

**NANOPHASE TECHNOLOGIES CORPORATION**

**BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,424,385	\$ 1,275,402
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on June 30, 2016 and December 31, 2015	1,703,660	506,549
Other receivable	84	43
Inventories, net	597,026	661,593
Prepaid expenses and other current assets	442,278	247,726
Total current assets	4,167,433	2,691,313
 Equipment and leasehold improvements, net	 1,578,932	 1,860,579
Other assets, net	21,142	22,381
	\$ 5,767,507	\$ 4,574,273
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of capital lease obligations	96,727	94,406
Accounts payable	637,926	507,643
Accrued expenses	479,833	276,287
Total current liabilities	1,214,486	878,336
 Long-term portion of capital lease obligations	 94,609	 143,560
Long-term deferred rent	494,116	518,747
Asset retirement obligation	175,308	172,238
Total long-term liabilities	764,033	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 June 30, 2016 and December 31, 2015, respectively	311,855	285,855
Additional paid-in capital	97,222,381	96,172,795
Accumulated deficit	(93,745,248)	(93,597,258)
Total stockholders' equity	3,788,988	2,861,392
	\$ 5,767,507	\$ 4,574,273

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS**

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Revenue:</b>				
Product revenue, net	\$ 3,677,876	\$ 2,921,386	\$ 5,867,099	\$ 5,221,184
Other revenue	5,200	16,228	27,081	26,615
Net revenue	<u>3,683,076</u>	<u>2,937,614</u>	<u>5,894,180</u>	<u>5,247,799</u>
<b>Operating expense:</b>				
Cost of revenue	<u>2,170,568</u>	<u>1,945,526</u>	<u>3,925,204</u>	<u>3,690,077</u>
Gross profit	1,512,508	992,088	1,968,976	1,557,722
Research and development expense	371,828	342,980	673,426	644,890
Selling, general and administrative expense	<u>674,740</u>	<u>739,291</u>	<u>1,435,961</u>	<u>1,606,366</u>
Income/(Loss) from operations	465,940	(90,183)	(140,411)	(693,534)
Interest income	-	-	-	-
Interest expense	(3,872)	(3,204)	(8,130)	(5,728)
Other, net	<u>544</u>	<u>-</u>	<u>551</u>	<u>-</u>
Income/(Loss) before provision for income taxes	462,612	(93,387)	(147,990)	(699,262)
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income/(loss)	<u>\$ 462,612</u>	<u>\$ (93,387)</u>	<u>\$ (147,990)</u>	<u>\$ (699,262)</u>
Net income/(loss) per share- basic and diluted	<u>\$ 0.01</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.02)</u>
Weighted average number of basic and diluted common shares outstanding	<u>31,185,496</u>	<u>28,585,496</u>	<u>30,599,782</u>	<u>28,564,133</u>

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Revenue:</b>				
Product revenue, net	\$ 3,677,876	\$ 2,921,386	\$ 5,867,099	\$ 5,221,184
Other revenue	5,200	16,228	27,081	26,615
Net revenue	3,683,076	2,937,614	5,894,180	5,247,799
<b>Operating expense:</b>				
<i>Cost of revenue detail:</i>				
Depreciation	139,710	143,024	282,633	287,346
Non-Cash equity compensation	5,523	6,032	11,516	11,667
Other costs of revenue	2,025,335	1,796,470	3,631,055	3,391,064
Cost of revenue	2,170,568	1,945,526	3,925,204	3,690,077
Gross profit	1,512,508	992,088	1,968,976	1,557,722
<i>Research and development expense detail:</i>				
Depreciation	29,031	28,765	57,587	58,730
Non-Cash equity compensation	8,880	8,999	18,211	17,344
Other research and development expense	333,917	305,216	597,628	568,816
Research and development expense	371,828	342,980	673,426	644,890
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	10,326	10,085	20,535	20,268
Non-Cash equity compensation	26,562	32,369	57,859	65,074
Other selling, general and administrative expense	637,852	696,837	1,357,567	1,521,024
Selling, general and administrative expense	674,740	739,291	1,435,961	1,606,366
Income/(Loss) from operations	465,940	(90,183)	(140,411)	(693,534)
Interest income	-	-	-	-
Interest expense	(3,872)	(3,204)	(8,130)	(5,728)
Other, net	544	-	551	-
Income/(Loss) before provision for income taxes	462,612	(93,387)	(147,990)	(699,262)
Provision for income taxes	-	-	-	-
Net income/(loss)	\$ 462,612	\$ (93,387)	\$ (147,990)	\$ (699,262)
<b>Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):</b>				
Addback Interest, net	3,872	3,204	8,130	5,728
Addback Depreciation/Amortization	179,067	181,874	360,755	366,344
Addback Non-Cash Equity Compensation	40,965	47,400	87,586	94,085
Adjusted EBITDA	\$ 686,516	\$ 139,091	\$ 308,481	\$ (233,105)