
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2012

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

COMMISSION FILE NO. 1-11602

APPLIED NANOTECH HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of
incorporation or organization)

76-0273345

(I.R.S. Employer Identification No.)

3006 Longhorn Blvd., Suite 107

Austin, Texas

(Address of principal executive offices)

78758

(Zip Code)

(512) 339-5020

(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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in rule 12b-2 of the Act.

Large Accelerated Filer 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

As of October 31, 2012, the registrant had 119,675,372 shares of common stock, par value \$.001 per share, issued and outstanding.

APPLIED NANOTECH HOLDINGS, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**APPLIED NANOTECH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

ASSETS	(Unaudited) September 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	\$ 360,415	\$ 3,071,783
Accounts receivable – net of allowance for doubtful accounts	435,948	839,863
Prepaid expenses and other current assets	698,881	153,021
Total current assets	1,495,244	4,064,667
Property and equipment, net	298,983	303,055
Other assets	28,591	28,745
Total assets	\$ 1,822,818	\$ 4,396,467
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 725,764	\$ 324,333
Convertible notes payable	720,000	1,486,510
Obligations under capital lease	57,363	40,701
Accrued liabilities	670,625	379,675
Deferred revenue	–	200,000
Total current liabilities	2,173,752	2,431,219
Obligations under capital lease, long-term	23,874	48,559
Convertible notes payable, long-term	1,568,550	–
Total liabilities	3,766,176	2,479,778
Commitments and contingencies	–	–
Stockholders' equity (deficit):		
Preferred stock, \$1.00 par value, 2,000,000 shares authorized; No shares issued and outstanding	–	–
Common stock, \$.001 par value, 160,000,000 shares authorized, 119,505,007 and 118,915,698 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	119,505	118,916
Additional paid-in capital	115,197,203	114,654,026
Accumulated deficit	(117,260,066)	(112,856,253)
Total stockholders' equity (deficit)	(1,943,358)	1,916,689
Total liabilities and stockholders' equity (deficit)	\$ 1,822,818	\$ 4,396,467

See notes to consolidated financial statements.

APPLIED NANOTECH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Government contracts	\$ 436,729	\$ 284,025	\$ 1,223,273	\$ 2,616,661
Contract research	98,888	242,782	250,242	1,086,381
License fees and royalties	109,000	1,608,103	887,896	1,870,943
Product sales	54,543	23,480	189,031	89,236
Other	6,345	90,629	62,150	185,313
Total revenues	<u>705,505</u>	<u>2,249,019</u>	<u>2,612,592</u>	<u>5,848,534</u>
Research and development	944,119	1,434,599	3,674,390	4,428,239
Selling, general and administrative expenses	<u>875,638</u>	<u>792,070</u>	<u>3,024,070</u>	<u>2,247,766</u>
Operating costs and expenses	<u>1,819,757</u>	<u>2,226,669</u>	<u>6,698,460</u>	<u>6,676,005</u>
Income (Loss) from operations	(1,114,252)	22,350	(4,085,868)	(827,471)
Other income (expense), net				
Interest expense	(131,565)	(86,238)	(319,528)	(296,809)
Interest income	<u>8</u>	<u>1,822</u>	<u>1,583</u>	<u>15,298</u>
Loss from operations before taxes	(1,245,809)	(62,066)	(4,403,813)	(1,108,982)
Provision for taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss	<u>\$ (1,245,809)</u>	<u>\$ (62,066)</u>	<u>\$ (4,403,813)</u>	<u>\$ (1,108,982)</u>
Earnings (loss) per share				
Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Weighted average shares outstanding				
Basic	<u>119,381,717</u>	<u>118,853,585</u>	<u>119,194,845</u>	<u>116,155,990</u>
Diluted	<u>119,381,717</u>	<u>118,853,585</u>	<u>119,194,845</u>	<u>116,155,990</u>

See notes to consolidated financial statements.

APPLIED NANOTECH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended	
	September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (4,403,813)	\$ (1,108,982)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	83,037	50,084
Amortization of discount on debt	274,815	190,089
Stock based compensation expense	215,291	564,908
Changes in assets and liabilities:		
Accounts receivable, trade	403,915	(174,692)
Prepaid expenses and other assets	(545,706)	(78,108)
Accounts payable and accrued liabilities	812,381	(134,572)
Deferred revenue	(200,000)	(314,250)
Total adjustments	<u>1,043,733</u>	<u>103,459</u>
Net cash used in operating activities	<u>(3,360,080)</u>	<u>(1,005,523)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(50,398)	(70,611)
Net cash used in investing activities	<u>(50,398)</u>	<u>(70,611)</u>
Cash flows from financing activities:		
Repayment of capital leases	(36,590)	(17,602)
Proceeds from long-term debt	735,700	-
Proceeds from stock issuance, net of costs	-	2,551,751
Net cash provided by financing activities	<u>699,110</u>	<u>2,534,149</u>
Net increase (decrease) in cash and cash equivalents	(2,711,368)	1,458,015
Cash and cash equivalents, beginning of period	<u>3,071,783</u>	<u>2,732,570</u>
Cash and cash equivalents, end of period	<u>\$ 360,415</u>	<u>\$ 4,190,585</u>

See notes to consolidated financial statements.

APPLIED NANOTECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The consolidated financial statements for the three and nine month periods ended September 30, 2012 and 2011 have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations, and cash flows as of September 30, 2012 and 2011, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. The consolidated balance sheet as of December 31, 2011, has been derived from the audited consolidated balance sheet as of that date.

Certain information and note disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with a reading of the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission.

The results of operations for the three and nine month periods ended September 30, 2012, are not necessarily indicative of the results to be expected for the full year.

2. Supplemental Cash Flow Information

Cash paid for interest for the nine months ended September 30, 2012 and 2011, was \$18,676 and \$3,504, respectively. During the nine months ended September 30, 2012 and 2011, the Company had non-cash transactions related to share based payments described in greater detail in Note 5 and non-cash transactions related to the conversion of notes payable and related accrued interest into common stock that are described in greater detail in Note 3. In addition, \$120,000 of accounts payable were converted into common stock in each of 2012 and 2011, respectively. The Company also had capital lease transactions in the nine months ended September 30, 2012 and 2011 in the amounts of \$28,567 and \$85,369, respectively.

3. Notes Payable and Long-Term Debt

We issued convertible notes payable in 2009 and 2010. These notes bear interest at a rate of 8% and were due in 2012. The notes and resulting accrued interest are convertible into shares of our common stock at rates of \$0.20 to \$0.25 per share. The face amount of the notes due was \$2,146,000, and we valued the conversion rights at \$647,250, which was recorded as a discount at the time of issuance. This discount was amortized to interest expense over the term of the notes. \$216,000 of these notes were issued to officers and directors of the Company. As of September 30, 2012, a total of \$526,000 of these notes have been converted to common stock, leaving a remaining principal balance as of that date of \$1,620,000. Of these remaining notes, \$900,000 were formally extended to 2014 and the remaining \$720,000 were informally extended and reflected as current on the balance sheet. During the nine months ended September 30, 2011, a total of \$326,000 of principal and related accrued interest of \$31,394 was converted into 1,764,144 shares of common stock. During the nine months ended September 30, 2012, an additional \$735,700 of convertible notes payable, bearing interest at 8%, were issued. These notes and the related accrued interest are convertible into common stock at a rate of \$0.16 per share and due in January, 2014. The value of the conversion rights were valued at \$208,475, which was recorded as a discount and is being amortized over the term of the notes.

4. Stockholders' Equity

During the nine months ended September 30, 2011, we issued 6,578,948 restricted shares of common stock and received proceeds of \$2.5 million in an exempt offering under Regulation D of the Securities Act of 1933, and 200,454 shares for total proceeds of \$51,751 in connection with the exercise of options by former employees. We also issued 300,752 shares of restricted common stock in payment of accounts payable in the amount of \$120,000 during the same period, as well as 103,772 shares in connection with restricted stock payments to employees.

During the nine months ended September 30, 2012, we issued 494,949 shares of common stock in payment of accounts payable in the amount of \$120,000, and 94,360 shares in connection with restricted stock payments to employees.

APPLIED NANOTECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. . Share-Based Payments

We use the fair value method to account for stock based compensation. We recorded \$215,291 and \$564,908 in compensation expense in the periods ended September 30, 2012 and 2011, respectively, related to options and restricted stock issued under our stock-based incentive compensation plans. This includes expense related to both options issued and committed, as well as unissued restricted stock in the current year, and options issued in prior years for which the requisite service period for those options includes the current year. The fair value of these options was calculated using the Black-Scholes option pricing model. Information related to the assumptions used in this model is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. For options issued in 2012, the same approximate assumptions were used.

6. Contingencies

Litigation

The Company is a defendant in minor lawsuits described in greater detail in its 2011 Annual Report on Form 10-K. The Company expects any potential eventual payment to have no material effect on the financial statements.

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

The following is management's discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain forward-looking statements that we believe are within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our strategy, future operations, future expectations or future estimates, financial position and objectives of management. Those statements in this Form 10-Q containing the words "believes," "anticipates," "plans," "expects" and similar expressions constitute forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to our operations, results of operations, competitive factors, shifts in market demand and other risks and uncertainties.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and actual results may differ from those indicated by the forward-looking statements included in this Form 10-Q. In light of the significant uncertainties inherent in the forward-looking statements included in this Form 10-Q, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Nine months ended September 30, 2012 and 2011

OVERVIEW

We are primarily a nanotechnology company engaged in the development of technologies, based principally on our intellectual property. We generate revenues by performing research services, licensing our technology, and selling products based on our technology. During all periods presented, our primary revenues were earned as a result of reimbursed research expenditures and licensing of our technology. As more fully discussed in our Annual Report on Form 10-K for the year ended December 31, 2011, we expect to incur significant additional research and development expenses in 2012 to further develop and commercialize our technology. We are focused on commercializing our technology and obtaining sufficient revenue to cover our ongoing expenditures.

OUTLOOK

We expect our present cash balances, which were approximately \$360,000 at September 30, 2012, when combined with expected revenue sources, to enable us to operate through the end of 2012. We expect to raise additional money to extend that period and we also expect to sign additional revenue generating contracts which will continue to extend this time period. If we do not receive the expected revenue sources as quickly as anticipated, we may be required to cut back on our commercialization activities, or raise additional funding beyond the amount currently planned.

We had a plan to achieve profitability in 2012, and that plan anticipated a loss in the first half, which was expected to be offset by profits for the balance of the year. Since developing this plan, we have accelerated spending on commercialization activities, including pursuing an acquisition opportunity. In addition, revenues from product sales have not increased as quickly as planned. That has made it unlikely that we can achieve profitability this year. A critical component of our plan is the receipt of additional revenues. These revenues must come from a variety of sources, including research revenues, license fees – either in the form of an upfront payment, or from ongoing royalties as a result of product sales by our licensees, and product sales by us.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont.)

At the present time, there can be no assurance that expected revenue sources will all occur as planned. It is not possible for us to achieve profitability without license fees or royalties at our present level of activity. In order to achieve profitability solely based on research revenues, our research revenue would have to more than double from our expected level for 2012, and the majority of the revenue would have to come from non-governmental sources. The mix of revenues received could also cause the revenues required to reach break-even to increase. If revenue producing projects require unanticipated expenses, or heavier than anticipated use of outside services and materials, we may be unable to achieve profitability at the expected level of revenues. We believe that we have the ability to continue to obtain funding, if necessary, to enable us to continue operations until we reach profitability.

Our plan is based on current development plans, current operating plans, the current regulatory environment, historical experience in the development of electronic products and general economic conditions. Changes could occur which would cause certain assumptions on which this plan is based to be no longer valid. If adequate funds are not available from operations, or other sources of financing, we may have to eliminate, or reduce substantially, expenditures for research and development, testing and production of its products, or obtain funds through arrangements with other entities that may require us to relinquish rights to certain of our technologies or products. Such results could materially and adversely affect us.

RECENT DEVELOPMENTS

In October 2012, we amended our license agreement with Sichuan Anxian Yinhee Construction and Chemical Group to extend their exclusivity for our solar inks and pastes to a worldwide exclusive license. Under this amendment, we will receive an initial royalty payment of \$500,000, of which \$250,000 was received in October 2012, and \$250,000 is payable in 2013 if we achieve certain technical specifications related to our silver paste. The original agreement contained a similar provision related to the specifications for aluminum pastes. Those specifications were achieved early this year and the payment tied to those specifications was received. We expect to achieve the specifications set forth for the silver paste and receive the contingent payment in 2013. In addition, if these specifications are achieved, the royalty rate on running royalties under the agreement will be increased from 3% to 3.5%.

RECENT ACCOUNTING PRONOUNCEMENTS

There are no recent accounting pronouncements that we have not implemented that are expected to have a material impact on our financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Our cash position decreased during the period from approximately \$3.1 million at December 31, 2011 to approximately \$360,000 at September 30, 2012. This decrease in cash is primarily the result of cash used in operating activities.

Our net cash used in operating activities increased from approximately \$1.0 million in the 2011 Period to approximately \$3.4 million in the 2012 Period. This is primarily the result of operating factors discussed below in the "Results of Operations", as well as management of working capital items.

Cash used in investing activities in both periods was insignificant and related to the purchase of capital equipment. We expect cash used in investing activities to remain at relatively insignificant levels for the balance of 2012.

We had cash provided by financing activities in both periods. In 2012 we had cash generated from the issuance of notes payable in the amount of \$735,700 and in 2011 we received approximately \$2.6 million in proceeds from the issuance of common stock. There were insignificant amounts of cash used in financing activities in both periods related to payments on capital leases.

Historically, the principal source of our liquidity has been funds received from exempt offerings of common stock. We are currently seeking funds to accelerate our commercialization activities and to potentially facilitate a potential acquisition. While we expect to be able to obtain any funds needed for operations, there can be no assurance that any of these financing alternatives can be arranged on commercially acceptable terms. We believe that our success in reaching profitability will be dependent on our patent portfolio and upon the viability of products using our technology and their acceptance in the marketplace, as well as our ability to obtain additional debt or equity financings in the future, if needed.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont.)

We expect to continue to incur substantial expenses for research, development and commercialization activities. Further, we believe that certain products that may be developed by potential licensees of our technology may not be available for commercial sale or routine use for a period of one to two years. Others are expected to be available in 2012 and 2013. While we would likely receive initial license payments, ongoing royalty streams related to some licenses may not be available until potential licensees have introduced products using our technology. Therefore, it is possible that the commercialization of our existing and proposed products may require additional capital in excess of our current funding. We did, however, have a plan to operate profitably in 2012 based on the receipt of research funding, license agreements, product sales, and other revenues. However, our accelerated spending on commercialization activities, including a potential acquisition, has made it unlikely that we will achieve profitability in 2012. Achievement of at least break-even would enable us to continue our research without seeking additional financing in the future.

Because the timing and receipt of revenues from product sales, or license and royalty agreements will be tied to the achievement of certain product development, testing and marketing objectives, which cannot be predicted with certainty, there may be substantial fluctuations in our results of operations. If revenues do not increase as rapidly as anticipated, or if product development and testing require more funding than anticipated, we may be required to curtail our operations or seek additional financing from other sources at some point in the future. The combined effect of the foregoing may prevent us from achieving sustained profitability for an extended period of time.

RESULTS OF OPERATIONS

Our net loss for the third quarter ended September 30, 2012 was approximately \$1.2 million as compared with a net loss of approximately \$60,000 for the same period last year. Our net loss of approximately \$4.4 million for the nine months ended September 30, 2012 was increased from the loss of approximately \$1.1 for the nine months ended September 30, 2011. This increased loss was the result of reasons set forth below.

Our revenues for the quarter ended September 30, 2012 totaled approximately \$700,000 compared to approximately \$2.25 million for the same quarter of 2011. For the nine-month period ended September 30, 2012 (the "2012 Period"), our revenues were approximately \$2.6 million as compared with approximately \$5.8 million for the nine-month period ended September 30, 2011 (the "2011 Period"). The largest source of revenues in the 2012 Period was from research services – approximately \$1,474,000, of which approximately \$1,223,000 of which was from government sources. This is a significant decrease from the 2011 Period and was the result of two main reasons. First, during 2011, we had a Phase 3 commercialization contract which resulted in \$1.2 million in revenue in the 2011 Period. There was no such contract in 2012. In addition, we had significant research revenue from the NE Gas association in 2011, approximately \$700,000, whereas we had only approximately \$50,000 in revenue from the same source in 2012. In addition, certain research contracts that we expected to receive were delayed in 2012.

Our license fees and royalties decreased significantly in 2012. Of the total of approximately \$888,000 in royalty revenue, \$500,000 was from the remainder of the YHCC license signed in 2011. The balance of approximately \$388,000 was from Yonex. The 2011 royalty revenues were \$1.5 million from YHCC related to the solar inks license and the remaining \$371,000 was from Yonex. We also had a significant increase in our product sales from 2011 to 2012, which is the result of our increased focus in this area. We expect product sales to continue to grow throughout the remainder of the year.

We have a research revenue backlog of approximately \$2.4 million as of the date of this filing, as compared to our backlog of approximately \$1.7 million as of September 30, 2011, and \$2.3 million at December 31, 2011. We have several quotes in process and we expect to land additional research contracts and we expect our research revenue to increase during the fourth quarter of 2012. Our ability to perform continued research, or fulfill our backlog, will not require additional personnel. We do not anticipate hiring any additional people for research purposes for the balance of the year, unless we receive significant new revenues.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont.)

At the present stage of our development, significant conclusions cannot be drawn by comparing revenues from period to period; however, we would expect the quarterly revenue for the balance of 2012 to increase above the level of the first three quarters. We are currently behind our revenue plan for 2012 and likely will not be able to make up the shortfall, particularly in the research area; however, our plan anticipated increased revenues in the third and fourth quarters. At our present pace, we would expect revenues to be approximately \$4.0 million for 2012; however, we have potential agreements that, if completed, would increase that amount. Our business strategy is built on commercializing our technology through product sales and developing a royalty stream from licensing our intellectual property. To supplement this, we also seek funding from both governmental and private sources to help fund our research. Until we are able to develop a steady revenue stream from royalties, or product sales, our revenues will tend to fluctuate greatly from quarter to quarter. Our private research funding tends to come in large amounts at sporadic times.

We incurred research and development expenses of approximately \$3.7 million in the 2012 Period, which was down from the amount of approximately \$4.4 million incurred in the 2011 Period. This decrease in research expenses is a direct result of the decreased research revenue in 2012. The decrease in expense was less than the decrease in research revenue since some of the expenses are fixed and a portion of the labor previously devoted to funded projects is now devoted to unfunded commercialization development activities. In addition we have shifted some of our resources that were previously focused on R&D to the sales area as a result of our increased focus on commercialization. Significant new revenue producing research programs beyond those already identified could, however, cause research and development expenditures to increase.

Our selling, general, and administrative expenses increased from approximately \$2.2 million in 2011 to \$3.0 million in 2012. The overwhelming majority of this increase, approximately \$800,000, is the result of the formation of our sensor subsidiary and due diligence activities related to the potential acquisition for the subsidiary. The balance of the increase is primarily related to increased selling expenses related to other areas of our business, partially offset by cost reductions in other administrative areas.

Our interest income is insignificant in both periods. Our interest income results from the investment of excess funds in short term interest bearing instruments, primarily certificates of deposit, commercial paper, and money market funds. We expect our interest income to remain at insignificant levels for the balance of 2012. Our interest expense, which is primarily the result of our convertible notes payable, increased slightly in the 2012 Period. This interest expense includes both the stated interest rate on the debt and the amortization of the discount associated with the notes. We would expect our interest expense to remain at similar levels for the fourth quarter of 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not use any derivative financial instruments for hedging, speculative, or trading purposes. Our exposure to market risk is currently immaterial.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). Based upon this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms relating to the Company, including, our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

In addition, there were no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the Evaluation Date. We have not identified any material weaknesses in our internal controls, and therefore, no corrective actions were taken.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibits: See Index to Exhibits on page 14 for a descriptive response to this item.

SIGNATURES

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

APPLIED NANOTECH HOLDINGS, INC.
(Registrant)

Date: November 2, 2012

/s/ Douglas P. Baker

Douglas P. Baker
Chief Executive Officer, Chief Financial Officer
(Principal Executive Officer, Principal Financial
Officer, and Principal Accounting Officer)

INDEX TO EXHIBITS

The following documents are filed as part of this Report:

Exhibit

11	Computation of (Loss) Per Common Share
31.1	Rule 13a-14(a)/15d-14(a) Certificate of Douglas P. Baker
32.1	Section 1350 Certificate of Douglas P. Baker
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Applied Nanotech Holdings, Inc.

Computation of Income (Loss) Per Share

	Three Months ended Sept. 30,		Nine Months ended Sept. 30,	
	2012	2011	2012	2011
Computation of loss per common share:				
Net loss applicable to common shares	\$ (1,245,809)	\$ (62,066)	\$ (4,403,813)	\$ (1,108,982)
Weighted average number of common shares	119,381,717	118,853,585	119,194,845	116,155,990
Net income (loss) per common share	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ (0.01)

** No computation of diluted loss per common share is included for the other periods because such computation results in an antidilutive loss per common share.

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Certificate of Chief Executive Officer and Chief Financial Officer
Pursuant to Rule 13a-14(a)/15d-14(a)

I, Douglas P. Baker, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2012 of Applied Nanotech Holdings, Inc. ("APNT");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations and cash flows of APNT as of, and for, the periods presented in this report.
4. APNT's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for APNT and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to APNT, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of APNT's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in APNT's internal control over financial reporting that occurred during APNT's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, APNT's internal control over financial reporting; and
5. APNT's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to APNT's auditors and the audit committee of APNT's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect APNT's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in APNT's internal control over financial reporting.

Date: November 2, 2012

/s/Douglas P. Baker

Douglas P. Baker
Chief Executive Officer and Chief Financial Officer

Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

In connection with the quarterly report of Applied Nanotech Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas P. Baker, the Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
2. The information contained in this Report fairly presents, in all material respects, the financial conditions and results of operations of the Company as of the dates and for the periods expressed in the report.

Date: November 2, 2012

/s/ Douglas P. Baker
Douglas P. Baker
Chief Executive Officer and Chief Financial Officer