

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

ASSETS	September 30, 2016 (Unaudited)	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 1,718,039	\$ 1,275,402
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on September 30, 2016 and December 31, 2015	1,304,297	506,549
Other receivable	71	43
Inventories, net	658,975	661,593
Prepaid expenses and other current assets	349,143	247,726
Total current assets	4,030,525	2,691,313
 Equipment and leasehold improvements, net	 1,473,251	 1,860,579
Other assets, net	20,518	22,381
	\$ 5,524,294	\$ 4,574,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	97,910	94,406
Accounts payable	648,873	507,643
Accrued expenses	626,419	276,287
Total current liabilities	1,373,202	878,336
 Long-term portion of capital lease obligations	 69,682	 143,560
Long-term deferred rent	481,801	518,747
Asset retirement obligation	176,844	172,238
Total long-term liabilities	728,327	834,545
 Stockholders' equity:		
Preferred stock, \$.01 par value, 24,088 shares authorized and no shares issued and outstanding	-	-
Common stock, \$.01 par value, 42,000,000 and 35,000,000 shares authorized; 31,229,996 and 28,585,496 shares issued and outstanding on September 30, 2016 and December 31, 2015, respectively	312,300	285,855
Additional paid-in capital	97,280,795	96,172,795
Accumulated deficit	(94,170,330)	(93,597,258)
Total stockholders' equity	3,422,765	2,861,392
	\$ 5,524,294	\$ 4,574,273

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue:				
Product revenue, net	\$ 2,509,648	\$ 2,778,756	\$ 8,376,747	\$ 7,999,940
Other revenue	11,375	6,875	38,456	33,490
Net revenue	2,521,023	2,785,631	8,415,203	8,033,430
Operating expense:				
Cost of revenue	1,841,080	1,902,815	5,766,284	5,592,892
Gross profit	679,943	882,816	2,648,919	2,440,538
Research and development expense	386,081	324,538	1,059,507	969,428
Selling, general and administrative expense	715,765	709,473	2,151,726	2,315,839
Income/(Loss) from operations	(421,903)	(151,195)	(562,314)	(844,729)
Interest income	-	-	-	-
Interest expense	(3,179)	(3,646)	(11,309)	(9,374)
Other, net	-	-	551	-
Income/(Loss) before provision for income taxes	(425,082)	(154,841)	(573,072)	(854,103)
Provision for income taxes	-	-	-	-
Net income/(loss)	\$ (425,082)	\$ (154,841)	\$ (573,072)	\$ (854,103)
Net income/(loss) per share- basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average number of basic and diluted common shares outstanding	31,211,132	28,585,496	30,805,053	28,571,332

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue:				
Product revenue, net	\$ 2,509,648	\$ 2,778,756	\$ 8,376,747	\$ 7,999,940
Other revenue	11,375	6,875	38,456	33,490
Net revenue	<u>2,521,023</u>	<u>2,785,631</u>	<u>8,415,203</u>	<u>8,033,430</u>
Operating expense:				
<i>Cost of revenue detail:</i>				
Depreciation	108,525	146,351	391,158	433,697
Non-Cash equity compensation	5,584	5,597	17,100	17,264
Other costs of revenue	<u>1,726,971</u>	<u>1,750,867</u>	<u>5,358,026</u>	<u>5,141,931</u>
Cost of revenue	<u>1,841,080</u>	<u>1,902,815</u>	<u>5,766,284</u>	<u>5,592,892</u>
Gross profit	679,943	882,816	2,648,919	2,440,538
<i>Research and development expense detail:</i>				
Depreciation	25,248	26,838	82,835	85,568
Non-Cash equity compensation	9,053	8,757	27,264	26,101
Other research and development expense	<u>351,780</u>	<u>288,943</u>	<u>949,408</u>	<u>857,759</u>
Research and development expense	386,081	324,538	1,059,507	969,428
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	7,876	10,090	28,412	30,359
Non-Cash equity compensation	26,317	30,852	84,176	95,926
Other selling, general and administrative expense	<u>681,572</u>	<u>668,531</u>	<u>2,039,138</u>	<u>2,189,554</u>
Selling, general and administrative expense	<u>715,765</u>	<u>709,473</u>	<u>2,151,726</u>	<u>2,315,839</u>
Income/(Loss) from operations	(421,903)	(151,195)	(562,314)	(844,729)
Interest income	-	-	-	-
Interest expense	(3,179)	(3,646)	(11,309)	(9,374)
Other, net	-	-	551	-
Income/(Loss) before provision for income taxes	(425,082)	(154,841)	(573,072)	(854,103)
Provision for income taxes	-	-	-	-
Net income/(loss)	<u>\$ (425,082)</u>	<u>\$ (154,841)</u>	<u>\$ (573,072)</u>	<u>\$ (854,103)</u>
Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):				
Addback Interest, net	3,179	3,646	11,309	9,374
Addback Depreciation/Amortization	141,649	183,279	502,405	549,624
Addback Non-Cash Equity Compensation	<u>40,954</u>	<u>45,206</u>	<u>128,540</u>	<u>139,291</u>
Adjusted EBITDA	<u>\$ (239,300)</u>	<u>\$ 77,290</u>	<u>\$ 69,182</u>	<u>\$ (155,814)</u>