - | 389,914 | - | 389,914 |
| Net loss | - | - | - | (1,586,185) | (1,586,185) |
| Balances at September 30, 2011 | 36,326,516 | $ 363,265 | 114,050,160 | (78,188,197) | 36,225,228 |
| Issuance of common stock under | | | | | |
| stock bonus plan | - | - | - | - | - |
| Purchase of treasury stock | - | - | - | - | - |
| Compensation expense from | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| employee and director stock option and common stock grants | - | - | 118,215 | - | 118,215 |
| Net loss | - | - | - | (846,416) | (846,416) |
| Balances at December 31, 2011 | 36,326,516 | $ 363,265 | 114,168,375 | (79,034,613) | 35,497,027 |

11. Significant Customers

We have historically derived significant revenue from a few key customers. Revenue from CODA Automotive totaled $1,454,176 and $2,272,731, and $259,756 and $687,556 for the quarters and nine month periods ended December 31, 2011 and 2010, respectively, which was 53 percent and 36 percent, and 12 percent and 12 percent, of our consolidated total revenue, respectively.

Trade accounts receivable from CODA Automotive were 54 percent and 16 percent of total accounts receivable as of December 31, 2011 and March 31, 2011, respectively. Inventories consisting of raw materials, work-in-progress and finished goods for this customer totaled $5,619,195 and $832,320 as of December 31, 2011 and March 31, 2011, respectively.

Revenue derived from contracts with agencies of the U.S. Government and from subcontracts with U.S. Government prime contractors totaled $197,220 and $406,069 and $177,025 and $1,021,359 for the quarters and nine month periods ended December 31, 2011 and 2010, respectively, which was 7 percent and 6 percent, and 8 percent and 15 percent of our consolidated total revenue for the quarters and nine month periods ended December 31, 2011 and 2010, respectively. Accounts receivable from government-funded contracts represented 33 percent and 49 percent of total accounts receivable as of December 31, 2011 and March 31, 2011, respectively. Of these amounts, revenue derived from subcontracts with AM General LLC totaled zero and $55,724, and $46,478 and $762,088 for the quarters and nine months ended December 31, 2011 and 2010, respectively, which represented nil and 1 percent, and 2 percent and 11 percent, of our consolidated total revenue for the quarters and nine month periods ended December 31, 2011 and 2010, respectively. There were no accounts receivable balances or inventories for this customer at December 31, 2011 and March 31, 2011, respectively.

12. Income Taxes

The Company currently has a full valuation allowance, as it is management's judgment that it is more-likely-than-not that net deferred tax assets will not be realized to reduce future taxable income.

We recognize interest and penalties related to uncertain tax positions in "Other Income (expense)," net. As of December 31, 2011 and 2010, we had no provisions for interest or penalties related to uncertain tax positions.

The tax years 2006 through 2010 remain open to examination by both the Internal Revenue Service of the United States and by the various state taxing authorities where we file.

13. Loss Per Common Share

Basic earnings per share is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share is computed by dividing income or loss available to common stockholders by all outstanding and potentially dilutive shares during the periods presented, unless the effect is antidilutive. At December 31, 2011 and 2010, respectively, common shares issued under the Stock Bonus Plan but not yet earned totaling 167,680 and 62,199 shares were being held by the Company. For the quarters and nine month periods ended December 31, 2011 and 2010 zero and zero shares, and 1,018 and 8,194 shares, respectively, were potentially includable in the calculation of diluted loss per share under the treasury stock method but were not included, because to do so would be antidilutive. At December 31, 2011 and 2010, options to purchase 3,476,269 and 3,209,772 shares of common stock, respectively, were outstanding. For the quarters and nine month periods ended December 31, 2011 and 2010, respectively, options for 3,446,608 and 3,264,845 and 2,293,190 and 1,238,463 shares, respectively, were not included in the computation of diluted loss per share because the option exercise price was greater than the average market price of the common stock. In-the-money options determined under the treasury stock method to acquire 7,111 and 6,914 shares, and 44,891 and 363,929 shares of common stock for the quarters and nine month periods ended December 31, 2011 and 2010, respectively, were potentially includable in the calculation of diluted loss per share but were not, because to do so would be antidilutive.

14. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents, accounts receivable, and accounts payable:

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investments:

The carrying value of these instruments is the amortized cost of the investments which approximates fair value. See Note 4.

15. Fair Value Measurements

Liabilities measured at fair value on a recurring basis as of December 31, 2011 are summarized below:

| | Total | Quoted Prices In Active Markets For Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | Fair Value at Reporting Date Using | | |
| Deferred compensation under executive employment agreements [1] | $ 650,623 | - | - | 650,623 |

Note (1) Included in long term liabilities on our consolidated balance sheet as of December 31, 2011.

Liabilities measured at fair value on a recurring basis as of March 31, 2011 are summarized below:

| | Total | Quoted Prices In Active Markets For Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | Fair Value at Reporting Date Using | | |
| Deferred compensation under | | | | |

| | | | | |
|---|---|---|---|---|
| executive employment agreements [1] | $ 1,316,372 | - | - | 1,316,372 |

Note (1) $739,200 included in current liabilities and $577,172 included in long term liabilities on our consolidated balance sheet as of March 31, 2011.

Deferred compensation under executive employment agreements represents the future compensation potentially payable under the retirement and voluntary termination provisions of executive employment agreements. The value of the Level 3 liability in the foregoing table was determined using a discounted cash flow model with a discount rate of 14 percent based on the expected cost of capital for the Company.

A summary of the liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| | Deferred Compensation On Executive Employment Agreements | | | |
| | Quarter Ended December 31, | | Nine Months Ended December 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of the period | $ 632,191 | 1,261,085 | 1,316,372 | 1,155,416 |
| Transfers into Level 3 | - | - | - | - |
| Transfers out of Level 3 | - | - | - | - |
| Total gains or losses (realized and unrealized): | | | | |
| Included in earnings | 18,432 | 27,643 | 73,451 | 133,312 |
| Included in other comprehensive income | - | - | - | - |
| Purchases, sales, issuances, and | | | | |

| | | | | |
|---|---|---|---|---|
| settlements, net | - | - | (739,200) | - |
| Balance at the end of the period | $ 650,623 | 1,288,728 | 650,623 | 1,288,728 |
| Loss for the period included in earnings attributable to the Level 3 liability still held at the end of the period | $ 18,432 | 27,643 | 73,451 | 133,312 |

16. Segments

Effective April 1, 2011 the Company merged its wholly-owned subsidiary UQM Power Products, Inc. into UQM Technologies, Inc. As a result of this merger the operations of each of these entities are no longer managed or reported upon to management separately, and accordingly, the Company is no longer presenting segment information in its financial statements.

Last fiscal year we had two reportable segments: technology and power products. These reportable segments were strategic business units that offered different products and services. They were managed separately because each business required different business strategies. The technology segment encompassed our technology-based operations including core research to advance our technology, application and production engineering and product development and job shop production of prototype components. The power products segment encompassed the manufacture and sale of motors and electronic controllers. Salaries of the executive officers and corporate general and administrative expense were allocated to each segment annually based on factors established at the beginning of the fiscal year. The percentages allocated to the technology segment and power products segment were 69 percent and 31 percent for the quarter and nine month periods ended December 31, 2010, respectively.

Intersegment sales or transfers, which were eliminated upon consolidation, were $75,944 and $717,274, for the quarter and nine month period ended December 31, 2010.

The Company leased office, production and laboratory space in a building owned by a wholly-owned subsidiary of the Company. During the quarter and nine month period ended December 31, 2010 this wholly-owned subsidiary's operations were included as part of the former Power Products segment. Intercompany lease payments were based on a negotiated rate for the square footage occupied and were $212,404 and $469,908 for the quarter and nine month period ended December 31, 2010, and were eliminated upon consolidation.

The following table summarizes significant financial statement information, after deducting intersegment eliminations of each of the reportable segments as of and for the quarter ended December 31, 2010:

| | | Technology | Power Products | Total |
|---|---|---|---|---|
| Revenue | $ | 1,533,024 | 557,450 | 2,090,474 |
| Interest income | $ | 10,655 | 495 | 11,150 |
| Interest expense | $ | - | - | - |
| Depreciation and amortization | $ | (120,528) | (107,172) | (227,700) |
| Segment loss | $ | (525,198) | (407,322) | (932,520) |
| Total assets | $ | 30,295,083 | 11,329,136 | 41,624,219 |
| Expenditures for long-lived segment assets | $ | (343,156) | (1,286,010) | (1,629,166) |

The following table summarizes significant financial statement information, after deducting intersegment eliminations of each of the reportable segments as of and for the nine month period ended December 31, 2010:

| | | Technology | Power Products | Total |
|---|---|---|---|---|
| Revenue | $ | 4,579,053 | 2,094,303 | 6,673,356 |
| Interest income | $ | 69,306 | 1,497 | 70,803 |
| Interest expense | $ | - | - | - |
| Depreciation and amortization | $ | (343,386) | (272,919) | (616,305) |
| Segment loss | $ | (570,334) | (1,226,849) | (1,797,183) |
| Total assets | $ | 30,295,083 | 11,329,136 | 41,624,219 |
| Expenditures for long-lived segment assets | $ | (1,014,258) | (5,062,449) | (6,076,707) |

17. Commitments and Contingencies

Employment Agreements

We have entered into employment agreements with all of our executive officers. Three of these agreements expire on August 22, 2012, one agreement expires on November 30, 2014 and the other agreement expires on August 31, 2015. The aggregate future base salary payable to these five executive officers under the employment agreements, over their remaining terms is $2,596,333. In addition, we have recorded a liability of $650,623 and $1,316,372 at December 31, 2011 and March 31, 2011, respectively, representing the potential future compensation payable under the retirement and voluntary termination provisions of the employment agreements of the Company's current officers.

Lease Commitments

At December 31, 2011 there were no operating leases with initial non-cancelable terms in excess of one year.

Litigation

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, and based on current available information, the ultimate disposition of these matters is not expected to have a material adverse effect on our financial position, results of operations or cash flow, although adverse developments in these matters could have a material impact on a future reporting period.

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

toc

This Report contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. These statements appear in a number of places in this Report and include statements regarding our plans, beliefs or current expectations; including those plans, beliefs and expectations of our officers and directors with respect to, among other things, orders to be received under our supply agreement with CODA Automotive, Electric Vehicles International and Proterra, future financial results and the continued growth of the electric-powered vehicle industry. Important Risk Factors that could cause actual results to differ from those contained in the forward-looking statements are listed below in Part II, Item 1A. Risk Factors.

Introduction

We generate revenue from two principal activities: 1) research, development and application engineering services that are paid for by our customers; and 2) the sale of motors, generators and electronic controls. The sources of engineering revenue typically vary from year to year and individual projects may vary substantially in their periods of performance and aggregate dollar value. Our product sales consist of both prototype low volume sales, which are generally sold to a broad range of customers, and annually recurring higher volume production.

We have entered into a ten year supply agreement with CODA Automotive ("CODA") to supply UQM® PowerPhase Pro® electric propulsion systems to CODA for their all-electric passenger automobile which is scheduled to be introduced in the state of California early in calendar year 2012. Onboard power is provided by a 31 kWh lithium-ion battery, the vehicle is expected to have a range of up to 125 miles depending on individual driving habits. CODA has announced dealers in three regions of California and they plan to sell the vehicle in the state of Washington and the state of Hawaii and assign additional dealers in key regions of the United States in calendar year 2012.

During the quarter we began volume production and deliveries of PowerPhase Pro® electric propulsion systems to CODA Automotive. CODA has stated that it hopes to sell between 10,000 and 14,000 vehicles annually. Primarily as a result of initial shipments to CODA, our product sales revenue for the quarter ended December 31, 2011 increased approximately 30 percent. We recognize revenue on shipments to CODA when the units are delivered to a port in China. As a result, revenue from shipments to CODA is recognized approximately 4 to 5 weeks following the date the units are shipped from our Longmont, Colorado facility. If CODA achieves their sales objectives we expect our revenue from the sale of propulsion systems to CODA and our working capital requirements to increase materially. In addition, since the beginning of calendar year 2011 we have experienced significant price escalation in the cost of magnets used in our motors, which contain the rare earth elements neodymium and dysprosium. These price increases have been driven primarily by changes in government policy in China, where our magnets are made and who currently produces approximately 96 percent of rare earth metals according to WinterGreen Research. In reaction to these developments, several mining companies worldwide have announced their plans to increase production or restart production of rare earth elements, which is expected to increase world supplies and result in a reduction in the price of these elements over the next couple of years. As of mid-January 2012, the price of neodymium and dysprosium have decreased approximately 50 percent and 25 percent, respectively from their peak price in the summer of 2011 according to data published by metal-pages.com, but are nevertheless, still well above the base line prices at the beginning of calendar year 2011. We have taken the following steps to mitigate the effect of these geo-political events on our company: 1) begun to investigate other magnets that contain no rare earth materials; and 2) amended our supply agreement with CODA Automotive to pass a substantial portion of increased magnet purchase costs through to CODA in the form of a surcharge. We have also implemented a magnet price surcharge for customers in the other markets we serve. We intend to closely monitor events and may adopt additional measures should market conditions for these materials not continue to improve.

We also supply electric propulsion systems to Proterra, Inc. ("Proterra"), a developer and manufacturer of all-electric composite transit buses and Electric Vehicles International ("EVI"), a developer and manufacturer of all-electric medium-duty delivery trucks. EVI recently announced that they have received an order from UPS for 100 all-electric delivery vans powered by our electric propulsion systems, the majority of which are expected to be delivered in calendar year 2012.

We have a $45.1 million Grant from the U.S. Department of Energy ("DOE") under the American Recovery and Reinvestment Act ("ARRA") to accelerate the manufacturing and deployment of electric vehicles, batteries and components in the United States. The Grant provides for a 50 percent cost-share by the Company. Capital expenditures for facilities, tooling and manufacturing equipment and the qualification and testing of products associated with the launch of volume production for CODA Automotive, Proterra, EVI and other customers are eligible for reimbursement under the DOE program. We recorded reimbursements of $8.8 million under the DOE Grant through December 31, 2011 for capital assets acquired, which were recorded as a reduction in the cost basis of the assets acquired. We also recorded reimbursements of product qualification and testing costs under the Grant through December 31, 2011 of $7.2 million.

We were recently awarded a $3 million contract by the U.S. Department of Energy for the development of non-rare-earth magnet electric motors for use in electric and hybrid electric vehicles. We will cost-share 25 percent of the $4 million total effort under the development program. Under the award, the engineering team at UQM will work collaboratively with Ames Laboratory, the National Renewable Energy Laboratory and Oak Ridge National Laboratory, to develop and apply these new magnet materials in a high performance permanent magnet motor. In addition, we are working on a production qualified and higher power version of our larger frame size PowerPhase HD electric propulsion system for the medium-duty truck and bus markets. This system, which we expect to introduce early in calendar year 2012, is expected to produce 220 kW of peak power in a smaller more cost effective package. We have also begun work on the next generation PowerPhase Pro system for the automotive market. The objectives of this program is to introduce a higher performance electric propulsion system that has increased efficiency over a broader operating range, a smaller package size and reduced costs.

On December 1, 2011, Adrian Schaffer joined the Company as Vice President of Sales and Business Development. Mr. Schaffer has extensive experience in sales and business development in both domestic and overseas markets, including nearly twenty years in senior executive and sales positions at Motorola and Linamar where he successfully launched new technologies that are now a part of the global vehicle marketplace.

Our former facility in Frederick, Colorado is currently listed for sale with a commercial broker. As a result, the carrying value of the facility has been classified as a current asset and listed under the caption facility held for sale.

We expect demand for our electric propulsion system and generator products to remain strong for the foreseeable future as vehicle makers continue to focus on the development and introduction of electric and hybrid electric vehicles as part of the restructuring of the global automotive industry to provide a broader selection of highly fuel efficient vehicles to consumers. This demand is due, in part, to an expansion in the number of all-electric and hybrid electric vehicle platforms being developed for potential introduction in the passenger automobile market, the amount of government grants and loans available to encourage the development and introduction of clean vehicles, tax incentives to purchasers of these vehicles, progressively more challenging Corporate Average Fuel Economy Standards ("CAFE") and global carbon dioxide emission regulations, and a desire on the part of the global automotive industry to provide a broader selection of highly fuel efficient vehicles.

In the truck market, we are continuing to supply DC-to-DC converters to Eaton Corporation as part of their hybrid electric propulsion system which powers medium duty hybrid trucks manufactured by International Truck and Engine Corporation, PACCAR and Freightliner Trucks.

Financial Condition

Cash and cash equivalents and short-term investments at December 31, 2011 were $14,993,077 compared with $24,211,275 at March 31, 2011. The decrease in cash and short-term investments is primarily attributable to operating losses, higher levels of inventories and accounts receivable, investments in property and equipment, and prepayments on raw material purchases. Working capital at December 31, 2011 (the excess of current assets over current liabilities) was $26,221,148 versus $27,413,664 at March 31, 2011. The decrease in working capital is primarily attributable to operating losses and investments in property and equipment.

Accounts receivable increased $425,822 to $3,952,876 at December 31, 2011 from $3,527,054 at March 31, 2011. The increase is primarily due to increased levels of product shipments during the third quarter this fiscal year versus the third quarter last fiscal year and lower levels of billings outstanding under our DOE Grant. Substantially all of our customers are large well-established companies of high credit quality. Our sales are conducted through acceptance of customer purchase orders or in some cases through supply agreements. For credit qualified customers our standard terms are net 30 days. For international customers and customers without an adequate credit rating our typical terms are an irrevocable letter of credit or cash payment in advance of delivery. During the quarter, our customer Saab filed for bankruptcy protection. As a result, we established an allowance for bad debts of $127,697 at December 31, 2011 representing approximately 90 percent of the amount due from Saab. No allowance for bad debts was deemed necessary at March 31, 2011.

Costs and estimated earnings on uncompleted contracts decreased $42,536 to $84,239 at December 31, 2011 versus $126,775 at March 31, 2011. The decrease is due to more favorable billing terms on certain contracts in process at December 31, 2011 versus March 31, 2011. Estimated earnings on contracts in process decreased to $286,709 on contracts in process of $1,263,614 at December 31, 2011 compared to estimated earnings on contracts in process of $424,184 on contracts in process of $4,530,042 at March 31, 2011. The decrease in estimated earnings is attributable to lower levels of funded engineering contracts in process partially offset by higher expected margins on certain contracts in process at December 31, 2011.

Inventories increased $5,778,912 to $7,992,353 at December 31, 2011 principally due to the ramping up of production for CODA Automotive. Raw material and finished goods inventories increased $4,074,368 and $1,810,747, respectively. Work-in-process inventory decreased $106,203, reflecting decreased levels of low volume propulsion system builds in process at December 31, 2011.

Prepaid expenses and other current assets increased to $1,151,932 at December 31, 2011 from $367,154 at March 31, 2011 primarily due to prepayments on our commercial insurance policies and certain raw material purchases.

We invested $561,160 and $1,890,405 for the acquisition of property and equipment, before reimbursements from the DOE Grant, during the quarter and nine months ended December 31, 2011 compared to $1,627,878 and $6,069,182 during the comparable quarter and nine months period last fiscal year. The decrease in capital expenditures is primarily attributable to decreased purchases of equipment this quarter reflecting completion of the installation of our volume production lines and the substantial completion of our new dynamometer test cells. Cash reimbursements for capital assets under the DOE Grant for the quarters and nine month periods ended December 31, 2011 and December 31, 2010 were $246,351 and $1,325,094, and $779,458 and $3,004,234, respectively.

Patent costs decreased to $256,611 at December 31, 2011 versus $264,091 at March 31, 2011 primarily due to the systematic amortization of patent issuance costs which were partially offset by patent application costs. Trademark costs decreased to $114,966 at December 31, 2011 versus $118,331 at March 31, 2011 primarily due to the systematic amortization of trademark costs.

Accounts payable increased $530,473 to $1,903,876 at December 31, 2011 from $1,373,403 at March 31, 2011, primarily due to increased levels of raw material purchases associated with the ramp up of production for CODA.

Other current liabilities increased to $1,616,474 at December 31, 2011 from $903,706 at March 31, 2011. The increase is primarily attributable to deferred revenue arising from our magnet purchase arrangement with CODA and higher levels of customer deposits and accrued property taxes at December 31, 2011.

Billings in excess of costs and estimated earnings on uncompleted contracts increased to $54,236 at December 31, 2011 from $15,726 at March 31, 2011 reflecting increased billings on certain engineering contracts in process at December 31, 2011 in advance of the performance of the associated work versus March 31, 2011.

Short-term deferred compensation under executive employment agreements decreased to zero at December 31, 2011 from $739,200 at March 31, 2011 reflecting a retirement payment made to the Company's former CEO during the first quarter of the fiscal year.

Common stock and additional paid-in capital were $363,265 and $114,168,375, respectively, at December 31, 2011 compared to $362,133 and $113,391,049 at March 31, 2011. The increases in common stock and additional paid-in capital were primarily attributable to the issuance of shares under the Employee Stock Purchase Plan and the periodic expensing of non-cash share-based payments associated with option grants under our equity incentive plan.

Results of Operations

Quarter Ended December 31, 2011

Operations for the third quarter ended December 31, 2011 resulted in a net loss of $846,416, or $0.03 per common share, compared to a net loss of $932,520, or $0.03 per common share for the comparable quarter last year. The decrease in net loss is primarily attributable to an increase in gross margin contribution dollars which increased 32 percent to $578,529 for the quarter ended December 31, 2011 versus $439,834 for the comparable quarter last fiscal year due to a similar percentage increase in total revenue.

Revenue from contract services increased to $210,047 at December 31, 2011 versus $166,687 for the comparable quarter last year. The increase is primarily due to increased levels of customer funded engineering activities.

Product sales revenue for the third quarter increased to $2,509,276 versus $1,923,787 for the comparable period last fiscal year. The increase is primarily due to increased propulsion system shipments to CODA Automotive under our supply agreement partially offset by decreased levels of prototype propulsion system sales.

Gross profit margins for the quarter ended December 31, 2011 were 21 percent compared to 21 percent for the quarter ended December 31, 2010. Gross profit margin on contract services was 39 percent for the third quarter this fiscal year compared to 42 percent for the quarter ended December 31, 2010. The decrease is primarily attributable to lower expected margins on contracts in process at December 31, 2011. Gross profit margin on product sales for the third quarter increased to 20 percent compared to 19 percent for the third quarter last year. The increase is primarily due to favorable product mix and improved overhead absorption arising from higher volumes.

Research and development expenditures for the third quarter decreased to $5,861 compared to $10,537 for the same quarter last fiscal year reflecting reduced levels of cost-sharing on government research programs and lower levels of internally-funded software research activities.

Production engineering costs were $1,210,506 for the third quarter versus $874,054 for the third quarter last fiscal year. The increase is attributable to an expansion of our production engineering group and its activities associated with the launch of higher volume manufacturing operations during the quarter, development activities on our next generation of PowerPhase Pro propulsion systems for the passenger automobile market, and increased product qualification and testing activities on our higher power system for the truck and bus market.

Reimbursement of product qualification and testing costs under the DOE Grant totaled $937,273 or 77.4 percent of production engineering costs for the quarter ended December 31, 2011 versus $546,803 or 62.6 percent of production engineering costs for the comparable period last fiscal year. The increase in reimbursements reflects an increase in the volume of qualified engineering activities and an increase in the percentage of costs eligible for reimbursement arising from the timing of actual overhead cost incurrence versus annual reimbursable overhead estimates.

Selling, general and administrative expense for the quarter ended December 31, 2011 was $1,149,659 compared to $1,045,845 for the same quarter last year. The increase versus the comparable amount last fiscal year is primarily attributable to increased levels of recruiting expenses and the establishment of an allowance for bad debts arising from the bankruptcy filing of Saab.

Interest income decreased to $3,386 for the quarter ended December 31, 2011 versus $11,150 for the same quarter last fiscal year. The decrease is attributable to lower invested balances and lower yields on invested cash balances.

Nine Months Ended December 31, 2011

Operations for the nine month period ended December 31, 2011, resulted in a net loss of $3,476,144, or $0.10 per common share, compared to a net loss of $1,797,183, or $0.05 per common share for the comparable period last year. The increase in net loss is primarily attributable to higher levels of production engineering expenses, net of reimbursements under our DOE Grant, which were partially offset by increased gross profit contribution dollars for the nine month period. The comparable prior year period results include $1,546,446 of additional reimbursements under the DOE Grant arising from costs incurred in prior periods and a customer bankruptcy settlement of $265,269 which reduced net loss for the nine month period last fiscal year.

Revenue from contract services decreased to $421,896 for the nine month period ended December 31, 2011 versus $512,177 for the comparable period last year. The decrease is due to the allocation of additional engineering resources to production engineering activities from customer funded activities.

Product sales for the nine month period ended December 31, 2011 decreased to $5,946,710, versus to $6,161,179 for the comparable period last fiscal year. The decrease is primarily due to decreased shipments of prototype propulsion systems and generators, DC-to-DC converters and vehicle auxiliary motors partially offset by increased propulsion system shipments to CODA Automotive.

Gross profit margins for the nine month period ended December 31, 2011 increased to 34 percent compared to 24 percent for the comparable nine month period last fiscal year. The increase is primarily due to favorable product mix and improved overhead absorption, lower manufacturing burden arising from a change in the method of allocating excess facility capacity costs and increased contract services margins. Gross profit margin on contract services increased for the nine month period to 39 percent versus 13 percent for the comparable nine month period last fiscal year primarily due to the higher expected margins on certain contracts in process at December 31, 2011. Gross profit margin on product sales for the nine month period ended December 31, 2011 increased to 34 percent compared to 25 percent for the comparable period last year. The increase is primarily due to favorable product mix, improved overhead absorption and lower manufacturing burden arising from a change in the method of allocating costs associated with excess facility capacity.

Research and development expenditures for the nine month period ended December 31, 2011 decreased to $10,671 compared to $282,484 for the same period last year. The decrease is primarily due to reduced levels of internally funded research programs.

Production engineering costs were $4,407,492 for the nine month period ended December 31, 2011 versus $2,534,370 for the comparable nine month period last year. The increase is attributable to an expansion of the production engineering group and its activities associated with the launch of higher volume manufacturing operations, development of our next generation of PowerPhase Pro propulsion systems for the passenger automobile market, and increased product qualification and testing activities on our higher power system for the truck and bus market.

Reimbursements of costs under the DOE Grant were $3,169,943 for the nine months ended December 31, 2011 versus $3,098,747 for the comparable period last year. During the second quarter last fiscal year the Company satisfied various conditions of the Grant allowing for the recognition and reimbursement of all product qualification and testing costs incurred between August 5, 2009 and September 30, 2010. During the nine month period we recorded reimbursements of $1,546,446 for product qualification and testing costs incurred between August 5, 2009 and March 31, 2010. Excluding this amount, reimbursements for the nine months ended December 31, 2011 increased $1,617,642 versus the comparable period last year reflecting increased levels of reimbursable product qualification and testing costs.

Selling, general and administrative expense for the nine month period ended December 31, 2011 was $4,438,287 compared to $4,045,663 for the same period last year. The increase is attributable to increases in salary and benefits expenses associated with an expansion in our administrative staff, higher levels of accounting fees associated with the DOE Grant, the establishment of an allowance for bad debts, increased recruiting and general insurance costs, partially offset by decreases in non-cash equity based compensation and marketing expenses.

Interest income decreased to $19,281 for the nine month period ended December 31, 2011 versus $70,803 for the comparable period last year. The decrease is attributable to lower yields and lower levels of invested cash balances.

Other income decreased to $979 for the nine month period ended December 31, 2011 versus $265,269 for the comparable period last year, reflecting a cash recovery upon completion of a former customer's bankruptcy proceedings during the comparable period last fiscal year.

Liquidity and Capital Resources

Our cash balances and liquidity throughout the quarter and nine month period ended December 31, 2011 were adequate to meet our operating needs. At December 31, 2011, we had working capital (the excess of current assets over current liabilities) of $26,221,148 compared to $27,413,664 at March 31, 2011.

Net cash used by operating activities for the quarter ended December 31, 2011 was $3,679,100 compared to net cash used in operating activities of $808,170 for the comparable quarter last fiscal year. The increase in cash used during the period is primarily attributable to increased levels of inventory and accounts receivable associated with ramp-up activities for the CODA production program. For the nine month period ended December 31, 2011, net cash used in operating activities was $8,586,901 versus $2,235,943 for the comparable period last fiscal year. The increase is attributable to increased levels of inventory and prepayments on raw material inventory purchases.

Our sales are conducted through acceptance of customer purchase orders or in some cases through supply agreements. For credit qualified customers, our standard terms are net 30 days. For international customers and customers without an adequate credit rating, our typical terms are an irrevocable letter of credit or cash payment in advance of delivery. Significant increases in revenue, inventory or a change in our credit policies to offer extended payment terms or slow payments beyond standard terms by customers could result in material increases in our working capital requirements. In addition, judgments regarding customers credit quality and their ability to meet their financial obligations to us could be incorrect, resulting in bad debts which could have a material adverse effect on our financial results and liquidity.

Net cash provided by investing activities for the third quarter was $3,113,991 compared to net cash used in investing activities of $690,154 for the comparable quarter last fiscal year. The change for both the quarter and nine month period was primarily due to increased net maturities of short-term investments, and a decrease in the amount of capital expenditures, net of reimbursements under our DOE Grant. For the nine months ended December 31, 2011, net cash provided by investing activities was $4,242,715 compared to net cash used in investing activities of $2,554,396 for the same period last year.

Net cash provided by financing activities for the third quarter was zero compared to net cash used in financing activities of $41,743 for the comparable quarter last fiscal year. For the nine months ended December 31, 2011, net cash provided by financing activities was $10,618 compared to cash used in financing activities of $139,175 for the same period last year. The change for both the quarter and nine month period was primarily due to the purchase and retirement of treasury stock during the prior comparable quarter.

We expect to fund our operations over the next year from existing cash and short-term investment balances, cash flows from operations, if any, and from bank financing, if available. We may need to invest greater financial resources during the remainder of fiscal 2012 and during fiscal 2013 on the commercialization of our products, including a significant increase in human resources and increased expenditures for product development, equipment and tooling. These capital requirements may be substantially reduced by reimbursements from the Company's Grant from the DOE which reimburses 50 percent of qualified capital costs. Working capital requirements related to our supply agreement with CODA began to increase during the third quarter and could exceed $10 million if CODA achieves their twelve-month production target of 10,000 to 14,000 vehicles following introduction of the CODA all-electric passenger vehicle scheduled for early calendar year 2012. We believe our existing cash resources are sufficient to fund our activities for at least the next twelve months.

Although we expect to manage our operations and working capital requirements to minimize the future level of operating losses and working capital usage consistent with the execution of our business plan, our planned working capital requirements may consume a substantial portion of our available cash reserves. If customer demand accelerates substantially our working capital requirements may increase. In addition, our $45.1 million DOE Grant requires us to provide matching funds of 50 percent on all qualifying expenditures under the Grant. As of December 31, 2011 we have received credit from the DOE for matching funds of $32 million, and we have an obligation under our DOE Grant to demonstrate our ability to provide additional matching funds of $13.1 million on or before April 12, 2012. We do not currently have sufficient funds to meet this potential future funding requirement. We hope to extend this requirement for at least six months, however, if we are unable to do so we may need to raise additional capital to meet this contractual obligation. We cannot assure you that funding will be available to the company on terms acceptable to the company. If funding is not available to meet this obligation, the DOE Grant could be terminated, which could have a material adverse impact on our financial condition and result in material additional losses.

If our existing financial resources are not sufficient to execute our business plan, including meeting future funding requirements under the DOE Grant, we may issue equity or debt securities in the future, although we cannot assure that we will be able to secure additional capital should it be required to implement our current business plan. In the event financing or equity capital to fund future growth is not available on terms acceptable to us, or at all, we will modify our strategy to align our operations with then available financial resources.

Contractual Obligations

The following table presents information about our contractual obligations and commitments as of December 31, 2011:

| | | Payments due by Period | | | |
|---|---|---|---|---|---|
| | | Less Than | - | | More than 5 Years |
| | Total | 1 Year | 2 - 3 Years | 4 - 5 Years | |
| Purchase obligations (2) | $ 14,366,859 | 14,366,859 | - | - | - |
| Executive employment agreements (1) | 650,623 | - | 510,000 | - | 140,623 |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ 15,017,482 | 14,366,859 | 510,000 | - | 140,623 |

(1) Includes severance pay obligations under executive employment agreements contingently payable upon six months' notice by five officers of the Company, but not annual cash compensation under the agreements.

(2) Consists principally of blanket purchase orders which generally may be canceled at any time by the Company. In the event of cancellation, the Company may incur cancellation charges based on negotiations with each vendor.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the dollar values reported in the consolidated financial statements and accompanying notes. Note 1 to the consolidated financial statements contained in our annual report on Form 10-K for the fiscal year ended March 31, 2011 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, allowance for doubtful accounts receivables, costs to complete contracts, the recoverability of inventories, and the fair value of financial and long-lived assets and in the establishment of provisional billing rates on certain government contracts. Actual results could differ materially from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in preparation of the consolidated financial statements.

Accounts Receivable

Our trade accounts receivable are subject to credit risks associated with the financial condition of our customers and their liquidity. We evaluate all customers periodically to assess their financial condition and liquidity and set appropriate credit limits based on this analysis. As a result, the collectibility of accounts receivable may change due to changing general economic conditions and factors associated with each customer's particular business. We have established an allowance for doubtful accounts for potentially uncollectible trade accounts of $127,697 at December 31, 2011 which represents 90 percent of the amount due to us from Saab, who recently filed for bankruptcy. We did not have an allowance for doubtful accounts at March 31, 2011. These estimates are based on our best judgment as to the collectability of our customer accounts at the time the allowance is established or modified. In light of current economic conditions we may need to increase this allowance for bad debts in the future. It is also reasonably possible, that future events or changes in circumstances could cause the realizable value of our trade accounts receivable to decline materially, resulting in additional material losses.

Inventories

We maintain raw material inventories of electronic components, motor parts and other materials to meet our expected manufacturing needs for proprietary products and for products manufactured to the design specifications of our customers. Some of these components may become obsolete or impaired due to bulk purchases in excess of customer requirements. Accordingly, we periodically assess our raw material inventory for potential impairment of value based on then available information, expectations and estimates and establish impairment reserves for estimated declines in the realizable value of our inventories. The actual realizable value of our inventories may differ materially from these estimates based on future occurrences. It is reasonably possible that future events or changes in circumstances could cause the realizable value of our inventories to decline materially, resulting in additional material impairment losses.

Percentage of Completion Revenue Recognition on Long-term Contracts: Costs and Estimated Earnings in Excess of Billings on

***Uncompleted Contracts***

We recognize revenue on development projects funded by our customers using the percentage of completion method. Under this method, contract services revenue is based on the percentage that costs incurred to date bear to management's best estimate of the total costs to be incurred to complete the project. Many of these contracts involve the application of our technology to customers' products and other applications with demanding specifications. Management's best estimates have sometimes been adversely impacted by unexpected technical challenges requiring additional analysis and redesign, failure of electronic components to operate in accordance with manufacturers published performance specifications, unexpected prototype failures requiring the purchase of additional parts and a variety of other factors that may cause unforeseen delays and additional costs. It is reasonably possible that total costs to be incurred on any of the projects in process at December 31, 2011 could be materially different from management's estimates, and any modification of management's estimate of total project costs to be incurred could result in material changes in the profitability of affected projects or result in material losses on any affected projects.

Fair Value Measurements and Asset Impairment

Some of our assets and liabilities may be subject to analysis as to whether the asset or liability should be marked to fair value and some assets may be evaluated for potential impairment in value. Fair value estimates and judgments may be required by management for those assets that do not have quoted prices in active markets. These estimates and judgments may include fair value determinations based upon the extrapolation of quoted prices for similar assets and liabilities in active or inactive markets, for observable items other than the asset or liability itself, for observable items by correlation or other statistical analysis, or from our assumptions about the assumptions market participants would use in valuing an asset or liability when no observable market data is available. Similarly, management evaluates both tangible and intangible assets for potential impairments in value. In conducting this evaluation, management may rely on a number of factors to value anticipated future cash flows including operating results, business plans and present value techniques. Rates used to value and discount cash flows may include assumptions about interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of asset impairment. Changes in any of the foregoing estimates and assumptions or a change in market conditions could result in a material change in the value of an asset or liability resulting in a material adverse change in our operating results.

Cost-Sharing and Cost-Plus Type Contracts

Some of our business with the U.S. Government and prime contractors is performed under cost-sharing or cost-plus-fixed-fee type contracts. These contracts provide for the reimbursement of costs, to the extent allocable and allowable under applicable government regulations. Typically, billings under these contracts are based on provisional rates, which are estimates of the actual costs expected to be incurred during the relevant period of performance. The final amounts qualified for reimbursement are determined in arrears, typically annually, based on the actual costs incurred during the relevant period of performance. The final costs eligible for reimbursement under these contracts may differ materially from the provisional rates. If actual costs incurred are less than the amounts estimated through provisional rates, we will be obligated to return any excess of provisional payments over final qualified costs, which could have a material adverse impact on our operating results and liquidity.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We do not use financial instruments to any degree to manage these risks and do not hold or issue financial instruments for trading purposes. All of our product sales and related receivables are payable in U.S. dollars.

## ITEM 4. CONTROLS AND PROCEDURES

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Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2011, we performed an evaluation under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities and Exchange Act of 1934). Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2011.

# PART II-OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

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Litigation

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, and based on current available information, the ultimate disposition of these matters is not expected to have a material adverse effect on our financial position, results of operations or cash flow, although adverse developments in these matters could have a material impact on a future reporting period.

ITEM 1A. RISK FACTORS

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Risk Factors

Our business is subject to a number of risks and uncertainties, many of which are outside of our control.

We have incurred significant losses and may continue to do so.

We have incurred significant net losses as shown in the following tables:

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Net loss | $ 1,992,358 | $ 4,140,872 | $ 4,402,019 |

As of December 31, 2011 and March 31, 2011 we had accumulated deficits of $79,034,613 and $75,558,469.

In the future, we plan to make additional investments in product development, facilities and equipment and other costs related to the commercialization of our products. As a result, we expect to incur a net loss for the fiscal year ending March 31, 2012 and potentially beyond.

Our operating losses, anticipated capital expenditures and working capital requirements in the longer term may exceed our current cash balances.

Our net loss for the quarter and nine month period ended December 31, 2011 was $846,416 and $3,476,144 versus a net loss for the comparable quarter and nine months last fiscal year of $932,520 and $1,797,183. Our net loss for the fiscal year ended March 31, 2011 was $1,992,358 versus a net loss for the fiscal years ended March 31, 2010 and 2009 of $4,140,872 and $4,402,019, respectively. At December 31, 2011, our cash and short-term investments totaled $14,993,077. We expect our losses to continue through at least March 31, 2012 and potentially beyond. Our existing cash resources, together with funding expected from our ARRA Grant should be sufficient to complete our business plan for at least the next eighteen months. Should those resources be insufficient, we may need to secure additional debt or equity funding, which may not be available on terms acceptable to us, if at all.

If we do not satisfy the terms of our U.S. Department of Energy grant, we may not receive all of the $45.1 million grant we were awarded and may be required to return amounts already paid to us under the grant.

We have a $45.1 million award under the American Recovery and Reinvestment Act's Electric Drive Vehicle Battery and Component Manufacturing Initiative with the U.S. Department of Energy. This award is subject to terms and conditions specified in the agreement between us and the DOE. We are required to make a cash investment on a dollar-for-dollar matching basis to receive funds under this award. If we are unable to match the total amount of the $45.1 million award with funding from non-Federal sources, we will be unable to take advantage of the entire award, and could become ineligible for continued participation in the program. The reimbursement of qualified costs under the award is currently limited to $32.0 million. On or before April 13, 2012, we are required to provide to the DOE an updated total estimated cost of the project along with firm commitments to fund our 50 percent share of the total estimated cost of the project above the $32.0 million of matching funds we have previously received credit for. If an extension or modification of this requirement has not occurred or all such funds have not been secured, we must submit, by such date, a funding plan to obtain the remainder of such funds, which is acceptable to the DOE, or the award may be terminated. In addition, the award may be terminated at any time at the convenience of the government. Although we expect to satisfy the requirement in the award, we cannot assure that this requirement will be satisfied and the contract will not be terminated prior to receiving all of the proceeds.

CODA may not purchase from us all of the 20,000 systems provided for under its supply agreement.

We have executed a supply agreement with CODA that provides a framework for CODA, or its manufacturing partner, to purchase from us 20,000 electric propulsion systems for use in automobiles to be manufactured by CODA during the initial two-year term of the agreement. Under the terms of this agreement, CODA, or its manufacturing partner HaFei, will issue blanket purchase orders covering their annual purchase requirements and specifying the timing of delivery for such units, with a portion of the delivery schedule considered to be "firm" and noncancellable. If CODA, or its manufacturing partner, does not purchase at least 15,000 units under the CODA supply agreement, CODA may be required to make specific payments to us. For example, if CODA is unsuccessful in the development of its electric automobile, CODA or HaFei would not be obligated to purchase electric propulsion systems from us, but CODA would then be obligated to make the payments specified in the contract to us. While these specific payments would cover much of our costs in preparing to supply electric propulsion systems to CODA, the payments are substantially less than the amount we would receive for sales of systems under the supply agreement. In addition, CODA may not have adequate funds to make any such payments to us or may otherwise contest its obligation to pay, and as a result it is possible that we may never receive any such funds. CODA may also terminate the supply agreement for any number of reasons.

We may experience challenges in launching production of electric propulsion systems on the scale envisioned under the CODA supply agreement.

We have installed and qualified production lines, and begun production of electric propulsion systems; however, we have not yet produced electric propulsion systems on the scale necessary to fulfill our obligations under the CODA supply agreement. We will also need to hire additional personnel as production volumes for CODA increase. We may encounter difficulties and challenges in ramping-up our operations. If we are unable to successfully increase our production volumes coincident with CODA's delivery requirements we could breach our supply agreement. If any such difficulties are encountered during production launch it could have a material adverse effect on our financial condition and results of operations.

Our revenue is highly concentrated among a small number of customers.

A large percentage of our revenue is typically derived from a small number of customers, and we expect this trend to continue and intensify as shipments under the CODA supply agreement increase. CODA may become the source of a substantial portion of our revenue in at least the near-term. The magnitude of this revenue is dependent on CODA's ability to introduce and sell its passenger vehicle in commercial volumes.

Our customer arrangements generally are non-exclusive, have no long-term volume commitments and are often done on a purchase order basis. We cannot be certain that customers that have accounted for significant revenue in past periods will continue to purchase our products. Accordingly, our revenue and results of operations may vary substantially from period to period. We are also subject to credit risk associated with the concentration of our accounts receivable from our customers. If one or more of our significant customers were to cease doing business with us, significantly reduce or delay its purchases from us or fail to pay us on a timely basis, our business, financial condition and results of operations could be materially adversely affected.

Our business relies on third parties, whose success we cannot predict.

As a manufacturer of motors, generators, and other component parts, our business model depends on the ability of third parties in our industry to develop, produce and market products that include or are compatible with our technology and then to sell these products into the marketplace. Our ability to generate revenue depends significantly on the commercial success of our customers and partners. Failure of these third parties to achieve significant sales of products incorporating our products and fluctuations in the timing and volume of such sales could have a material adverse effect on our business, financial condition and results of operations.

Our electric propulsion systems use rare earth minerals and unavailability or limited supply of these minerals could prevent us from manufacturing our products in production quantities or increase our costs.

Neodymium, a rare earth mineral, is a key ingredient used in the production of magnets that are a component of our electric propulsion systems. We currently source our magnets from China, and China has indicated its intent to retain more of this mineral for the use of Chinese companies, rather than exporting it. These policies have adversely affected the price we pay for magnets from our Chinese supplier. Although neodymium iron boron magnets are available from other sources, these alternative sources generally rely on neodymium purchased from China. These Chinese government policies could adversely affect our ability to obtain magnets in sufficient quantities, or in a timely manner, to meet our production plans. In the event that China's actions further reduce supply or cause additional price escalation, these factors could prevent us from manufacturing our products in production quantities, cause our products to be non-competitive or cause an increase in our production costs thereby reducing our profit margin on electric propulsion systems if we are unable to pass the increase in our production costs on to our customers.

Some of our contracts can be cancelled with little or no notice and could restrict our ability to commercialize our technology.

Our contracts with government agencies are subject to the risk of termination at the convenience of the contracting agency and in some cases grant "march-in" rights to the government. March-in rights are the right of the United States government or the applicable government agency, under limited circumstances, to exercise a non-exclusive, royalty-free, irrevocable worldwide license to any technology developed under contracts funded by the government to facilitate commercialization of technology developed with government funding. March-in rights can be exercised if we fail to commercialize the developed technology. The exercise of march-in rights by the government or an agency of the government could restrict our ability to commercialize our technology.

Some of our orders for the future delivery of products are placed under blanket purchase orders which may be cancelled by our customers at any time. The amount payable to us, if any, upon cancellation by the customer varies by customer. Accordingly, we may not recognize as revenue all or any portion of the amount of outstanding order backlog we have reported.

We face intense competition and may be unable to compete successfully.

In developing electric motors for use in vehicles and other applications, we face competition from very large domestic and international companies, including the world's largest automobile manufacturers. Many of our competitors have far greater resources to apply to research and development efforts than we have, and they may independently develop motors that are technologically more advanced than ours. These competitors also have much greater experience in and resources for marketing their products. For these reasons, potential customers may choose to purchase electric motors from our competitors rather than from us. In addition, the U.S. government has awarded substantial financial grants under the stimulus bill to several large companies who compete with us. To the extent that some of these competitors received awards under the stimulus bill in amounts greater than we have, could adversely impact our ability to compete.

Our business depends, in part, on the expansion of the market for hybrid electric vehicles and the future introduction and growth of a market for all-electric vehicles.

Although our electric propulsion systems may be used in a wide variety of products, the market for electric and hybrid vehicles is fairly new. At the present time, batteries used to power electric motors have limited life and require several hours to charge, and charging stations for electric motors are not widely available. Electric and hybrid vehicles also tend to be priced higher than comparable gasoline-powered vehicles. As a result, consumers may experience concerns about driving range limitations, battery charging time and higher purchase costs of electric or hybrid automobiles. If consumer preferences shift to vehicles powered by other alternative methods, or if concerns about the availability of charging stations cannot be overcome, the market for all-electric cars, and therefore our electric propulsion systems, may be limited. In addition, our electric propulsion systems are incorporated in buses used for mass transit in several U.S. cities. If passenger traffic in these mass transit systems declines or government funding to transportation districts declines from current levels, demand for our products may also decrease.

The popularity of alternative fuel based vehicles and "green energy" initiatives are highly dependent on macro-economic conditions, including oil prices and the overall health of the economy. When oil prices fall, interest in and resources allocated to the development of advanced technology vehicles and propulsion systems may diminish. The recent downturn in the world economy also has severely impacted the automotive industry, slowing the demand for vehicles generally and reducing consumers' willingness to pay more for environmentally friendly technology.

If our products do not achieve market acceptance, our business may not grow.

Although we believe our proprietary systems are suited for a wide-range of vehicle electrification applications, our business and financial plan relies heavily on the introduction of new products that have limited testing in the marketplace. We are currently making substantial investments in human resources, manufacturing facilities and equipment, production and application engineering, among other things, to ramp up our production capacity in order to capitalize on the anticipated expansion in demand for electric propulsion systems and generators in the automobile and light truck markets. Our sales of electric propulsion systems and generators in the automobile and light truck markets to date have consisted of limited quantities of preproduction evaluation and field test units. We are not certain that our existing products will achieve broad market acceptance, or that we will be able to develop new products or product enhancements that will achieve broad market acceptance.

Changes in environmental policies could hurt the market for our products.

The market for electric and other alternative fuel vehicles and equipment and the demand for our products are influenced, to a degree, by federal, state and local regulations relating to air quality, greenhouse gases and pollutants. These laws and regulations may change, which could result in transportation or equipment manufacturers abandoning or delaying their interest in electric or hybrid electric vehicles or equipment. In addition, a failure by authorities to enforce current laws and regulations or to adopt additional environmental laws or regulations could limit the demand for our products.

Although many governments have identified as a significant priority the development of alternative energy sources, governments may change their priorities, and any change they make could materially affect our revenue or the development of our products.

If we are unable to protect our patents and other proprietary technology, we will be unable to prevent third parties from using our technology, which would impair our competitiveness and ability to commercialize our products. In addition, the cost of enforcing our proprietary rights may be expensive and result in increased losses.

Our ability to compete effectively against other companies in our industry will depend, in part, on our ability to protect our proprietary technology. Although we have attempted to safeguard and maintain our proprietary rights, we do not know whether we have been or will be successful in doing so. We have historically pursued patent protection in the United States and a limited number of foreign countries where we believe significant markets for our products exist or where potentially significant competitors have operations. It is possible that a substantial market could develop in a country where we have not received patent protection and under such circumstances our proprietary products would not be afforded legal protection in these markets. Further, our competitors may independently develop or patent technologies that are substantially equivalent or superior to ours. We cannot assure that additional patents will be issued to us or, if they are issued, as to the scope of their protection. Patents granted may not provide meaningful protection from competitors. Even if a competitor's products were to infringe patents owned by us, it would be costly for us to pursue our rights in an enforcement action, it would divert funds and resources which otherwise could be used in our operations and we may not be successful in enforcing our intellectual property rights. In addition, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country where we may operate or sell our products in the future. If third parties assert technology infringement claims against us, the defense of the claims could involve significant legal costs and require our management to divert time and attention from our business operations. If we are unsuccessful in defending any claims of infringement, we may be forced to obtain licenses or to pay royalties to continue to use our technology. We may not be able to obtain any necessary licenses on commercially reasonable terms or at all. If we fail to obtain necessary licenses or other rights, or if these licenses are costly, our results of operations may suffer either from reductions in revenues through our inability to serve customers or from increases in costs to license third-party technologies.

Use of our motors in vehicles could subject us to product liability claims or product recalls, and product liability insurance claims could cause an increase in our insurance rates or could exceed our insurance limits, which could impair our financial condition, results of operations and liquidity.

The automotive industry experiences significant product liability claims. As a supplier of electric propulsion systems or other products to vehicle OEMs, we face an inherent business risk of exposure to product liability claims in the event that our products, or the equipment into which our products are incorporated, malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our systems or components caused an accident. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the award of damages. The sale of systems and components for the transportation industry entails a high risk of these claims, which may increase as our production and sales increase. In addition, we may be required to participate in recalls involving these systems if any of our systems prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices or the need to maintain good customer relationships.

We carry product liability insurance of $10 million covering most of our products. If we were to experience a large insured loss, it might exceed our coverage limits, or our insurance carriers could decline to further cover us or raise our insurance rates to unacceptable levels, any of which could impair our financial position and results of operations. Any product liability claim brought against us also could have a material adverse effect on our reputation.

We may be subject to warranty claims, and our provision for warranty costs may not be sufficient.

We may be subject to warranty claims for defects or alleged defects in our products, and the risk of such claims arising will increase as our production and sales increase. In addition, in response to consumer demand, vehicle manufacturers have been providing, and may continue to provide, increasingly longer warranty periods for their products. As a consequence, these manufacturers may require their suppliers, such as us, to provide correspondingly longer product warranties. As a result, we could incur substantially greater warranty claims in the future.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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Exhibits

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Reports on Form 8-K

Report regarding the appointment of Adrian Schaffer as Vice President of Sales and Business Development filed on November 4, 2011.

SIGNATURES

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

UQM Technologies, Inc.

Registrant

Date: January 30, 2012

/s/

DONALD A. FRENCH

Donald A. French

Treasurer

(Principal Financial and

Accounting Officer)