

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

(Unaudited)

ASSETS	September 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 1,141,253	\$ 723,069
Investments	1,879,168	6,908,888
Trade accounts receivable, less allowance for doubtful accounts of \$9,000 on September 30, 2009 and December 31, 2008	784,738	1,092,125
Other receivable	-	7,749
Inventories, net	1,215,858	1,154,207
Prepaid expenses and other current assets	352,168	482,452
Total current assets	5,373,185	10,368,490
Investments	5,340,000	5,340,000
Equipment and leasehold improvements, net	5,824,031	6,651,842
Other assets, net	40,087	39,765
	\$ 16,577,303	\$ 22,400,097
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	8,277	22,211
Current portion of deferred other revenue	-	74,243
Current portion of long term debt, less current maturities and debt discount	-	1,570,346
Accounts payable	381,103	356,853
Accrued expenses	1,359,984	1,493,262
Accrued severance	179,403	541,014
Total current liabilities	1,928,767	4,057,929
Long-term portion of capital lease obligations	2,940	9,219
	2,940	9,219
Contingent liabilities:	-	-
Stockholders' equity:		
Preferred stock, \$.01 par value, 24,088 shares authorized and no shares issued and outstanding	-	-
Common stock, \$.01 par value, 30,000,000 shares authorized; 21,204,162 and 21,188,912 shares issued and outstanding on September 30, 2009 and December 31, 2008, respectively	212,042	211,889
Additional paid-in capital	92,132,943	91,597,529
Accumulated deficit	(77,699,389)	(73,476,469)
Total stockholders' equity	14,645,596	18,332,949
	\$ 16,577,303	\$ 22,400,097

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	As Adjusted 2008	2009	As Adjusted 2008
Revenue:				
Product revenue, net	\$ 1,633,653	\$ 1,967,061	\$ 4,431,199	\$ 7,721,408
Other revenue	87,828	111,906	306,103	356,072
Total revenue	1,721,481	2,078,967	4,737,302	8,077,480
Operating expense:				
Cost of revenue	1,264,058	1,789,049	4,009,345	5,625,533
Gross Profit	457,423	289,918	727,957	2,451,947
Research and development expense	433,593	443,241	1,218,712	1,298,175
Selling, general and administrative expense	913,456	1,113,156	2,964,966	4,217,542
Severance charges	-	1,578,859	794,069	1,578,859
Loss from operations	(889,626)	(2,845,338)	(4,249,790)	(4,642,629)
Interest income	15,990	82,301	74,284	330,311
Interest expense	(2,076)	(29,410)	(35,362)	(100,969)
Other, net	-	(8,651)	(12,052)	(8,494)
Loss before provision for income taxes	(875,712)	(2,801,098)	(4,222,920)	(4,421,781)
Provision for income taxes	-	-	-	-
Net loss	\$ (875,712)	\$ (2,801,098)	\$ (4,222,920)	\$ (4,421,781)
Net loss per share- basic and diluted	\$ (0.04)	\$ (0.13)	\$ (0.20)	\$ (0.21)
Weighted average number of common shares outstanding	21,204,162	21,150,568	21,201,927	21,129,369

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	As Adjusted 2008	2009	As Adjusted 2008
Revenue:				
Product revenue, net	\$ 1,633,653	\$ 1,967,061	\$ 4,431,199	\$ 7,721,408
Other revenue	87,828	111,906	306,103	356,072
Total revenue	<u>1,721,481</u>	<u>2,078,967</u>	<u>4,737,302</u>	<u>8,077,480</u>
Operating expense:				
<i>Cost of revenue detail:</i>				
Depreciation	227,092	252,172	713,160	730,792
Non-Cash equity compensation	6,699	21,949	33,115	58,885
Other costs of revenue	1,030,267	1,514,928	3,263,070	4,835,856
Cost of revenue	<u>1,264,058</u>	<u>1,789,049</u>	<u>4,009,345</u>	<u>5,625,533</u>
Gross profit	457,423	289,918	727,957	2,451,947
<i>Research and development expense detail:</i>				
Depreciation	57,271	59,886	171,541	177,661
Non-Cash equity compensation	28,818	40,031	76,840	109,344
Other research and development expense	347,504	343,324	970,331	1,011,170
Research and development expense	<u>433,593</u>	<u>443,241</u>	<u>1,218,712</u>	<u>1,298,175</u>
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	19,352	15,759	59,079	45,464
Non-Cash equity compensation	72,138	96,299	228,571	422,931
Trademark abandonment charge	-	37,214	-	37,214
Other selling, general and administrative expense	821,966	963,884	2,677,316	3,711,933
Selling, general and administrative expense	<u>913,456</u>	<u>1,113,156</u>	<u>2,964,966</u>	<u>4,217,542</u>
Severance charges	-	1,578,859	794,069	1,578,859
Loss from operations	(889,626)	(2,845,338)	(4,249,790)	(4,642,629)
Interest income	15,990	82,301	74,284	330,311
Interest expense	(2,076)	(29,410)	(35,362)	(100,969)
Other, net	-	(8,651)	(12,052)	(8,494)
Loss before provision for income taxes	<u>(875,712)</u>	<u>(2,801,098)</u>	<u>(4,222,920)</u>	<u>(4,421,781)</u>
Provision for income taxes	-	-	-	-
Net loss	<u>\$ (875,712)</u>	<u>\$ (2,801,098)</u>	<u>\$ (4,222,920)</u>	<u>\$ (4,421,781)</u>
Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):				
Addback Interest, net	(13,914)	(52,891)	(38,922)	(229,342)
Addback Other Deferred Revenue	(10,608)	(31,818)	(74,243)	(95,454)
Addback Depreciation/Amortization	303,715	327,817	943,780	953,917
Addback Abandonment of Trademarks	-	37,214	-	37,214
Addback Severance Charge	-	1,578,859	794,069	1,578,859
Addback Non-Cash Equity Compensation	107,655	158,279	338,526	591,160
Adjusted EBITDA	<u>\$ (488,864)</u>	<u>\$ (783,638)</u>	<u>\$ (2,259,710)</u>	<u>\$ (1,585,427)</u>