

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

ASSETS	September 30, 2014 (Unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	\$ 2,018,069	\$ 3,276,132
Investments	-	30,000
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on September 30, 2014 and December 31, 2013	1,325,454	52,173
Other receivable	45	644
Inventories, net	748,864	976,110
Prepaid expenses and other current assets	244,191	201,622
Total current assets	4,336,623	4,536,681
 Equipment and leasehold improvements, net	 2,266,714	 2,464,089
Other assets, net	25,488	27,346
	\$ 6,628,825	\$ 7,028,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	18,397	30,514
Accounts payable	588,563	502,935
Accrued expenses	559,489	323,214
Total current liabilities	1,166,449	856,663
 Long-term portion of capital lease obligations	 -	 10,593
Long-term deferred rent	624,269	632,652
Asset retirement obligation	164,564	159,959
Total long-term liabilities	788,833	803,204
 Stockholders' equity:		
Preferred stock, \$.01 par value, 24,088 shares authorized and no shares issued and outstanding	-	-
Common stock, \$.01 par value, 35,000,000 shares authorized; 28,481,496 shares issued and outstanding on September 30, 2014 and December 31, 2013, respectively	284,815	284,815
Additional paid-in capital	95,915,691	95,761,431
Accumulated deficit	(91,526,963)	(90,677,997)
Total stockholders' equity	4,673,543	5,368,249
	\$ 6,628,825	\$ 7,028,116

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue:				
Product revenue, net	\$ 2,647,111	\$ 2,156,844	\$ 8,070,472	\$ 7,810,058
Other revenue	6,755	7,106	45,690	16,356
Net revenue	2,653,866	2,163,950	8,116,162	7,826,414
Operating expense:				
Cost of revenue	1,857,957	1,648,417	5,580,801	5,555,601
Gross profit	795,909	515,533	2,535,361	2,270,813
Research and development expense	315,875	375,442	989,458	1,257,263
Selling, general and administrative expense	828,390	772,644	2,391,333	2,590,596
Loss from operations	(348,356)	(632,553)	(845,430)	(1,577,046)
Interest income	114	379	810	1,123
Interest expense	(1,309)	(1,623)	(4,346)	(10,748)
Other, net	-	901	-	18,001
Loss before provision for income taxes	(349,551)	(632,896)	(848,966)	(1,568,670)
Provision for income taxes	-	-	-	-
Net loss	\$ (349,551)	\$ (632,896)	\$ (848,966)	\$ (1,568,670)
Net loss per share- basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.06)
Weighted average number of basic and diluted common shares outstanding	28,481,496	28,468,162	28,481,496	28,467,686

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue:				
Product revenue, net	\$ 2,647,111	\$ 2,156,844	\$ 8,070,472	\$ 7,810,058
Other revenue	6,755	7,106	45,690	16,356
Net revenue	2,653,866	2,163,950	8,116,162	7,826,414
Operating expense:				
<i>Cost of revenue detail:</i>				
Depreciation	150,352	180,662	450,219	540,295
Non-Cash equity compensation	5,508	5,648	19,402	20,848
Other costs of revenue	1,702,097	1,462,107	5,111,180	4,994,458
Cost of revenue	1,857,957	1,648,417	5,580,801	5,555,601
Gross profit	795,909	515,533	2,535,361	2,270,813
<i>Research and development expense detail:</i>				
Depreciation	23,642	28,604	76,082	93,185
Non-Cash equity compensation	11,453	15,740	42,512	57,910
Other research and development expense	280,780	331,098	870,864	1,106,168
Research and development expense	315,875	375,442	989,458	1,257,263
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	10,090	13,758	29,253	40,602
Non-Cash equity compensation	26,219	21,813	87,251	113,418
Other selling, general and administrative expense	792,081	737,073	2,274,829	2,436,576
Selling, general and administrative expense	828,390	772,644	2,391,333	2,590,596
Loss from operations	(348,356)	(632,553)	(845,430)	(1,577,046)
Interest income	114	379	810	1,123
Interest expense	(1,309)	(1,623)	(4,346)	(10,748)
Other, net	-	901	-	18,001
Loss before provision for income taxes	(349,551)	(632,896)	(848,966)	(1,568,670)
Provision for income taxes	-	-	-	-
Net loss	\$ (349,551)	\$ (632,896)	\$ (848,966)	\$ (1,568,670)
Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):				
Addback Interest, net	1,195	1,244	3,536	9,625
Addback Depreciation/Amortization	184,084	223,024	555,554	674,082
Addback Non-Cash Equity Compensation	43,180	43,201	149,165	192,176
Adjusted EBITDA	\$ (121,092)	\$ (365,427)	\$ (140,711)	\$ (692,787)