

# NANOPHASE TECHNOLOGIES CORPORATION

## COMPENSATION COMMITTEE CHARTER

(As amended through May 6, 2013)

### **Purpose**

The purpose of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Nanophase Technologies Corporation (the "Company") shall be to (1) provide oversight of the Company's compensation policies, plans and benefits programs; (2) determine the compensation of the Company's Chief Executive Officer (the "CEO") and other executive officers (including officers reporting under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")); (3) approve and evaluate the executive officer compensation plans, policies and programs of the Company; and (4) administer the Company's equity compensation plans for its employees and directors.

The compensation programs for the Company's executive officers shall be designed to attract, motivate and retain talented executives responsible for the success of the Company, determined within a competitive framework and based on the achievement of the Company's overall financial results, individual contributions and a compensation philosophy of "pay for performance."

### **Composition of the Committee**

The Committee shall consist of at least two members of the Board, with the exact number being determined by the Board. The members of the Committee shall be appointed and replaced from time to time by the Board. The Chairman of the Committee shall be designated by the Board. The Committee may form and delegate authority to subcommittees when appropriate. Each member of the Committee must meet the following criteria:

- the independence requirements of the rules and regulations of the Securities and Exchange Commission (the "SEC") and such additional regulatory or listing requirements as the Board may determine to be applicable or appropriate;
- the "non-employee director" definition of Rule 16b-3 promulgated under Section 16 of the Exchange Act; and
- the definition of "outside director" under Section 162(m) of the Internal Revenue Code of 1986, as amended.

### **Meetings**

The Committee shall meet as often as it determines necessary to carry out its duties and responsibilities, but no less frequently than annually. The Committee may meet either in person or telephonically, and at such times and places as the Committee determines. The Committee may establish its own meeting schedule, which it will provide to the Board. The Committee may invite other Board members, members of management or others to attend Committee meetings and provide pertinent information on the issues being considered, as the Committee may request. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities. The CEO may not be present during voting or deliberations regarding CEO compensation.

A majority of the members of the Committee shall represent a quorum, and if a quorum is present, any action approved by at least a majority of the members present shall represent the valid action of the Committee. Any actions taken by the Committee during any period in which one or more members fail for any reason to meet the membership requirements set forth above shall be nonetheless duly authorized actions of the Committee for all corporate purposes.

The Committee shall regularly report its actions to the full Board and keep written minutes of its meetings which shall be recorded and filed with the books and records of the Company.

### **Duties and Responsibilities**

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes set forth in this Charter.

#### *Executive and Other Compensation*

- Annually review and approve for the CEO and the executive officers of the Company: (1) the annual base salary, (2) the annual incentive bonus, including the specific goals and amount, (3) equity compensation, (4) any employment agreement, severance arrangement and change in control agreement/provision, (5) any signing bonus or payment of relocation costs and (6) any other significant benefits, compensation or arrangements not available to employees generally. One of the Committee's objectives shall be to use compensation to align the interests of the executive officers with the long-term interests of the Company's stockholders, thereby incentivizing management to increase stockholder value.
- Review and approve corporate goals and objectives relevant to the compensation of the CEO and the executive officers of the Company, evaluating performance in light thereof and considering factors related to the performance of the Company, including accomplishment of the Company's long-term business and financial goals.
- Administer the Company's equity compensation plans (collectively, the "Plans"), including granting awards to employees and delegating some or all of its administrative authority under the Plans to a subcommittee comprised of one or more members of the Board or officers of the Company as the Committee may deem appropriate.
- Provide oversight of the Company's overall compensation plans and benefits programs and make recommendations to the Board with respect to improvements or changes to such plans or the adoption of new plans when appropriate.
- Evaluate, on a periodic basis, the competitiveness of (1) the compensation of the CEO and the executive officers of the Company and (2) the Company's overall compensation plans.

#### *Director Compensation*

- Evaluate director compensation, consult with outside consultants and/or with the Human Resources department when appropriate and make recommendations to the Board regarding director compensation and, if so delegated the authority, approve director compensation.

- Grant awards under the Plans to directors and any proposed amendments thereto, subject to obtaining stockholder approval of any amendments as required by applicable law.

#### *Related Duties and Authority*

- Consult with the Human Resources department and, when appropriate, with outside consultants to assist in the determination and evaluation of executive officer compensation and approve the consultants' fees and other retention terms. The Committee may also obtain advice and assistance directly from internal or external legal, accounting or other advisors, including compensation consultants, and shall have the power, in its sole discretion, to retain such individuals or entities as it may determine necessary or appropriate. The Committee shall be directly responsible for the appointment, compensation and oversight of the work of any such advisors they retain and shall receive appropriate funding, as determined by the Committee, from the Company for payment of reasonable compensation to such advisors. In selecting any such advisors, the Committee shall, if then required to do so under the SEC's rules, evaluate all factors relevant to assessing such consultant's or advisor's independence, including the factors required to be considered under any applicable SEC rules, and consider whether such advisors may have actual or potential conflicts of interest. Approval of the Committee shall also be required in order for any such advisor to provide any services to the Company not related to executive officer or director compensation services provided to the Committee.
- If applicable under the SEC's rules, review and discuss with management the Company's Compensation Discussion and Analysis to be included in the Company's annual proxy statement, and produce a report on executive compensation for inclusion in the Company's annual proxy statement that complies with the SEC's rules and regulations and any other applicable rules and regulations.

#### **Delegation of Authority**

In fulfilling its responsibilities, the Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee or one or more members of the Committee when appropriate, but no such delegation shall be permitted if the authority is required by law, regulation or listing standard to be exercised by the Committee as a whole.

#### **Evaluation**

The Committee shall review the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board. The Committee shall also engage in an annual self-assessment with the goal of continuing improvement.

#### **Compensation**

Members of the Committee shall receive such fees, if any, for their service as Committee members as may be determined by the Board in its sole discretion.

#### **Clarification of Committee's Role**

While the members of the Committee have the duties and responsibilities set forth in this Charter, nothing contained in this Charter is intended to create, or should be construed as creating, any responsibility or liability of members of the Committee, except to the extent otherwise provided under applicable federal

or state law. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities. This Charter, and any amendments thereto, shall be displayed on the Company's website and a printed copy of such shall be made available to any stockholder of the Company who requests it.