

SECOND QUARTER 2015 CONFERENCE CALL

Jess Jankowski, President & CEO

Thank you, Ben. Good morning everybody. We're glad you're able to join us to discuss our second quarter 2015 financial results and business updates. Frank Cesario, our CFO, has joined me again today. During this call, we'll be talking about the outlook for our growth initiatives, as well as updating you on our existing business, and 2015 second quarter results.

We talked about growing revenue as we entered 2015. And then we took a hit from our largest customer, announcing two months ago that it looked like that customer would be about \$1.5 million below last year, and discussed how our other new revenue was filling a good bit of that shortfall, as opposed to helping us expand our topline. Today, I'm happy to share that it looks like we'll end up better than that, which means that we once again expect full year revenue growth. Although sales to our largest customer were down a total of \$1 million through six months, they look to be going strong in terms of purchase orders in hand for the second half, on top of a newly expanded forecast. Make no mistake, this still represents a challenge for us to manage and a blow to our expectations, but the magnitude is less than we thought only two months ago. These sorts of ups and downs reinforce our need to develop new customers and new products, whether in current markets, adjacent markets, or in wholly new markets for Nanophase.

After Frank provides a short overview of our financial results, I'll talk about all of our key business development initiatives for 2015 and 2016. These are focused in growing our existing customer and applications base, along with adding growth from:

- Personal Care Technologies;
- Surface Finishing Technologies; and
- Energy Technologies; including
 - Energy Storage & Solar Control

With that, I'll hand things over to Frank.

Frank Cesario, CFO

Thanks Jess. Good morning, this is Frank Cesario. Before I begin today's overview of our financial results for the second quarter and first six months of 2015, please remember that all financial results are stated in approximate terms.

Revenue for the second quarter of both 2015 and 2014 was \$2.9 million, with gross margins of 34% and 36%, respectively. The net loss for the quarter was \$0.1 million, or \$0.00 per share, for both 2015 and 2014.

On a year to date basis revenue was \$5.2 million in 2015 vs. \$5.5 million in 2014, with margins of 30% and 32%, respectively, and net losses of \$0.7 million or \$0.02 per share and \$0.5 million or \$0.02 per share, respectively. I note that our business generated net cash during two of the past five quarters, including the second quarter of 2015.

We ended the second quarter 2015 with a \$1.2 million cash position and \$250,000 drawn on our working capital credit line. Many of you are aware that we have a \$1 million cash covenant related to the exclusive supply relationship with our largest customer that we disclose in more detail in our SEC filings. It remains our intention to focus on small amount and short period vehicles, such as this credit line facility, on an as needed basis. During June, we borrowed on this credit line strictly to meet contractual covenants, then repaid this borrowing in early July. Things could certainly change at any time and we may conclude it best to seek a small amount of additional capital, but this is the way that our Company approached 2015 and remains so today. Again, should we seek additional capital, we do not expect that it would be a significant amount.

Jess?

Jess Jankowski, President & CEO

Thanks Frank.

I'd like to key-in now on our main business development initiatives. These areas are our top focus as we continue to build Nanophase to achieve the highest sustainable value possible.

Again, these are:

- Personal Care;
- Surface Finishing; &
- Energy Technologies; which include;
 - Energy Storage (or batteries); & Solar Control
- Along with a focus on expanding business within our existing customer and applications base;

We expect revenue from these areas to make a meaningful difference this year.

In Personal Care, which is composed largely of our active ingredients for inorganic sunscreens, we again hope to build on 2014's record year in terms of zinc oxide volume.

Even with our recent challenges relating to forecast variability, we continue to believe there are positive indications that, within a range of all-too-normal fluctuations, this is a sustainable-to-growing business for Nanophase. We believe our expansion here during recent years is a reflection of a growing consumer preference for full-spectrum inorganic sunscreens (specifically, zinc oxide and titanium dioxide), which are also referred to as "physical sun blockers" in the industry, versus traditional organic sunscreens (like avobenzone and other perceived "bad actors"). As we have said in the past, dermatologists have long preferred zinc oxide (and, to a lesser extent, titanium dioxide) as full-spectrum UV blockers, and movement in consumer preferences has helped in this regard. In addition to existing demand, which is primarily based in the U.S., regulatory changes in the EU are in the pipeline which should present opportunities for growth in new applications there. We also expect to see consumer interest in Asia to further expand. We expect this market to continue to be a strong one for Nanophase.

While Personal Care Technologies is clearly the most mature of our current business development initiatives, we're adding new products to it and are consciously working to capitalize on the inherent strengths of nano- and near-nano materials and, more importantly, our ability to coat them to enable their use in a wider group of personal care applications.

Given its relative prominence in our technology portfolio, Personal Care has also caused the most difficulty earlier this year, as forecasts have changed and total shipments through April were down significantly from prior years. This serves as a reminder of why we need to add new revenue streams to buffer any negative fluctuations in Personal Care, particularly with large customer volume. In that vein, we've also launched new solutions in Personal Care, the first two of which were just displayed at a trade show in Asia, for which we are currently fulfilling sample requests. We believe that a relatively new patent-protected coating that we developed will be well-received by the marketplace, and look to get that coating marketed more broadly in a growing suite of products. More to come on this later in the year.

In terms of the surest near-term growth, that's still in the Surface Finishing market. This area is very different from any other market that Nanophase is currently developing, in terms of how we approach it, and the customer and market profiles involved. It's a market that includes many medium-sized companies that may each ultimately buy low-six-figure amounts of our polishing slurries. To reach these customers, we have to do more technical support, and we have to develop greater applications data to support the selling process than we do in our other markets. Our 2014 Surface Finishing revenue approached double the 2013 volume, in the mid-six-figure range. For 2015, we expect our Surface Finishing volume to well exceed 2014 levels, with some upside potential beyond that. While we expected MUCH more growth here than we've seen thus far, we already have more shipments for 2015 than for all of 2014.

Our two new Energy Technologies are in the Energy Storage application (referring to batteries) and in the Solar Control area, which refers to several applications involved with improving energy conservation (think of the films used on vehicles and buildings).

For the battery work, during 2014 we saw multiple large battery manufacturers duplicate the results we used to validate our value proposition, with entities further evaluating this proposition by actually incorporating our materials in the manufacture of their batteries on a small-scale production basis. We know that we can save customers money over more expensive existing materials, and in some cases provide performance benefits at this lower cost. As this is a small piece of the overall cost in producing a battery, we now understand that the battery world won't stop to incorporate us immediately into their commercial lines, but we believe one or more entities will incorporate us into new designs, and we're well positioned to benefit should the existing raw material increase in cost.

Relative to our other energy area, Solar Control, despite previously telling you that this growth ramp was longer than with Energy Storage, but offered potentially more upside, we now have two initial commercial shipments of the solar control product offering under our belt. We believe that our material is everything we thought it was, and is well positioned to participate in this market. We have several other initiatives in this area that are further away from revenue, but exciting nonetheless.

We've also seen existing customers and applications expand during the year, which reinforces our view that lead times may be far longer than we like, but that customers see value in formulating with our materials. This affirms that our technologies provide benefits that are not achievable through other means. We certainly support these efforts.

We talk about making progress, which is both true and critical to the end result. And you know that I try to be cautious and avoid hype. Without abandoning my longstanding approach, I will share my belief that our growth initiatives will yield meaningful new business revenue during 2015 and 2016, and validate the strategy upon which the Company is based. I look forward to talking to you further as the story unfolds.

Although most of our investors listen to the webcast, or review the transcript after the live call, we'd like to invite those participating in today's call to ask any questions you may have, or to share your comments.

Ben, would you please begin the Q&A session? _____ Thank you Ben.

In terms of the direction of the Company, the quality of our pipeline, and the potential commercial value of our technology, I don't think there's been a better time to be a Nanophase investor. I'm glad that all of you are here, and I'm looking forward to achieving and enjoying great returns together. We'll have more to talk about next quarter.

Thanks again for joining us today.