

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

ASSETS	As of December 31,	
	2009	2008
Current assets:		
Cash and cash equivalents	\$ 3,899,393	\$ 723,069
Investments	3,594,604	6,908,888
Trade accounts receivable, less allowance for doubtful accounts of \$9,000 on December 31, 2009 and 2008	858,706	1,092,125
Other receivable	477,989	7,749
Inventories, net	884,326	1,154,207
Prepaid expenses and other current assets	294,738	482,452
Total current assets	10,009,756	10,368,490
Investments	-	5,340,000
Equipment and leasehold improvements, net	5,557,832	6,651,842
Other assets, net	37,283	39,765
	\$ 15,604,871	\$ 22,400,097
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	8,470	22,211
Current portion of deferred other revenue	-	74,243
Accounts payable	202,975	356,853
Accrued expenses	509,206	772,167
Accrued severance	38,060	541,014
Total current liabilities	758,711	1,766,488
Long term debt, less current maturities and unamortized debt discount	-	1,570,346
Long-term portion of capital lease obligations	748	9,219
Long-term deferred rent	617,642	592,562
Asset retirement obligations	134,763	128,533
Total long-term liabilities	753,153	2,300,660
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 December 31, 2009 and December 31, 2008, respectively	212,042	211,889
Additional paid-in capital	92,246,777	91,597,529
Accumulated deficit	(78,365,812)	(73,476,469)
Total stockholders' equity	14,093,007	18,332,949
	\$ 15,604,871	\$ 22,400,097

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
Revenue:		
Product revenue	\$ 5,937,100	\$ 9,744,759
Other revenue	383,226	469,058
Total revenue	<u>6,320,326</u>	<u>10,213,817</u>
Operating expense:		
Cost of revenue	<u>5,368,719</u>	<u>7,501,468</u>
Gross profit	951,607	2,712,349
Research and development expense	1,615,894	1,764,284
Selling, general and administrative expense	3,852,737	5,390,771
Severance charges	794,069	1,578,859
Loss from operations	<u>(5,311,093)</u>	<u>(6,021,565)</u>
Interest income	89,615	383,083
Interest expense	(35,813)	(130,992)
Unrealized losses on investments	-	(660,000)
Auction rate securities settlement	440,000	-
Realized loss on investment	(60,000)	-
Other, net	<u>(12,052)</u>	<u>(8,373)</u>
Loss before provision for income taxes	<u>(4,889,343)</u>	<u>(6,437,847)</u>
Provision for income taxes	-	-
Net loss	<u><u>\$ (4,889,343)</u></u>	<u><u>\$ (6,437,847)</u></u>
Net loss per share-basic and diluted	<u><u>\$ (0.23)</u></u>	<u><u>\$ (0.30)</u></u>
Weighted average number of common shares outstanding	<u><u>21,202,492</u></u>	<u><u>21,144,336</u></u>

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
Revenue:		
Product revenue	\$ 5,937,100	\$ 9,744,759
Other revenue	383,226	469,058
Total revenue	<u>6,320,326</u>	<u>10,213,817</u>
Operating expense:		
<i>Cost of revenue detail:</i>		
Depreciation	939,229	988,437
Non-cash equity compensation	47,719	81,674
Other costs of revenue	4,381,771	6,431,357
Cost of revenue	<u>5,368,719</u>	<u>7,501,468</u>
Gross Profit	951,607	2,712,349
<i>Research and development expense detail:</i>		
Depreciation	228,294	236,849
Non-cash equity compensation	103,093	143,562
Other research and development expense	1,284,507	1,383,873
Research and development expense	<u>1,615,894</u>	<u>1,764,284</u>
<i>Selling, general and administrative expense detail:</i>		
Depreciation and amortization	80,343	62,701
Non-cash equity compensation	302,445	548,968
Abandonment of Trademarks	-	37,211
Other selling, general and administrative expense	3,469,949	4,741,891
Selling, general and administrative expense	<u>3,852,737</u>	<u>5,390,771</u>
Severance charges	794,069	1,578,859
Loss from operations	<u>(5,311,093)</u>	<u>(6,021,565)</u>
Interest income	89,615	383,083
Interest expense	(35,813)	(130,992)
Impairment of investments	-	(660,000)
Auction rate securities settlement	440,000	-
Loss on investments	(60,000)	-
Other, net	<u>(12,052)</u>	<u>(8,373)</u>
Loss before provision for income taxes	<u>(4,889,343)</u>	<u>(6,437,847)</u>
Provision for income taxes	-	-
Net loss	<u><u>\$ (4,889,343)</u></u>	<u><u>\$ (6,437,847)</u></u>