

**NANOPHASE TECHNOLOGIES CORPORATION**

**BALANCE SHEETS**

<b>ASSETS</b>	<b>March 31, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,478,151	\$ 1,275,402
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on March 31, 2016 and on December 31, 2015	929,343	506,549
Other receivables, net	71	43
Inventories, net	758,038	661,593
Prepaid expenses and other current assets	297,244	247,726
Total current assets	3,462,847	2,691,313
Equipment and leasehold improvements, net	1,741,777	1,860,579
Other assets, net	21,761	22,381
	\$ 5,226,385	\$ 4,574,273
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of capital lease obligations	\$ 95,559	\$ 94,406
Accounts payable	714,663	507,643
Accrued expenses	331,314	276,287
Total current liabilities	1,141,536	878,336
Long-term portion of capital lease obligations	119,233	143,560
Long-term deferred rent	506,432	518,747
Asset retirement obligations	173,773	172,238
	799,438	834,545
<b>Stockholders' equity:</b>		
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; 31,185,496 and 28,585,496 shares issued and outstanding on March 31, 2016 and December 31, 2015, respectively	311,855	285,855
Additional paid-in capital	97,181,416	96,172,795
Accumulated deficit	(94,207,860)	(93,597,258)
Total stockholders' equity	3,285,411	2,861,392
	\$ 5,226,385	\$ 4,574,273

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<u>          </u>	<u>          </u>
<b>Revenue:</b>		
Product revenue	\$ 2,189,223	\$ 2,299,798
Other revenue	21,881	10,387
Total revenue	<u>2,211,104</u>	<u>2,310,185</u>
 <b>Operating expense:</b>		
Cost of revenue	<u>1,754,636</u>	<u>1,744,551</u>
Gross profit	456,468	565,634
 Research and development expense	301,598	301,910
Selling, general and administrative expense	<u>761,221</u>	<u>867,075</u>
Loss from operations	<u>(606,351)</u>	<u>(603,351)</u>
Interest income	-	-
Interest expense	(4,258)	(2,524)
Other, net	<u>7</u>	<u>-</u>
Loss before provision for income taxes	<u>(610,602)</u>	<u>(605,875)</u>
 Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u><u>\$ (610,602)</u></u>	<u><u>\$ (605,875)</u></u>
 Net loss per share-basic and diluted	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.02)</u></u>
 Weighted average number of basic and diluted common shares outstanding	<u><u>30,014,067</u></u>	<u><u>28,542,533</u></u>

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE**

(Unaudited)

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue:</b>		
Product revenue, net	\$ 2,189,223	\$ 2,299,798
Other revenue	21,881	10,387
Total revenue	2,211,104	2,310,185
 <b>Operating expense:</b>		
<i>Cost of revenue detail:</i>		
Depreciation	142,923	144,322
Non-Cash equity compensation	5,993	5,635
Other costs of revenue	1,605,720	1,594,594
Cost of revenue	1,754,636	1,744,551
Gross profit	456,468	565,634
 <i>Research and development expense detail:</i>		
Depreciation	28,555	29,965
Non-Cash equity compensation	9,331	8,345
Other research and development expense	263,712	263,600
Research and development expense	301,598	301,910
 <i>Selling, general and administrative expense detail:</i>		
Depreciation and amortization	10,209	10,182
Non-Cash equity compensation	31,297	32,705
Other selling, general and administrative expense	719,715	824,188
Selling, general and administrative expense	761,221	867,075
Loss from operations	(606,351)	(603,351)
Interest income	-	-
Interest expense	(4,258)	(2,524)
Other, net	7	-
Loss before provision for income taxes	(610,602)	(605,875)
Provision for income taxes	-	-
Net loss	\$ (610,602)	\$ (605,875)
 <b>Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):</b>		
Addback Interest, net	4,258	2,524
Addback Depreciation/Amortization	181,687	184,469
Addback Non-Cash Equity Compensation	46,621	46,685
Adjusted EBITDA	\$ (378,036)	\$ (372,197)