

NANOPHASE TECHNOLOGIES CORPORATION

Form 10-Q

November 09, 2009

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-Q

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

For the Quarterly Period Ended: September 30, 2009

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**  
(State or other jurisdiction of  
incorporation or organization)

**36-3687863**  
(I.R.S. Employer  
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 9, 2009, there were 21,204,162 shares outstanding of common stock, par value \$.01, of the registrant.

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**NANOPHASE TECHNOLOGIES CORPORATION**

**QUARTER ENDED SEPTEMBER 30, 2009**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NANOPHASE TECHNOLOGIES CORPORATION****BALANCE SHEETS****(Unaudited)**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
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
<b>Total current assets</b>	<b>5,373,185</b>	<b>10,368,490</b>
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
	<b>\$ 16,577,303</b>	<b>\$ 22,400,097</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of deferred other revenue		74,243
Current portion of capital lease obligations	8,277	22,211
Current portion of long-term debt, less unamortized 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
<b>Total current liabilities</b>	<b>1,928,767</b>	<b>4,057,929</b>
Long-term portion of capital lease obligations	2,940	9,219
<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, 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)

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Total stockholders' equity	14,645,596	18,332,949
	\$ 16,577,303	\$ 22,400,097

*See Notes to Financial Statements.*

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	Three months ended September 30, As Adjusted		Nine months ended September 30, As Adjusted	
	2009	2008	2009	2008
<b>Revenue:</b>				
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
Net revenue	1,721,481	2,078,967	4,737,302	8,077,480
<b>Operating expense:</b>				
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)
Provisions 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

*See Notes to Financial Statements.*

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

	<b>Nine months ended September 30, As Adjusted</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Net loss	\$ (4,222,920)	\$ (4,421,781)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	943,780	953,917
Amortization of debt discount	27,076	42,853
Amortization of deferred revenue	(74,243)	(95,454)
Stock compensation expense	338,526	591,160
Charges for accelerated vesting of stock options	210,694	592,785
Allowance for excess inventory quantities	14,791	
Loss on disposal of equipment	13,451	11,792
Abandonment of trademarks		37,214
Changes in assets and liabilities related to operations:		
Trade accounts receivable	307,387	208,377
Other receivable	7,749	(392)
Inventories	(76,442)	(321,331)
Prepaid expenses and other assets	130,284	(73,261)
Accounts payable	53,988	345,066
Accrued expenses	(513,178)	799,891
<b>Net cash used in operating activities</b>	<b>(2,839,057)</b>	<b>(1,329,164)</b>
<b>Investing activities:</b>		
Proceeds from disposal of equipment	24,000	1,800
Acquisition of equipment and leasehold improvements	(141,037)	(405,118)
Acquisition of trademarks	(2,181)	
Payment of accounts payable incurred for the purchase of equipment and leasehold improvements	(35,626)	(5,318)
Purchases of investments	(111,041,471)	(176,315,399)
Sales of investments	116,071,191	178,101,203
<b>Net cash provided by investing activities</b>	<b>4,874,876</b>	<b>1,377,168</b>
<b>Financing activities:</b>		
Principal payment on debt obligations, including capital leases	(1,617,635)	(31,967)
Proceeds from sale of common stock, net, and exercise of stock options.		30,417
<b>Net cash used by financing activities</b>	<b>(1,617,635)</b>	<b>(1,550)</b>
Increase in cash and cash equivalents	418,184	46,454
Cash and cash equivalents at beginning of period	723,069	563,075
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,141,253</b>	<b>\$ 609,529</b>

**Supplemental cash flow information:**

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Interest paid	\$	21,956	\$	61,346
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**Supplemental non-cash investing activities:**

Accounts payable incurred for the purchase of equipment and leasehold improvements	\$	5,888	\$	37,922
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