NANOPHASE TECHNOLOGIES CORPORATION
Form 10-K
March 27, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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)

Delaware	**36-3687863**
(State or other jurisdiction	**(I.R.S. Employer Identification No.)**
of incorporation or organization)	

1319 Marquette Drive, Romeoville, Illinois 60446

(Address of principal executive offices) (zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 large accelerated filer, 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 x

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

The aggregate market value of the registrant s voting stock held by non-affiliates of the registrant based upon the last reported sale price of the registrant s common stock on June 30, 2014 was $6,893,000 as of such date.

The number of shares outstanding of the registrant s common stock, par value $.01, as of March 13, 2015 was 28,585,496.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Item 1. Business
General

Nanophase Technologies Corporation (Nanophase or the Company , including we , our or us) is an advanced mat and applications developer and commercial manufacturer with an integrated family of materials technologies. We produce engineered nano and sub-micron materials for use in a variety of diverse markets: personal care including sunscreens, architectural coatings, industrial coating applications, abrasion-resistant additives, plastics additives, medical diagnostics, energy and a variety of surface finishing technologies (polishing) applications, including optics.

While our origin is based on the creation of nanoscale metal oxide products, we have expanded our offerings to include larger but still sub-micron materials. We have developed techniques for managing attributes including particle size, shape, surface coatings, and other valuable aspects of the material. Our focus is on customer need where we believe we have an advantage, as opposed to finding uses for one particular technology. Additionally, as the format of delivery is important to customers, we have developed proprietary capabilities for dispersing our materials into both aqueous (water-based) and solvent-based liquid media. These capabilities allow us to better integrate with the customer s need and application.

We target markets in which we believe practical solutions may be found using our products. We work closely with current and potential customers in these target markets to identify their material and performance requirements and market our materials to various end-use applications manufacturers. Recently developed technologies have made certain new products possible and opened potential new markets. We expect growth in end-user (manufacturing customers, including customers of our customers) adoption in 2015 and beyond. Our initiatives in targeted market areas are progressing at differing rates of speed, but we have been broadly moving through testing and development cycles, and in a number of cases believe we are approaching first revenue or next stage revenue with particular customers in the industries referenced above. During 2014 we developed new solutions in surface finishing technologies (polishing) and energy-management areas that have been taken to potential customers, with commercial order flow accelerating in the former and significant commercial testing activities happening in the latter. We believe that successful introduction of our materials with manufacturers may lead to follow-on orders for other materials in their applications. Although our primary strategic focus has been the North American market, we currently sell material to customers overseas and have been working to expand our reach within foreign markets. The Company was incorporated in Illinois on November 25, 1989, and became a Delaware corporation during November 1997. Our common stock trades on the OTCQB marketplace under the symbol NANX.

We have created a leading commercial approach to the application of our integrated materials technologies designed to deliver an optimal engineered solution for a target market or specific customer application. With respect to our products, we have complete capability from application development and laboratory samples through pilot production and, finally, commercial production currently at rates as high as hundreds of metric tons per year for individual products. We have development and application laboratories and manufacturing capacity in two locations in the Chicago area. Our manufacturing is based on Lean Six Sigma discipline and is certified to ISO 9001, American National Standard, Quality Management System Requirements; ISO 14001, American National Standard, Environmental Management System Requirements; and is compliant with current Good Manufacturing Practices (cGMP) for products under U.S. Food and Drug Administration (FDA) regulation.

We have undergone a strategic shift during recent years toward penetrating key markets via interactive applications development with end-use customers in these markets. We also supply both

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nanoscale and larger materials, based on market requirement. We believe this strategy leverages the applications development expertise we have cultivated over the last several years and best positions us to build direct sales to end-use customers, in addition to translating these advantages through our market partners.

Nanomaterials

Nanomaterials are generally comprised of particles (nanoparticles) that are less than 100 nanometers in diameter and these nanoparticles have a wide range of unique properties owing to their very small size. A nanometer is one-billionth of a meter, or about 100,000 times smaller in size than the width of a human hair.

Nanotechnology involves manipulating the properties of materials, made up of basic elements or combinations thereof, at the 100-nanometer level or below. At this scale, the relatively small number of constituent atoms, the large proportion of these atoms on surfaces, and their confined dimensions lead materials to exhibit unique properties that can be used in many applications to benefit performance.

Nanomaterials are an important and enabling part of the diverse field of nanotechnology and are the building blocks of our nanotechnology products. The ultimate performance and value of Nanophase s products in a given application is a function of nanoparticle composition, size, shape, structure, surface chemistry and coating and dispersion potential. Our technologies for engineering and manufacturing nanomaterials, and our understanding of how to make nanomaterials exhibit desirable performance characteristics in various media, result in commercial nanomaterials solutions that we believe offer superior performance in many applications.

Nanomaterials have applications in diverse global markets where they are incorporated into a process, such as optics polishing, or a product, such as an industrial coating to prevent degradation or aid in application, or significantly improve wear resistance, or promote/hamper particular chemical reactions within respective systems. Multiple markets exist for our products since nanomaterials offer advantages in many applications, such as improved properties and performance, longer wear or product life, lower overall product cost, or in the development of new products or processes.

Most of the raw materials we use are commercially available. In some cases, we rely on sole-source processors of materials that utilize an array of worldwide sources for the raw materials that they process to our specifications. However, in certain cases we deal with very limited supply of certain elements, such as those classified as Rare Earth elements- specifically cerium oxide for use in surface finishing technologies (polishing) applications. On a worldwide basis, the vast majority of these elements are sourced from China. Due to severe export limitations imposed by China from 2010 through 2012, the supply of all Rare Earth elements was drastically reduced from previous levels. While prices and availability improved by the end of 2012, the cost remains higher than it was prior to 2010. In addition, this market dynamic created significant concerns, globally, pertaining to the availability and cost of using these materials, which continue to pose customer acceptance risk for elements of our polishing business going forward.

Our Technologies

We have created an integrated platform of commercial nanomaterial technologies that are patented, patent-pending or proprietary. These technologies are designed to deliver a nanomaterial solution for a targeted market or a specific customer application. Our platform provides flexibility and capability to engineer nanomaterials that meet a customer s performance requirements and delivers our nanomaterial solutions in a readily usable format. Our technologies are scalable and robust, having produced several hundred metric tons annually.

Our nanomaterials platform includes two distinct manufacturing processes (PVS Plasma Vapor Synthesis and NAS - NanoArc® Synthesis) to make nanomaterials or nanoparticles. These technologies

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allow us to control critical nanomaterial properties (composition, size, shape, structure, surface chemistry) and engineer these attributes to meet specific application performance. Compared to other well-developed known nanoparticle processes, our plasma-produced particles are produced as nonporous, dense, discrete single crystals, which we believe possess a unique set of bulk and surface properties.

Perhaps of greater importance, we have developed proprietary technology to disperse nanoparticles in both aqueous (water-based) and several organic solvent systems. These dispersions are stable at high weight loading (typically 18-55% by weight). These aspects provide distinct market advantages. Dispersed nanomaterials are desired by many customers for use in their processes or products because of the ease of incorporation. As examples, dispersed nanomaterials are used in architectural coatings, industrial cleaning solutions, industrial coatings, plastic additives and optical and semiconductor polishing. This integration flexibility allows us to serve more customers and serve them better, and is critical to our role as a solutions provider, not simply that of a materials provider.

We have also developed patented and proprietary technology to coat or surface treat nanoparticles to further engineer surface chemistry by two main processes. In many applications, such as sunscreens, this technology is vital to ensure formulation compatibility and, in some cases, optimal application performance. We deliver hundreds of metric tons of surface engineered nanoparticles to our customers annually, including coated nanomaterials that are used by major global consumer products companies for sunscreens and personal care products.

As markets continue to develop and grow, we believe that customers preferred delivery formats will often be dispersed and/or coated nanomaterials. We believe we are well-positioned with our platform of integrated commercial nanomaterial technologies to respond to this demand. We plan to maintain and advance our intellectual property and technologies to remain competitive in the fields of nanomaterials development, applications development and commercialization.

We have used our expertise in nanoscale materials to develop larger sub-micron particle based products that are not considered nano in various applications. Controlling aspects including particle size and shape, as well as surface chemistries, allow us to provide superior materials to the marketplace in various formats, both at the nano level and above.

We have steadily expanded our ability to commercially utilize and deliver our technologies. Through large-scale manufacturing of nanomaterials utilized in the manufacture of consumer sunscreen and personal care products and architectural coatings, we have developed production expertise that has allowed us to improve processes relating to those nanomaterials as well as processes relating to other nanomaterials. This experience has translated into additional know-how, intellectual property and advances in the technologies and manufacturing processes that reduce variable manufacturing costs and improve gross margins.

Marketing and Distribution Methods

We focus our marketing strategy on differentiated solutions that create superior value for our customers. This customer-focused strategy means we are not solely dependent upon the efforts of a distributor for future sales growth. We have found many cases where our ability to effectively integrate nanomaterials into a customer s specific chemistry is critical to presenting an effective solution. Given this reality, we launched a customer direct business model during 2009 for those markets that are not conducive to an intermediary. In these markets, we interact with customers directly rather than through intermediaries, demonstrating the benefits of our solutions in their products. Our deep market knowledge of certain markets and applications has allowed us to understand customer needs and our products value proposition, and adapt our offerings accordingly. This knowledge, combined with our applications development expertise, supports leveraging our development efforts by marketing and selling our solutions to multiple customers within each market. We work closely with each customer to develop a material solution for that entity s specific application(s), but we find that as we develop greater applications development expertise in a given area, specific applications development often becomes a routine process within Nanophase. This is where we believe our future customers will perceive the greatest value in working with us, and where we will be able to leverage our product development efforts into multiple revenue generating customer solutions. Surface finishing technologies (polishing) is an example of such a market.

We see this customer-focused marketing approach increasing our probability of success in many markets, allowing us to use an integrated platform of material technologies and typically reducing the total time-to-market. The more our applications development scientists and sales team work directly with customers to develop nanomaterial solutions, the more quickly and successfully we believe we will be able to grow sales.

In addition to serving customers in diverse markets and geographic locations, we will continue to devote significant resources to maintaining and growing our relationship with BASF Corporation (BASF), our largest customer in the personal care market. This has been a successful relationship that we expect will contribute to our future growth. BASF, which describes itself as the world s leading chemical company with revenue in excess of $100 billion, is a global leader in the personal care market with recognized brands, significant revenues and sales reach. We have a long-term exclusive relationship with BASF, primarily to provide our zinc oxide-based products to be used in personal care with sunscreens and daily wear products being the dominant applications.

In addition to the personal care applications described above, our products are used in a variety of other applications, including architectural coatings, polishing applications (including optical glass and CMP), plastics additives, medical diagnostics, textiles and graphic arts, energy control applications, and others. Recent activities have expanded our presence in the polishing / surface finishing applications space, and 2013 saw us develop two solutions for the energy sector (consumer) that were taken to market leaders for evaluation during 2014. Our efforts in these areas of recent activity will continue in 2015, and we expect a combination of these new solutions in the surface finishing (polishing) and energy sector (consumer) areas to yield significant incremental revenue going forward.

Because our technology can be applied to a wide variety of applications, we focus our efforts on only a handful of applications to gain a depth of knowledge and leverage our learning curve. If we find a unique application outside of our core markets that does not require significant development resources then we may pursue it as opportunistic business. We believe this focused approach will contribute to a higher success rate for related opportunities than we would experience by pursuing more opportunities simultaneously.

Technology and Engineering

Our efforts in research and development, process engineering and advanced engineering groups are focused in three major areas: 1) application development for our products; 2) creating or obtaining additional core material technologies and/or materials that have the capability to serve multiple markets; and 3) continuing to improve our core technologies to improve manufacturing operations and reduce costs.

Most of our research and development is directly related to applications development. We endeavor to either meet specific customer needs or to develop applications solutions to address unmet needs in a particular market where we believe our materials will offer a distinct performance advantage. We believe that aggressively pursuing applications in targeted areas will help us compete as a technical and commercial innovator using our materials expertise, and more importantly, become perceived as a solutions provider by our customers and not simply as another materials supplier.

Our total research and development expense, which includes all expenses relating to our technology and advanced engineering groups, during the years ended December 31, 2014 and 2013, was $1.3 million and $1.7 million, respectively. This represents our share of these expenses only and does not take into account amounts spent by any of our customers in support of new product development. Our

future success will depend in large part upon our ability to develop products which bring a high degree of value to our customers products. Through the three-year period ended December 31, 2014, we had cumulative research and development expenses of approximately $5 million and cumulative expenditures on equipment and leasehold improvements of approximately $0.4 million.

Manufacturing Operations

We have manufacturing capacity based in two locations in the Chicago area. At each of these facilities, we are able to develop and supply nanomaterials in quantities ranging from grams to metric tons. Our facilities are certified to ISO 9001:2008 international standards and are cGMP compliant for applicable bulk pharmaceutical manufacturing. We are also in the process of registering some of the chemicals we ship to customers in Europe pursuant to the European Chemical Agency s regulations issued to date pertaining to Registration Evaluation and Authorization of Chemicals (REACH). We have registered Zinc Oxide under REACH and filed preliminary registrations for other materials. Our facilities are also certified to the international standard for environmental management, ISO 14001:2004.

Our operations employ a cellular, team-based manufacturing approach, where workers operate in work cells, under a lean manufacturing environment to continuously advance and improve production capabilities. We have also developed a highly flexible workforce that has been cross-trained to allow it to be employed broadly across our manufacturing processes. Our manufacturing approach and targeted engineering actions have resulted in continuing process innovations and improvements that have reduced the variable manufacturing cost significantly over the past several years.

We are committed to a lean manufacturing approach, to the extent possible given a certain measure of irregular demand, where we are able to reduce excess labor and manage the lowest practical inventory and supply levels in order to minimize working capital demands. This approach complements two of our major operational goals - (1) to increase output without adding unnecessarily to existing equipment and (2) to continually reduce production costs while consistently producing high quality products.

Intellectual Property and Proprietary Rights

We rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws, nondisclosure agreements and other protective measures to protect our intellectual property. In addition to obtaining patent and trademarks based on our inventions and products, we may also license certain third-party patents from time-to-time to expand our technology base.

As of the date of this filing, we own 11 U.S. patents and 2 pending U.S. patent applications. We also own 35 foreign patents and patent applications consisting of 30 issued or allowed foreign patents and 5 pending foreign patent applications. All of the pending and owned foreign patents are counterparts to domestic filings covering our platform of nanotechnologies. Our oldest issued patents began to expire during 2013. We do not believe that the expiration of these patents will have a material impact on our business or financial condition.

Competition

Within each of our targeted markets and product applications, we face potential competition from advanced materials and chemical companies, and suppliers of traditional materials. In many markets, the actual or potential competitors are larger and more diversified than we are; however, we believe we focus in market segments and opportunities where our materials and related technologies are superior to those

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of our competitors, often due to our ability to produce highly engineered products to meet specific performance requirements and develop nanomaterial solutions for customers specific applications.

With respect to traditional suppliers, we may compete against lower priced traditional materials for certain customer applications. In some product or process applications the benefits of using nanomaterials do not always justify a process change or outweigh their frequently higher costs.

With respect to larger producers of nanomaterials, while many of these producers do not currently offer directly competitive products, these companies may have greater financial and technical resources, larger research and development staffs, and greater manufacturing and marketing capabilities, and could compete directly against us. In addition, the number of development-stage companies involved in nanocrystalline materials continues to grow on a global basis, posing increasing competitive risks. Many of these companies are associated with university or national laboratories and use chemical and physical methods to produce nanocrystalline materials. We believe that most of these companies are engaged primarily in funded research and not commercial production; however, they may represent competitive risks in the future. Some development-stage companies, especially in other countries, receive significant government assistance or enjoy other benefits due to their location. We anticipate that foreign competition will play a greater role in the nanomaterials arena in the future, something we are increasingly seeing today, albeit indirectly.

We believe that our nanomaterial technologies and manufacturing platforms are strong. We believe we are well-positioned with our platform of integrated commercial nanomaterial technologies and track record of technology improvement and evolution.

Governmental Regulations, Including Climate Change

The manufacture and use of certain of the products that contain our nanocrystalline materials are subject to governmental regulations. As a result, we are required to adhere to the cGMP requirements of the FDA and similar regulations that include testing, control and documentation requirements enforced by periodic inspections. We are also in the process of registering some of the chemicals we ship to customers in Europe in compliance with the European Chemical Agency s regulations issued to date pertaining to REACH (to date, we have registered Zinc Oxide under REACH and filed preliminary registrations for other materials).

We are committed to environmental health and safety (EH&S). We believe we comply with all applicable exposure limit standards issued by OSHA. Because nanotechnology remains an emerging and evolving science, there are no currently accepted standards, measurements or personal protective equipment available that are specific to nanoparticle safety. Accordingly, we rely on general chemical safety and process safety practices to identify safe personal protective equipment and appropriate handling protocols. We believe that we have taken a leadership position on EH&S in our operations and have internal and external review and monitoring of our practices.

In addition, our facilities and operations are subject to the plant and laboratory safety requirements of various environmental and occupational safety and health laws. We believe we are in compliance with all such laws and regulations, and to date, those regulations have not materially restricted or impeded operations. Further, we believe our processes to be highly efficient, generating very low levels of waste and emissions. For this reason, we do not view issues surrounding climate change and any currently foreseeable related regulations as materially impacting our business and financial statements, beyond any inestimable impact on the macro-economic environment.

We have taken a responsible, proactive approach to EH&S by implementing appropriate procedures and processes to have our facilities certified to ISO 14001, American National Standard, Environmental Management System

Requirements. We are also involved with leading industry groups that are defining nanomaterial standards and protocols. These currently include the ASTM International

Committee on Nanotechnology, Nanoscale Materials Stewardship Program under the Toxic Substances Control Act, and the US TAG to ISO TC 229 Nanotechnology committee managed by the American National Standards Institute committee (ANSI). We also participate in FDA reviews relative to cosmetic applications. We have a full-time, advanced degreed professional who spends a significant amount of time managing governmental regulation compliance and EH&S. We believe that our Company has an exemplary safety record.

Employees

On December 31, 2014, we had a total of 39 full-time employees, 5 of whom hold advanced degrees. We have no collective bargaining agreements and believe that we have a strong relationship with our employees.

Backlog

We do not believe that a backlog as of any particular date is indicative of future results. Our sales are primarily pursuant to purchase orders for delivery of our nanomaterials. We have some agreements that give customers the right to purchase a specific quantity of nanomaterials during a specified time period. These agreements, however, do not obligate the customers to purchase any minimum quantity of such nanomaterials. The quantities actually purchased by the customer, as well as the shipment schedules, are frequently revised during the agreement term to reflect changes in the customer s needs. For these reasons we do not believe that such agreements are meaningful for determining backlog amounts.

Business Segment and Geographical Information

Our operations comprise a single business segment and all of our long-lived assets are located within the United States. See Note 13 to the accompanying Financial Statements for additional information.

Key Customers

A limited number of key customers account for a substantial portion of our commercial revenue. In particular, revenue from three customers - our largest customer in personal care applications (BASF), our medical diagnostics application customer, and our largest coatings customer - constituted approximately 72%, 6% and 5%, respectively, of our 2014 total revenue. Many of our customers are significantly larger than we are and, therefore, may be able to exert a high degree of influence over us. While our agreements with BASF are long-term agreements, they may be terminated by BASF under certain circumstances with reasonable notice and do not provide any guarantees that BASF will buy our products. The loss of one of our largest customers or the failure to attract new customers could have a material adverse effect on our business, results of operations and financial condition. Due to the high concentration of sales to a limited number of customers, we have aggressively pursued new customers through our customer direct business model. To the extent we are successful in adding a large number of customers through this model and maintaining or expanding our existing partners, we believe we will be able to best manage the risks associated with customer concentration.

Forward-Looking Statements

We want to provide investors with more meaningful and useful information. As a result, this Annual Report on Form 10-K (the Form 10-K) contains certain forward-looking statements , as defined in Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements reflect our current expectations of the future results of our operations, performance and achievements. Forward-looking statements are covered under the safe harbor provisions of the Private

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Securities Litigation Reform Act of 1995. We have tried, wherever possible, to identify these statements by using words such as anticipates , believes , estimates , expects , plans , intends and similar expressions. These statemer management s current beliefs and are based on information now available to it. Accordingly, these statements are subject to certain risks, uncertainties and contingencies that could cause our actual results, performance or achievements in 2015 and beyond to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and factors include, without limitation: our ability to become profitable despite the losses we have incurred since our incorporation; our dependence on our principal customers and the terms of our supply agreement with BASF which could trigger a requirement to transfer technology and/or sell equipment to that customer; our potential inability to obtain working capital when needed on acceptable terms or at all; our ability to obtain materials at costs we can pass through to our customers, including Rare Earth elements, specifically cerium oxide; uncertain demand for, and acceptance of, our nanocrystalline materials; our manufacturing capacity and product mix flexibility in light of customer demand; our limited marketing experience; changes in development and distribution relationships; the impact of competitive products and technologies; our dependence on patents and protection of proprietary information; our ability to maintain an appropriate electronic trading venue for our securities; the impact of any potential new governmental regulations that could be difficult to respond to or costly to comply with; and the resolution of litigation or other legal proceedings in which we may become involved. In addition, our forward-looking statements could be affected by general industry and market conditions and growth rates. Readers of this Form 10-K should not place undue reliance on any forward-looking statements. Except as required by federal securities laws, we undertake no obligation to update or revise these forward-looking statements to reflect new events or uncertainties.

Investor Information

We are subject to the informational requirements of the Exchange Act and, accordingly, file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site **(http://www.sec.gov)** that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information may also be accessed at our website. The address is www.nanophase.com. We make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the SEC, and intend to make all such reports and amendments to reports available free of charge on our website. We have included our website address throughout this Form 10-K as textual references only. The information contained on our website is not incorporated into this Form 10-K.

Item 1A. Risk Factors

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time to time. Such factors may have a material adverse effect on our business, financial condition, and results of operations, and you should carefully consider them before deciding to invest in, or retain, shares of our common stock. Additional risks and uncertainties not presently known to us or which are currently not believed to be material or which we have not predicted may also harm our business operations or affect our actual results. Because of these and other factors, past performance should not be considered an indication of future performance.

We have a history of losses that may continue in the future.

We have incurred net losses in each year since our inception, with net losses of $1.7 million in 2014 and $2.5 million in 2013. As of December 31, 2014, we had an accumulated deficit of approximately $92 million and may incur a loss on an annual basis during 2015. We believe that our business depends, among other things, on our ability to significantly increase revenue. If revenue fails to grow at anticipated rates or if operating expenses increase without a commensurate increase in revenue, or if we fail to adjust operating expense levels accordingly, then the imbalance between revenue and operating expenses will negatively impact our cash balances and our ability to achieve profitability in future periods.

We depend on a few major customers for a high percentage of our sales, and the loss of orders from a significant customer could cause a decline in revenue and/or increases in the level of losses incurred.

Sales to our customers are executed pursuant to purchase orders and long-term supply contracts; however, customers can cease doing business with us at any time with limited advance notice. It is possible that a significant portion of our future sales may remain concentrated within a limited number of strategic customers. We may not be able to retain our strategic customers, such customers may cancel or reschedule orders, or in the event of canceled orders, such orders may not be replaced by other sales or by sales that are on as favorable terms. In addition, sales to any particular customer may fluctuate significantly from quarter to quarter, which could affect our ability to achieve anticipated revenues on a quarterly basis.

Sales to our three largest customers accounted for 72%, 6% and 5%, respectively, of our total revenue in 2014 and sales to these same customers accounted for 72%, 3% and 6%, respectively, of our total revenue in 2013.

We plan to expand both our marketing and business development efforts and our production efficiency in order to address the issues of our dependence upon a limited amount of customers, enhancement of gross profit and operating cash flows, and the achievement of profitability. Given the nature of our products, and the fact that markets for them are not yet fully developed, it is difficult to accurately predict when additional large customers will materialize. Going forward, our margins, as a percentage of revenue, will be dependent upon revenue mix, revenue volume, raw materials pricing, and our ability to continue to cut costs. The extent of the growth in revenue volume and the related gross profit that this revenue generates will be the main drivers in generating positive operating cash flows and, ultimately, net income.

Any downturn in the product markets served by us would harm our business.

A majority of our products are incorporated into products such as personal care applications including sunscreens, architectural coatings, surface finishing technologies (polishing), and to a lesser extent, medical diagnostics, abrasion-resistant coatings and other products. These markets have from time to time experienced cyclical, depressed business conditions, often in connection with, or in anticipation of, a decline in general economic conditions. These industry downturns often result in reduced product demand and declining average selling prices. Our business would be harmed by a continuation of any downturn and/or any future downturns in the markets that we serve.

Our products often have long adoption cycles, which could make it difficult to achieve market acceptance and makes it difficult to forecast revenues.

Due to their often novel characteristics and potential unfamiliarity with them that exists in the marketplace, our nanomaterials may require longer adoption cycles than existing materials technologies, to the point that adoption cycles typically require one to five years. Our nanomaterials have to receive appropriate attention within any potential customer s organization, and then they must be tested to prove a performance advantage over existing materials, typically on a systems-cost basis. Once we have proven initial commercial viability, pilot scale production runs are typically required and completed by the customer, followed by further testing. Once production-level commercial viability is established, then our nanomaterials can be introduced, often to a downstream marketplace that needs to be familiarized with them. If we are unable to demonstrate to our potential customers the performance advantages and economic value of our nanomaterials over existing and competing materials and technologies, we will be unable to generate significant sales. Our long adoption cycle makes it difficult to predict when sales will occur.

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We frequently depend on collaborative development relationships with our customers. If we are unable to initiate or sustain such collaborative relationships or if the terms of these relationships limit the distribution of our products, then we may be unable to successfully develop, manufacture or market our current and future nanomaterials or applications.

We have established, and will continue to pursue, strategic relationships with many of our customers and do not have a substantial direct sales force or an established distribution network (other than distribution arrangements for research samples). Through these relationships, we seek to develop new applications for our nanomaterials and share development and manufacturing resources. We also seek to coordinate the development, manufacture and marketing of our nanomaterials products, particularly as a result of our selling additives that must be integrated into complete formulations by the customer. Future success will depend, in part, on our continued relationships with these customers and our ability to enter into similar strategic relationships with other customers. Our customers may not continue in these collaborative development relationships, may not devote sufficient resources to the development or sale of our materials or may enter into strategic development relationships with our competitors. These customers may also require a share of control of these collaborative programs. While less prevalent than in the past, some of our agreements with these customers limit our ability to license our technology to others and/or limit our ability to engage in certain product development or marketing activities with others. These relationships generally can be terminated unilaterally by customers.

If we are unable to initiate or sustain such collaborative relationships or if the terms of these relationships materially limit our access to distribution channels for our products, then we may be unable to successfully develop, manufacture or market our current and future nanomaterials or applications.

If commodity metal prices increase at such a rate that we are unable to recover lost margins on a timely basis or that our products became uncompetitive in their current marketplaces, our financial and liquidity position and results of operations would be substantially harmed.

Many of our significant raw materials come from commodity metal markets that may be subject to rapid price increases. While we generally are able to pass a significant portion of commodity price-related increases on to our customers, it is possible that, given our limited customer base and the limited control we have over it, commodity metal prices could increase at such a rate that could hinder our ability to recover lost margins from our customers. It is also possible that such drastic cost increases could render some of our materials uncompetitive in their current marketplaces when considered relative to other materials on a cost benefit basis. If either of these potential results occurred, our financial and liquidity position and results of operations would be substantially harmed.

From 2010-2012, the availability of one of the materials we use, cerium oxide, a Rare Earth material, was constrained by a change in Chinese export policy, causing a dramatic increase in material cost. While prices and availability improved by the end of 2012, the cost of this material remains higher than it was prior to 2010. While cerium oxide continues to be used for many applications, polishing applications in our case, customers are more inclined to look for alternative solutions today as they consider the supply (including cost) risk of this material. Failure of customers to either adopt solutions utilizing cerium oxide or continue to use solutions containing cerium oxide could harm one of our business areas, and thus negatively impact our financial and liquidity position and results of operations.

Protection of our intellectual property is limited and uncertain.

Our intellectual property is important to our business. We seek to protect our intellectual property through patent, trademark, copyright, and trade secret protection and confidentiality or license agreements with our employees, customers, suppliers and others. Our means of protecting our intellectual property rights in the United States or abroad may not be adequate and others, including our competitors, may use our proprietary technology without our consent. We may not receive the necessary patent protection for any applications pending with the U.S. Patent and Trademark Office (USPTO) and any of the patents

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that we currently own or license may not be sufficient to keep competitors from using our materials or processes. In addition, patents that we currently own or license may not be held valid if subsequently challenged by others and others may claim rights in the patents and other proprietary technology that we own or license. Additionally, others may have already developed or may subsequently develop similar products or technologies without violating any of our proprietary rights. If we fail to obtain or maintain patent protection or preserve our trade secrets, we may be unable to effectively compete against others offering similar products and services. In addition, if we fail to operate without infringing the proprietary rights of others or lose any license to technology that we currently have or will acquire in the future, we may be unable to continue making the products that we currently make.

Moreover, at times, attempts may be made to challenge the prior issuance of our patents. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition. Such litigation might occur with parties that have substantially greater resources, and thus more capability to engage and continue litigation. In addition, if others assert that our technology infringes their intellectual property rights, resolving the dispute could divert our management team and financial resources.

Due to the expanding length of time required in order to obtain a patent, and the inherent ongoing risks of the protections truly provided by any patent, we made a decision during 2008 that we could no longer place a value on these intangible assets. In the future, we may license certain of our intellectual property, such as trademarks, to third parties. While we would attempt to ensure that any licensees maintain the quality and value of our brand, these licenses might diminish this quality and value.

If a catastrophe strikes either of our manufacturing facilities or if we were to lose our lease for either facility due to non-renewal or other unforeseen events, we may be unable to manufacture our materials to meet customers demands.

Our manufacturing facilities are located near Chicago in Romeoville and Burr Ridge, Illinois. These facilities and some of our manufacturing and testing equipment would be difficult to replace in a timely manner. Therefore, any material disruption at one of our facilities due to a natural or man-made disaster or a loss of lease due to non-renewal or other unforeseen events could have a material adverse effect on our ability to manufacture products to meet customers demands. While we maintain property insurance, this insurance may not adequately compensate us for all losses that we may incur in the event of a material interruption in our business.

If we are unable to expand our production capabilities to meet unexpected demand, we may be unable to manage our growth and our business would suffer.

Our success will depend, in part, on our ability to manufacture nanomaterials in significant quantities, with consistent quality and in an efficient and timely manner. We expect to be able to expand our current facilities or obtain additional facilities in the future, and outsource production aspects as necessary, available and appropriate, in order to respond to unexpected demand for existing materials or for new materials that we do not currently make in quantity. Such unplanned demand, if it resulted in rapid expansion, could create a situation where growth could become difficult to manage, which could cause us to lose potential revenue.

Our industry is experiencing rapid changes in technology. If we are unable to keep pace with these changes, our business may not grow.

Rapid changes have occurred, and are likely to continue to occur, in the development of advanced materials and processes. Our success will depend, in large part, upon our ability to keep pace with advanced materials technologies, industry standards and market trends and to develop and introduce new and improved products on a timely basis. We expect to commit substantial resources to develop our technologies and product applications and, in the future, to expand our commercial manufacturing capacity as volume grows. Our development efforts may be rendered obsolete by the research efforts and technological advances of others and other advanced materials may prove more advantageous than those we produce.

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The markets we serve are highly competitive, and if we are unable to compete effectively, then our business will not grow.

The advanced materials industry is new, rapidly evolving and intensely competitive, and we expect competition to intensify in the future. The market for materials having the characteristics and potential uses of our nanomaterials is the subject of intensive research and development efforts by both governmental entities and private enterprises around the world. We believe that the level of competition will increase further as more product applications with significant commercial potential are developed. The nanomaterials product applications that we are developing will compete directly with products incorporating both conventional and advanced materials and technologies. While commercially available competitive products may not possess the same attributes as those we offer, other companies may develop and introduce new or competitive products. Our competitors may succeed in developing or marketing materials, technologies and better or less expensive products than the ones we offer. In addition, many of our potential competitors have substantially greater financial and technical resources, and greater manufacturing and marketing capabilities than we do. If we fail to provide nanomaterials at an acceptable price, or otherwise compete on a commodity basis with producers of conventional materials, we will lose market share and revenue to our competitors.

We may need to raise additional capital in the future. If we are unable to obtain adequate funds, we may be required to delay, scale-back or eliminate some of our manufacturing and marketing operations or we may need to obtain funds through arrangements on less favorable terms or we may be required to sell key production equipment to our largest customer.

We expect to expend resources on research, development and product testing, and in expanding current capacity or capability for new business. In addition, we may incur significant costs in preparing, filing, prosecuting, maintaining and enforcing our patents and other proprietary rights. If necessary, we may seek funding through public or private financing and through contracts with governmental entities or other companies. Additional financing may not be available on acceptable terms or at all. If we are unable to obtain adequate funds, we may be required to delay, scale-back or eliminate some of our manufacturing and marketing operations or we may need to obtain funds through arrangements on less favorable terms. If we obtain funding on unfavorable terms, we may be required to relinquish rights to some of our intellectual property.

To raise additional funds in the future, we would likely sell our equity or debt securities or enter into loan agreements. To the extent that we issue debt securities or enter into loan agreements, we may become subject to financial, operational and other covenants that we must observe. In the event that we were to breach any of these covenants, then the amounts due under such loans or debt securities could become immediately payable by us, which could significantly harm us. To the extent that we sell additional shares of our equity securities, our stockholders may face economic dilution and dilution of their percentage of ownership.

We currently have a supply agreement with BASF that contains provisions which could potentially result in a mandatory license of technology and/or sale of production equipment to BASF, providing capacity sufficient to meet BASF s production needs. Under our supply agreement with BASF, a triggering event also would occur:

- if our earnings for a twelve month period ending with our most recently published quarterly financial statements are less than zero and our cash, cash equivalents and certain investments are less than $1 million, or upon the acceleration of any debt maturity having a principal amount of more than $10 million, or if we become insolvent as defined in the supply agreement.

In the event of a triggering event where we are required to sell to BASF production equipment providing capacity sufficient to meet BASF s production needs, the equipment would be sold at either 115% of the equipment s net book value or at the greater of 30% of the original book value of such equipment (including any associated upgrades to it) or 115% of the equipment s net book value, depending on the particular equipment and contract.

If we were determined to have materially breached certain other provisions of our supply agreement with BASF, we similarly could be subject to a triggering event that potentially could result in a mandatory license of technology and/or sale of certain production equipment to the customer.

We believe that our current cash balances and other assets that might be monetized if and as needed, as well as unused capacity that might be available for short-term borrowings, will be sufficient to avoid the first triggering event under the BASF supply agreement for the foreseeable future, and because we are debt-free, the second triggering event is not currently applicable to us.

If a triggering event were to occur and BASF elected to proceed with the license and related sale mentioned above, we would lose both significant revenue and the ability to generate significant revenue to replace that which was lost in the near term. Replacement of necessary equipment that would be purchased and removed by the customer pursuant to this triggering event could take in excess of 12 months. Any additional capital outlays required to rebuild capacity would probably be greater than the proceeds from the purchase of the assets pursuant to our agreement with BASF. This potential shortfall might put us in a position where it would be difficult to secure additional funding given what would then be an already tenuous cash position. Such an event would also likely result in the loss of many of our key staff and line employees due to economic realities. We believe that our employees are a critical component of our success and would be difficult to quickly replace and train. Upon the occurrence of such an event, we might not be able to hire and retrain skilled employees given the stigma relating to such an event and its impact on us. We might elect to effectively reduce our size and staffing to a point where we could remain a going concern in the near term.

We depend on key personnel, and their unplanned departure could harm our business.

Our success will depend, in large part, upon our ability to attract and retain highly qualified research and development, management, manufacturing, marketing and sales personnel on favorable terms. Due to the specialized nature of our business, we may have difficulty locating, hiring and retaining qualified personnel on favorable terms. If we were to lose the services of any of our key executive officers or other key personnel, or if we are unable to attract and retain other skilled and experienced personnel on acceptable terms in the future, or if we are unable to implement a succession plan to prepare qualified individuals to assume key roles upon any loss of our key personnel, then our business, results of operations and financial condition could be materially harmed.

We face potential product liability risks which could result in significant costs that exceed our insurance coverage, damage our reputation and harm our business.

We may be subject to product liability claims in the event that any of our products are alleged to be defective or cause harmful effects to humans or physical environments. Because our nanomaterials are used in other companies products, to the extent our customers become subject to suits relating to their products, these claims may also be asserted against us. We may incur significant costs including payment of significant damages, in defending or settling product liability claims. Although we maintain insurance for product liability claims, our coverage may not prove sufficient. Even if a suit is without merit and regardless of the outcome, claims can divert management time and attention, injure our reputation and adversely affect demand for our nanomaterials.

We may be subject to periodic litigation and other regulatory proceedings or governmental investigations, which could result in the unexpected expenditure of time and resources.

From time to time, we may be a defendant in lawsuits and regulatory proceedings or are the subject of governmental investigations relating to our business. Due to the inherent uncertainties of litigation, regulatory proceedings and governmental investigations, we cannot accurately predict the ultimate outcome of any such proceedings or investigations. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation, regulatory proceedings or governmental investigations, such matters are expensive and will require that we devote substantial resources and executive time to defend, thereby diverting management s attention and resources that are needed to successfully run our business.

The disclosure requirements under the conflict minerals provisions of the Dodd-Frank Act could increase our costs and limit the supply of certain metals used in our products and affect our reputation with customers and shareholders.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, or the Dodd-Frank Act, the SEC adopted disclosure requirements, which became effective in 2014, for public companies using certain minerals and metals in their products. These minerals and metals are generally referred to as conflict minerals regardless of their country of origin. We anticipate commercial sales of one or more products containing these materials to begin during 2015 (energy application). Under these rules, we are required to perform due diligence and disclose our efforts to prevent the sourcing of such conflict minerals from the Democratic Republic of Congo or adjoining countries. As a result of these new regulations, we expect to incur, additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the conflict minerals used in our products. These new requirements could also adversely affect the sourcing, availability and pricing of such minerals, and the pool of suppliers who provide conflict free metals may be limited. As a result, we or our suppliers may not be able to obtain materials necessary for production of our products in sufficient quantities or at competitive prices. In addition, we may not be able to sufficiently verify the origins of all metals used in our products and confirm that they are conflict free, which may adversely affect our reputation.

We are subject to governmental regulations. The costs of compliance and liability for noncompliance with governmental regulations could have a material adverse effect on our business, results of operations and financial condition.

Current and future laws and regulations may require us to make substantial expenditures for preventive or remedial action. Our operations, business or assets may be materially and adversely affected by governmental interpretation and enforcement of current or future environmental, health and safety laws and regulations. In addition, our coating and dispersion operations may pose a risk of accidental contamination or injury. The damages in the event of an accident or the costs to prevent or remediate a related event could exceed both the amount of our liability insurance and our resources or otherwise have a material adverse effect on our business, results of operations and financial condition.

In addition, both of our facilities and all of our operations are subject to the plant and laboratory safety requirements of various occupational safety and health laws. We believe we have complied in all material respects with governmental regulations applicable to us. However, we may have to incur significant costs in defending or settling future claims of alleged violations of governmental regulations and compliance with these regulations may materially restrict or impede our operations in the future. In addition, our efforts to comply with or contest any regulatory actions may distract personnel or divert resources from other important initiatives.

The manufacture and use of certain products that contain our nanomaterials are subject to extensive governmental regulation, including regulations promulgated by the FDA, the U.S. Environmental Protection Agency and OSHA. As a result, we are required to adhere to the requirements of the regulations of governmental authorities in the United States and other countries, including regulations issued to date pertaining to REACH. These regulations could increase our cost of doing business and may render some potential markets prohibitively expensive. In addition, new rules or regulations could impose restrictions or prohibitions on certain materials being marketed with or incorporated into certain applications, which could limit our ability to sell our nanomaterials in the marketplace.

A large investor and his affiliates have significant influence on all matters requiring stockholder approval because they beneficially own a large percentage of our common stock and they may vote their shares of common stock in ways with which other stockholders disagree.

As of December 31, 2014, Bradford T. Whitmore, together with his affiliates, Grace Brothers, Ltd. and Grace Investments, Ltd., beneficially owned approximately 38% of the outstanding shares of our common stock. The current ownership position of Mr. Whitmore and his affiliates could delay, deter or prevent a change of control or adversely affect the price that investors might be willing to pay in the future for shares of our common stock. The interests of Mr. Whitmore and his affiliates may differ from the interests of our other stockholders and they may vote the common stock they beneficially own in ways with which our other stockholders disagree. R. Janet Whitmore, one of our directors since 2003 and a stockholder, is the sister of Mr. Whitmore.

We have never paid dividends.

We currently intend to retain earnings, if any, to support our growth strategy. We do not anticipate paying dividends on our stock in the foreseeable future.

Sales, or the availability for sale, of substantial amounts of our common stock could adversely affect the value of our common stock.

No prediction can be made as to the effect, if any, that future sales of our common stock, or the availability of our common stock for future sales, will have on the market price of our common stock. Sales of substantial amounts of our common stock in the public market and the availability of shares for future sale could adversely affect the prevailing market price of our common stock. This in turn could impair our future ability to raise capital through an offering of our equity securities.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The market price of our common stock could decline as a result of future sales of our common stock or the perception that such sales could occur.

Provisions in our certificate of incorporation, our by-laws, and Delaware law could make it more difficult for a third party to acquire us, discourage a takeover, and adversely affect existing stockholders.

Our certificate of incorporation, our by-laws and the Delaware General Corporation Law (the DGCL) contain provisions that may have the effect of making more difficult, delaying or deterring attempts by others to obtain control of our Company, even when these attempts may be in the best interests of stockholders. These include provisions on our maintaining a classified Board of Directors and limiting the stockholders powers to remove directors or take action by written consent instead of at a stockholders meeting. Our certificate of incorporation also authorizes our Board of Directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. The DGCL also imposes conditions on certain business combination transactions with interested stockholders.

These provisions and others that could be adopted in the future could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

Failure to protect the integrity and security of individually identifiable data of our customers, vendors and employees could expose us to litigation and damage our reputation.

We receive and maintain certain personal, sensitive and confidential information about our customers, vendors and employees. The collection and use of this information is regulated at the international, federal and state levels, and is subject to certain contractual restrictions in third party

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contracts. Although we have implemented processes to collect and protect the integrity and security of this personal information, there can be no assurance that this information will not be obtained by unauthorized persons, or collected or used inappropriately. If our security and information systems or the systems of our employees or external business associates are compromised or our employees or external business associates fail to comply with these laws and regulations and this information is obtained by unauthorized persons, or collected or used inappropriately, it could negatively affect our reputation, as well as our operations and financial results, and could result in litigation or regulatory action against us or the imposition of costs, fines or other penalties. As privacy and information security laws and regulations change, we may incur additional costs to remain in compliance.

Item 1B. Unresolved Staff Comments

There are currently no open comments from the SEC Staff.

Item 2. Properties

We operate two facilities in the Chicago suburbs - a 36,000 square-foot production, research and headquarters facility in Romeoville, Illinois and a 20,000 square-foot production facility in Burr Ridge, Illinois. We also lease a 9,000 square-foot offsite warehouse in the vicinity of the Romeoville facility.

Our manufacturing operations in Burr Ridge are certified under ISO 9001:2008, and we believe that our manufacturing operations are within the cGMP requirements of the FDA for products that require such compliance. Our facilities are also ISO 14001:2004 certified which is the international standard for environmental management. The Burr Ridge facility has a quality control laboratory designed for the dual purposes of validating operations to cGMP and ISO standards and production process control. This laboratory is equipped to handle many routine analytical and in-process techniques that are currently required.

The Romeoville facility houses our headquarters, advanced engineering, manufacturing (including nanoparticle coating, nanoparticle dispersion and pilot-scale manufacturing) and research and development with three applications development laboratories. All Romeoville manufacturing processes are certified to ISO 9001:2008 and ISO 14001:2004, and we believe that the manufacturing of nanoparticle coating used for sunscreens and personal care is in compliance with the cGMP requirements of the FDA.

We lease our Romeoville and Burr Ridge facilities. During November 2014 we entered into a Lease Amendment amending the then-current lease for the facility in Romeoville, Illinois, which, among other things, extended the term of such lease through December 31, 2019 (with our option to extend the term for an additional five-year period). We renewed the Burr Ridge facility lease in September 2010, extending the terms through September 2014 (we subsequently exercised our option to extend the term through September 2016, and have the option to extend the term for one additional one-year period). During 2013 we also renewed the lease for our offsite warehouse through August 2016.

We believe that our leased facilities provide sufficient capacity to fulfill current known customer demand as well as allow for the creation of substantial additional space to enable expansion of key production processes. We believe additional facilities could be obtained in the area at competitive prices if necessary to support growth. We believe that our capital expenditures made in 2014, and projected for 2015, will support currently anticipated demand from existing customers. Our actual future capacity requirements will depend on many factors, including new and potential customer acceptance of our current and potential nanomaterials and product applications, both expected and currently unplanned growth from existing customers, continued progress in our research and development activities and product testing programs and the magnitude of these activities and programs.

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Item 3. Legal Proceedings

We are not a party to any pending legal proceedings or claims that we believe will result in a material adverse effect on our business, financial condition, or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information; Holders; Dividends

Our common stock is traded on the OTCQB marketplace, operated by OTC Markets Group, since voluntarily delisting from the NASDAQ Capital Market on March 20, 2012. Our symbol, NANX , did not change as a result of this venue transfer. The following table sets forth, for the periods indicated, the range of high and low sale prices for our common stock on the OTCQB marketplace:

	High	Low			
Fiscal year ended December 31, 2014:					
First Quarter	$ 0.56	$ -	(34)		
Exploration expenses	345	111	1,205	2,931	10,457
Operating, general, and administrative expenses	858	1,316	3,339	4,291	43,396
Net operating loss	(1,203)	(1,427)	(4,544)	(7,222)	(53,887)
Non-operating (income) expense:					
Interest (income)	(7)	(8)	(21)	(22)	(364)
Interest expense	3	33	12	102	1,251
Settlement gain	-	-	-	-	(134)
Loss on extinguishment of debt, net	-	-	-	-	1,549
	-	-	-	-	(21,036)

Gain on deconsolidation, dissolution and sale of joint venture interest					
Loss on disposal of assets	9	-	9	4	412
Gain on acquisition of mining concession	-	-	-	-	(100)
Realized loss on the sale of marketable securities	-	-	-	-	5,099
Gain on sale of net cash flow interest	-	-	-	-	(197)
Gain on Tara Minerals Stock Dividend	-	-	-	(1,028)	(1,028)
Other income	(2)	-	(2)	(11)	(1,347)
Total non-operating (income) loss	3	25	(2)	(955)	(15,895)
Loss before income taxes	(1,206)	(1,452)	(4,542)	(6,267)	(37,992)
Income tax expense (benefit)	-	111	-	111	(5,902)
Loss from continuing operations	(1,206)	(1,563)	(4,542)	(6,378)	(32,090)
Discontinued operations:					
Loss from operations of oil properties and La Escuadra	-	-	-	-	(1,021)
Gain from discontinued operations, net of tax	-	-	3,576	-	3,576
Net loss	(1,206)	(1,563)	(966)	(6,378)	(29,535)
Add: Net (income) loss attributable to non-controlling interest	530	615	(321)	2,255	8,628

Net loss attributable to Tara Gold shareholders’	(676)	(948)	(1,287)	(4,123)	(20,907)
Other comprehensive (loss) income:					
Foreign currency translation	(46)	206	(96)	155	(542)
Unrealized loss on investments	-	(20)	-	(369)	-
Total comprehensive loss	$(722)	$(762)	$(1,383)	$(4,337)	$(21,449)
Net loss per share, basic and diluted	$(0.01)	$(0.01)	$(0.01)	$(0.04)	
Weighted average number of shares, basic and diluted	102,795,119	102,795,119	102,795,119	102,795,119	

See Accompanying Notes to these Condensed Consolidated Financial Statements.

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TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(An Exploration Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands of U.S. Dollars)

	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	From Inception (October 14, 1999) Through September 30, 2012
Cash flows from operating activities:			
Net loss attributable to Tara Gold shareholders	$ (1,287)	$ (4,123)	$ (20,907)
Adjustments to reconcile net loss to net cash:			
Depreciation and amortization	202	223	1,168
Allowance for doubtful accounts	470	592	3,600
Common stock issued for services and other expenses	-	-	2,599
Stock based compensation and stock bonuses	-	-	126
Gain on deconsolidation, dissolution and sale of joint venture interest	-	-	(20,311)
Non-cash expense due to deconsolidation of joint venture	-	-	216
Loss on debt due to extinguishment and conversion	-	-	1,529
Gain from discontinued operations, net of tax	(3,576)	-	(2,575)
Deferred tax asset, net	-	111	(6,516)
Non-controlling interest in net loss of consolidated subsidiaries	321	(2,255)	(8,628)
Amortization of beneficial conversion	-	-	650
Loss on the disposal of assets	-	4	222
Realized loss on the sale of marketable securities	-	-	4,993
Common stock of subsidiary issued and option valuation for services	164	215	8,197
Subsidiaries' stock based compensation and stock bonuses	245	530	7,137
Exploration expenses paid with stock of subsidiaries	430	2,491	4,146
Lawsuit settlement payable in stock	-	-	315
Cancellation of common stock for settlement (Tara Minerals)	-	-	(750)
Gain on acquisition of mining concession and mining assets	-	-	(430)
Gain on sale of net cash flow interest	-	-	(197)
Gain on Tara Minerals stock dividend	-	(1,028)	(1,028)
Other	38	12	168
Changes in current operating assets and liabilities:			
Other receivables	(445)	(32)	(1,492)
Other assets	(29)	(140)	(1,014)
Accounts payable and accrued expenses	(1,116)	58	2,272
Deferred joint venture income	-	-	(33)
Net cash used in operating activities	(4,583)	(3,342)	(26,543)
Cash flows from investing activities:			
Acquisition of property, plant, equipment, mine development, land and construction in progress	(268)	(6)	(3,517)

Proceeds from the sale of marketable securities	-	-	6,322
Proceeds from the sale or disposal of assets	-	30	731
Purchase of mining concession	-	(30)	159
Mining deposits	2	(178)	(179)
Loans to unrelated third parties	-	-	(380)
Proceeds from the sale of American Copper Mining	7,500	-	7,500
Investment in American Copper Mining in 2012	(33)	-	(33)
Payments made for construction in progress	(264)	-	(264)
Other	-	-	(6)
Net cash provided by (used in) investing activities	6,937	(184)	10,333

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Cash flows from financing activities:			
Proceeds from short term debt	-	-	72
Proceeds from notes payable, related party	-	-	150
Proceeds from notes payable	-	-	480
Payments toward short term debt	-	-	(22)
Payments toward notes payable	(698)	(140)	(11,611)
Payments toward notes payable, related party	(100)	-	(100)
Change in due to/from related parties, net	(257)	(88)	18
Non-controlling interest – cash from sale of sale of common stock of subsidiaries	357	2,990	12,826
Payments from joint venture partners	-	100	10,020
Cash from the sale of common stock	-	-	5,753
Iron Ore Properties financial instrument	50	750	800
Other	-	-	(9)
Net cash (used in) provided by financing activities	(648)	3,612	18,377
Effect of exchange rate changes on cash	(96)	155	(138)
Net increase	1,610	241	2,029
Cash, beginning of period	419	193	-
Cash, end of period	$ 2,029	$ 434	$ 2,029
Supplemental Information:			
Interest paid	$ 16	$ 101	$ 955
Income taxes paid	$ -	$ -	$ 10
Non-cash Investing and Financing Transactions:			
Conversion of debt to common stock or payable, plus accrued interest	$ -	$ 49	$ 1,292
Issuance of common stock for assets	$ -	$ -	$ 304
Purchase of or (reduction) in purchase of concession notes payable, stock and warrants plus capitalized interest	$ 2,147	$ (1,311)	$ 20,333
Beneficial conversion feature, convertible debt, related and nonrelated party	$ -	$ -	$ 391
Recoverable value-added taxes incurred through additional debt and due to related party, net of mining concession modification	$ 348	$ (192)	$ 1,564
Purchase of property, equipment and assets with debt	$ -	$ 49	$ 1,833
Receipt of stock for joint venture payments and fee income	$ -	$ -	$ 2,301
Accrued and capitalized interest	$ 22	$ 54	$ 433
Beneficial conversion feature, financial instrument	$ 20	$ 180	$ 200
Other	$ -	$ -	$ 90
Reclassification of mining deposit to mining concession paid by debt	$ (175)	$ -	$ (175)
Unrealized gain in investments, available for sale	$ -	$ (369)	$ -
Subsidiary common stock for prepaid services	$ -	$ 215	$ -

See Accompanying Notes to these Condensed Consolidated Financial Statements.

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TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Basis of Presentation and Organization

The accompanying Condensed Consolidated Financial Statements of Tara Gold Resources Corp. (the "Company") should be read in conjunction with the Company's Annual Report on Form 10-K, as may be amended, for the year ended December 31, 2011. Significant accounting policies disclosed therein have not changed except as noted below.

In May 2005 Tara Gold, through its subsidiary Corporacion Amermin S.A. de C.V. ("Amermin"), began acquiring mining properties in Mexico. In May 2006, the Company formed Tara Minerals Corp. ("Tara Minerals"), which owns 99.9% of the common stock of American Metal Mining S.A. de C.V., a Mexican corporation. Tara Minerals also owns 87% of the common stock of Adit Resources Corp ("Adit"). Tara Gold's operations in Mexico are conducted through Amermin and American Metal Mining since Mexican law provides that only Mexican corporations are allowed to own mining properties. All of Tara Gold's operations in Mexico are conducted through its Mexican subsidiaries. As of September 31, 2012, Tara Gold owned approximately 52% of the outstanding common stock of Tara Minerals.

Tara Gold focuses primarily on gold mining concessions. Tara Minerals' primary focus is also on gold and silver, as well as industrial minerals, copper, lead, zinc, iron and other associated metals.

On April 4, 2012 Adit Resources Corp. sold its subsidiary, American Copper Mining S.A. de C.V. ("ACM") to Yamana Mexico Holdings B.V. ("Yamana"). ACM's primary asset was the Picacho Groupings.

Tara Gold began the distribution of its shares in Tara Minerals to its shareholders. On May 25, 2011 Tara Gold distributed one share of Tara Minerals for every 20 outstanding shares of Tara Gold. Additional distributions will be made until all Tara Minerals shares held by Tara Gold are distributed to Tara Gold's shareholders.

Following the distribution of the shares of Tara Minerals, Tara Gold will not have any interest in the properties owned by Tara Minerals or Adit Resources.

Once the distribution of the Tara Minerals shares has been completed, both Tara Gold and Tara Minerals will continue their efforts to develop mining properties which are thought to contain commercial quantities of gold, silver and other minerals

The Company currently has limited operations and, in accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Development Stage Entities Topic, is considered an Exploration Stage Company.

In this filing references to "Company," "we," "our," and/or "us," refer to Tara Gold Resources and, unless the context indicates otherwise, its consolidated subsidiaries.

The accompanying Condensed Consolidated Financial Statements and the related footnote information are unaudited. In the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the condensed consolidated balance sheets of the Company as of September 30, 2012 and December 31, 2011, the condensed consolidated results of its operations for the three and nine months ended September 30, 2012 and 2011 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. All intercompany balances and transactions have been eliminated in consolidation.

The reporting currency of the Company, Tara Minerals and Adit is the U.S. dollar. The functional currency of Amermin, AMM and ACM is the Mexican Peso. As a result, the financial statements of the subsidiaries have been re-measured from Mexican pesos into U.S. dollars using (i) current exchange rates for monetary asset and liability accounts, (ii) historical exchange rates for nonmonetary asset and liability accounts, (iii) historical exchange rates for revenues and expenses associated with nonmonetary assets and liabilities and (iv) the weighted average exchange rate of the reporting period for all other revenues and expenses. In addition, foreign currency transaction gains and losses resulting from U.S. dollar denominated transactions are eliminated. The resulting re-measurement income (loss) is recorded as other comprehensive income (loss).

Current and historical exchange rates are not indicative of what future exchange rates will be and should not be construed as such.

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Relevant exchange rates used in the preparation of the financial statements for Amermin, AMM and ACM are as follows for the nine months ended September 30, 2012 and 2011. Mexican pesos per one U.S. dollar.

		September 30, 2012
Current exchange rate	Ps.	12.8521
Weighted average exchange rate for the nine months ended	Ps.	13.2391

		September 30, 2011
Current exchange rate	Ps.	13.4567
Weighted average exchange rate for the nine months ended	Ps.	12.0300

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications, which have no effect on net loss, have been made in the prior period financial statements to conform to the current presentation.

Recoverable Value-Added Taxes (IVA) and Allowance for Doubtful Accounts

Impuesto al Valor Agregado taxes (IVA) are recoverable value-added taxes charged by the Mexican government on goods sold and services rendered at a rate of 16%. Under certain circumstances, these taxes are recoverable by filing a tax return and as determined by the Mexican taxing authority.

Each period, receivables are reviewed for collectability. When a receivable is determined to not be collectable we allow for the receivable until we are either assured of collection or assured that a write-off is necessary. Our allowance in association with our receivable from IVA from our Mexico subsidiaries is based on our determination that the Mexican government may not allow the complete refund of these taxes.

	September 30, 2012	December 31, 2011
	(In thousands of U.S. Dollars)	
	(Unaudited)	
Allowance – recoverable value-added taxes	$ 2,769	$ 2,495
Allowance – other receivables	25	7
Total	$ 2,794	$ 2,502

Recently Adopted and Recently Issued Accounting Guidance

Adopted

In May 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that amends the accounting standard on fair value measurements. The accounting standard update provides for a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. generally accepted accounting principles and International Financial Reporting Standards. The accounting standard update changes certain fair value measurement principles, clarifies the application of existing fair value measurement, and expands the fair value measurement disclosure requirements, particularly for Level 3 fair value measurements. The amendments in this accounting standard update are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard update became effective for the reporting period beginning January 1, 2012. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations or cash flows

In June 2011, the FASB issued an accounting standard update which requires the presentation of components of other comprehensive income with the components of net income in either (1) a continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or (2) two separate but consecutive statements. This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity, and is effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard update became effective for the reporting period beginning January 1, 2012. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

In September 2011, the FASB issued an accounting standard update that amends the accounting guidance on goodwill impairment testing. The amendments in this accounting standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments also improve previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments in this accounting standard update are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this accounting standard update became effective for the reporting period beginning January 1, 2012. The adoption of this guidance did not have a material impact on the Company's financial position, result of operations or cash flows.

Issued

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future financial position, results of operations or cash flows.

Note 2. Property, plant, equipment, mine development, land and construction in progress, net

	September 30, 2012 (Unaudited)	December 31, 2011
	(In thousands of U.S. Dollars)	
Land	$ 20	$ 20
La Currita	1,253	1,253
Las Minitas (a)	2,428	2,412
Pilar	728	728
Don Roman	522	522
Las Nuvias	100	100
Centenario	636	636
La Palma	80	80
La Verde	60	60
Picacho and Picacho Fractions (b)	-	1,457
Las Brisas	3	3
Mezquite and Mariana	171	171
Auriferos	100	100
Pirita	250	250
Las Viboras Dos	188	188
Champinon (c)	2,154	-

Mining concessions		8,673		7,960
Construction in progress		264		-
Property, plant and equipment		3,976		3,751
		12,933		11,731
Less – accumulated depreciation		(848)		(647)
	$	12,085	$	11,084

Las Minitas, Auriferos, Mariana and Mezquite, and Las Brisas properties are located in Mexico in close proximity to each other.

Pilar, Don Roman, Las Nuvias, Centenario, La Palma and La Verde properties are located in Mexico and are known as the Don Roman Groupings.

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a. In March 2006, the Company acquired "Las Minitas" from an independent third party for the effective purchase price of $2,427,403, plus $340,000 in value-added tax.

The remaining notes payable, including applicable value-added tax is $2,052,500.

In accordance with the Interest Expense topic of FASB ASC, the note payable amount of $2,150,000 has been discounted using the incremental borrowing rate of 3.56%. As of September 30, 2012, the present value of future payments toward the notes payable on the Las Minitas contract is as follows:

	Debt	IVA	Total
Present value of debt	$ 1,750,000	$ 302,500	$ 2,052,500

The Company is currently reviewing the Las Minitas property for continued inclusion as part of the Company's mining property portfolio. No payments toward this property have been made since February 2008 and the Company may decide to terminate the purchase agreement and return the property.

b. On April 2012 the Company sold ACM to Yamana. ACM's primary asset was the Picacho Groupings (see Note 11).

c. In September 2011, the Company leased the Mina El Champinon Iron Ore Project ("Champinon") for royalty payments based on production.

In May, 2012, the Company terminated the lease agreement for Champinon and entered into a new agreement to acquire the property for an effective purchase price of $2,175,000, plus $348,000 in value-added taxes.

Included in the purchase agreement, all prior payments plus value-added taxes (see Note 4) were applied to debt.

The resulting outstanding debt payment schedule, including applicable value added taxes, is as follow:

2013	$947,334
2014	696,000
Total	$1,643,334

In accordance with the Interest Topic of FASB ASC, the note payable amount of $2,175,000 has been discounted using the incremental borrowing rate of 1.30%. As of September 30, 2012, the present value of future payments toward the notes payable on the contract is as follows:

	Debt	IVA	Total
Total remaining debt	$ 1,416,667	$ 226,667	$ 1,643,334
Imputed interest	(21,307)	-	(21,307)
Present value of debt	$ 1,395,360	$ 226,667	$ 1,622,027

In May 2012, the Company purchased technical data pertaining to Champinon from the former owner for 500,000 shares of Tara Mineral's common stock valued at $430,000.

Other Mining Commitments

Mina Godinez

In July 2010, the Company entered into a joint venture agreement whereby third parties would contribute 100% of the mining rights to the concession "Mina Godinez" and Tara Minerals would have the exclusive rights to manage, operate, explore and exploit the concession. This joint venture was terminated on January 18, 2012.

Note 3. Income Taxes

On April 2012, the Company sold ACM (see Note 11) resulting in an updated deferred tax asset of $5,557,000 (current and non-current). The change of $959,000 from December 31, 2011 was recognized as an income tax expense and offset the gain on discontinued operations as of September 30, 2012.

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Note 4. Other assets

As of September 30, 2012 and December 31, 2011, respectively, the Company had no advances and $175,000 towards the Champinon lease (see Note 2), and security deposits of $26,980 and $32,752.

Note 5. Notes Payable

The following table represents the outstanding balance of notes payable.

	September 30, 2012 (Unaudited)	December 31, 2011
	(In thousands of U.S. Dollars)	
Mining concessions	$ 4,236	$ 2,579
Auto loans	84	97
Related party	-	100
	4,320	2,776
Less – current portion	(3,584)	(2,707)
Non-current portion	$ 736	$ 69

See Note 2 above for notes payable relating to mining concessions.

The five year maturity schedule for notes payable is presented below (in thousands of U.S. dollars):

	2013	2014	2015	2016	2017	Total
Mining concessions	$ 3,546	$ 690	$ -	$ -	$ -	$ 4,236
Auto loans	38	37	9	-	-	84
Total	$ 3,584	$ 727	$ 9	$ -	$ -	$ 4,320

Note 6. Related Party Transactions

	September 30, 2012 (Unaudited)	December 31, 2011
	(In thousands of U.S. Dollars)	
Due from related parties	$ 94	$ 152
Due to related parties	-	(308)
	$ 94	$ (156)

All transactions with related parties have occurred in the normal course of operations and Mexico based related party transactions are measured at the foreign exchange amount.

The following are intercompany transactions that eliminate during the consolidation of these financial statements:

Tara Minerals is a subsidiary of Tara Gold Resources Corp. In January 2007, Corporacion Amermin S.A. de C.V. (“Amermin”), a subsidiary of Tara Gold, made the arrangements to purchase the Pilar, Don Roman and Las Nuvias properties listed in Note 2 (part of the Don Roman Groupings) and sold the concessions to Tara Minerals. At September 30, 2012, Amermin has paid the original note holder in full and Tara Minerals owes Amermin $535,659 for the Pilar mining concession and $211,826 for the Don Roman mining concession.

As of September 30, 2012, Amermin loaned Tara Minerals $998,624 at 0% interest, due on demand.

As of September 30, 2012, Tara Minerals paid in full the 0% interest and due on demand $568,645 loan from Tara Gold.

As of September 30, 2012, Tara Minerals loaned Tara Gold $703,955 at 0% interest, due on demand.

On May 2011, Amermin sold the property known as “Picacho Fractions I, II and III” to Tara Minerals for $163,793 plus value added taxes of $26,207, financed at LIBOR plus 3.25%. As of June 30, 2012, Tara Minerals had paid Amermin in full.

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Note 7. Stockholders' Equity

For the nine months ended September 30, 2012, Tara Gold did not issue any shares of common stock.

Note 8. Non-controlling Interest

All non-controlling interest of the Company is a result of the Company's subsidiaries stock movement and results of operations. For additional details on these underlying stock movements, consult the Tara Minerals Form's 10-K and 10-Q as filed at www.sec.gov.

	September 30, 2012	December 31, 2011
	(In thousands of U.S. Dollars)	
Cash for subsidiary common stock	$ 15,241	$ 14,784
Services for subsidiary common stock	5,576	5,522
Stock based compensation paid for in subsidiary common stock	5,126	4,881
Loan conversion plus accrued interest	1,342	1,342
Exploration expenses paid for in subsidiary common stock	4,146	3,716
Cumulative net loss attributable to non-controlling interest	(8,323)	(8,644)
Treasury stock	(500	-
Other non-controlling interests	171	141
Total non-controlling interest	$ 22,779	$ 21,742

Note 9. Options and Warrants

Tara Gold Resources does not have any stock option or bonus plans.

Tara Minerals has the following incentive plans which are registered under a Form S-8:

- Incentive Stock Option Plan
- Nonqualified Stock Option Plan
- Stock Bonus Plan

In March 2012, Tara Minerals sold 594,000 units in a private offering for $297,000 in cash, or $0.50 per unit. Each unit consisted of one share of Tara Minerals' common stock, and one warrant. Each warrant entitles the holder to purchase one share of Tara Minerals' common stock at a price of $1.00 per share at or any time before December 31, 2012. The shares and warrants were issued in April 2012.

On October 28, 2009, Adit, the Company's subsidiary, adopted the following incentive plans which have not been registered:

- Incentive Stock Option Plan
- Nonqualified Stock Option Plan
- Stock Bonus Plan

There was no issuance of instruments under the Adit plans in 2012.

The fair value of each award discussed above is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatilities are based on volatilities from the Tara Minerals' traded common stock. The expected term of the award granted is usually estimated at half of the contractual term as noted in the individual agreements, unless the life is one year or less based upon management's assessment of known factors, and represents the period of time that management anticipates awards granted to be outstanding. The risk-free rate for the periods within the contractual life of the option is based on the U.S. Treasury bond rate in effect at the time of grant for bonds with maturity dates at the estimated term of the options.

	September 30, 2012	December 31, 2011
Expected volatility	104.82% - 131.10%	96.06% - 163.11%
Weighted-average volatility	117.96%	143.46%
Expected dividends	0	0
Expected term (in years)	1.00	1.50
Risk-free rate	0.05% - 0.14%	0.58%

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A summary of option activity under the Plans as of September 30, 2012 (unaudited) and changes during the period then ended is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	3,350,000	$ 0.69		
Granted	200,000	0.05		
Exercised	(200,000)	0.05		
Forfeited, expired or cancelled	-	-		
Outstanding at September 30, 2012	3,350,000	$ 0.69	3.0	$ 914,000
Exercisable at September 30, 2012	2,590,000	$ 0.58	3.0	$ 901,200

Non-vested Options	Options	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2011	1,010,000	$ 1.08
Granted	200,000	0.05
Vested	(450,000)	0.32
Forfeited, expired or cancelled	-	-
Non-vested at September 30, 2012	760,000	$ 0.48

A summary of warrant activity as of September 30, 2012 (unaudited) and changes during the period then ended is presented below:

Warrants	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	7,393,081	$ 0.89		
Granted	594,000	1.00		
Exercised	(125,000)	0.40		
Forfeited, cancelled or expired	(1,893,334)	0.51		
Outstanding at September 30, 2012	5,968,747	$ 1.04	1.5	$ 457,471
Exercisable at September 30, 2012	5,968,747	$ 1.04	1.5	$ 457,471

All warrants vest upon issuance.

Note 10. Fair Value

Tara Gold's financial assets and liabilities, measured at fair value by level within the fair value hierarchy, are shown below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at September 30, 2012 (Unaudited) (in thousands of U.S. dollars)			
	Total	Level 1	Level 2	Level 3

Assets:				
None	$ -	$ -	$ -	$ -
Liabilities:				
Iron Ore Properties financial instrument	$ 600	$ -	$ -	$ 600

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	Fair Value at December 31, 2011 (in thousands of U.S. dollars)			
	Total	Level 1	Level 2	Level 3
Assets:				
None	$ -	$ -	$ -	$ -
Liabilities:				
Iron Ore Properties financial instrument	$ 570	$ -	$ -	$ 570

Note 11. Sale of American Copper Mining

On April 4, 2012, Adit sold its wholly owned subsidiary, American Copper Mining ("ACM"), to Yamana Mexico Holdings B.V. ("Yamana"). ACM's primary asset was the Picacho Groupings. The Picacho concessions did not have any proven reserves. Subsequent to the sale, the Company did not retain ownership in ACM.

Additional payments due in consideration of the sale of ACM are contingent to whether or not Yamana exercises its option to terminate the agreement within ten business days prior to April 4, 2013 (as amended). If the agreement is terminated, Yamana will be required to return the capital stock of ACM. Due to the contingent nature of future payments, payments will be recognized when the contingency is removed. Possible future payments include:

- $9.8 million on April 4, 2013;
- During the period ending on April 4, 2017, Yamana will pay $1.0 million for every 100,000 ounces of gold, (whether proved, measured or inferred) (as defined by Canadian Securities Administrators National Instrument 43-101) discovered on the Picacho Groupings. If no gold is discovered on the Picacho Groupings by May 25, 2015, Yamana will make an advance payment of $3 million. Pursuant to this provision of the Agreement, Yamana will pay a maximum of $14 million.
- $4.3 million on April 4, 2018.

Gain from discontinued operations, net of tax was calculated as the followed on the date of sale:

Other receivables, net	$24,000
Other current assets	10,000
Goodwill	12,000
Fixed assets, net of accumulated depreciation	4,000
Mining concessions	1,456,000
Fair market value of net assets	$1,506,000
Fair value of consideration received:	
Cash	$ 7,500,000
Treasury Stock	500,000
Fair market value of net assets	(1,506,000)
Gain on deconsolidation of subsidiary	6,494,000
Loss on discontinued operations	(58,000)
Tax expense	(2,860,000)
Gain from discontinued operations, net of tax	$ 3,576,000

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

Tara Gold was incorporated in October 1999. During the period from its incorporation through September 30, 2012 Tara Gold generated revenue of approximately $725,000 and incurred expenses of approximately $759,000 in cost of sales; approximately $10,457,000 in exploration expenses and approximately $43,397,000 in operating and general administration expenses. Included in operating and general and administrative expenses is a non-cash charge of approximately $8,820,000 pertaining to the issuance of stock options.

Material changes of certain items in Tara Gold's Statement of Operations for the three months ended September 30, 2012, as compared to the same period last year, are discussed below.

Three Months Ended (In thousands of U.S. Dollars)	September 30, 2012	September 30, 2011
Revenue	$ -	$ -
Cost of revenue	-	-
Exploration expenses	345	111
Operating, general and administrative expenses	858	1,316
Net operating loss	$ (1,203)	$ (1,427)

The increase in exploration expenses for the three months ended September 30, 2012 is due to the operational focus on the Champinon property which includes preproduction activities, geological consulting, assaying, field supplies, other mine expenses and compensation of two engineers hired in 2012. For the three months ending September 30, 2011, exploration expenses consisted of mine activities and other various mine expenses for the Iron Ore Properties and Picacho Groupings.

Material changes of certain items in Tara Gold's operating, general and administrative expenses for the three months ended September 30, 2012, as compared to the same period last year, are discussed below.

Three Months Ended (In thousands of U.S. Dollars)	September 30, 2012	September 30, 2011
Investment banking and investor relations expense	$ 59	$ 238
Compensation, officer employment contracts and bonuses	233	269
Professional fees	140	240

The decrease in investment banking and investor relations expense for the three months ended September 30, 2012 is due to operational focus on the Champinon property; compared to equity financing for the three months ended September 30, 2011. The decrease in compensation, officer employment contracts and bonuses was due to the controller position being outsourced starting the third quarter of 2012. Professional fees decreased for the three months ended September 30, 2012 due to the operational focus on Champinon.

Material changes of certain items in Tara Gold's Statement of Operations for the nine months ended September 30, 2012, as compared to the same period last year, are discussed below.

Nine Months Ended (In thousands of U.S. Dollars)	September 30, 2012	September 30, 2011

Revenue	$ -	$ -
Cost of revenue	-	-
Exploration expenses	1,205	2,931
Operating, general and administrative expenses	3,339	4,291
Net operating loss	$ (4,544)	$ (7,222)

For the nine months ending in September 30, 2012, exploration expenses decreased due to the operational focus on the Champinon property, which consisted of $680,000 for the acquisition of Champinon's technical data ($430,000 paid with Tara Minerals' stock and $250,000 with cash) and $524,884 for preproduction activities, geological consulting, assaying, field supplies, other mine expenses for Champinon and compensation of two engineers hired in 2012. For the nine months ending September 30, 2011 explorations expenses consisted of $2,591,990 for the acquisition of technical data for Centenario, La Palma and La Verde ($2,491,990 paid with Tara Minerals' stock and $100,000 with cash), which comprises the majority of exploration expenses for the period; the remaining $438,092 was spent on mine activities and other various mine expenses for the Iron Ore Properties (Tania, Las Viboras Dos and Champinon properties).

Material changes of certain items in Tara Gold's operating, general and administrative expenses for the nine months ended September 30, 2012, as compared to the same period last year, are discussed below.

Nine Months Ended (In thousands of U.S. Dollars)	September 30, 2012	September 30, 2011
Bad debt expense	$268	$ 946
Investment banking and investor relations expense	291	321
Compensation, officer employment contracts and bonuses	941	1,190
Professional fees	961	879

Impuesto al Valor Agregado taxes (IVA) are recoverable value-added taxes charged by the Mexican government on goods sold and services rendered at a rate of 16%. Under certain circumstances, these taxes are recoverable by filing a tax return and as determined by the Mexican taxing authority. Each period, receivables are reviewed for collectability. When a receivable is determined to not be collectable we allow for the receivable until we are either assured of collection or assured that a write-off is necessary. Our allowance in association with our receivable from IVA from our Mexico subsidiaries is based on our determination that the Mexican government may not allow the complete refund of these taxes. Bad debt expense decreased for the nine months ended September 30, 2012, due to less IVA receivables deemed uncollectible during the period when compared to the nine months ended September 30, 2011.

The decrease in investment banking and investor relations expense for the nine months ended September 30, 2012 is due to operational focus on the Champinon property; compared to equity financing for the nine months ended September 30, 2011. The decrease in compensation, officer employment contracts and bonuses was due to the controller position being outsourced starting in the third quarter of 2012, a decrease in options vested or awarded to officers. Professional fees increased for the nine months ended September 30, 2012 due to legal and consulting services used for the negotiations, close and amendment of the agreement for the sale of American Copper Mining, services due to operational focus on Champinon.

The following is an explanation of Tara Gold's material sources and uses of cash during the nine months ended September 30, 2012 and 2011:

(In thousands of U.S. Dollars)	September 30, 2012	September 30, 2011
Net cash used in operating activities	$(4,583)	$ (3,342)
Acquisition of property, plant, equipment, mine development, land and construction in progress	(268)	(6)
Proceeds from the sale or disposal of assets	-	30
Purchase of mining concession	-	(30)
Mining deposits	2	(178)
Proceeds from the sale of American Copper Mining	7,500	-
Investment in American Copper Mining in 2012	(33)	-
Payments made for construction in progress	(264)	-
Payments towards notes payable	(698)	(140)
Payments towards notes payable, related party	(100)	-
Payments from joint venture partners	-	100
Change in due to/from related parties, net	(257)	(88)
Non-controlling interest – cash from the sale of common stock of subsidiaries	357	2,990

Iron Ore Properties financial instrument	50	750
Cash, beginning of period	419	193

In March 2012, Tara Minerals sold 594,000 units in a private offering for $297,000 in cash, or $0.50 per unit. Each unit consisted of one share of Tara Minerals' common stock and one warrant. Each warrant entitles the holder to purchase one share of Tara Minerals' common stock at a price of $1.00 per share at or any time before December 31, 2012. The shares and warrants were issued in April 2012.

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Tara Gold anticipates that its capital requirements during the twelve months ending September 30, 2013 will be:

Tara Minerals		
Exploration and Development – Don Roman Groupings	$	500,000
Exploration and Development – Champinon		947,333
Property taxes		180,000
General and administrative expenses		500,000
Tara Gold		
Property taxes		10,000
General and administrative expenses		300,000
Total	$	2,437,333

The capital requirements shown above include capital required by Tara Gold and subsidiaries.

Tara Minerals is continuing the planning and preparation necessary to bring the Don Roman mill into production in 2013. At the same time, the Company is engaging in planning and preparation for the development of the district, by initially focusing on the mineralized structures that could serve as start-up mine feed for the Don Roman plant. The exploration work-plan, that is being developed, will be focusing on the consistency of material in an effort to maximize recovery at the plant. In addition, all work will be done in a 43-101 compliant manner; with a focus on completing a technical report that further defines mineralized structures to establish reserves. This work will also support the expansion planning for increasing production later in 2013.

In addition to, and as a part of, development plans for the Don Roman district, during the second and third quarters of 2012, the Company also focused on plans to put the Champinon Iron Ore Project into production. Two benches were blasted, samples were assayed, and recovery work completed by Metcon Research. Site preparation, such as roadwork, retaining walls, pads, electrical panels, tailings pond, and scales were completed on time and within budget. Equipment was mobilized through the strategic alliance with a local company that was also contracted to provide equipment and buy the iron concentrate. The unforeseen drop in iron demand and iron prices has had a negative impact on the buyer. Tara Minerals is hopeful that a recovery of iron ore prices will continue in the quoted markets, but additionally, that those gains be reflected at the port. Tara Minerals will continue looking at other strategic relationships and opportunities to achieve its goals.

Tara Gold will need to obtain additional capital if it is unable to generate sufficient cash from its operations or find joint venture partners to fund all or part of its exploration and development costs.

In an effort to resume trading in our common stock, the Company filed a registration statement on Form 10. Once the registration statement is cleared, Tara Gold can apply to have its stock relisted on the OTC Bulletin Board. The Company hopes to have the registration statement cleared in the near future.

As of the date of this filing, the Company is reviewing the Las Minitas, Mariana & Mezquite, Pirita, Tania and Las Viboras Dos properties for continued inclusion as part of the Company's mining property portfolio. No payments toward Las Minitas, Mariana and Mezquite or Pirita were made in 2012 or 2011.

Tara Gold does not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on its sales, revenues or income from continuing operations, or liquidity and capital resources except for the possible future payments related to the sale of American Copper Mining which are disclosed in the financial statements above.

Tara Gold's future plans will be dependent upon the amount of capital available to Tara Gold, the amount of cash provided by it and its subsidiaries operations and the extent to which Tara Gold is able to have joint venture partners pay the costs of exploring and developing its mining properties.

Tara Gold does not have any commitments or arrangements from any person to provide Tara Gold with any additional capital. If additional financing is not available when needed, Tara Gold may continue to operate in its present mode or Tara Gold may need to cease operations. Tara Gold does not have any plans, arrangements or agreements to sell its assets or to merge with another entity.

See Note 1 to the financial statements included as part of this report for a description of Tara Gold's accounting policies and recent accounting pronouncements.

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ITEM 4. CONTROLS AND PROCEDURES

Francis Richard Biscan, Jr., Tara Gold's Principal Executive Officer and Lynda R. Keeton-Cardno, Tara Gold's Principal Financial and Accounting Officer, have evaluated the effectiveness of Tara Gold's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report, and in their opinion Tara Gold's disclosure controls and procedures are effective.

There were no changes in Tara Gold's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, Tara Gold's internal control over financial reporting.

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PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 13, 2010, Tara Gold announced that it had entered into a tentative agreement with Tara Minerals which provided that Tara Minerals would acquire all of the common shares of Tara Gold by exchanging one share of Tara Minerals' common stock for two Tara Gold shares. In an effort to avoid any conflicts due to common directors, the transaction would require the approval of non-affiliate shareholders owning a majority of the outstanding shares of Tara Minerals and Tara Gold.

On September 20, 2010 Chris Columbo filed a lawsuit in the District Court for Carson City Nevada, against Tara Minerals, Tara Gold, and Tara Minerals' officers and directors. The essence of the lawsuit was to obtain the fairest price for Tara Gold, whether from Tara Minerals or a third party. On October 25, 2010 Mr. Columbo voluntarily dismissed his lawsuit against Tara Minerals and other defendants.

On October 22, 2010 Patricia J. Root filed a lawsuit in the Circuit Court for Dupage County, Illinois, against Tara Minerals, Tara Gold, and Tara Gold's directors. The essence of the lawsuit was to prevent the Company's proposed acquisition of Tara Gold.

Tara Minerals believed the lawsuit filed by Ms. Root was premature since, as noted in the September 13, 2010 press release, the transaction was tentative and was subject to the approval of the shareholders of Tara Gold who are not officers or directors of Tara Gold. No binding agreement between Tara Gold and Tara Minerals has been was ever signed.

On April 6, 2011 Ms. Root voluntarily dismissed her lawsuit against Tara Minerals, Tara Gold, and all other defendants.

Tara Minerals subsequently decided that it would not acquire Tara Gold.

In August 2011 Tara Minerals entered into an agreement with Carnegie Mining and Exploration, Inc. which provided Carnegie with the option to earn up to a 50% interest in Tara Minerals' Don Roman and iron ore projects.

In order to earn an interest in the Don Roman project, Carnegie was required to spend certain amounts on the Don Roman property such that the Don Roman plant reached minimum production levels. Carnegie could earn a 50% interest in Tara Minerals' iron ore projects by spending $1,000,000 toward the projects by November 6, 2011.

Carnegie did not spend the required amounts on either project and Tara Minerals terminated the option.

On November 10, 2011, Tara Minerals filed a complaint in Nevada against Carnegie seeking a declaration that Carnegie failed to properly exercise its option to acquire an interest in the iron ore properties.

On December 9, 2011, Carnegie and a purported affiliate, Carnegie Operations, LLC filed a complaint in Texas state court against former employees of Carnegie now employed with Tara Minerals. Although Tara Minerals was not initially named as a defendant, the substance of the state court complaint made it clear that the core issues were substantially similar to those raised in the Nevada litigation. The individual defendants removed the case to federal court in Dallas, Texas on December 22, 2011. Carnegie responded with a First Amended Complaint on January 31, 2012, which formally named Tara Minerals as a defendant. In its amended complaint, Carnegie seeks an injunction against Tara Minerals in connection with its option on the iron ore properties, as well as damages for alleged fraud, trade secret theft, civil conspiracy, and tortious interference with Carnegie's employment contracts with the individual defendants.

On February 14, 2012, Tara Minerals moved the Texas court for a transfer of venue to Nevada so that the cases could be consolidated. The motion was premised upon the facts that: 1) the option agreement includes an express consent to jurisdiction and venue in Nevada; 2) Tara Minerals filed its lawsuit first in Nevada; 3) the cases involve common issues of fact and law; and 4) transfer is cost-efficient and more convenient for the key witnesses in both matters.

On March 21, 2012, Carnegie moved the Nevada court to transfer the case to Texas and moved the court to dismiss Tara Minerals' complaint. After extensive briefing from both sides, on July 11, 2012, the Nevada court denied Carnegie's motion to transfer and denied Carnegie's motion to dismiss. On July 20, 2012 the Texas court granted Tara Minerals' motion and ordered the case transferred to Nevada. On August 21, 2012, the Nevada court formally consolidated the Texas and Nevada cases.

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On August 3, 2012, Carnegie responded to Tara Minerals' complaint and brought a counterclaim against Tara Minerals American Metal Mining, S.A., C.V. ("AMM")(an subsidiary of Tara Minerals) and a third party complaint against Harsco Corporation ("Harsco") and Pittsburgh Mineral & Environmental Technology, Inc ("PMET"). Carnegie's counterclaim alleges: 1) breach of contract; 2) breach of the implied covenant of good faith and fair dealing; 3) promissory estoppel; and civil conspiracy against Tara Minerals and AMM. Carnegie's third party complaint alleges: 1) unjust enrichment, 2) tortious interference with contract; and 3) civil conspiracy against Harsco and PMET.

Tara Minerals and AMM answered Carnegie's counterclaim on September 7, 2012. Harsco answered Carnegie's third party complaint on September 11, 2012. PMET moved the Court to dismiss the third party complaint on September 20, 2012. Carnegie opposed PMET's motion to dismiss on October 9, 2012. On November 5, 2012, PMET replied in support of the motion to dismiss, With respect to PMET, the Court will either make a ruling on PMET's motion to dismiss based upon the briefing, or the parties will be ordered to appear for oral argument. With respect to Tara Minerals, AMM, and Harsco, the case will proceed to discovery/fact-finding.

On September 7, 2012, Tara Minerals responded to Carnegie's First Amended Complaint and asserted counterclaims for: 1) declaratory relief; 2) breach of contract; and 3) breach of the implied covenant of good faith and fair dealing. Likewise, on September 7, 2012, the individual defendants responded to Carnegie's First Amended Complaint and lodged counterclaims against Carnegie for: 1) breach of contract; 2) breach of the implied covenant of good faith and fair dealing; 3) and unjust enrichment,

On October 1, 2012, Carnegie moved the court for an order to show cause why two of the individual defendants should not be held in contempt, seeking monetary sanctions and a court order precluding the individuals from working with Tara Minerals. Carnegie alleges, among other things, that the individuals violated the Texas state court injunction when accepting employment at Tara Minerals. Tara Minerals and the individual defendants believe they are in full compliance with all court orders, none of which preclude Tara Minerals' employment of the individuals. The individual defendants vigorously opposed Carnegie's motion on October 15, 2012. Carnegie lodged its reply on November 5, 2012. The next step will be for the Court to either issue a ruling based on the briefs submitted or order the parties to appear for oral argument.

The case is now in the discovery/fact-finding phase, and Tara Minerals anticipates propounding written requests for production, propounding interrogatories, and taking depositions.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit	
10.1	Amended Purchase Agreement among Adit Resources Corp., ACM and Yamana Mexico Holdings B.V	(1)
31.1	Rule 13a-14(a) Certifications – CEO	(1)
31.2	Rule 13a-14(a) Certifications - CFO	(1)
32	Section 1350 Certifications	(1)
101.INS	XBRL Instance Document	(1)
101.SCH	XBRL Taxonomy Extension Schema Document	(1)
101.CAL	XBRL Taxonomy Calculation Linkbase Document	(1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	(1)
101.LAB	XBRL Taxonomy Label Linkbase Document	(1)
101.PRE	XBRL Taxonomy Presentation Linkbase Document	(1)

(1) Filed with this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TARA GOLD RESOURCES CORP.	
Dated: November 13, 2012	By:	/s/ Francis Richard Biscan, Jr. Francis R. Biscan, Jr., Director and Principal Executive Officer
Dated: November 13, 2012	By:	/s/ Lynda R. Keeton-Cardno, CPA Lynda R. Keeton-Cardno, CPA Principal Financial and Accounting Officer

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