

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

ASSETS	December 31, 2016 (Unaudited)	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 1,779,027	\$ 1,275,402
Trade accounts receivable, less allowance for doubtful accounts of \$5,000 on December 31, 2016 and \$6,000 on December 31, 2015	434,226	506,549
Other receivable	96	43
Inventories, net	771,975	661,593
Prepaid expenses and other current assets	441,634	247,726
Total current assets	3,426,958	2,691,313
 Equipment and leasehold improvements, net	 1,395,441	 1,860,579
Other assets, net	19,893	22,381
	\$ 4,842,292	\$ 4,574,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	107,021	94,406
Accounts payable	669,025	507,643
Accrued expenses	521,302	276,287
Total current liabilities	1,297,348	878,336
 Long-term portion of capital lease obligations	 109,448	 143,560
Long-term deferred rent	465,850	518,747
Asset retirement obligation	178,378	172,238
Total long-term liabilities	753,676	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 December 31, 2016 and December 31, 2015, respectively	312,300	285,855
Additional paid-in capital	97,359,324	96,172,795
Accumulated deficit	(94,880,356)	(93,597,258)
Total stockholders' equity	2,791,268	2,861,392
	\$ 4,842,292	\$ 4,574,273

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
	Revenue:			
Product revenue, net	\$ 2,343,061	\$ 2,271,979	\$ 10,719,808	\$ 10,271,919
Other revenue	24,283	7,780	62,739	41,270
Net revenue	2,367,344	2,279,759	10,782,547	10,313,189
Operating expense:				
Cost of revenue	1,776,592	1,606,702	7,542,876	7,199,594
Gross profit	590,752	673,057	3,239,671	3,113,595
Research and development expense	494,181	303,193	1,553,688	1,272,621
Selling, general and administrative expense	803,057	703,585	2,954,232	3,019,424
Income/(Loss) from operations	(706,486)	(333,721)	(1,268,249)	(1,178,450)
Interest income	-	-	-	-
Interest expense	(3,540)	(4,625)	(14,849)	(13,999)
Other, net	-	-	-	-
Income/(Loss) before provision for income taxes	(710,026)	(338,346)	(1,283,098)	(1,192,449)
Provision for income taxes	-	-	-	-
Net income/(loss)	\$ (710,026)	\$ (338,346)	\$ (1,283,098)	\$ (1,192,449)
Net income/(loss) per share- basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.04)
Weighted average number of basic and diluted common shares outstanding	31,229,996	28,585,496	30,911,869	28,574,902

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Revenue:				
Product revenue, net	\$ 2,343,061	\$ 2,271,979	\$ 10,719,808	\$ 10,271,919
Other revenue	24,283	7,780	62,739	41,270
Net revenue	<u>2,367,344</u>	<u>2,279,759</u>	<u>10,782,547</u>	<u>10,313,189</u>
Operating expense:				
<i>Cost of revenue detail:</i>				
Depreciation	80,503	147,685	471,660	581,382
Non-Cash equity compensation	5,298	5,105	22,398	22,369
Other costs of revenue	<u>1,690,791</u>	<u>1,453,912</u>	<u>7,048,818</u>	<u>6,595,843</u>
Cost of revenue	<u>1,776,592</u>	<u>1,606,702</u>	<u>7,542,876</u>	<u>7,199,594</u>
Gross profit	590,752	673,057	3,239,671	3,113,595
<i>Research and development expense detail:</i>				
Depreciation	22,018	27,475	104,852	113,043
Non-Cash equity compensation	9,090	8,279	36,354	34,380
Other research and development expense	<u>463,073</u>	<u>267,439</u>	<u>1,412,482</u>	<u>1,125,198</u>
Research and development expense	494,181	303,193	1,553,688	1,272,621
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization/impairment	60,121	10,090	88,532	40,449
Non-Cash equity compensation	64,141	27,902	148,317	123,828
Other selling, general and administrative expense	<u>678,795</u>	<u>665,593</u>	<u>2,717,383</u>	<u>2,855,147</u>
Selling, general and administrative expense	<u>803,057</u>	<u>703,585</u>	<u>2,954,232</u>	<u>3,019,424</u>
Income/(Loss) from operations	(706,486)	(333,721)	(1,268,249)	(1,178,450)
Interest income	-	-	-	-
Interest expense	(3,540)	(4,625)	(14,849)	(13,999)
Other, net	-	-	-	-
Income/(Loss) before provision for income taxes	(710,026)	(338,346)	(1,283,098)	(1,192,449)
Provision for income taxes	-	-	-	-
Net income/(loss)	<u>\$ (710,026)</u>	<u>\$ (338,346)</u>	<u>\$ (1,283,098)</u>	<u>\$ (1,192,449)</u>
Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):				
Addback Interest, net	3,540	4,625	14,849	13,999
Addback Depreciation/Amortization/Impairment	162,642	185,250	665,044	734,874
Addback Non-Cash Equity Compensation	<u>78,529</u>	<u>41,286</u>	<u>207,069</u>	<u>180,577</u>
Adjusted EBITDA	<u>\$ (465,315)</u>	<u>\$ (107,185)</u>	<u>\$ (396,136)</u>	<u>\$ (262,999)</u>