

NANOPHASE TECHNOLOGIES CORPORATION

Form 10-Q

November 14, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended: September 30, 2012

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-22333

**Nanophase Technologies Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware** **36-3687863**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**1319 Marquette Drive, Romeoville, Illinois 60446**  
**(Address of principal executive offices, and zip code)**

**Registrant's telephone number, including area code: (630) 771-6708**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 5, 2012, there were 28,458,162 shares outstanding of common stock, par value \$.01, of the registrant.

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**NANOPHASE TECHNOLOGIES CORPORATION**

**QUARTER ENDED SEPTEMBER 30, 2012**

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	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,565,558	\$ 2,693,623
Investments	30,000	30,000
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on September 30, 2012 and December 31, 2011	869,660	878,600
Other receivables		13,712
Inventories, net	1,291,989	1,338,210
Prepaid expenses and other current assets	268,346	391,466
<b>Total current assets</b>	<b>7,025,553</b>	<b>5,345,611</b>
Equipment and leasehold improvements, net	3,218,327	3,713,082
Other assets, net	30,453	32,318
	\$ 10,274,333	\$ 9,091,011
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of capital lease obligations	\$ 33,961	\$
Deferred other revenue	67,998	
Accounts payable	605,474	319,706
Accrued expenses	561,235	383,425
Accrued discount liability	34,888	116,103
<b>Total current liabilities</b>	<b>1,303,556</b>	<b>819,234</b>
Long-term portion of capital lease obligations	71,602	
Long-term deferred rent	636,122	647,404
Asset retirement obligations	152,554	148,515
<b>Total long-term liabilities</b>	<b>860,278</b>	<b>795,919</b>
<b>Contingent liabilities</b>		
<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; 28,458,162 and 21,208,162 shares issued and outstanding on September 30, 2012 and December 31, 2011, respectively	284,582	212,082
Additional paid-in capital	95,444,015	93,070,979
Accumulated deficit	(87,618,098)	(85,807,203)

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Total stockholders equity	8,110,499	7,475,858
	\$ 10,274,333	\$ 9,091,011

*See Notes to Financial Statements.*

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## NANOPHASE TECHNOLOGIES CORPORATION

## STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Revenue:</b>				
Product revenue, net	\$ 2,028,529	\$ 2,164,697	\$ 7,061,504	\$ 7,706,487
Other revenue	72,435	78,217	231,591	245,321
Net revenue	2,100,964	2,242,914	7,293,095	7,951,808
<b>Operating expense:</b>				
Cost of revenue	1,571,575	1,894,001	5,349,594	5,699,089
Gross profit	529,389	348,913	1,943,501	2,252,719
Research and development expense	396,503	421,597	1,210,168	1,282,618
Selling, general and administrative expense	789,169	935,857	2,546,334	3,063,446
Loss from operations	(656,283)	(1,008,541)	(1,813,001)	(2,093,345)
Interest income		591		3,929
Interest expense	(2,056)	(1,965)	(5,093)	(3,763)
Other, net			7,199	(43)
Loss before provision for income taxes	(658,339)	(1,009,915)	(1,810,895)	(2,093,222)
Provision for income taxes				
Net loss	\$ (658,339)	\$ (1,009,915)	\$ (1,810,895)	\$ (2,093,222)
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.05)	\$ (0.08)	\$ (0.10)
Weighted average number of basic and diluted common shares outstanding	26,960,880	21,207,597	23,139,731	21,205,320

*See Notes to Financial Statements.*

**Table of Contents****NANOPHASE TECHNOLOGIES CORPORATION****STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Net loss	\$ (1,810,895)	\$ (2,093,222)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	749,666	845,207
Stock compensation expense	222,673	251,518
Changes in assets and liabilities related to operations:		
Trade accounts receivable	8,940	(327,069)
Other receivables	13,712	(76,860)
Inventories	46,221	140,859
Prepaid expenses and other current assets	123,120	(73,283)
Accounts payable	289,032	(334,392)
Accrued expenses	87,742	(650,307)
Deferred other revenue	67,998	
Net cash used in operating activities	(201,791)	(2,317,549)
<b>Investing activities:</b>		
Acquisition of equipment and leasehold improvements	(116,969)	(61,221)
Payment of accounts payable incurred for the purchase of equipment and leasehold improvements	(14,941)	(52,444)
Net cash used in investing activities	(131,910)	(113,665)
<b>Financing activities:</b>		
Principal payments on capital leases	(14,796)	(748)
Proceeds from stockholder rights offering, net of costs	2,220,432	
Proceeds from exercise of stock options		4,080
Net cash provided by financing activities	2,205,636	3,332
Increase (decrease) in cash and cash equivalents	1,871,935	(2,427,882)
Cash and cash equivalents at beginning of period	2,693,623	5,744,322
Cash and cash equivalents at end of period	\$ 4,565,558	\$ 3,316,440
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 5,093	\$ 3,763
<b>Supplemental non-cash investing activities:</b>		
Accounts payable incurred for the purchase of equipment and leasehold improvements	\$ 11,677	\$ 18,261
Capital lease obligations incurred in the purchase of equipment	\$ 120,359	\$

*See Notes to Financial Statements.*





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