

NANOPHASE TECHNOLOGIES Corp  
Form DEF 14A  
July 13, 2018

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

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**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

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Filed by the Registrant    Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**NANOPHASE TECHNOLOGIES CORPORATION**

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**(Name of Registrant as Specified in Its Charter)**

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**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

1319 Marquette Drive  
Romeoville, Illinois 60446

July 13, 2018

Dear Stockholder:

On behalf of the Board of Directors, I invite you to attend the 2018 Annual Meeting of Stockholders of Nanophase Technologies Corporation to be held at our corporate headquarters, 1319 Marquette Drive, Romeoville, Illinois, on Thursday, August 23, 2018 at 8:30 a.m., Central time. The formal notice of the Annual Meeting appears on the following page.

We are pleased to take advantage of the Securities and Exchange Commission rule allowing companies to furnish proxy materials to their stockholders over the Internet. On or about July 13, 2018, we mailed a Notice of Internet Availability of Proxy Materials to the majority of our stockholders, and on or about the same date we mailed to our other stockholders who have requested it a copy of our 2018 Proxy Statement and a proxy card. The Notice of Internet Availability of Proxy Materials contains instructions on how to access the Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2017 and how to vote online, by phone, in person or by mail.

The attached Notice of Annual Meeting and Proxy Statement describe the matters that we expect to be acted upon at the Annual Meeting. Management will be available to answer any questions you may have immediately after the Annual Meeting.

Whether or not you choose to attend the Annual Meeting, it is important that your shares be represented. Regardless of the number of shares you own, please vote your shares via telephone, over the Internet or, if you received a proxy card, sign and date the proxy card and promptly return it to us in the postage paid envelope provided. If you sign and return your proxy card without specifying your choices, your shares will be voted in accordance with the recommendations of the Board of Directors contained in the Proxy Statement.

You are welcome to attend the August 23, 2018 meeting, and I urge you to vote over the Internet, via telephone or by mail as soon as possible.

Sincerely,

/s/ JESS A. JANKOWSKI  
Jess A. Jankowski  
President and Chief Executive Officer



NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON AUGUST 23, 2018

To the Stockholders of

Nanophase Technologies Corporation:

The Annual Meeting of Stockholders of Nanophase Technologies Corporation (the "Company") will be held at 8:30 a.m., Central time, on Thursday, August 23, 2018, at the Company's corporate headquarters, 1319 Marquette Drive, Romeoville, Illinois, for the following purposes:

- (1) To elect one Class III director to the Company's Board of Directors;
  - (2) To ratify the appointment by the Company's Audit and Finance Committee of RSM US LLP as the independent auditors of the Company's financial statements for the year ending December 31, 2018; and
  - (3) To transact such other business as may properly come before the meeting or any adjournments thereof.
- The foregoing items of business are more fully described in the accompanying Proxy Statement.

The Board of Directors has fixed the close of business on June 28, 2018 as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting.

By order of the Board of Directors,

/s/ JAIME ESCOBAR  
Jaime Escobar  
Chief Financial Officer

Romeoville, Illinois

July 13, 2018

**ALL STOCKHOLDERS ARE URGED TO ATTEND THE MEETING IN PERSON OR BY PROXY. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE VOTE. INSTRUCTIONS REGARDING THE VARIOUS METHODS OF VOTING ARE CONTAINED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS AND ON THE PROXY CARD, INCLUDING HOW TO VOTE BY TOLL-FREE TELEPHONE NUMBER OR VIA THE INTERNET. IF YOU RECEIVED A PAPER COPY OF YOUR PROXY CARD BY MAIL, YOU MAY STILL VOTE YOUR SHARES BY MARKING YOUR VOTES ON THE PROXY CARD, SIGNING AND DATING IT AND MAILING IT IN THE ENVELOPE PROVIDED.**

## **NANOPHASE TECHNOLOGIES CORPORATION**

1319 Marquette Drive  
Romeoville, Illinois 60446  
(630) 771-6708

### **PROXY STATEMENT**

The accompanying proxy is solicited by the Board of Directors (the “Board of Directors” or the “Board”) of Nanophase Technologies Corporation, a Delaware corporation (the “Company,” “Nanophase,” “we,” “us” or “our”), for use at the Annual Meeting of Stockholders (the “Annual Meeting”) to be held at 8:30 a.m., Central time, Thursday, August 23, 2018, at our corporate headquarters, 1319 Marquette Drive, Romeoville, Illinois, and any adjournments thereof. This Proxy Statement and accompanying form of proxy are first being mailed or made available via the Internet to stockholders on or about July 13, 2018.

#### **Notice of Internet Availability of Proxy Statement and Annual Report**

As permitted by rules adopted by the Securities and Exchange Commission (the “SEC”), we are making this Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”) available to our stockholders electronically via the Internet. On or about July 13, 2018, we mailed to the majority of our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access this Proxy Statement and our Annual Report and how to vote via the Internet, by phone, in person or by mail. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials, unless specifically requested. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of the proxy materials you should follow the instructions for requesting such materials included in the Notice of Internet Availability of Proxy Materials.

#### **Record Date and Outstanding Shares**

The Board of Directors has fixed the close of business on June 28, 2018 as the record date (the “Record Date”) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. As of the Record Date, we had outstanding 33,847,793 shares of common stock, par value \$0.01 per share (the “common stock”). Each outstanding share of common stock is entitled to one vote on all matters to come before the Annual Meeting.

#### **Voting of Proxies**

The Board of Directors authorized each of Jess A. Jankowski and Jaime Escobar to serve as proxy holder in the name of, and on behalf of, the stockholders executing and returning proxies in connection with the Annual Meeting. Mr. Jankowski is an executive officer of the Company and is also a director of the Company, while Mr. Escobar is an executive officer and Corporate Secretary of the Company. The shares represented by each executed and returned proxy will be voted in accordance with the directions indicated thereon, or, if no direction is indicated, such proxy will be voted in accordance with the recommendations of the Board of Directors contained in this Proxy Statement. Each stockholder giving a proxy has the power to revoke it at any time before the shares it represents are voted. Revocation

of a proxy is effective upon receipt by the Corporate Secretary of the Company of either (1) an instrument revoking the proxy or (2) a duly executed proxy bearing a later date. Additionally, a stockholder may change or revoke a previously executed proxy by voting in person at the Annual Meeting (attendance at the Annual Meeting will not, by itself, revoke a proxy). Stockholders will not have any rights of appraisal or similar dissenter's rights with respect to any matter to be acted upon at the Annual Meeting.

### **Board Recommendations**

The Board of Directors recommends that you vote your shares "FOR" the election of the director nominee and "FOR" the ratification of the appointment of RSM US LLP as the independent auditors of our financial statements for the year ending December 31, 2018.



## **Quorum and Required Vote**

The required quorum for transaction of business at the Annual Meeting will be a majority of the shares of common stock issued and outstanding and entitled to vote at the Annual Meeting, represented in person or by proxy. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting and will determine whether or not a quorum is present. Abstentions and broker non-votes will be included in determining the presence of a quorum.

*Proposal 1.* The vote of a plurality of the shares of common stock voted in person or by proxy is required to elect the nominee for Class III director. Stockholders will not be allowed to cumulate their votes in the election of directors. Abstentions and broker non-votes will have no effect on the outcome of the vote on the election of the director.

*Proposal 2.* The affirmative vote of a majority of the shares of common stock represented in person or by proxy is required to ratify the appointment of RSM US LLP as the independent auditors of our financial statements for the year ending December 31, 2018. Abstentions will be considered present and entitled to vote with respect to ratifying the appointment of our independent auditors and will have the same effect as votes “against” such proposal. Broker non-votes will have no effect on the outcome of the vote to ratify the appointment of our independent auditors.

## **Annual Report to Stockholders**

Our Annual Report, containing financial and other information pertaining to the Company, is being furnished to stockholders simultaneously with this Proxy Statement. Printed copies will be made available upon request.

## **Householding**

We have adopted an SEC-approved procedure called “householding.” Under this procedure, we may deliver a single copy of the Notice of Internet Availability of Proxy Materials and, if applicable, this Proxy Statement and the Annual Report to multiple stockholders who share the same address unless we have received contrary instructions from one or more of the stockholders. This procedure reduces the environmental impact of our annual meetings, and reduces our printing and mailing costs. Stockholders who participate in householding will continue to receive separate proxy cards if they received a printed set of the proxy materials. Upon written or oral request, we will deliver promptly a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, this Proxy Statement and the Annual Report to any stockholder at a shared address to which we delivered a single copy of any of these documents.

To receive free of charge a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, this Proxy Statement or the Annual Report, or separate copies of any future notice, proxy statement or annual report, or if you are receiving multiple copies of the Notice of Internet Availability of Proxy Materials, Proxy Statement and/or Annual Report and would like to receive only one copy, stockholders may write or call us at Nanophase Technologies Corporation, 1319 Marquette Drive, Romeoville, Illinois 60446, Attention: Nancy Baldwin, Vice President—Human Resources and Investor Relations, (630) 771-6708.

## **PROPOSAL 1 ELECTION OF DIRECTOR**

Our Board of Directors currently consists of seven directors. Article VI of our Certificate of Incorporation provides that the Board of Directors shall be classified with respect to the terms for which its members shall hold office by dividing the members into three classes, each serving three year terms. The one Class III director whose term expires at the Annual Meeting is George A. Vincent, III.

As a result, at the Annual Meeting, one Class III director will be elected for a term of three years expiring at our 2021 Annual Meeting of Stockholders. We prepared the following director summary using information furnished to us by the director nominee. The nominee is presently serving as a director of the Company. See “Nominee” below.

If at the time of the Annual Meeting the nominee should be unable or decline to serve, the persons named in the proxy will vote for such substitute nominee as the Board of Directors recommends, or vote to allow the vacancy created thereby to remain open until filled by the Board of Directors, as the Board of Directors recommends. The Board of Directors has no reason to believe that the nominee will be unable or decline to serve as a director if elected.

The six directors whose terms of office do not expire in 2018 will continue to serve after the Annual Meeting until such time as their respective terms of office expire or their successors are duly elected and qualified. See “Other Directors” below. There is no family relationship between any director or executive officer of the Company.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR” THE ELECTION OF THE NOMINEE NAMED BELOW.**

**Nominee**

The name of the nominee for the office of director, together with certain information concerning such nominee, is set forth below:

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>	<b>Served as Director Since</b>
George A. Vincent, III	74	Director	2007

**Mr. Vincent** has served as a director of the Company since November 2007. He is the retired Chairman and President of The HallStar Company, where he served as CEO for twenty years. HallStar is a chemical manufacturer and innovator specializing in material science, marketing its products worldwide, primarily into the polymer and personal care industries. Prior to HallStar, Mr. Vincent held positions in purchasing, sales, commercial development and strategic planning with FMC Corporation (chemicals) and General Electric Company (chemicals and plastics). Mr. Vincent has served as Chairman of the Illinois Manufacturers’ Association (IMA) and the Chemical Industry Council of Illinois (CICI), as well as Director of the American Chemistry Council (ACC). Mr. Vincent serves on the boards of several closely-held companies in the chemicals and materials industry sector. Mr. Vincent holds a Bachelor of Arts degree in Chemistry from Dartmouth College and an M.B.A. degree from Harvard Business School. We believe that Mr. Vincent’s extensive experience in the chemicals industry and management leadership makes him a valuable member of our Board of Directors.

**Other Directors**

The following persons will continue to serve as directors of the Company after the Annual Meeting until their terms of office expire (as indicated below) or until their successors are duly elected and qualified. We prepared the following director summaries using information furnished to us by the directors.

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>	<b>Served as Director Since</b>	<b>Term Expires</b>	<b>Class</b>
James A. Henderson	84	Chairman of the Board of Directors	2001	2019	I
James A. McClung, Ph.D.	80	Director	2000	2019	I
R. Janet Whitmore	63	Director	2003	2019	I
Jess A. Jankowski	53	President, Chief Executive Officer and Director	2009	2020	II

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Richard W. Siegel, Ph.D.	81	Director	1989	2020	II
W. Ed Tyler	65	Director	2011	2020	II

**Mr. Henderson** has served as a director of the Company since July 2001 and Chairman of the Board of Directors since August 2011. He retired as Chairman and Chief Executive Officer of Cummins Engine Company (now Cummins Inc.) in December 1999, after joining the company in 1964. Mr. Henderson became President and Chief Operating Officer of Cummins in 1977, was promoted to President and Chief Executive Officer in 1994 and served as Chairman and Chief Executive Officer from 1995 until his retirement in 1999. Mr. Henderson attended Culver Military Academy, holds an A.B. in public and international affairs from Princeton University and an M.B.A. from Harvard Business School. Mr. Henderson previously served as a director of AT&T, Inc., International Paper, Rohm & Haas, Hillenbrand, Inc., Inland Steel, and Ryerson, Inc. He serves as Chairman Emeritus of the Board of the Culver Education Foundation and is a past Chair of the Princeton University Board of Trustees. We believe that Mr. Henderson's extensive and diverse background in corporate leadership in technology-based companies, operations experience, and business acumen makes him a valuable member of our Board of Directors.

**Mr. McClung** has served as a director of the Company since February 2000, and is chair of the Audit and Finance Committee. Currently he is Chair and CEO of Lismore International, a global business advisory firm. He retired as a senior vice president and executive officer for FMC Corporation (which has since split into three public corporations: FMC Corporation; TechnipFMC; JB Technologies), a leading producer of a diversified portfolio of chemicals and machinery. He has over 30 years of global business development and operational experience in over 75 countries. This includes managing and developing new technologies and operational processes, and strategic partnerships, for diversified global businesses, including specialized chemicals, process machinery, and health care systems while living in the United States, Europe and Africa. In addition to serving currently on the Boards of Directors of the Company and 4 D Healthcare, and the Nuseed advisory board, he previously served on other corporate boards: Amway Corporation; NCCI; Turtle Wax; Beaulieu Corporation; and Hu-Friedy. He was a founding member of the US-Russia Business Council and is active in other international business organizations, such as Japan American Society, Chicago Council on Global Affairs, Economic Club of Chicago and the Executive Club of Chicago. He is an active Emeritus Trustee for the College of Wooster (Ohio). Mr. McClung earned a bachelor's degree from the College of Wooster (Ohio), master's degree from the University of Kansas, and a doctorate from Michigan State University. We believe that Mr. McClung's extensive global business development and worldwide management experience, including experience in the specialty chemical industry, make him a valuable member of our Board of Directors.

**Ms. Whitmore** joined the Board in November 2003. She is a former director of Silverleaf Resorts, Inc., where she served as Chairman of the Compensation Committee and as a member of the Audit Committee. She is also a former director of Epoch Biosciences, a supplier of proprietary products used to accelerate genomic analysis. Ms. Whitmore is Founder of Benton Consulting, LLC, which specializes in business development and processes. From 1976 through 1999, Ms. Whitmore held numerous engineering and finance positions at Mobil Corporation, including Mobil's Chief Financial Analyst and Controller of Mobil's Global Petrochemicals Division. Ms. Whitmore holds a B.S. degree in Chemical Engineering from Purdue University and an M.B.A. from Lewis University. We believe that Ms. Whitmore's combination of global financial, engineering, and management expertise makes her a valuable member of our Board of Directors.

**Mr. Jankowski** joined the Board in February 2009. He has served as the Company's President and Chief Executive Officer since that time. Mr. Jankowski also served as the Company's principal financial officer and principal accounting officer from November 2017 until March 2018. After joining the Company in 1995, Mr. Jankowski held offices including Vice President of Finance, Chief Financial Officer, Secretary, Treasurer and Controller. From 1990-1995 he served as Controller for two building and public works contractors in the Chicago area, during which time he had significant business development responsibilities. From 1986 to 1990, he worked for Kemper Financial Services in their accounting control corporate compliance unit, serving as unit supervisor during his last two years. Mr. Jankowski holds a B.S. from Northern Illinois University and an M.B.A. from Loyola University. He served on the TechAmerica Midwest Board from 2008 to 2012 and was a past member of the TechAmerica Midwest CFO Committee. He was appointed to the Advisory Board of the Nanobusiness Commercialization Association in 2009. Mr. Jankowski was also appointed to the Romeoville Economic Development Commission and served from 2004 to 2010. He has also served on the advisory board of NITECH (Formerly WESTEC), an Illinois Technology Enterprise Center focusing on the commercialization of advanced manufacturing technologies from 2003 to 2008. In 2009, Mr. Jankowski was appointed to the board of directors of the Northern Illinois Technology Foundation, an economic development and technology transfer entity that is part of Northern Illinois University. We believe that Mr. Jankowski's long-term and intimate experience with the Company's operations, along with his financial and management expertise, makes him a valuable member of our Board of Directors.

**Dr. Siegel** is a co-founder of the Company and has served as a director of the Company since 1989. Dr. Siegel served as a consultant to the Company from 1990 to 2002 with regard to the application and commercialization of nanomaterials. Dr. Siegel is an internationally recognized scientist in the field of nanomaterials. During his tenure on

the research staff at Argonne National Laboratory from July 1974 to May 1995, he was the principal scientist engaged in research with the laboratory-scale synthesis process that was the progenitor of the Company's physical-vapor-synthesis production system. Dr. Siegel has been the Robert W. Hunt Professor in Materials Science and Engineering at Rensselaer Polytechnic Institute since June 1995, and served as Department Head from 1995 to 2000. Dr. Siegel was the founding Director of both the Rensselaer Nanotechnology Center (2001-2015) and the U.S. National Science Foundation funded Nanoscale Science and Engineering Center for Directed Assembly of Nanostructures (2001-2013). During the period from 1995 until 1998, he was also a visiting professor at the Max Planck Institute for Microstructure Physics in Germany on an Alexander von Humboldt Research Prize received in 1994. During the period from 2003 until 2004 he was a visiting professor in Japan on a RIKEN Eminent Scientist Award. He chaired the World Technology Evaluation Center worldwide study of nanostructure science and technology for the U.S. government, has served on the Council of the Materials Research Society and as Chairman of the International Committee on Nanostructured Materials. He also served on the Committee on Materials with Sub-Micron Sized Microstructures of the National Materials Advisory Board and was the co-chairman of the Study Panel on Clusters and Cluster-Assembled Materials for the U.S. Department of Energy. He served on the Nanotechnology Technical Advisory Group to the U.S. President's Council of Advisors on Science and Technology during 2003-2009. Dr. Siegel holds an A.B. degree in physics from Williams College and an M.S. degree and Ph.D. from the University of Illinois at Urbana-Champaign. We believe that Dr. Siegel's value to our Board of Directors, as co-founder of the Company and inventor of our initial base technology, is self-explanatory.

**Mr. Tyler** joined Nanophase as a director in January 2011. Mr. Tyler is Chairman of the Board of First Industrial Realty Trust, where he has served as a director since 2000. He has also served in recent leadership positions at Ideapoint Ventures, an early stage venture fund that focuses on nanotechnologies, and Industrial Nanotech, Inc., an entity which develops and sells nanomaterial solutions. Previously, Mr. Tyler served as President and CEO of Moore Corporation Limited, a provider of data capture, information design, marketing services, digital communications and print solutions. Mr. Tyler also worked for 24 years with R. R. Donnelley & Sons Company in Chicago, beginning his career as an electronics engineer and ultimately serving as Executive Vice President, Sector President, and Chief Technology Officer. He also was responsible for 77 Capital, an early stage venture capital subsidiary of Donnelley, where he was directly responsible for investment decisions and worked closely with the portfolio companies while participating on many of their boards. Mr. Tyler is a former Chairman of the American Red Cross (Mid-America Chapter) and Campaign Chairman of the United Way of Lake County, and serves as a director for several small, private companies. He is a member of the Board of Directors of Lake Forest Graduate School of Management, where he is also an adjunct faculty member. We believe that Mr. Tyler's extensive and diverse background in corporate leadership in technology-based companies, operations experience, and business acumen makes him a valuable member of our Board of Directors.

### **Director Compensation**

Upon first being elected to the Board of Directors, each director of the Company who is not an employee or consultant of the Company (an "Outside Director") is granted stock options to purchase shares of common stock at the closing price as of the date of issuance. This initial option grant to an Outside Director typically vests over three years, but may accelerate upon termination from the Board of Directors.

In 2017, we paid quarterly compensation to the Chairman of the Board of Directors, for an annual total of \$22,000. We paid quarterly compensation to the Chairman of the Audit and Finance Committee and to the Chairman of the Compensation Committee totaling \$18,000 to each. Each of our other Outside Directors was paid quarterly compensation for an annual total of \$16,000 per Outside Director for services performed in their capacity as a director.

During the first quarter of 2017, we granted our Outside Directors stock options totaling 69,000 shares under the 2010 Equity Compensation Plan, as amended (the "2010 Equity Plan"), as follows: the Chairman of the Board of Directors received stock options to purchase 15,000 shares of our common stock, the Chairman of the Audit and Finance Committee and the Chairman of the Compensation Committee each received stock options to purchase 12,000 shares of our common stock and each of our other Outside Directors received stock options to purchase 10,000 shares of our common stock. Our Outside Directors had the following shares of our common stock underlying stock options (both vested and unvested) outstanding as of December 31, 2017: Mr. Henderson: 65,150 shares; Mr. McClung: 96,270 shares; Mr. Vincent: 86,850 shares; Ms. Whitmore: 81,100 shares; Dr. Siegel: 81,100 shares; and Mr. Tyler: 76,520 shares.

In 2005, we adopted, and our stockholders approved, the 2005 Non-Employee Director Restricted Stock Plan (the "Director Restricted Stock Plan") which reserved 150,000 shares of our common stock to be issued to Outside Directors in the form of restricted shares. In 2005, no awards were made under the Director Restricted Stock Plan. In 2005, we also adopted the Non-Employee Director Deferred Compensation Plan (the "Director Deferred Compensation Plan") which permits an Outside Director to defer the receipt of director fees until separation from service or such time as the Company undergoes a change in control. We amended the Director Restricted Stock Plan in 2005 to permit an Outside Director to defer receipt of restricted stock granted under it. The deferred restricted shares are accounted for under the Director Deferred Compensation Plan and issued upon separation from service or the Company's change in control. Under the Director Deferred Compensation Plan, the deferred fees that would have been paid in cash are deemed invested in 5-year U.S. Treasury Bonds during the deferral period. The accumulated hypothetical earnings are paid

following the Outside Director's separation from service or the Company's change in control. The deferred fees that would have been paid as restricted shares are deemed invested in our common stock during the deferral period. The Director Deferred Compensation Plan is an unfunded, nonqualified deferred compensation arrangement. In 2009, all Outside Directors elected to defer receipts of all of the restricted shares they became entitled to under the Director Restricted Stock Plan, which was consolidated into the 2010 Equity Plan.



All Outside Directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending board and committee meetings.

### 2017 Outside Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)	Total (\$)
James A. Henderson	\$22,000	\$ 8,193	\$30,193
James A. McClung	\$18,000	\$ 6,554	\$24,554
W. Ed Tyler	\$18,000	\$ 6,554	\$24,554
R. Janet Whitmore	\$16,000	\$ 5,462	\$21,462
George A. Vincent, III	\$16,000	\$ 5,462	\$21,462
Dr. Richard Siegel	\$16,000	\$ 5,462	\$21,462

The amounts in this column represent the aggregate grant date fair value of awards granted in fiscal 2017 in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 718, (1) *Compensation—Stock Compensation* (“FASB ASC Topic 718”). See Note 10 of the notes to our financial statements contained in Part II, Item 8 of our Annual Report for a discussion of all assumptions made by us in determining the FASB ASC Topic 718 values.

### **Director Independence**

The Board of Directors has determined that the following directors are “independent” as that term is defined in the rules and regulations of the SEC and the Nasdaq Stock Market (“Nasdaq”): Mr. McClung, Mr. Henderson, Dr. Siegel, Mr. Tyler and Mr. Vincent. Though we are no longer listed on Nasdaq, our Board of Directors used the Nasdaq listing standards in making its independence determinations.

### **Meetings of the Board and Committees**

During the year ended December 31, 2017, the Board of Directors held five meetings, all of which were attended by each director. No director missed more than one committee meeting (for committees on which they served) during 2017.

### **Committees of the Board of Directors**

The Board of Directors has established an Audit and Finance Committee, Compensation Committee and Nominating and Corporate Governance Committee. Each operates in accordance with its charter (available on our website [www.nanophase.com](http://www.nanophase.com) under the “Investor Relations” section). The members of the Audit and Finance Committee are Mr. McClung (Chairman), Mr. Vincent and Dr. Siegel. The members of the Compensation Committee are Mr. Tyler (Chairman), Mr. Henderson, and Mr. Vincent. The members of the Nominating and Corporate Governance Committee

are Mr. Henderson (Chairman), Mr. McClung, Dr. Siegel, Mr. Vincent, Mr. Tyler and Ms. Whitmore.

The Audit and Finance Committee generally has responsibility for retaining the Company's independent public auditors, reviewing the plan and scope of the accountants' annual audit, reviewing the Company's internal control functions and financial management policies, reviewing and approving all related party transactions, and reporting to the Board of Directors regarding all of the foregoing. The Audit and Finance Committee held eight meetings during 2017. The Board of Directors has determined that Mr. Vincent and Mr. McClung are the "audit committee financial experts" as described in applicable SEC rules. Each member of the Audit and Finance Committee is independent, as defined in applicable SEC and Nasdaq rules.

The Compensation Committee generally has responsibility for establishing executive officer and key employee compensation, reviewing and establishing the Company's executive compensation policies and practices, evaluating our Outside Director compensation, and reporting to the Board of Directors regarding the foregoing. The Compensation Committee also has responsibility for administering the 2010 Equity Plan, determining the number of options, if any, to be granted to the Company's employees and consultants pursuant to the 2010 Equity Plan and reporting to the Board of Directors regarding the foregoing. Regarding most compensation matters, including executive compensation, our management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its functions to others in setting compensation. The Compensation Committee does not currently utilize external consultants in executive or director compensation matters. The Compensation Committee held five meetings during 2017. Each member of the Compensation Committee is independent, as defined in applicable SEC and Nasdaq rules, is a "non-employee director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is an "Outside Director" as defined by the regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Nominating and Corporate Governance Committee generally has responsibility for evaluating and nominating candidates to serve on the Board of Directors, and for establishing and reviewing our Corporate Governance Principles. Five of the six members of the Nominating and Corporate Governance Committee are independent, as defined in applicable SEC and Nasdaq rules. The Nominating and Corporate Governance Committee held one meeting during 2017.

The Nominating and Corporate Governance Committee considers candidates for membership on our Board who are recommended by stockholders and/or fellow Board members. A stockholder who wishes to recommend a director candidate for consideration by the Nominating and Corporate Governance Committee should send such recommendation to our Chief Financial Officer at Nanophase Technologies Corporation, 1319 Marquette Drive, Romeoville, Illinois 60446. Our Chief Financial Officer has been instructed by our Board to forward such stockholder director candidate recommendations to the Nominating and Corporate Governance Committee. Any such recommendation must include the candidate's name, home and business contact information, detailed biographical data, relevant qualifications, a signed letter from the candidate confirming willingness to serve, information regarding any relationships between the candidate and the Company and evidence of the recommending stockholder's ownership of common stock. A stockholder who wishes to nominate an individual as a director candidate at an annual meeting of stockholders, rather than recommend the individual to the Nominating and Corporate Governance Committee as a nominee, must comply with our advance notice requirements set forth in our By-Laws, as currently in effect, as described below under "Miscellaneous and Other Matters – Proposals of Stockholders." The Nominating and Corporate Governance Committee's process for identifying and evaluating nominees for director will be the same whether the nominee is from the committee's search for a candidate, or whether the nominee was recommended by a stockholder.

### **Communications with the Board of Directors**

Any stockholder desiring to communicate with the Board of Directors or one or more of its directors may send a letter addressed to the Board of Directors or the applicable directors in care of the Corporate Secretary at Nanophase Technologies Corporation, 1319 Marquette Drive, Romeoville, Illinois 60446. All such communications must have the sender's name, address, telephone number and e-mail address, if any, as well as a statement of the type and amount of our securities the sender holds and any other interest of the sender in the subject of the communication or, if the sender is not a stockholder of the Company, a statement of the nature of the sender's interest in the Company. Communications will be forwarded to the proper recipient unless they (a) concern individual grievances or other interests that could not reasonably be construed to be of concern to the stockholders or other constituencies of the Company, (b) advocate for the Company to engage in illegal activities, (c) contain offensive, scurrilous or abusive content, or (d) have no relevance to the business or operations of the Company.

### **Directors' Attendance at Annual Meetings**

We encourage, but do not require, our directors to attend our Annual Meeting of Stockholders. When a director is unable to attend an Annual Meeting of Stockholders in person, but is able to attend by electronic conferencing, we will arrange for the director to participate by other means such that the director can hear and be heard by those present at the meeting. The entire Board of Directors attended our 2017 Annual Meeting of Stockholders in person.

### **Board's Philosophy in Risk Oversight, Roles and Diversity**

The Board of Directors considers its role in risk oversight to focus primarily on evaluating risk at the entity and strategic levels, with management primarily responsible for managing day-to-day risk factors and presenting summary materials for those positions to the Board of Directors. Consistent with this philosophy, the Board of Directors has no formal policy as to whether the roles of Chief Executive Officer and Chairman should be segregated or combined. The

Board of Directors considers the circumstances of the Company and makes a determination as to the appropriate leadership structure for the Company at that time. As of the date of this proxy statement, the positions of CEO and Chairman are held by two individuals – Mr. Henderson serves as Chairman and Mr. Jankowski serves as CEO. Mr. Henderson brings extensive experience in corporate leadership from his own working experience and from the many boards on which he serves or has served in the past, and Mr. Jankowski is expected to benefit from that experience. The Board of Directors believes this is the most appropriate structure for the Company at this time. Under our Corporate Governance Principles, in the event that the Chairman of the Board is not an Outside Director, the Board will elect a lead independent director, who will have the responsibility to schedule and prepare agendas for meetings of the Outside Directors, communicate with the CEO, disseminate information to the rest of the Board and raise issues with management on behalf of the Outside Directors when appropriate. The Board evaluates its leadership structure on an ongoing basis and may change it as circumstances warrant.

The Board of Directors does not have a stated policy regarding diversity, although pursuant to our Corporate Governance Principles, diversity is one factor that the Nominating and Corporate Governance Committee considers when recommending directors for stockholder approval. The Board seeks experienced individuals for service who bring extensive experience in leadership, operations, finance, and engineering, particularly in areas directly applicable to the Company or its intended future endeavors.

**EXECUTIVE OFFICERS**

Set forth below is certain information regarding the executive officers of the Company as of the date of this proxy statement who are not identified as directors in “Proposal I Election of Director—Other Directors” above. We prepared the following executive officer summaries using information furnished to us by the executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jaime Escobar	47	Chief Financial Officer and Corporate Secretary
Kevin Cureton	56	Chief Commercial Officer
Nancy Baldwin	67	Vice President - Human Resources and Investor Relations

**Mr. Escobar** has served as the Chief Financial Officer since joining the Company in March 2018 and has served as our Corporate Secretary since May 2018. Before joining the Company, Mr. Escobar served as the Controller of Abrasive 90 Inc. d/b/a CGW Camel Grinding Wheels, USA, a manufacturer and distributor of abrasive products, from May 2016 until March 2018. Prior to that, Mr. Escobar served as Accounting Manager for Termax Corporation, a supplier to the automotive industry, from June 2013 until March 2016; as a Plant Lead Analyst for Chrysler Group LLC, assigned to a vehicle assembly plant, from June 2012 until June 2013; and as an Accounting Manager for Midas International Corporation, an automobile services company, from May 2011 until June 2012. He has also served in roles of increasing responsibility at AMCOL International Corporation, a marketer of diverse specialty materials with a core expertise in minerals and polymer science, including serving as Assistant Controller of American Colloid Company from October 2004 until July 2007 and as Controller of AMCOL Health & Beauty Solutions (HBS) from July 2007 until April 2011. Mr. Escobar holds a B.S. in Accounting with a minor in Business Administration from Northeastern Illinois University, and is a registered CPA in the state of Illinois.

**Mr. Cureton** joined the Company in November 2012 as Vice President of Sales, Marketing and Business Development. Effective January 1, 2018, Mr. Cureton was named Chief Commercial Officer. His chemical industry experience has spanned more than twenty years with companies including twelve years at AMCOL, where one of his roles was Managing Director of its nanomaterial-based Health & Beauty Solutions division. Prior to that, he made significant contributions at Air Products, Borden, and other entities. He holds an undergraduate degree in chemical engineering from Carnegie Mellon University and an M.B.A. from the University of Chicago.

**Ms. Baldwin** has served as the Director of Human Resources and Information Technology since joining the Company in 2000. In September of 2008, she was appointed as the Company’s Vice President of Human Resources and Investor Relations. Prior to joining Nanophase, she served as Vice President of iLink Global, and Chief Human Resources Officer at the Marketing Store, a global supplier to McDonald’s Corporation. Previous experience includes 14 years at Arthur Andersen, LLP & Andersen Consulting, LLP in various positions. Ms. Baldwin has a B.S. in Education from Western Illinois University and post-graduate studies at Northern Illinois University. In 2010, Ms. Baldwin was appointed to the Romeoville Economic Development Commission. She is currently an active member of the Will County Three Rivers Manufacturing Human Resources Association.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Exchange Act requires the Company’s officers (as defined under Section 16), directors and persons who beneficially own greater than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Based solely on a review of the forms we have received and on written representations from certain reporting persons that no such forms were required for them, we believe that during 2017

all Section 16 filing requirements applicable to our officers, directors and 10% beneficial owners were complied with by such persons.

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**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth a summary of the compensation for each of our named executive officers in U.S. dollars for the years ended December 31, 2017 and 2016.

Name and Principal Position	Year	Salary (\$)	Bonus	Option	Non-Equity	All Other	Total (\$)
			(1)	Awards (2)	Incentive Plan Compensation (3)	Compensation (4)	
<b>Jess Jankowski</b> Chief Executive Officer	2017	\$317,471	\$—	\$44,242	\$—	\$21,613	\$383,326
<b>Kevin Cureton</b> Chief Commercial Officer	2016	\$305,831	\$—	\$23,247	\$—	\$22,960	\$352,038
<b>Nancy Baldwin</b> Vice President Human Resources and Investor Relations	2017	\$201,346	\$—	\$27,310	\$—	\$16,574	\$245,230
<b>Frank Cesario</b> Former Chief Financial Officer (5)	2016	\$186,411	\$—	\$14,656	\$—	\$23,666	\$224,733
	2017	\$157,342	\$—	\$19,663	\$—	\$9,221	\$186,226
	2016	\$166,686	\$—	\$10,613	\$—	\$9,348	\$186,647
	2017	\$166,936	\$—	\$19,663	\$—	\$2,555	\$189,154
	2016	\$169,834	\$—	\$10,613	\$—	\$1,224	\$181,671

(1) Any amounts earned during 2017 and 2016 would have been paid in early 2018 and 2017, respectively. Bonus compensation is driven by Company performance against its goals as ultimately determined by the Compensation Committee of the Board of Directors. A set of Company-level objectives is created at the beginning of the year, focusing on total revenue, revenue growth, particular sources of revenue growth, business development achievements, cash flows and related targets, as well as a small discretionary component designed to capture items not specifically listed. Each measure has varying levels of achievement, which is reflected in the aggregate bonus measurement. The resulting bonus calculation is then applied to each individual's bonus potential as a percentage of salary. Although total revenue growth was approximately 16% and 4% during 2017 and 2016, respectively, performance targets were not met and thus no bonus was awarded to any of the named executive officers for 2017 or 2016.

(2) The amounts in this column represent the aggregate grant date fair value of awards granted in 2017 and 2016 in accordance with FASB ASC Topic 718. See Note 10 of the notes to our financial statements contained in Part II, Item 8 of our Annual Report for a discussion of all assumptions made by us in determining the FASB ASC Topic 718 values.

(3) None.

(4) The amounts in this column represent our 401(k) match (total for executive officers of \$6,094 during 2017 and none during 2016), health and life insurance. Health insurance benefits are the same for all employees. Life insurance is provided in the amount of one times the individual's annual base salary with a maximum of \$150,000.

(5) Mr. Cesario resigned from his position as Chief Financial Officer effective November 17, 2017.

**Employment Agreements**

Effective as of August 12, 2009, we entered into an employment agreement with Jess Jankowski in connection with his services as President and Chief Executive Officer. No term has been assigned to Mr. Jankowski's employment agreement.

Pursuant to the terms of his employment agreement, Mr. Jankowski will receive an annual base salary of not less than \$275,000. In addition, Mr. Jankowski will be eligible for discretionary bonuses for services to be performed as an executive officer of the Company based on performance and achieving milestones approved by our Board.

Mr. Jankowski will be eligible for such stock options and other equity compensation as the Board deems appropriate, subject to the provisions of the 2010 Equity Plan. Mr. Jankowski will also be entitled to the employee benefits made available by us generally to all of our other executive officers, subject to the terms and conditions of our employee benefit plan in effect from time to time.



In the event Mr. Jankowski's employment is terminated other than for "cause" (as such term is defined in the employment agreement), Mr. Jankowski will receive a sum equal to Mr. Jankowski's base salary in effect at the time of termination for 52 full weeks after the effective date of termination, payable in proportionate amounts on our regular pay cycle for professional employees, provided that Mr. Jankowski signs, without subsequent revocation, a separation agreement and release in a form acceptable to us. In addition, all stock options granted to Mr. Jankowski prior to termination will become fully vested and exercisable in accordance with the applicable option grant agreement and the 2010 Equity Plan. If he is terminated for cause, or if he resigns as an employee of the Company, Mr. Jankowski will not be entitled to any severance or other benefits accruing after the term of the employment agreement and such rights will be forfeited immediately upon the end of such term.

If, within two years after the occurrence of a change in control, as defined in his employment agreement, Mr. Jankowski's employment is terminated other than for cause, his responsibilities or annual compensation are materially reduced without his prior consent, or we cease to be publicly held (each, a "Trigger"), then, subject to Mr. Jankowski signing, without subsequently revoking, a separation agreement and release in a form acceptable to us, Mr. Jankowski will receive a sum equal to his base salary for 104 full weeks after the date the Trigger occurs. In addition, all stock options granted to Mr. Jankowski prior to the Trigger will become fully vested and exercisable in accordance with the applicable option grant agreement and the 2010 Equity Plan.

Effective as of November 28, 2012, we entered into an employment agreement with Mr. Kevin Cureton providing for an annual base salary of not less than \$190,000. No term has been assigned to Mr. Cureton's employment agreement. If Mr. Cureton is terminated other than for "cause" (as such term is defined in Mr. Cureton's employment agreement), Mr. Cureton will receive severance benefits in an amount equal to Mr. Cureton's base salary for 26 weeks. In addition, all stock options granted to Mr. Cureton prior to termination will become fully vested and exercisable in connection with the applicable option grant agreement and the 2010 Equity Plan. A signing bonus of \$25,000 was paid upon Mr. Cureton's acceptance of employment.

Effective as of September 25, 2008, we entered into an employment agreement with Ms. Nancy Baldwin providing for an annual full-time base salary of not less than \$150,000. No term has been assigned to Ms. Baldwin's employment agreement. If Ms. Baldwin is terminated other than for "cause" (as such term is defined in Ms. Baldwin's employment agreement), Ms. Baldwin will receive severance benefits in an amount equal to Ms. Baldwin's base salary for 26 weeks. In addition, all stock options granted to Ms. Baldwin prior to termination will become fully vested and exercisable in connection with the applicable option grant agreement and the 2010 Equity Plan.

Effective as of June 24, 2009, we entered into an employment agreement with Mr. Frank Cesario providing for an annual base salary of not less than \$150,000. We also granted to Mr. Cesario options to purchase up to 20,000 shares of common stock at an exercise price of \$1.07 per share with options for one-third of such shares becoming exercisable on each of the first three anniversaries of the date of grant. No term was assigned to Mr. Cesario's employment agreement. As subsequently amended during 2012, if Mr. Cesario would have been terminated other than for "cause" (as such term was defined in Mr. Cesario's employment agreement), Mr. Cesario would have received severance benefits in an amount equal to Mr. Cesario's base salary for 26 weeks. Mr. Cesario resigned from his position as Chief Financial Officer effective November 17, 2017 and did not receive any severance benefits under his employment agreement in connection with such resignation.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information regarding each unexercised option held by each of our named executive officers as of December 31, 2017.

name	OPTION AWARDS				STOCK AWARDS	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares of stock that have not vested (#)	Market value of shares of stock that have not vested (\$)
Jess Jankowski	23,000	-0-	\$ 3.140	05/12/18		
	30,000	-0-	\$ 1.020	05/04/19		
	27,000	-0-	\$ 1.700	05/03/20		
	85,000	-0-	\$ 1.260	05/02/21		
	98,000	-0-	\$ 0.300	08/07/22		
	90,000	-0-	\$ 0.415	02/14/23		
	90,000	-0-	\$ 0.520	02/13/24		
	54,000	27,000 (1)	\$ 0.440	02/18/25		
	23,000	46,000 (2)	\$ 0.420	02/23/26		
	-0-	81,000 (3)	\$ 0.680	02/21/27		
Kevin Cureton	52,000	-0-	\$ 0.300	11/28/22		
	48,000	-0-	\$ 0.415	02/14/23		
	75,000	-0-	\$ 0.520	02/13/24		
	33,333	16,667 (1)	\$ 0.440	02/18/25		
	14,500	29,000 (2)	\$ 0.420	02/23/26		
	-0-	50,000 (3)	\$ 0.680	02/21/27		
Nancy Baldwin	15,000	-0-	\$ 3.140	05/12/18		
	30,000	-0-	\$ 1.020	05/04/19		
	27,000	-0-	\$ 1.700	05/03/20		
	31,000	-0-	\$ 1.260	05/02/21		
	41,000	-0-	\$ 0.300	08/07/22		
	39,000	-0-	\$ 0.415	02/14/23		
	40,000	-0-	\$ 0.520	02/13/24		

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24,000	12,000	(1)	\$ 0.440	02/18/25
10,500	21,000	(2)	\$ 0.420	02/23/26
-0-	36,000	(3)	\$ 0.680	02/21/27

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Frank Cesario (4)

20,000	-0-		\$ 1.070	06/24/19
20,000	-0-		\$ 1.700	05/03/20
31,000	-0-		\$ 1.260	05/02/21
18,204	-0-		\$ 0.440	02/18/25
10,500	-0-		\$ 0.420	02/23/26

(1)The grants expiring February 18, 2025 vested in three equal installments on February 18, 2016, 2017 and 2018.

(2)The grants expiring February 23, 2026 vest in three equal installments on February 23, 2017, 2018 and 2019.

(3)The grants expiring February 21, 2027 vest in three equal installments on February 21, 2018, 2019 and 2020.

Any options that were unvested and unexercisable upon Mr. Cesario's resignation from the Company effective November 17, 2017 were canceled upon his resignation. The options set forth in this table remained exercisable for 90 days after his resignation, at which time any that remained unexercised were canceled.

**Potential Payment upon Termination or Change in Control**

**Severance Benefits.** Please see discussion of severance benefits under “Employment Agreements” above.

**Change in Control.** Upon a change in control, the 2010 Equity Plan provides that: (1) vesting under all outstanding stock options will automatically accelerate and each option will become fully exercisable; (2) the restrictions and conditions on all outstanding restricted shares shall immediately lapse; and (3) the holders of performance shares will receive a payment in settlement of the performance shares, in an amount determined by the Compensation Committee, based on the target payment for the performance period and the portion of the performance period that precedes the change in control. If the Company is not the surviving entity, the successor is required to assume all unexercised options.

**Payments.** The following table quantifies the estimated payments that would be made in each covered circumstance to the following named executive officers:

Name	Termination by company Without Cause (1)	Change in Control (2)	involuntary
			termination in connection with or following a change in control (3)
Jess Jankowski	\$ 326,011	\$ 6,761	\$ 645,261
Kevin Cureton	\$ 105,485	\$ 4,235	\$ 105,485
Nancy Baldwin	\$ 91,061	\$ 3,061	\$ 91,061

This amount represents the severance benefits that would be received under the executive officer’s employment agreement had the executive officer been terminated by the Company without cause on December 31, 2017, (1)including the value of any stock options that would have accelerated in connection with such termination. For this purpose, the closing price of our common stock as of December 29, 2017, the last business day of 2017, was used. The amount represents the difference between the exercise price of any unvested options and \$0.52.

This amount represents an estimate of the value that would have been received under the 2010 Equity Plan had a change in control occurred as of December 31, 2017 and the executive officers benefited from an acceleration of (2)vesting in the 2010 Equity Plan awards, as described above. For this purpose, the closing price of our common stock as of December 29, 2017, the last business day of 2017, was used. The amount represents the difference between the exercise price of any unvested options and \$0.52.

This amount represents an estimate of the payments and value (including acceleration of vesting of equity-based awards) that would have been received by the executive officers had the executive officers been terminated by the (3)Company without cause on December 31, 2017 in connection with a change in control on this date. For this purpose, the closing price of our common stock as of December 29, 2017, the last business day of 2017, was used. The amount represents the difference between the exercise price of any unvested options and \$0.52.

Our former Chief Financial Officer, Mr. Frank Cesario, resigned from his position effective November 17, 2017 and did not receive any severance benefits or acceleration of vesting of his stock options in connection with such resignation.

**SECURITY OWNERSHIP OF MANAGEMENT****AND PRINCIPAL STOCKHOLDERS**

The following table sets forth, as of June 28, 2018 certain information with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of common stock, (2) each of our directors, (3) each of our named executive officers and (4) all of our current executive officers and directors as a group. There were 33,847,793 shares of common stock outstanding as of June 28, 2018.

Name	Number of Shares Beneficially		Percent of Shares Beneficially	
	Owned (1)	Owned		
Bradford T. Whitmore	15,993,599 (2)	47.3	%	
Spurgeon Corporation	3,034,710 (3)	9.0	%	
Grace Brothers, Ltd.	2,433,300 (4)	7.2	%	
John H. Conley, Jr.	2,340,000 (5)	6.9	%	
James A. Henderson	533,215 (6)	1.6	%	
Richard W. Siegel, Ph.D.	461,571 (7)	1.4	%	
James A. McClung	132,683 (8)	*		
W. Ed Tyler	65,280 (9)	*		
R. Janet Whitmore	1,553,733 (10)	4.6	%	
George A. Vincent, III	98,101 (11)	*		
Jess A. Jankowski	613,801 (12)	1.8	%	
Kevin Cureton	270,667 (13)	*		
Nancy Baldwin	277,987 (14)	*		
Frank Cesario	83,783 (15)	*		
All current executive officers and directors as a group (10 persons)	4,007,038 (16)	11.3	%	

Unless otherwise indicated below, the person's address is the same as the address for the Company.

\*Denotes beneficial ownership of less than one percent.

Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated below, (1) the persons in the above table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(2) Includes 2,433,300 shares of common stock held by Grace Brothers, Ltd., 601,410 shares of common stock held by Grace Investments, Ltd. and 12,907,435 shares held by Bradford T. Whitmore, as well as 51,454 shares held by his daughter. Mr. Whitmore is a general partner of both Grace entities. In such capacities, Mr. Whitmore shares voting and investment power with respect to the shares of common stock held by the Grace entities. This information is based on information reported on a Form 4 filed on December 21, 2017 with the SEC. The address of the stockholder is 1603 Orrington Avenue, Suite 900, Evanston, Illinois 60201.

(3) Includes 2,433,300 shares of common stock held by Grace Brothers, Ltd. and 601,410 shares of common stock held by Grace Investments, Ltd. Spurgeon Corporation is a general partner of both Grace entities and shares

voting and investment power with respect to the shares of common stock held by such Grace entities. This information is based on information reported on the Form 4 referenced above. The address of the stockholder is 1603 Orrington Avenue, Suite 900, Evanston, Illinois 60201.

- (4) This information is based on information reported on the Form 4 referenced above. The address of the stockholder is 1603 Orrington Avenue, Suite 900, Evanston, Illinois 60201.
- (5) This information is based on information reported on Schedule 13G/A filed with the SEC on December 29, 2017. The address of the stockholder is 8 Rene Carr Street, Elkton, Maryland 21921.
- (6) Includes Mr. Henderson's 51,100 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.
- (7) Includes Dr. Siegel's 71,733 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.

- (8) Includes Mr. McClung's 85,030 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018, as well as 30,071 shares held by his spouse.
- (9) Includes Mr. Tyler's 65,280 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.
- (10) Includes Ms. Whitmore's 71,733 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018, as well as 238,493 shares held by her children.
- (11) Includes Mr. Vincent's 77,483 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.
- (12) Includes Mr. Jankowski's 574,000 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018, as well as 1,000 shares held by his spouse.
- (13) Includes Mr. Cureton's 270,667 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.
- (14) Includes Ms. Baldwin's 277,000 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.
- (15) Mr. Cesario resigned from his position as Chief Financial Officer effective November 17, 2017. This information is based on Mr. Cesario's last Form 4 filing on November 17, 2017.
- (16) Includes all current executive officers and directors as a group's 1,544,026 shares of common stock issuable upon exercise of options exercisable currently or within 60 days of June 28, 2018.

**Securities Authorized for Issuance under Equity Compensation Plan**

The following table gives information about our common stock that may be issued upon the exercise of options and rights under our 2010 Equity Plan on December 31, 2017. The 2010 Equity Plan replaced the 2004 Equity Compensation Plan, the 2005 Non-Employee Director Restricted Stock Plan, and the Amended and Restated 2006 Stock Appreciation Rights Plan.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted - average price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plans Approved by Shareholders	3,228,000	\$ 0.73	796,000
Plans Not Approved by Shareholders	None	\$ —	None

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Under our Audit and Finance Committee's charter, the Audit and Finance Committee must review and approve all related person transactions in which any executive officer, director, director nominee or more than 5% stockholder, or any of their immediate family members, has a direct or indirect material interest. The Audit and Finance Committee may not approve a related person transaction unless it is in, or not inconsistent with, our best interests and, where applicable, the terms of such transaction are at least as favorable to us as could be obtained from an unrelated third



party.

We did not engage in any transactions in which a related person had or will have a direct or indirect material interest during 2017 or 2016, except for the December 20, 2017 sale of 2.5 million shares of our common stock and the February 2016 sale of 2.6 million shares of our common stock, both to our largest stockholder, Bradford T. Whitmore, at a price of \$0.40 and \$0.38 per share, respectively, for proceeds of \$1.0 million and \$988,000, respectively, which were each reviewed and approved in advance by our Audit and Finance Committee pursuant to the parameters described above. No related person transactions are currently contemplated.

## **PROPOSAL 2**

### **RATIFICATION OF APPOINTMENT OF AUDITORS**

#### **Report of the Audit and Finance Committee**

The Audit and Finance Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent auditor is responsible for performing an independent audit of the Company's financial statements and expressing an opinion on the conformity of the audited financial statements to generally accepted accounting principles.

The Audit and Finance Committee has reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2017. The Audit and Finance Committee has discussed with RSM US LLP, the Company's independent auditor, the matters required to be discussed by applicable Public Company Accounting Oversight Board standards. The Audit and Finance Committee has received and reviewed the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding communications with the Audit and Finance Committee concerning independence, and the Audit and Finance Committee discussed with RSM US LLP their independence from management and the Company. The Audit and Finance Committee has considered whether the provision of services by RSM US LLP not related to the audit of the financial statements referred to above and to the reviews of the interim financial statements included in the Company's Form 10-Qs are compatible with maintaining RSM US LLP's independence, and has determined that they are compatible and do not impact RSM US LLP's independence.

Based on the reviews and discussions referred to above, the Audit and Finance Committee recommended to the Board of Directors that the audited financial statements referred to above should be included in the Company's Annual Report on Form 10-K accompanying this Proxy Statement and filed with the SEC for the year ended December 31, 2017.

#### **Audit and Finance Committee**

**James A. McClung, Chairman**

**George A. Vincent, III**

**Richard W. Siegel, Ph.D.**

#### **Appointment of Independent Auditors**

The Audit and Finance Committee has appointed RSM US LLP, an independent registered public accounting firm (“RSM”), as auditors of our financial statements for the year ending December 31, 2018. RSM has been engaged as auditors for the Company since November 2001. The Audit and Finance Committee has determined to afford stockholders the opportunity to express their opinions on the matter of auditors and, accordingly, is submitting to the stockholders at the Annual Meeting a proposal to ratify the Audit and Finance Committee’s appointment of RSM. If a majority of the shares voted at the Annual Meeting, in person or by proxy, is not voted in favor of the ratification of the appointment of RSM, the Audit and Finance Committee will interpret this as an instruction to seek other auditors. It is expected that representatives of RSM will be present at the Annual Meeting and will be available to respond to questions. They will be given an opportunity to make a statement if they desire to do so.

The following fees were incurred by the Company for the services of RSM in relation to the 2017 and 2016 fiscal years.

Audit Fees. The aggregate amount billed by our principal accountant, RSM, for audit services performed for the fiscal years ended December 31, 2017 and 2016 was approximately \$176,000 and \$142,000, respectively. Audit services include the auditing of financial statements and quarterly reviews.

Audit Related Fees. There were no audit related fees billed by RSM for the years ended December 31, 2017 and 2016, which may include costs incurred for reviews of registration statements, assistance with Staff comment letters, and consultation on various accounting matters in support of our financial statements.