



NANOPHASE TECHNOLOGIES CORPORATION
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TO: All Directors, Advisory Board Members, Officers and Employees of
Nanophase Technologies Corporation

FROM: Insider Trading Compliance Officer, Jess Jankowski

DATE: August 21, 2003

RE: Policy on Insider Trading

In the course of employment with Nanophase Technologies Corporation (“Nanophase” or “Company”), directors, advisory board members, officers and employees may come into possession of confidential and highly sensitive information concerning the Company, its suppliers, customers, investors or other persons or companies with whom Nanophase has contractual relationships or may be negotiating transactions. This confidential and sensitive information may have a potential for affecting the market price of securities issued either by Nanophase or the other involved companies.

Federal securities laws, under some circumstances, impose considerable civil and criminal penalties on persons who improperly obtain or use **material, non-public information** in connection with a purchase or sale of securities. In addition to civil damages of up to three times the profit gained, an individual could be subject to imprisonment and a criminal fine of up to \$1,000,000 for violations. Recent federal legislation has given the Securities and Exchange Commission (“SEC”) and courts greater powers in imposing penalties for violations of the insider trading provisions of the federal securities laws. The SEC and governmental prosecutors have been vigorously enforcing these insider trading laws against both institutions and individuals.

In light of the importance of preserving Nanophase’s reputation for maintaining the highest legal, business and ethical standards, as well as the detrimental impact on employees and Nanophase for failures to comply with applicable laws, the Company is hereby providing specific guidance concerning the propriety of various personal transactions, and has developed specific procedures in certain cases to attempt reasonably to ensure that neither Nanophase nor its directors, advisory board members, officers and employees violate insider trading laws.

With this in mind, all directors, advisory board members, officers and employees of Nanophase have been presented with a copy of this memorandum. We are asking you to read this memorandum and thoroughly understand its contents. Once you are sure you have a complete understanding of its meaning, we are asking that you sign the attached Insider Trading Compliance Statement.

Explanation of the Law

The federal securities laws and regulations prohibit the purchase or sale of a security at a time when the person trading in that security possesses **material, non-public information** concerning the issuer of the security, or the market for the security, which has not yet become a matter of general public knowledge and which has been obtained or is being used in breach of a duty to maintain the information in confidence. Communication of non-public information to a third party, under circumstances where improper trading can or may be anticipated, is also prohibited. These prohibitions apply to any security, including options -- not just stock.

“Material, non-public information” includes information that is not available to the public at large which could affect the market price of the security and to which a reasonable investor would attach importance in deciding whether to buy, sell, or retain the security. Common examples of information that will frequently be regarded as material are: (1) significant acquisitions; (2) matters involving significant new products, patent approvals and/or licensing agreements; (3) matters relating to new financing; (4) gain or loss of a substantial supplier or customer; (5) negotiating or signing a significant contract; (6) projections by a corporation’s officers or directors of future earnings or losses; (7) news of a pending or proposed merger or acquisition, or a tender offer or exchange offer; (8) information about a major joint venture; (9) news of a significant sale of assets; (10) changes in dividend policies or the declaration of a stock split or the offering of additional securities; (11) impending bankruptcy or financial liquidity problems; (12) changes in management; or (13) significant litigation. It should be noted that either positive or negative information may be material.

Information is considered to be available to the public only when it has been released to the public through appropriate channels (for example, by means of a press release or a public statement from one of Nanophase’s senior officers) and enough time has elapsed to permit the investment market to absorb and evaluate the information. Publicly released information will normally be regarded as absorbed and evaluated within three days after its disclosure.

Company Policy

1. No Trading On Material, Non-Public Information.

Any director, advisory board member, officer or employee who has **material, non-public information** relating to Nanophase or any other corporation, including any of the Company’s major suppliers, customers or joint venture partners (i) may not buy or sell the securities of Nanophase or such other corporation, (ii) pass along the information to others (so called “tipping”), or (iii) permit any member of his or her immediate family or anyone acting on his or her behalf, or anyone to whom he or she has disclosed the information, to purchase or sell such securities. Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure) are no exception. Even the appearance of an improper transaction must be avoided to preserve our reputation for adhering to the highest standards of conduct.

A reasonable time should be allowed to elapse (at least three business days) before trading in the security to allow for public dissemination and evaluation of the information after public disclosure through appropriate channels. Generally, it is expected that you will be less likely to be in possession of **material, non-public information** during the 30 day period beginning three days after the release of either quarterly or annual financial results. However, even during these periods, you are subject to the above prohibitions if you possess **material, non-public information**.

2. Prior Approval Required for All Persons.

Since everyone is likely to have access to **material, non-public information**, it is Nanophase’s policy that directors, advisory board members, officers and all employees must not purchase or sell the Company’s securities or securities of any company or publicly traded partnership known or believed to be a significant supplier or customer of Nanophase, whether or not the director, advisory board member, officer or employee possesses specific **material, non-public information**, unless the written permission from the Company’s Insider Trading Compliance Officer is first received. Written permission will be given for a specified period but will continue to be subject to the above prohibitions if such person possesses **material, non-public information**. For purposes of this policy, a company or partnership would be a significant supplier or customer if its business with Nanophase constituted an important portion of the Company’s business. All inquiries in this regard, including, without limitation, inquiries as to whether a company is a significant supplier or customer of Nanophase, should be directed to me.

3. Other Trading Restrictions.

In addition, it is Nanophase's policy that directors, advisory board members, officers, and employees shall not engage in any of the following activities with respect to the Company's securities:

- a. Trading in Nanophase's stock during the period beginning on the twenty-fifth day of the last month of a calendar quarter (i.e., March 25, June 25, September 25, and December 25) through and including the third business day following the press release of such quarter's earnings or prior year's earnings in the case of the fourth quarter;
- b. Trading in Nanophase's stock on a short-term basis. Any stock purchased must be held for a minimum of six months before sale, unless the stock is subject to forced sale (*e.g.* as a consequence of a merger or acquisition);
- c. Purchases on margin;
- d. Short sales; or
- e. Buying or selling put options or call options.

4. Rule 10b5-1 Sales or Trading Plans.

Regardless of the restrictions and prohibitions on trading in Nanophase securities stated in this Policy, persons subject to the Policy are permitted to effect transactions in Nanophase securities pursuant to Sales or Trading Plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, including transactions made during trading blackouts. Rule 10b5-1 requires that these transactions be made pursuant to a Plan that was established while the person was not in possession of material non-public information. In order to comply with this Policy, the Company must review and approve any such Sales or Trading Plan prior to its effective date. No such Sales or Trading Plan will be approved unless the individual Plan includes provisions that: (1) sales shall not exceed either 25,000 shares in any one month or an aggregate of 50,000 shares in a single twelve-month period; (2) no sales shall occur under the Plan until at least ninety days after the date the Plan is adopted by the Seller; and (3) modifications of any sales arrangement under the Plan shall be limited to once every six months. Insiders seeking to establish a Sales or Trading Plan should contact the Company's legal counsel. Nanophase's acceptance of a Sales or Trading Plan does not mean that the Plan automatically meets the requirements of applicable law or that persons adopting such Plans will be insulated from insider trading liability. It is the responsibility of each person to ensure compliance with insider trading laws and regulations, including Rule 10b5-1.

I am available to advise and provide assistance. Any person who has a question concerning the propriety of a proposed transaction, or who has a question about the policy generally, is encouraged to contact me.

Jess Jankowski
Insider Trading Compliance Officer

Acknowledgment

I have carefully reviewed the Nanophase Technologies Corporation Policy on Insider Trading dated August 21, 2003 and understand all of its provisions. I certify that to the best of my knowledge I have complied with these policies since such date (or during my term of employment, or tenure as a director or advisory board member, if after such date) and that I will continue to adhere to these policies and procedures in the future.

I realize that failure to observe and comply with all of the provisions contained in the memorandum may subject me to sanctions including disciplinary action, up to and including discharge, as well as civil liability and criminal penalties under applicable law.

Signature: _____

Date: _____

Print Name: _____

Title: _____