

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2018**

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

For the transition period from _____ to _____

Commission File No. 0-53029

C-BOND SYSTEMS, INC.

(Exact name of Registrant as Specified in its Charter)

Colorado

(State or Other Jurisdiction
of Incorporation or Organization)

26-1315585

(IRS Employer Identification No.)

6035 South Loop East

Houston, Texas

(Address of Principal Executive Offices)

77033

(Zip Code)

832-649-5658

(Registrant's telephone number, including area code)

WestMountain Alternative Energy, Inc.

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or, an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company", in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 75,276,973 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of August 10, 2018.

C-Bond System, Inc.
FORM 10-Q

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PART I - FINANCIAL INFORMATION

References in this document to "us," "we," or "Company" refer to C-Bond Systems, Inc.

ITEM 1. CONDENSED FINANCIAL STATEMENTS

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash	\$ 498,523	\$ 46,448
Accounts receivable, net	33,813	35,225
Inventory	5,299	10,493
Prepaid expenses and other current assets	18,363	771
Total Current Assets	555,998	92,937
OTHER ASSETS:		
Property, plant and equipment, net	73,566	91,123
Security deposit	8,977	8,977
Total Other Assets	82,543	100,100
TOTAL ASSETS	\$ 638,541	\$ 193,037
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 244,988	\$ 164,906
Accrued expenses	25,770	104,402
Accrued compensation	136,264	511,855
Total Current Liabilities	407,022	781,163
LONG-TERM LIABILITIES:		
Convertible note payable, net of discount	-	92,917
Total Long-term Liabilities	-	92,917
Total Liabilities	407,022	874,080
Commitments and Contingencies (See Note 8)		
SHAREHOLDERS' EQUITY (DEFICIT):		
Preferred stock: \$0.10 par value, 1,000,000 shares authorized; none issued and outstanding at June 30, 2018 and December 31, 2017, respectively	-	-
Common stock: \$0.001 par value, 500,000,000 shares authorized; 75,276,973 and 45,717,635 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	75,277	45,717
Additional paid-in capital	27,903,240	22,127,796
Accumulated deficit	(27,746,998)	(22,854,556)
Total Shareholders' Equity (Deficit)	231,519	(681,043)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 638,541	\$ 193,037

See accompanying notes to unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
SALES	\$ 64,888	\$ 120,444	\$ 141,285	\$ 194,444
COST OF SALES (excluding depreciation expense)	16,518	32,897	28,012	41,622
GROSS PROFIT	48,370	87,547	113,273	152,822
OPERATING EXPENSES:				
Compensation and related benefits (including stock-based compensation of \$1,515,522 and \$584,596 for the three months ended June 30, 2018 and 2017, and \$3,264,666 and \$1,237,016 for the six months ended June 30, 2018 and 2017, respectively)	1,764,283	832,105	3,742,240	1,732,604
Research and development	51,345	22,112	68,605	105,389
Professional fees	343,559	24,471	563,232	33,702
General and administrative expenses	100,061	92,947	199,160	225,125
Total Operating Expenses	2,259,248	971,635	4,573,237	2,096,820
LOSS FROM OPERATIONS	(2,210,878)	(884,088)	(4,459,964)	(1,943,998)
OTHER EXPENSES:				
Loss on debt extinguishment	(383,475)	-	(383,475)	-
Interest expenses	(11,241)	(417)	(49,003)	(417)
Total Other Expenses	(394,716)	(417)	(432,478)	(417)
NET LOSS	\$ (2,605,594)	\$ (884,505)	\$ (4,892,442)	\$ (1,944,415)
NET LOSS PER COMMON SHARE:				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.08)	\$ (0.04)
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:				
Basic and diluted	71,340,620	45,203,180	64,203,327	45,203,180

See accompanying notes to unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended	
	June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,892,442)	\$ (1,944,415)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	17,557	18,915
Bad debt expense (recovery)	(1,277)	-
Amortization of debt discount to interest expense	40,691	417
Stock-based compensation	3,194,249	1,237,016
Stock-based professional fees	70,417	-
Loss on debt extinguishment	380,171	-
Change in operating assets and liabilities:		
Accounts receivable	2,689	(48,413)
Inventory	5,194	10,511
Prepaid expenses and other assets	741	(2,092)
Accounts payable	119,997	55,379
Accrued expenses	2,201	(5,745)
Accrued compensation	16,986	30,534
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,042,826)</u>	<u>(647,893)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired in recapitalization	187,401	-
Purchases of property and equipment	-	(3,101)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>187,401</u>	<u>(3,101)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	1,267,500	-
Proceeds from exercise of stock options	40,000	-
Repayment of convertible note payable	(260,000)	-
Proceeds from convertible note payable	260,000	100,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,307,500</u>	<u>100,000</u>
NET INCREASE (DECREASE) IN CASH	452,075	(550,994)
CASH, beginning of period	46,448	596,910
CASH, end of period	<u>\$ 498,523</u>	<u>\$ 45,916</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ 6,696	\$ -
Income taxes	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Beneficial conversion feature reflected in debt discount	\$ 260,000	\$ 10,000
Common stock issued as prepaid for services	\$ 18,333	\$ -
Common stock issued for accrued compensation	\$ 392,577	\$ -
Common stock issued for debt and accrued interest	\$ 105,833	\$ -
Common stock issued for accrued settlement	\$ 114,915	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

(1) Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization and Basis of Presentation

On April 25, 2018, C-Bond Systems, Inc. and its subsidiary, WETM Acquisition Corp. ("Acquisition Sub") entered into an Agreement and Plan of Merger and Reorganization, or the Merger Agreement with C-Bond Systems, LLC which was organized as a limited liability company in Texas and started business on August 7, 2013 and has three subsidiaries. Pursuant to the terms of the Merger Agreement, on April 25, 2018, referred to as the Closing Date, the Acquisition Sub merged with and into C-Bond Systems, LLC, which was the surviving corporation. Accordingly, C-Bond Systems, LLC became a wholly-owned subsidiary of C-Bond Systems, Inc., C-Bond Systems, Inc., and its subsidiaries are herein referred to as "the Company". Any reference to contractual agreements throughout these footnotes may relate to C-Bond Systems Inc., or one of its subsidiaries.

Pursuant to the Merger, the Company acquired all of the outstanding equity interests of C-Bond Systems, LLC. It is engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability within brittle material systems with a strong focus in the glass industry. At the time a certificate of merger reflecting the Merger was filed with the Secretary of State of Texas, or the Effective Time, all of the outstanding common units of C-Bond Systems, LLC ("Common Units") that were issued and outstanding immediately prior to the closing of the Merger were converted into an aggregate of 63,505,783 shares of our common stock. As a result, each common unit of C-Bond Systems, LLC was converted into approximately 3.233733 shares of our common stock (the "Conversion Ratio"). In addition, pursuant to the Merger Agreement, each option to purchase Common Units, issued and outstanding immediately prior to the closing of the Merger was assumed and converted into an option to purchase an equivalent number of shares of our common stock and the exercise price of each such option was divided by the Conversion Ratio. As a result, a total of 14,494,213 options were issued.

The Merger Agreement contained customary representations and warranties and pre- and post-closing covenants of each party and customary closing conditions.

The Merger was treated as a reverse merger and recapitalization of C-Bond Systems, LLC for financial reporting purposes since the C-Bond Systems LLC members retained an approximate 87% controlling interest in the post-merger consolidated entity. C-Bond Systems, LLC is considered the acquirer for accounting purposes, and the Company's historical financial statements before the Merger will be replaced with the historical financial statements of C-Bond Systems, LLC and Subsidiaries before the Merger in future filings with the SEC. The balance sheets at their historical cost basis of both entities are combined at the merger date and the results of operations from the merger date forward will include the historical results of C-Bond Systems, LLC and its subsidiaries and results of C-Bond Systems, Inc. (f.k.a. Westmountain Alternative Energy, Inc) from the merger date forward. The Merger was intended to be treated as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

On June 7, 2018, a majority of the Company's shareholders and its board approved the change of the Company's name to C-Bond Systems, Inc., approved an increase in the Company's authorized number of common shares from 100,000,000 to 500,000,000 shares of common stock, and authorized 1,000,000 shares of preferred stock to have such classes and preferences as the Board of Directors may determine from time to time. These changes became effective on July 18, 2018.

All share and per share data in the accompanying consolidated financial statements have been retroactively restated to reflect the effect of the reverse merger and recapitalization.

Basis of presentation and principles of consolidation

The Company's consolidated financial statements include the financial statements of its wholly-owned subsidiaries, C-Bond Systems, LLC, C-Bond R&D Solutions, LLC, C-Bond Industrial Solutions, LLC, and C-Bond Security Solutions, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Management acknowledges its responsibility for the preparation of the accompanying unaudited condensed consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its financial position and the results of its operations for the periods presented. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (the "U.S. GAAP") for interim financial information and with the instructions Article 8-03 of Regulation S-X. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP has been condensed or omitted from these statements pursuant to such accounting principles and, accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to the consolidated financial statements for the years ended December 31, 2017 and 2016 of the Company which were included in the Company's report on Form 8-K as filed with the Securities and Exchange Commission on May 1, 2018.

Going concern

These unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of \$4,892,442 for the six months ended June 30, 2018. The net cash used in operations was \$1,042,826 for the six months ended June 30, 2018. Additionally, the Company had an accumulated deficit, shareholders' equity, and working capital of \$27,746,998, \$231,519 and \$148,976, respectively, at June 30, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. Although the Company has historically raised capital from sales of common shares and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates during the six months ended June 30, 2018 and 2017 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the fair value of beneficial conversion features, and the fair value of non-cash equity transactions.

Fair value of financial instruments and fair value measurements

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's (the "FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company did not identify any assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with Accounting Standards Codification ("ASC") Topic 820. ASC 825-10 "Financial Instruments", allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash, accounts receivable, accounts payable, accrued expenses, and accrued compensation approximate their fair market value based on the short-term maturity of these instruments.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of six months or less at the purchase date and money market accounts to be cash equivalents.

Accounts receivable

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as general and administrative expense.

Inventory

Inventory, consisting of raw materials and finished goods, are stated at the lower of cost and net realizable value utilizing the first-in, first-out (FIFO) method. A reserve is established when management determines that certain inventories may not be saleable. If inventory costs exceed expected net realizable value due to obsolescence or quantities in excess of expected demand, the Company will record reserves for the difference between the cost and the net realizable value. These reserves are recorded based on estimates and included in cost of sales.

Property and equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, which range from six to ten years. Leasehold improvements are depreciated over the shorter of the useful life or lease term including scheduled renewal terms. Maintenance and repairs are charged to expense as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. The Company examines the possibility of decreases in the value of these assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

Impairment of long-lived assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

Revenue recognition

In May 2014, FASB issued an update Accounting Standards Update ("ASU") ("ASU 2014-09") establishing Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard in 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Based on an evaluation of the impact ASU 2014-09 will have on the Company's sources of revenue, the Company has concluded that ASU 2014-09 did not have a material impact on the process for, timing of, and presentation and disclosure of revenue recognition from customers.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

The Company sells its products primarily to distributors and authorized dealers. Product sales are recognized when the product is shipped to the customer and title is transferred and are recorded net of any discounts or allowances.

Cost of sales

Cost of sales includes inventory costs, packaging costs and warranty expenses.

Shipping and handling costs

Shipping and handling costs incurred for product shipped to customers are included in general and administrative expenses and amounted to \$6,570 and \$9,528 for the six months ended June 30, 2018 and 2017, respectively. Shipping and handling costs charged to customers are included in sales.

Warranty liability

The Company provides limited warranties on its products for product defects for periods ranging from 12 months to the life of the product. Warranty costs may include the cost of product replacement, refunds, labor costs and other costs. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product warranty claim rates and expected costs to repair or to replace the products under warranty. The Company currently establishes warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior 12 months' sales activities. If actual return rates and/or repair and replacement costs differ significantly from the Company's estimates, adjustments to recognize additional cost of sales may be required in future periods. Historically the warranty accrual and the expense amounts have been immaterial. The warranty liability is included in accrued expenses on the accompanying consolidated balance sheets and amounted \$24,016 and \$21,935 at June 30, 2018 and December 31, 2017, respectively. For the six months ended June 30, 2018 and 2017, warranty expense amounted to \$2,741 and \$3,829, respectively, and is included in cost of sales on the accompanying condensed consolidated statements of operations.

Research and development

Research and development costs incurred in the development of the Company's products are expensed as incurred and includes costs such as labor, materials, and other allocated costs incurred. For the six months ended June 30, 2018 and 2017, research and development costs incurred in the development of the Company's products were \$68,605 and \$105,389, respectively, and are included in operating expenses on the accompanying condensed consolidated statements of operations.

Advertising costs

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. For the six months ended June 30, 2018 and 2017, advertising costs charged to operations were \$5,900 and \$26,614, respectively and are included in sales and marketing on the accompanying condensed consolidated statements of operations. These advertising expenses do not include cooperative advertising and sales incentives which have been deducted from sales.

Federal and state income taxes

Through April 25, 2018, the Company's subsidiaries operated as a limited liability company and passed all income and loss to each member based on their proportionate interest in the Company. Effective April 26, 2018, the Company accounts for income tax using the liability method prescribed by ASC 740, "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
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(Unaudited)

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of Accounting Standards Codification (ASC) 740 "Income Taxes". Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of June 30, 2018 and December 31, 2017, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years that remain subject to examination are the years ending on and after December 31, 2013. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of June 30, 2018 and December 31, 2017.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "Compensation – Stock Compensation", which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company utilizes the Black-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history. Additionally, effective January 1, 2017, the Company adopted the Accounting Standards Update No. 2016-09 ("ASU 2016-09"), *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. The Company has elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company's consolidated financial statements and related disclosures.

Pursuant to ASC 505-50 – "Equity-Based Payments to Non-Employees", all share-based payments to non-employees, including grants of stock options, are recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black-Scholes valuation model, the Company periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and the Company adjusted the expense recognized in the consolidated financial statements accordingly.

Upon exercise of the stock options by the holder using the exercise methods delineated in the option contract, the Company issues new shares from its unissued authorized shares.

Loss per common share

ASC 260 "Earnings Per Share", requires dual presentation of basic and diluted earnings per common share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the entity. Basic net loss per common share is computed by dividing net loss available to members by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares, common share equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive common shares consist of stock options (using the treasury stock method) and shares issuable upon conversion of convertible notes payable (using the as-if converted method). These common share equivalents may be dilutive in the future.

All potentially dilutive common shares were excluded from the computation of diluted common shares outstanding as they would have an anti-dilutive impact on the Company's net losses and consisted of the following:

	June 30, 2018	June 30, 2017
Convertible note	-	129,870
Stock options	14,494,213	10,804,213

Segment reporting

During the six months ended June 30, 2018 and 2017, the Company operated in one business segment.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
(FORMERLY WESTMOUNTAIN ALTERNATIVE ENERGY, INC.)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The pronouncement requires a modified retrospective method of adoption and is effective on January 1, 2019, with early adoption permitted. The Company will continue to evaluate the effect the adoption of ASU 2016-02 will have on the consolidated financial statements of the Company.

There are no other recently issued accounting standards that apply to us or that are expected to have a material impact on our results of operations, financial condition, or cash flows.

NOTE 3 – ACCOUNTS RECEIVABLE

At June 30, 2018 and December 31, 2017, accounts receivable consisted of the following:

	June 30, 2018	December 31, 2017
Accounts receivable	\$ 35,590	\$ 38,279
Less: allowance for doubtful accounts	(1,777)	(3,054)
Accounts receivable, net	<u>\$ 33,813</u>	<u>\$ 35,225</u>

For the six months ended June 30, 2018 and 2017, bad debt (recovery) expense amounted to \$(1,277) and \$0, respectively.

NOTE 4 – INVENTORY

At June 30, 2018 and December 31, 2017, inventory consisted of the following:

	June 30, 2018	December 31, 2017
Raw materials	\$ 2,633	\$ 7,269
Finished goods	2,666	3,224
Inventory	<u>\$ 5,299</u>	<u>\$ 10,493</u>

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NOTE 5 - PROPERTY AND EQUIPMENT

At June 30, 2018 and December 31, 2017, property and equipment consisted of the following:

	Useful Life	2018	2017
Machinery and equipment	5 - 7 years	\$ 52,538	\$ 52,538
Furniture and office equipment	3 - 7 years	45,063	45,063
Vehicles	5 years	68,341	68,341
Leasehold improvements	3 years	16,701	16,701
		182,643	182,643
Less: accumulated depreciation		(109,077)	(91,520)
Property and equipment, net		<u>\$ 73,566</u>	<u>\$ 91,123</u>

For the six months ended June 30, 2018 and 2017, depreciation and amortization expense is included in general and administrative expenses and amounted to \$17,557 and \$18,915, respectively.

NOTE 6 - CONVERTIBLE NOTES PAYABLE

On June 1, 2017, the Company received \$100,000 from a third party pursuant to the terms of a convertible promissory note (the "Convertible Note"). The Convertible Note accrued interest at 7% per annum and all principal and interest is payable on the maturity date of June 1, 2019. The holder of the Convertible Note could have, at any time, upon written notice, convert all amounts then outstanding under this Convertible Note into a number of common shares of the Company equal to the amount then owed under this Note divided by \$0.77. Upon the maturity date, the principal and accrued interest under this note would have automatically be converted into the number of common shares of the Company equal to the amount then owed under this Convertible Note divided by \$0.77. The Company evaluated the conversion feature of the Convertible Note and determined the Company's common stock fair value exceeded the conversion price as stated in the Convertible Note. Management determined that the favorable exercise price represented a beneficial conversion feature. Using the intrinsic value method at the convertible promissory note date, a total discount of \$10,000 was recognized and was being amortized to interest expense over the term of the Convertible Note. In March 2018, the principal balance of \$100,000 all accrued interest of \$5,833 was converted into 136,894 common shares and the Convertible Note was terminated. As of December 31, 2017, the principal balance due under this Convertible Note was \$100,000. As of June 30, 2018, this Convertible Note is no longer outstanding.

On January 22, 2018 (the "Issuance Date"), the Company entered into a securities purchase agreement (the "SPA") with Esousa Holdings, LLC ("Esousa"), whereby Esousa agreed to invest up to \$750,000 (the "Purchase Price") in the Company in exchange for senior secured the convertible notes and five-year warrants , upon the terms and subject to the conditions thereof. Pursuant to the SPA, the Company issued (i) a senior secured convertible note to Esousa on January 22, 2018, in the original principal amount of \$260,000, which bears interest at 10% per annum (the "First Note") and (ii) 293,123 five-year warrants to purchase common shares of the Company at a purchase price of \$0.87 per unit . On January 22, 2018, the Company received cash proceeds of \$260,000 under this convertible note. Each convertible note issued pursuant to the SPA was due and payable two years from the issuance date of the respective convertible note, and any accrued and unpaid interest relating to each convertible note, was due and payable semi-annually'

The Convertible Note was convertible into common shares at a conversion price of is \$0.87 which was lower than the fair value of common shares based on recent sales of common shares of the Company on the date of issue. Additionally, as warrants were issued with the Convertible Note, the proceeds were allocated to the instruments based on relative fair value as the warrants did not contain any features requiring liability treatment and therefore were classified as equity. The value allocated to the warrants was \$186,368 and \$73,632 was allocated to the beneficial conversion feature. Since the intrinsic value of the beneficial conversion feature and warrants was greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature and warrants was limited to the amount of the proceeds allocated to the convertible instrument.

Accordingly, the Company recorded as debt discount of \$260,000 with the credit to additional paid in capital. The debt discount associated was to be amortized to interest expense over the term of the Convertible Note.

On April 26, 2018, the Company and Esousa entered into a Termination Agreement and General Release ("Termination Agreement") whereby the Company paid Esousa \$270,000, and the SPA, Note, Warrant and Registration Rights Agreement and all rights and obligations were terminated. In connection with the Termination Agreement, the Company recorded debt extinguishment expense of \$229,696, including the write-off of remaining debt discount of \$226,392 and the payment of additional interest of \$3,304.

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For the six months ended June 30, 2018 and 2017, interest expense related to these Convertible Notes amounted to \$49,003 and \$417, including amortization of debt discount charged to interest expense of \$40,303 and \$417, respectively.

At June 30, 2018 and December 31, 2017, the Convertible Note consisted of the following:

	June 30, 2018	December 31, 2017
Principal amount	\$ -	\$ 100,000
Less: unamortized debt discount	-	(7,083)
Convertible note payable, net	<u>\$ -</u>	<u>\$ 92,917</u>

The weighted average interest rate during the six months ended June 30, 2018 was 8.7%.

NOTE 7 - SHAREHOLDERS' DEFICIT

Common shares issued for debt conversion

On January 2, 2018, the former CEO of the Company converted his accrued compensation and other amounts due to him totaling \$392,558 into 12,694,893 common shares, or \$0.031 per share based on the original employment agreement (See Note 8). Upon conversion, the Company recorded stock-based compensation of \$270,878 based on the August 2013 commitment date per share fair value of his conversion option of \$0.021 per share (see Note 8).

On March 28, 2018, the Company issued 136,894 common shares upon conversion of convertible debt of \$100,000 and accrued interest of \$5,833 (See Note 6).

Issuance of common shares for services

On March 7, 2018, the Company entered into a 90-day consulting agreement for business development and lobbying services related to the Company's ballistic resistant technologies. In connection with this consulting agreement, the Company issued 80,843 common shares to the consultant which were valued at \$68,750, or \$0.85 per common share, based on contemporaneous common share sales, which was amortized over the term of the agreement. Additionally, on June 12, 2018, the Company entered into a six months consulting agreement with this consultant. In connection with this consulting agreement, the Company issued 50,000 common shares to the consultant which were valued at \$20,000, or \$0.40 per common share, based on contemporaneous common share sales, which will be amortized over the term of the agreement. In connection with these consulting agreements, during the six months ended June 30, 2018, the Company recorded stock-based professional fees of \$70,417, and prepaid expenses of \$18,333 which will be amortized over the remaining term.

In April 2018, the Company issued 3,233,732 restricted common shares of the Company to employees for services rendered which were valued at \$2,750,000, or \$0.85 per common share, based on contemporaneous common share sales. These share vest on May 1, 2019. In connection with these shares, the Company shall record stock-based compensation over the one-year vesting period. In June 2018, an employee resigned and his employment agreement was terminated. Accordingly, in June 2018, 485,060 non-vested shares were forfeited. Accordingly upon termination, the Company reversed all stock-based compensation previously recognized on the non-vested shares. For the six months ended June 30, 2018, the Company recorded stock-based compensation expense of \$389,583 related to these shares.

Common shares issued for exercise of stock options

During the six months ended June 30, 2018, the Company issued 1,293,492 common shares upon the exercise of 400,000 stock options at \$0.031 per share. In connection with this option exercise, the Company received proceeds of \$40,000.

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Common shares issued for settlement

In April 2018, the Company issued 315,957 common shares of the Company to a vendor to settle amounts owed to such vendor which were valued at \$268,694, or \$0.85 per common share, based on contemporaneous common share sales. In connection with the settlement agreement, the Company recorded settlement expense of \$153,779 and reduced accounts payable and accrued expenses by \$39,915 and \$75,000, respectively.

Sale of common shares

In April 2018, the Company issued 32,337 of its common shares to an investor for cash proceeds of \$27,500, or \$0.85 per common share.

Contemporaneously with the closing of the Merger, pursuant to subscription agreements, the Company issued an aggregate of 3,100,000 shares of common stock at a price of \$0.40 per share for aggregate gross consideration of approximately \$1,240,000 to six accredited investors. The Company agreed to file a shelf registration statement registering all of the shares of Common Stock subscribed for hereby (but no other shares owned by Subscriber) as soon as reasonably practicable after completion of the Merger and to use commercially reasonable efforts to cause that registration statement to be declared effective as soon as reasonably practical.

Deemed issuance pursuant to reverse recapitalization

On April 25, 2018, in connection with merger with C-Bond Systems, LLC, the Company is deemed to have issued 9,106,250 of its common shares for cash of \$187,401. These shares represent the outstanding shares of C-Bond Systems, Inc. just prior to the Merger on April 25, 2018.

Common share exercise compensation

As compensation for services commencing on February 1, 2016 and continuing through February 14, 2019, on December 27, 2016, the Company granted a stock option exercise right to an employee of the Company, whereby the employee will receive a credit of \$5,000 per month towards the cash required to exercise his 750,000 options at \$0.31 per share. Accordingly, the employee can exercise options on a cashless basis up to the amount he has been credited. As of June 30, 2018 and December 31, 2017, the employee was credited \$145,000 and \$115,000 towards the options exercise, respectively. No cash disbursement will be required by the Company under this provision. The Company recognized compensation expense of \$30,000 and \$30,000 during the six months ended June 30, 2018 and 2017, respectively, with a corresponding increase to shareholders' equity

As of June 30, 2018 and December 31, 2017, the employee was credited \$145,000 and \$115,000 towards the options exercise, respectively. No cash disbursement will be required by the Company under this provision. The Company recognized compensation expense of \$30,000 and \$30,000 during the six months ended June 30, 2018 and 2017, respectively, with a corresponding increase to shareholders' equity

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Stock options

For the six months ended June 30, 2018 and 2017, the Company recorded \$2,503,788 and \$1,207,016 of compensation and consulting expense related to stock options, respectively. Total unrecognized compensation and consulting expense related to unvested stock options at June 30, 2018 amounted to \$4,408,558. The weighted average period over which stock-based compensation expense related to these options will be recognized is approximately two years.

Stock option activities for the six months ended June 30, 2018 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2017	14,894,213	0.32		\$ 7,948,708
Exercised	(400,000)	0.03		
Balance Outstanding June 30, 2018	<u>14,494,213</u>	<u>\$ 0.32</u>	<u>7.16</u>	<u>\$ 2,314,323</u>
Exercisable, June 30, 2018	<u>11,500,822</u>	<u>\$ 0.32</u>	<u>6.72</u>	<u>\$ 2,65,334</u>

Warrants

On January 22, 2018, in connection with the SPA with Esousa, the Company issued 293,123 five-year warrants to purchase shares of Company common shares at a purchase price of \$0.87 per unit. In April 2018, these warrants were cancelled under a Termination Agreement (see Note 6).

Warrant activities for the six months ended June 30, 2018 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2017	-	-	-	\$ -
Granted	293,123	0.87		
Cancelled	(293,123)	(0.87)		
Balance Outstanding June 30, 2018	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Exercisable, June 30, 2018	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

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2018 Long-term Incentive Plan

On June 7, 2018, a majority of the Company's shareholders and its board approved the adoption of a 2018 Long-Term Incentive Plan (the "2018 Plan"). The purpose of the 2018 Plan is to advance the interests of the Company, its affiliates and its stockholders and promote the long-term growth of the Company by providing employees, non-employee directors and third-party service providers with incentives to maximize stockholder value and to otherwise contribute to the success of the Company and its affiliates, thereby aligning the interests of such individuals with the interests of the Company's stockholders and providing them additional incentives to continue in their employment or affiliation with the Company. The Plan was adopted on June 7, 2018 and effective on August 2, 2018.

Under the 2018 Plan, the Plan Administrator may grant:

- options to acquire the Company's common stock, both incentive stock options that are intended to satisfy the requirements of Section 422 of the Internal Revenue Code and nonqualified stock options which are not intended to satisfy such requirements. The exercise price of options granted under our 2018 Plan must at least be equal to the fair market value of the Company's common stock on the date of grant and the term of an option may not exceed ten years, except that with respect to an incentive stock option granted to any employee who owns more than 10% of the voting power of all classes of the Company's outstanding stock as of the grant date the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date.
- stock appreciation rights, or SARs, which allow the recipient to receive the appreciation in the fair market value of the Company's common stock between the date of grant and the exercise date. The amount payable under the stock appreciation right may be paid in cash or with shares of the Company's common stock, or a combination thereof, as determined by the Administrator.
- restricted stock awards, which are awards of the Company's shares of common stock that vest in accordance with terms and conditions established by the Administrator.
- restricted stock units, which are awards that are based on the value of the Company's common stock and may be paid in cash or in shares of the Company's common stock.
- other types of stock-based or stock-related awards not otherwise described by the terms and provision of the 2018 Plan, including the grant or offer for sale of unrestricted shares of the Company's common stock, and which may involve the transfer of actual shares of the Company's common stock or payment in cash or otherwise of amounts based on the value of shares of the Company's common stock and may be designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.
- other cash-based awards to eligible persons in such amounts and upon such terms as the Administrator shall determine.

An award granted under the 2018 Plan must include a minimum vesting period of at least one year, provided, however, that an award may provide that the award will vest before the completion of such one-year period upon the death or qualifying disability of the grantee of the award or a change of control of the Company and awards covering, in the aggregate, 25,000,000 shares of our Common Stock may be issued without any minimum vesting period.

The aggregate number of shares of common stock that may be issued under the 2018 Plan is 50,000,000 shares. In addition, the maximum aggregate number of shares of the Company's common stock that may be subject to incentive stock options granted under the 2018 Plan is 50,000,000 shares.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Legal matters

The Company received demands from a vendor for non-payment of research and development fees in the amount of \$268,695. The Company believed that it was not liable for this amount and vigorously disputed such claim. As of June 30, 2018 and December 31, 2017, the Company reflected accounts payable and accrued expenses of \$39,915 and \$75,000, respectively, in connection with this claim. In April 2018, the Company entered into a settlement agreement with this vendor (See Note 7).

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Prior to the Closing of the Merger, C-Bond Systems LLC received a letter from counsel to Arnold Jay Boisdrenghen/Equity Capital Holding Group, Inc. claiming that such parties were entitled to a finder's fee in connection with the Merger of \$25,000 and 1,000,000 post-Merger shares of common stock of the Company. The Company intends to vigorously defend this claim. We cannot predict the timing and ultimate outcome of this matter, however we believe the range of possible loss is immaterial to our financial statements.

From time to time, the Company may be involved in litigation related to claims arising out of its operations in the normal course of business. As of June 30, 2018, other than discussed above, the Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations, or cash flows.

Employment agreements

On August 10, 2013 the Company entered into an employment agreement with the Company's former chief executive officer. Pursuant to this employment agreement, he is to receive cash salary and a 5% commission on equity capital raised for the Company. He also obtained an option to elect to convert all or any part of his future unpaid compensation and benefits into shares of the Company. The conversion price per share (the "Exercise Price") shall be equal to \$0.031 per share. The Company determined that the commitment date of the option is August 10, 2013, the date of the employment agreement but no expense shall not be recognized until the contingency of exercise and determination of quantity of options is resolved. Accordingly, in 2013, this option was valued on the commitment date using a Black-Scholes option pricing model with the following assumptions; risk-free interest rate of 1.46%, expected dividend yield of 0%, expected option term of 5.75 years, and an expected volatility of 79% based on comparable volatility. The commitment date per unit fair value amounted to \$0.021 per share. On January 2, 2018, the former chief executive officer converted his unpaid compensation into 12,694,893 common shares of the Company (see Note 7).

On October 18, 2017, the Company entered into an employment agreement with Mr. Scott Silverman, pursuant to which he serves as the Chief Executive Officer of the Company for an initial term of three years that extends for successive one-year renewal terms unless either party gives 30-days' advance notice of non-renewal. As consideration for these services, the employment agreement provides Mr. Silverman with the following compensation and benefits:

- An annual base salary of \$300,000, with a 10% increase on each anniversary date contingent upon achieving certain performance objectives as set by the Board. Until the Company raises \$1,000,000 in debt or equity financing after entering into this agreement, Mr. Silverman will receive ½ of the base salary on a monthly basis with the other ½ being deferred. Upon the financing being raised, Mr. Silverman will receive the deferred portion of his compensation and his base salary will be paid in full moving forward.
- When the first \$500,000 of equity investments is raised by the Company, after entering into this employment agreement, Mr. Silverman will receive a capital raise success bonus of 5% of all equity capital raised from investors/lenders introduced by him to the Company.
- Annual cash performance bonus opportunity as determined by the Board.
- An option to acquire 3,000,000 common shares of the Company, with a strike price of \$0.31 per unit. These options will vest pro rata on a monthly basis for the term of the employment agreement. On each anniversary, Mr. Silverman will be eligible to be granted a minimum of 500,000 stock options of the Company at a strike price of \$0.85 per common unit contingent upon the achievement of certain performance objectives.
- Certain other employee benefits and perquisites, including reimbursement of necessary and reasonable travel and participation in retirement and welfare benefits.

The April 25, 2018 financing received of \$1,240,000 triggered the right of the employee to receive the deferred salary and the 5% bonus provision disclosed above.

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Mr. Silverman's employment agreement provides that, in the event that his employment is terminated by the Company without "cause" (as defined in his employment agreement), or if Mr. Silverman resigned for "good reasons" (as defined in his new employment agreement), subject to a complete release of claims, he will be entitled to (i) retain all stock options previously granted; and (ii) receive any benefits then owed or accrued along with one year of base salary and any unreimbursed expenses incurred by him. All amounts shall be paid on the termination date. In the event that Mr. Silverman's employment is terminated by the Company for "cause" (as defined in his employment agreement), or if Mr. Silverman resigned without "good reasons" (as defined in his employment agreement), subject to a complete release of claims, he will be entitled to receive any unpaid base salary and benefits then owed or accrued and any unreimbursed expenses incurred by him. Additionally, if a change of control (as defined in his employment agreement) occurs during the term of this agreement, all unvested stock options will vest in full and if the valuation of the Company in the change of control transaction is greater than \$0.85 per common share, then Mr. Silverman shall be paid a bonus equal to two times his minimum base salary and minimum target bonus. Pursuant to the employment agreement, Mr. Silverman will be subject to a confidentiality covenant, a two-year post-termination non-competition covenant and a two-year post-termination non-solicitation covenant.

On October 12, 2015, the Company entered into an employment agreement with Mr. Vincent Pugliese, which was amended on February 11, 2016 and December 20, 2016. Pursuant to this amended employment agreement, he serves as the Chief Operating Officer of the Company for an initial term until December 20, 2018. Upon consummation of the Merger, he also assumed the title of President and interim Chief Financial Officer of the Company. Either party may terminate the employment by giving 30-days' advance notice of termination. As consideration for these services, the employment agreement provides Mr. Pugliese with the following compensation and benefits:

- An annual base salary of \$180,000.
- Annual cash performance bonus opportunity as determined by the Board.
- Certain other employee benefits and perquisites, including reimbursement of necessary and reasonable travel.

In the event of a change of control (as defined in his employment agreement), and within one year thereafter termination of employment for good "cause" (as defined in his employment agreement), by the Company or for "good reason" (as defined in his employment agreement) by Mr. Pugliese, Mr. Pugliese will be entitled to receive, subject to a complete release of all claims, a lump sum payment equal to his current annual base salary within 30 days after termination date. Further, in the event Mr. Pugliese's employment is terminated by the Company for a reason other than for cause then the Company shall continue to pay his regular base salary for one year following the termination date. Pursuant to the employment agreement, Mr. Pugliese will be subject to a confidentiality covenant, a two-year post-termination non-competition covenant and a two-year post-termination non-solicitation covenant.

Licensing agreement

Pursuant to an agreement dated April 8, 2016, between the Company and Rice University, Rice University has granted a non-exclusive license to the Company, in nanotube-based surface treatment for strengthening glass and related materials under Rice's intellectual property rights, to use, make, distribute, offer and sell the licensed products specified in the agreement. In consideration for which, the Company had to pay a one-time non-refundable license fee of \$10,000 and royalty payments of 5% of net sales of the licensed products during the term of the agreement and a sell-off period of 180 days from termination. In addition, the Company is required to pay for the maintenance of the patents, This agreement will continue until the expiration of the last to expire of the licensed property rights, unless terminated earlier in accordance with the terms of the agreement. There have been no royalty payments paid or due through June 30, 2018.

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Anti-dilution rights related to C-Bond Systems, LLC

Prior to the Merger, C-Bond Systems, LLC entered into certain contracts, described below, which provided certain anti-dilution protection to the counterparties to those contracts. The Company believes that these contracts do not apply to any future issuances of equity by C-Bond Systems, Inc.

In 2013, pursuant to a subscription agreement, the Company's subsidiary, C-Bond Systems, LLC issued 2,425,300 common shares. To the extent that during the Term C-Bond Systems, LLC issues any "down-round" or subsequent investments based upon an enterprise value of less than \$2,000,000 ("Dilutive Transaction") (other than an issuance pursuant to an option agreement with an employee or otherwise to compensate an employee, or incident to an acquisition of assets by C-Bond Systems, LLC in which common units were issued to the seller of such assets) contemporaneously with the Dilutive Transaction, the contract obligated C-Bond Systems, LLC to issue the Investor additional common units in C-Bond Systems, LLC in an amount which would provide them with the ownership percentage interest which they would have held in C-Bond Systems, LLC represented by the common units purchased by them on this date.

In 2015, pursuant to a subscription agreement, C-Bond Systems, LLC issued 3,880,480 common shares to an entity at \$0.77 per common share. This agreement entitled the subscriber to anti-dilution protection to the extent that C-Bond Systems, LLC issued any equity in a "down-round" based upon a value of less than \$0.77 per common unit of C-Bond Systems, LLC (other than an issuance pursuant to an option agreement with an employee or consultant or otherwise to compensate an employee or consultant, or incident to an acquisition of assets by C-Bond Systems, LLC in which common units are issued to the seller of such assets ("Dilutive Transaction")). Contemporaneously with the Dilutive Transaction the contract obligated C-Bond Systems, LLC to issue the Subscriber additional common units in C-Bond Systems, LLC in an amount which would provide the investor with the ownership percentage interest in C-Bond Systems, LLC on a fully diluted basis which Subscriber held immediately prior to the Dilutive Transaction.

In 2016, pursuant to a subscription agreement, C-Bond Systems, LLC issued 1,175,902 common shares to an entity at \$0.85 per common share. This agreement entitled this investor to customary broad-based weighted average anti-dilution protection to the extent that after the date of this subscription agreement C-Bond Systems, LLC issued any equity in a "down round" based upon a value of less than \$0.85 per common share, including the issuance of options with an exercise price per share of less than \$0.85 to compensate employees or consultants ("Dilutive Transaction"), subject to exclusions for issuances of common shares or options in connection with strategic partnerships, equity kickers to lenders or vendors, mergers or acquisitions. The agreement obligated C-Bond Systems, LLC to give to this investor written notice (an "Issuance Notice") of any proposed issuance by C-Bond Systems, LLC of any C-Bond Systems, LLC common units, or other form of equity interest (excluding issuances of C-Bond Systems, LLC options or other equity to compensate employees or consultants and the issuance of shares in connection with strategic partnerships, equity kickers to lenders or vendors, mergers or acquisitions) at least ten business days prior to the proposed issuance date. This contract entitled the investor to purchase their pro rata portion of such shares or other equity interest of C-Bond Systems, LLC at the price and on the other terms and conditions specified in the issuance notice.

NOTE 9 – CONCENTRATIONS

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable and cash deposits.

The Company places its cash in banks at levels that, at times, may exceed federally insured limits. There were no balances in excess of FDIC insured levels as of June 30, 2018 and December 31, 2017. The Company has not experienced any losses in such accounts through June 30, 2018.

Geographic concentrations of sales

For the six months ended June 30, 2018 and 2017, all sales were in the United States. No other geographical area accounting for more than 10% of total sales during the six months ended June 30, 2018 and 2017.

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Customer concentrations

For the six months ended June 30, 2018, three customers accounted for approximately 37.8% of total sales (16.0%, 11.2%, and 10.6%, respectively). A reduction in sales from or loss of such customers would have a material adverse effect on the Company's consolidated results of operations and financial condition.

Vendor concentrations

Generally, the Company purchases substantially all of its inventory from two suppliers. The loss of these suppliers may have a material adverse effect on the Company's consolidated results of operations and financial condition. However, the Company believes that, if necessary, alternate vendors could supply similar products in adequate quantities to avoid material disruptions to operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Forward-Looking Statements" elsewhere in this Report on Form 10-Q. Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in our industry. These forward-looking statements are not guarantees of future performance. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, which include, but are not limited to: the risk that we continue to sustain prolonged losses and never achieve profitability, our ability to continue as a going concern, and risks related to protection and maintenance of our intellectual property. You should review the disclosure under the heading "Risk Factors" in this Current Report on Form 10-Q, in our prior annual report on Form 10-K, and the risk factors stated in our Current Report on Form 8-K filed May 1, 2018, for a discussion of important factors and risks that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

On April 25, 2018, our wholly-owned subsidiary, WETM Acquisition Corp., a corporation formed in the State of Colorado on April 18, 2018, (the "Acquisition Sub"), merged with and into C-Bond Systems, LLC, a privately held Texas limited liability company ("C-Bond Systems, LLC"). Pursuant to this transaction (the "Merger"), C-Bond Systems, LLC was the surviving corporation and became our wholly-owned subsidiary. All of the outstanding membership interests of C-Bond Systems, LLC were converted into shares of our common stock, as described in more detail below.

As a result of the Merger, we acquired the outstanding equity of C-Bond Systems, LLC and will continue the existing business operations of C-Bond Systems, LLC. In accordance with "reverse merger" or "recapitalization" accounting treatment, our historical financial statements as of period ends, and for periods ended, prior to the Merger will be replaced with the historical financial statements of C-Bond Systems, LLC prior to the Merger, in all future filings with the SEC. In accordance with the "reverse merger" or "recapitalization" accounting treatment, the unaudited condensed consolidated interim financial statements for the period ended June 30, 2018 include the accounts of the Company and its wholly owned subsidiary, C-Bond Systems, LLC. The comparative historical financial statements for periods ended prior to the date of the Merger are the historical financial statements of C-Bond Systems, LLC.

Effective June 7, 2018, a majority of our shareholders and our board approved the change of our name to C-Bond Systems, Inc. and approved an increase in our authorized number of common shares from 100,000,000 to 500,000,000 shares of common stock and 1,000,000 shares of preferred stock. These changes became effective on July 18, 2018.

Recent Developments

Reverse Merger

On April 25, 2018, pursuant to the Merger Agreement, Acquisition Sub merged with and into C-Bond Systems, LLC, with C-Bond Systems, LLC remaining as the surviving entity and a wholly-owned operating subsidiary of our Company. The Merger was effective as of April 26, 2018, upon the filing of a Certificate of Merger with the Secretary of State of the State of Texas.

At the time a certificate of merger reflecting the Merger was filed with the Secretary of State of Texas, or the Effective Time, all of the outstanding Common Units of C-Bond Systems, LLC that were issued and outstanding immediately prior to the closing of the Merger were converted into an aggregate of 63,505,783 shares of our common stock. As a result, each common unit of C-Bond Systems, LLC was converted into approximately 3.23 shares of our common stock.

In addition, pursuant to the Merger Agreement, each option to purchase Common Units issued and outstanding immediately prior to the closing of the Merger was assumed and converted into an option to purchase an equivalent number of shares of our common stock and the exercise price of each such option was divided by the Conversion Ratio of 3.23. As a result, a total of 14,494,213 options were issued.

C-Bond Systems, LLC is considered the accounting acquirer in the Merger and we will account for the transaction as a recapitalization transaction because C-Bond System, LLC's former members received substantially all of the voting rights in the combined entity and C-Bond Systems, LLC's senior management represents all of the senior management of the combined entity.

The following discussion highlights C-Bond System Inc.'s results of operations and the principal factors that have affected our consolidated financial condition as well as our liquidity and capital resources for the periods described, and provides information that management believes is relevant for an assessment and understanding of the consolidated statements of financial condition and consolidated results of operations presented herein. The following discussion and analysis are based on the Company's unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, which we have prepared in accordance with United States generally accepted accounting principles. You should read the discussion and analysis together with such condensed consolidated financial statements and the related notes thereto.

Private Placement

Concurrently with the closing of the Merger, we sold 3,100,000 shares of our common stock pursuant to a private placement for a purchase price of \$0.40 per share, or the Offering Price.

Operating Overview

We are a nanotechnology company and the sole owner, developer and manufacturer of the patented C-Bond technology. We are engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability of brittle material systems. We presently have a primary focus in the multi-billion dollar glass and window film industry with target markets in the United States and internationally. The C-Bond technology enables ordinary glass to dissipate energy by permeating the glass surface and detecting microscopic flaws and defects that are randomly distributed all over the glass surface. Our technology's unique qualities then work to locate and repair the identified surface imperfections that weaken the glass composite structure and ultimately act as failure initiators. The C-Bond formula is engineered to maintain original glass design integrity while increasing the mechanical performance properties of the glass unit.

Revenue is generated by the sale of products through distributors and directly to authorized dealers. C-Bond NanoShield sales are generated through large distribution channels. Sales of C-Bond I are made to authorized window film dealers who offer the product as an upsell during installation. The C-Bond II ballistic resistant system is sold on a project basis. The C-Bond II system is specified into project plans providing authorized dealers a competitive advantage.

Product sales are recognized when the product is shipped to the customer and title is transferred and are recorded net of any discounts or allowances.

We anticipate continued losses requiring either revenue generation to achieve sustained profitability or obtaining additional financial resources to maintain operations as well as research and development into product performance and new product verticals.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based upon our audited financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management continually evaluates such estimates, including those related to estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the fair value of a beneficial conversion feature, and the fair value of non-cash equity transactions. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the unaudited condensed consolidated financial statements.

Accounts receivable

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as general and administrative expense.

Inventory

Inventory, consisting of raw materials and finished goods, are stated at the lower of cost and net realizable value utilizing the first-in, first-out (FIFO) method. A reserve is established when management determines that certain inventories may not be saleable. If inventory costs exceed expected net realizable value due to obsolescence or quantities in excess of expected demand, the Company will record reserves for the difference between the cost and the net realizable value. These reserves are recorded based on estimates and included in cost of sales.

Revenue recognition

In May 2014, FASB issued an update Accounting Standards Update ("ASU") ("ASU 2014-09") establishing Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard in 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Based on an evaluation of the impact ASU 2014-09 will have on the Company's sources of revenue, the Company has concluded that ASU 2014-09 did not have a material impact on the process for, timing of, and presentation and disclosure of revenue recognition from customers.

The Company sells its products primarily to distributors and authorized dealers. Product sales are recognized when the product is shipped to the customer and title is transferred and are recorded net of any discounts or allowances.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "Compensation – Stock Compensation", which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company utilizes the Black-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history. Additionally, effective January 1, 2017, the Company adopted the Accounting Standards Update No. 2016-09 ("ASU 2016-09"), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. The Company has elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company's consolidated financial statements and related disclosures.

Pursuant to ASC 505-50 – "Equity-Based Payments to Non-Employees", all share-based payments to non-employees, including grants of stock options, are recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black-Scholes valuation model, we periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and the Company adjusted the expense recognized in the consolidated financial statements accordingly.

Upon exercise of the stock options by the holder using the exercise methods delineated in the option contract, we issue new common shares from our unissued authorized stock.

Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative unaudited condensed consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited condensed consolidated financial statements and the notes to those statements for the six months ended June 30, 2018 and 2017, which are included elsewhere in this Form 10-Q. The results discussed below are for the three and six months ended June 30, 2018 and 2017.

Comparison of Results of Operations for Three and Six Months ended June 30, 2018 and 2017

Sales

For the three months ended June 30, 2018, sales amounted to \$64,888 as compared to \$120,444 for the three months ended June 30, 2017, a decrease of \$55,556, or 46.1%. For the six months ended June 30, 2018, sales amounted to \$141,285 as compared to \$194,444 for the six months ended June 30, 2017, a decrease of \$53,159, or 27.3% which was attributable to lack of working capital and marketing funds. Historically, we have generated revenue from product sales. Beginning in January 2017, C-Bond implemented a multiple product structure consisting of the glass strengthening technology platform with enhancements to address specific product verticals. This methodology produced the launch of C-Bond NanoShield in the fourth quarter of 2017 with the continued revenues from C-Bond I for window film and C-Bond II Ballistic Resistant products. We use multiple sales channels, including distributors and authorized dealers to generate revenues.

Cost of Goods Sold

Cost of goods sold is comprised primarily of inventory sold, packaging costs, and warranty costs. For the three months ended June 30, 2018, cost of sales amounted to \$16,518 as compared to \$32,897 for the three months ended June 30, 2017, a decrease of \$16,379, or 49.8%. For the six months ended June 30, 2018, cost of sales amounted to \$28,012 as compared to \$41,622 for the six months ended June 30, 2017, a decrease of \$13,610, or 32.7%. The decreases in cost of sales was primarily due to a decrease in sales mentioned above.

Gross Profit

For the three months ended June 30, 2018, gross profit amounted to \$48,370, or 74.5% of sales, as compared to \$87,547, or 72.7% of sales, for the three months ended June 30, 2017, a decrease of \$39,177, or 44.7%. For the six months ended June 30, 2018, gross profit amounted to \$113,273, or 80.2% of sales, as compared to \$152,822, or 78.6% of sales, for the six months ended June 30, 2017, a decrease of \$39,549, or 25.9%. These decreases in gross profits are primarily the result of a decrease in sales as discussed above.

Operating Expenses

For the three months ended June 30, 2018, operating expenses amounted to \$2,259,248 as compared to \$971,635 for the three months ended June 30, 2017, an increase of \$1,287,613, or 132.5%. For the six months ended June 30, 2018, operating expenses amounted to \$4,573,237 as compared to \$2,096,820 for the six months ended June 30, 2017, an increase of \$2,476,417, or 118.1%. For the three and six months ended June 30, 2018 and 2017, operating expenses consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Compensation and related benefits, including stock based compensation charges	\$ 1,764,283	\$ 832,105	\$ 3,742,240	\$ 1,732,604
Research and development	51,345	22,112	68,605	105,389
Professional fees	343,559	24,471	563,232	33,702
General and administrative expenses	100,061	92,947	199,160	225,125
Total	\$ 2,259,248	\$ 971,635	\$ 4,573,237	\$ 2,096,820

Compensation and related benefits

For the three months ended June 30, 2018, compensation and related benefits increased by \$932,178, or 112.0%, as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, compensation and related benefits increased by \$2,009,636, or 116.0%, as compared to the six months ended June 30, 2017. These increases were due to an increase in stock-based compensation expense. During the three months ended June 30, 2018 and 2017, stock-based compensation related to the accretion of stock-option expense and other stock-based compensation amounted to \$1,515,522 and \$584,596, respectively, an increase of \$930,926. During the six months ended June 30, 2018 and 2017, stock-based compensation related to the accretion of stock-option expense and other stock-based compensation amounted to \$3,264,666 and \$1,237,016, respectively, an increase of \$2,027,650.

Research and development expenses consist primarily of contracted development services, third party testing laboratories and allocated overhead expenses. For the three months ended June 30, 2018, research and development expense increased by \$29,233, or 132.2%, as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, research and development expense decreased by \$36,784, or 34.9%, as compared to the six months ended June 30, 2017. The increase in research and development expense is primarily related to continued evolution of the fundamental solution chemistry. We believe continued investment is important to attaining our strategic objectives and expect research and development expenses to increase in the foreseeable future.

Professional Fees

For the three months ended June 30, 2018, professional fees increased by \$319,088, or 1,303.9%, as compared to the three months ended June 30, 2017. This increase primarily related to an increase in legal fees of \$189,807 incurred related to the Merger, an increase in accounting fees of \$29,103 related audit fees and other accounting fees incurred, and the recording of stock-based consulting fees of \$52,084. For the six months ended June 30, 2018, professional fees increased by \$529,530, or 1,571.2%, as compared to the six months ended June 30, 2017. This increase primarily related to an increase in legal fees of \$331,488 incurred related to the Merger, an increase in accounting fees of \$78,256 related audit fees and other accounting fees incurred, and an increase in consulting fees including the recording of stock-based professional fees of \$70,417.

General and Administrative

General and administrative expenses consist primarily of rent, insurance, depreciation expense, sale and marketing, delivery and freight, travel and entertainment, and other office expenses. For the three months ended June 30, 2018, general and administrative expenses increased by \$7,114, or 7.7%, as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, general and administrative expenses decreased by \$25,965, or 11.5%, as compared to the six months ended June 30, 2017. We expect our general and administrative expenses to increase due to the anticipated growth of our business.

Other Expense

For the three months ended June 30, 2018, other expenses increased by \$394,299 as compared to the three months ended June 30, 2017. This increase was due to an increase in interest expense of \$10,824 related to the amortization of debt discount and an increase in interest-bearing debt, and an increase in loss from extinguishment of debt of \$383,475. For the six months ended June 30, 2018, other expenses increased by \$432,061 as compared to the six months ended June 30, 2017. This increase was due to an increase in interest expense of \$48,586 related to the amortization of debt discount and an increase in interest-bearing debt, and an increase in loss from extinguishment of debt of \$383,475. During the three and six months ended, we recorded loss on debt extinguishment related to the issuance 315,957 shares to a vendor to settle amounts owed to such vendor whereby we recorded settlement expense of \$153,779, and due to a note termination agreement whereby we recorded debt extinguishment expense of \$229,696.

Net Loss

For the three months ended June 30, 2018, net loss amounted to \$2,605,594, or \$0.04 per common share (basic and diluted), as compared to \$884,505, or \$0.02 per common share (basic and diluted), for the three months ended June 30, 2017, an increase of \$1,721,089. For the six months ended June 30, 2018, net loss amounted to \$4,892,442, or \$0.08 per common share (basic and diluted), as compared to \$1,944,415, or \$0.04 per common share (basic and diluted), for the six months ended June 30, 2017, an increase of \$2,948,027. The increase in net loss was primarily attributable to an increase in stock-based compensation expense, a reduction of gross profit and an increase in professional fees as discussed above.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of \$498,523 and \$46,448 of cash as of June 30, 2018 and December 31, 2017, respectively.

Our primary uses of cash have been for salaries, fees paid to third parties for professional services, research and development expense, and general and administrative expenses. We have received funds from the sales of products and from various financing activities such as from the sale of our common shares and from debt financings. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Research and development fees;
- Addition of administrative and sales personnel as the business grows, and
- The cost of being a public company.

From inception in 2013 through December 31, 2017, we raised a total of \$5.9 million from proceeds from the sale of common shares to fund its operations and research and development initiatives. Fund sources came from individual investment vehicles. No institutional investment has been made in the Company to date.

During 2017, we issued 514,455 common shares for cash proceeds of \$437,500, or \$0.85 per common share.

On June 1, 2017, we received \$100,000 from a third party pursuant to the terms of a convertible promissory note (the "Convertible Note"). The Convertible Note accrued interest at 7% per annum and all principal and interest was payable on the maturity date of June 1, 2019. On April 1, 2018, the note and related accrued interest was converted into 136,894 common shares.

On January 22, 2018 (the "Issuance Date"), we entered into a securities purchase agreement (the "SPA") with Esousa Holdings, LLC ("Esousa"), whereby Esousa agreed to invest up to \$750,000 (the "Purchase Price") in C-Bond Systems, LLC in exchange for senior secured convertible notes and five-year warrants, upon the terms and subject to the conditions thereof. Pursuant to the SPA, we issued (i) a senior secured convertible note to Esousa on January 22, 2018, in the original principal amount of \$260,000, which bears interest at 10% per annum (the "First Note") and (ii) 293,123 five-year warrants to purchase shares of C-Bond common stock at a purchase price of \$0.87 per share. On January 22, 2018, C-Bond received cash proceeds of \$260,000 under this convertible note. Each convertible note issued pursuant to the SPA was due and payable two years from the issuance date of the respective convertible note, and any accrued and unpaid interest relating to each convertible note, was due and payable semi-annually.

Esousa was entitled to, at any time or from time to time, convert each convertible note issued under the SPA into our common shares, at a conversion price per share (the "Conversion Price") equal to \$0.87 (subject to adjustment as provided in the First Note). The First Note contained various covenants, such as rights of first refusal, restrictions on the incurrence of indebtedness, creation of liens, payment of restricted payments, redemptions, payment of cash dividends and the transfer of assets. C-Bond also entered into a registrations rights agreement with Esousa which has been terminated. On April 26, 2018, C-Bond paid off the Esousa First Note, described below, for \$270,000 and the parties terminated all of the related agreements, including the notes, the warrants and the registrations rights agreement.

During the six months ended June 30, 2018, we issued 323,373 common shares upon the exercise of 100,000 stock options at \$0.031 per share. In connection with this option exercise, C-Bond received proceeds of \$10,000. In April 2018, we issued 970,120 common shares upon the exercise of 300,000 stock options at \$0.031 per share. In connection with these option exercises, we received proceeds of \$30,000.

In April 2018, we issued 32,337 common shares to an investor for cash proceeds of \$27,500, or \$0.85 per common share.

Contemporaneously with the closing of the Merger, pursuant to subscription agreements, we issued an aggregate of 3,100,000 shares of Common Stock at a price of \$0.40 per share for aggregate gross consideration of approximately \$1,240,000 to six accredited investors. We agreed to file a shelf registration statement registering all of the shares of Common Stock subscribed for hereby (but no other shares owned by Subscriber) as soon as reasonably practicable after completion of the Merger and to use commercially reasonable efforts to cause that registration statement to be declared effective as soon as reasonably practical.

Additional cash liquidity is generated from product sales. We have not incurred any debt financing resulting in an extended liability.

To date, we are not profitable, and we cannot provide any assurances that we will be profitable. We believe our cash and cash equivalents will not provide sufficient capital to satisfy anticipated operational and research expense through a period of 12 months from the date of this report.

Cash Flows

For the Six Months Ended June 30, 2018 and 2017

The following table shows a summary of our cash flows for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
Net cash used in operating activities	\$ (1,042,826)	\$ (647,893)
Net cash provided by (used in) investing activities	\$ 187,401	\$ (3,101)
Net cash provided by financing activities	\$ 1,307,500	\$ 100,000
Net decrease in cash	\$ 452,075	\$ (550,994)
Cash - beginning of the period	\$ 46,448	\$ 596,910
Cash - end of the period	\$ 498,523	\$ 45,916

Net cash flow used in operating activities was \$1,042,826 for the six months ended June 30, 2018 as compared net cash flow used in operating activities to \$647,893 for the six months ended June 30, 2017, an increase of \$394,933. Net cash flow used operating activities for the six months ended June 30, 2018 primarily reflected a net loss of \$4,892,442, which was then adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$17,557, stock-based compensation expense of \$3,194,249, stock-based professional fees of \$70,417, loss on debt extinguishment expense of \$380,171, and the amortization of debt discount to interest expense of \$40,691, and changes in operating assets and liabilities primarily consisting of an increase in accounts payable of \$119,997. Net cash flow used operating activities for the six months ended June 30, 2017 primarily reflected a net loss of \$1,944,415, which was then adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$18,915 and stock-based compensation expense of \$1,237,016, and changed in operating assets and liabilities consisting of an increase in accounts receivable of \$48,413, an increase in accounts payable of \$55,379, and an increase in accrued compensation of \$30,534.

For the six months ended June 30, 2018, net cash flow provided by investing activities amounted to \$187,401 as compared to net cash used in investing activities of \$3,101. During the six months ended June 30, 2018, we received cash of \$187,401 in connection with the merger transaction discussed elsewhere. During the six months ended June 30, 2017, we used cash of \$3,101 for the purchase of property and equipment.

Net cash provided by financing activities was \$1,307,500 for the six months ended June 30, 2018 as compared to \$100,000 for the six months ended June 30, 2017. During the six months ended June 30, 2018, we received net proceeds from the sale of common stock of \$1,267,500 and proceeds from the exercise of stock options of \$40,000. During the six months ended June 30, 2017, we received net proceeds from convertible debt of \$100,000.

Funding Requirements

We expect the primary use of capital to continue to be salaries, third party outside research and testing services, product and research supplies, legal and regulatory expenses and general overhead costs. Additional uses of capital will include additional headcount, tools and equipment, capacity expansion and operational control software. We believe our current cash and cash equivalents will not be sufficient to meet anticipated cash requirements not including potential product sales. Additional capital may be required to further research new product verticals and enhancements to current product offerings based on customer requirements.

As of June 30, 2018, we determined that there was substantial doubt about our ability to maintain operations as a going concern. Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Management cannot provide assurance that we will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. We will seek to raise capital through additional debt and/or equity financings to fund operations in the future. Although we have historically raised capital from sales of member units, from the sale of common shares, and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If we are unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. Our consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors. We have based this estimate on assumptions that may prove to be wrong and could utilize our available capital resources sooner than we currently expect. Our capital requirements are difficult to forecast.

Until such time as we generate substantial product revenue to offset operational expenses, we expect to finance our cash needs through a combination of public and private equity offerings, debt financing, collaborative research and licensing agreements. We may be unable to raise capital or enter into such other arrangements when needed or on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition.

Contractual Obligations and Commitments

We have no long term debt obligations as of the date of this Report. We do maintain financing on two test equipment assets totaling a monthly expense of \$3,220 that expire at the end of 2018. The current facility lease of \$5,765 a month expires at the end of November 2018. We expect to enter into a new lease at that time.

We enter into agreements in the normal course of business with contracted research and testing organization, product distribution and material vendors which are payable or cancelable at any time with 30 day prior written approval.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements during the period presented as defined in the rules and regulations of the SEC.

Quantitative and Qualitative Disclosures About Market Risk

The primary objectives of our investment activities are to ensure liquidity and to preserve principal while at the same time maximizing the income we receive from our marketable securities without significantly increasing risk. Some of the securities that we invest in may have market risk related to changes in interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. We do not have any debt outstanding at the current time with floating interest rates. Due to the short-term maturities of our cash equivalents and the low risk profile of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our cash equivalents. To minimize the risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, government and non-government debt securities and corporate obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

We maintain "disclosure controls and procedures," as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of June 30, 2018, our disclosure controls and procedures were not effective.

The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses in our internal control over financial reporting: (1) the lack of multiples levels of management review on complex accounting and financial reporting issues, (2) a lack of adequate segregation of duties and necessary corporate accounting resources in our financial reporting process and accounting function as a result of our limited financial resources to support hiring of personnel and implementation of accounting systems, and (3) lack of inventory controls. To remediate this situation we have engaged outsourced accountants. It is likely that we will continue to report material weaknesses in our internal control over financial reporting.

A material weakness is a deficiency or a combination of control deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

In April 2018, the Company issued 32,337 common shares to an investor for cash proceeds of \$27,500, or \$0.85 per common share.

Contemporaneously with the closing of the Merger, pursuant to subscription agreements, the Company issued an aggregate of 3,100,000 shares of common stock at a price of \$0.40 per share for aggregate gross consideration of approximately \$1,240,000 to six accredited investors. The Company agreed to file a shelf registration statement registering all of the shares of Common Stock subscribed for hereby (but no other shares owned by Subscriber) as soon as reasonably practicable after completion of the Merger and to use commercially reasonable efforts to cause that registration statement to be declared effective as soon as reasonably practical.

In April 2018, the Company issued 315,957 shares to a vendor to settle amounts owed to such vendor which were valued at \$268,694, or \$0.85 per common share, based on contemporaneous common share sales. In connection with the settlement agreement, the Company recorded settlement expense of \$153,779 and reduced accounts payable and accrued expenses by \$39,915 and \$75,000, respectively.

During the six months ended June 30, 2018, the Company issued 1,293,492 common shares upon the exercise of 400,000 stock options at \$0.031 per share. In connection with this option exercise, the Company received proceeds of \$40,000.

In April 2018, the Company issued 3,233,732 restricted common shares to employees for services rendered which were valued at \$2,750,000, or \$0.85 per common share, based on contemporaneous common share sales. These share vest on May 1, 2019.

On March 7, 2018, the Company entered into a 90-day consulting agreement for business development and lobbying services related to the Company's ballistic resistant technologies. In connection with this consulting agreement, the Company issued 80,843 common shares to the consultant which were valued at \$68,750, or \$0.85 per common share, based on contemporaneous common share sales, which was amortized over the term of the agreement. Additionally, on June 12, 2018, the Company entered into a six months consulting agreement with this consultant. In connection with this consulting agreement, the Company issued 50,000 common shares to the consultant which were valued at \$20,000, or \$0.40 per common share, based on contemporaneous common share sales, which will be amortized over the term of the agreement. In connection with these consulting agreements, during the six months ended June 30, 2018, the Company recorded stock-based professional fees of \$70,417, and prepaid expenses of \$18,333 which will be amortized over the remaining term.

The above securities were issued in reliance upon the exemptions provided by Section 4(a) (2) under the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Agreement and Plan of Merger and Reorganization dated as of April 25, 2018, among WestMountain Alternative Energy, Inc., WETM Acquisition Corp. and C-Bond Systems, LLC incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2018, File No. 000-53029).
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's SB-2 Registration Statement filed with SEC on January 2, 2008, File No. 333-148440).
3.2	First Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed with SEC on August 11, 2014, File No. 000-53029).
3.3	Second Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 20, 2018, File No. 000-53029).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 8, 2018, File. No. 000-53029).
10.1#*	C-Bond Systems, Inc. 2018 Long-Term Incentive Plan
10.2#*	Form of C-Bond Systems, Inc. Restricted Stock Award Agreement under 2018 Long-Term Incentive Plan
10.3#*	Form of C-Bond Systems, Inc. Nonqualified Stock Option Award Agreement under 2018 Long-Term Incentive Plan
10.4	Form of Subscription Agreement related to the Offering (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2018, File No. 000-53029).
10.5*	Registration Rights Agreement between C-Bond Systems, LLC and Fournace, LLC dated April 27, 2018.
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL INSTANCE DOCUMENT
101.SCH*	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL*	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF*	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB*	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE*	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

* Filed herewith.

Indicates a management contract or any compensatory plan, contract or arrangement.

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.

C-BOND SYSTEMS, INC.

Dated: August 14, 2018

By: /s/ Scott R. Silverman

Scott R. Silverman
Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2018

By: /s/ Vincent J. Pugliese

Vincent J. Pugliese
Chief Financial Officer
(Principal Financial Officer)

**C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN**

(As Adopted June 7, 2018)

C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN
(As Adopted June 7, 2018)

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- (a) a report on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) shall be filed with the Securities and Exchange Commission pursuant to the Exchange Act and that report discloses that any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), is the Beneficial Owner, directly or indirectly, of more than 50 percent of the outstanding Voting Stock;
- (b) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), shall purchase securities pursuant to a tender offer or exchange offer to acquire any Voting Stock (or any securities convertible into Voting Stock) and, immediately after consummation of that purchase, that person is the Beneficial Owner, directly or indirectly, of more than 50 percent of the outstanding Voting Stock (such person's beneficial ownership to be determined, in the case of rights to acquire Voting Stock, pursuant to paragraph (d) of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act);
- (c) the consummation of:
 - (i) a merger, consolidation or reorganization of the Company with or into any other person if as a result of such merger, consolidation or reorganization, fifty percent (50%) or less of the combined voting power of the then-outstanding securities of such other person immediately after such merger, consolidation or reorganization are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such merger, consolidation or reorganization;
 - (ii) any sale, lease, exchange or other transfer of all or substantially all the assets of the Company and its consolidated subsidiaries to any other person if as a result of such sale, lease, exchange or other transfer, fifty percent (50%) or less of the combined voting power of the then-outstanding securities of such other person immediately after such sale, lease, exchange or other transfer are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such sale, lease, exchange or other transfer; or

- (iii) a transaction immediately after the consummation of which any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act) would be the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the outstanding Voting Stock;
- (iv) the stockholders of the Company approve the dissolution of the Company; or
- (v) during any period of 12 consecutive months, the individuals who at the beginning of that period constituted the members of the Board shall cease to constitute a majority of the Board, unless the election, or the nomination for election by the Company's stockholders, of each member of the Board first elected during such period was approved by a vote of at least a two-thirds majority of the Board then still in office who were members of the Board at the beginning of any such period.

- (a) if the Stock is traded on a stock exchange,
 - (i) and if the Stock is traded on that date, the closing sale price of the Stock on that date; or
 - (ii) and if the Stock is not traded on that date, the closing sale price of the Stock on the last trading date immediately preceding that date;

- (b) if the Stock is traded in the over-the-counter market,
 - (i) and if the Stock is traded on that date, the average between the high bid and low asked price on that date; or
 - (ii) and if the Stock is not traded on that date, the average between the high bid and low asked price on the last trading date immediately preceding that date;

- (a) The aggregate number of shares of Stock with respect to which Awards may be granted under the Plan is 50,000,000 (the "**Authorized Shares**").
- (b) The aggregate number of shares of Stock with respect to which ISOs may be granted under the Plan is equal to the Authorized Shares.
- (c) The maximum aggregate grant date fair value of awards (computed in accordance with FASB Accounting Standards Codification Topic 718, or a successor thereto) that are granted under this Plan during any one calendar year to any one person who, on the grant date of the Award, is a Non-Employee Director is \$500,000. The limits of this paragraph (c) do not apply to, and shall be determined without taking into account, any Award granted to an individual who, on the grant date of the award, is an officer or employee of the Company or one of its Affiliates. The limits of this paragraph (c) apply on an individual basis and not on an aggregate basis to all Non-Employee Directors as a group. The Board may make exceptions to this limit for individual Non-Employee Directors in extraordinary circumstances, as the Board may determine in its discretion, *provided that* the Non-Employee Director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving Non-Employee Directors.
- (d) Each of the foregoing numerical limits stated in this Section 4.1 shall be subject to adjustment in accordance with the provisions of Section 4.5.

- (a) If shares of Stock are withheld from payment of an Award to satisfy tax obligations with respect to the Award, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.
- (b) If shares of Stock are tendered in payment of an Option Price of an Option, such shares of Stock will not count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.
- (c) To the extent that any outstanding Award terminates or expires, is forfeited or cancelled, for any reason or is settled in cash in lieu of shares of Stock or in a manner such that all or some of the shares of Stock covered by the Award are not issued or are exchanged for Awards that do not involve shares of Stock, the shares of Stock allocable to such portion of the Award will immediately become available to be issues pursuant to an Award granted under the Plan.
- (d) When a SAR is settled in shares of Stock, the number of shares of Stock subject to the SAR under the SAR Award Agreement will be counted against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan as one share for every share subject to the SAR, regardless of the number of shares used to settle the SAR upon exercise.
- (e) The maximum number of shares of Stock available for issuance under the Plan shall not be reduced to reflect any dividends or Dividend Equivalents that are reinvested into additional shares of Stock or credited as additional Restricted Stock, Restricted Stock Units or other Stock-Based Awards.

- (a) The existence of outstanding Awards shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference shares ahead of or affecting the Stock or Stock rights, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.
- (b) If the Company shall effect a subdivision or consolidation of Stock or other capital readjustment, the payment of a Stock dividend, or other increase or reduction of the number of shares of Stock outstanding, without receiving compensation therefor in money, services or property, then (i) the number, class or series and per share price of Stock subject to outstanding Awards under the Plan shall be appropriately adjusted in such a manner as to entitle a Holder to receive upon exercise of an Award, for the same aggregate cash consideration, the equivalent total number and class or series of Stock the Holder would have received had the Holder exercised his or her Award in full immediately prior to the event requiring the adjustment, and (ii) the number and class or series of Stock then reserved to be issued under the Plan shall be adjusted by substituting for the total number and class or series of Stock then reserved, that number and class or series of Stock that would have been received by the owner of an equal number of outstanding shares of Stock of each class or series of Stock as the result of the event requiring the adjustment.
- (c) If while unexercised Awards remain outstanding under the Plan (i) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than an entity that was wholly-owned by the Company immediately prior to such merger, consolidation or other reorganization), (ii) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or substantially all of its assets to any other person or entity (other than an entity wholly-owned by the Company), (iii) the Company is to be dissolved or (iv) the Company is a party to any other corporate transaction (as defined under section 424(a) of the Code and applicable Department of Treasury regulations) that is not described in clauses (i), (ii) or (iii) of this sentence (each such event is referred to herein as a "**Corporate Change**"), then, except as otherwise provided in an Award Agreement or another agreement between the Holder and the Company (*provided* that such exceptions shall not apply in the case of a reincorporation merger), or as a result of the Committee's effectuation of one or more of the alternatives described below, there shall be no acceleration of the time at which any Award then outstanding may be exercised, and no later than ten days after the approval by the stockholders of the Company of such Corporate Change (or approval by the Board if approval by the stockholders of the Company of such Corporate Change is not required), the Committee, acting in its sole and absolute discretion without the consent or approval of any Holder, shall act to effect one or more of the following alternatives, which may vary among individual Holders and which may vary among Awards held by any individual Holder (*provided* that, with respect to a reincorporation merger in which Holders of the Company's ordinary shares will receive one ordinary share of the successor corporation for each ordinary share of the Company, none of such alternatives shall apply and, without Committee action, each Award shall automatically convert into a similar award of the successor corporation exercisable for the same number of ordinary shares of the successor as the Award was exercisable for ordinary shares of Stock of the Company):

- (1) accelerate the time at which some or all of the Awards then outstanding may be exercised so that such Awards may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all such Awards that remain unexercised and all rights of Holders thereunder shall terminate;
 - (2) require the mandatory surrender to the Company by all or selected Holders of some or all of the then outstanding Options and SARs held by such Holders (irrespective of whether such Options and SARs are then exercisable under the provisions of the Plan or the applicable Award Agreement evidencing such Options or SARs) as of a date, before or after such Corporate Change, specified by the Committee, in which event the Committee shall thereupon cancel such Options and SARs and the Company shall pay to each such Holder an amount of cash per share equal to the excess, if any, of the per share price offered to stockholders of the Company in connection with such Corporate Change over the exercise prices or grant prices under such Options and SARs for such shares;
 - (3) with respect to all or selected Holders, have some or all of their then outstanding Awards (whether vested or unvested) assumed or have a new award of a similar nature substituted for some or all of their then outstanding Awards under the Plan (whether vested or unvested) by an entity which is a party to the transaction resulting in such Corporate Change and which is then employing such Holder or which is affiliated or associated with such Holder in the same or a substantially similar manner as the Company prior to the Corporate Change, or a parent or subsidiary of such entity, *provided* that (A) such assumption or substitution is on a basis where the excess of the aggregate fair market value of the stock subject to the Award immediately after the assumption or substitution over the aggregate exercise price of such Award is equal to the excess of the aggregate fair market value of all Stock subject to the Award immediately before such assumption or substitution over the aggregate exercise price of such Award, and (B) the assumed rights under such existing Award or the substituted rights under such new Award, as the case may be, will have the same terms and conditions as the rights under the existing Award assumed or substituted for, as the case may be;
 - (4) provide that the number and class or series of Stock covered by an Award (whether vested or unvested) theretofore granted shall be adjusted so that such Award when exercised shall thereafter cover the number and class or series of Stock or other securities or property (including cash) to which the Holder would have been entitled pursuant to the terms of the agreement or plan relating to such Corporate Change if, immediately prior to such Corporate Change, the Holder had been the holder of record of the number of shares of Stock then covered by such Award; or
 - (5) make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Corporate Change (*provided*, however, that the Committee may determine in its sole and absolute discretion that no such adjustment is necessary to reflect such Corporate Change).
- (d) In the event of changes in the outstanding Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this Section 4.5, any outstanding Award and any Award Agreement evidencing such Award shall be subject to adjustment by the Committee in its sole and absolute discretion as to the number and price of Stock or other consideration subject to such Award. In the event of any such change in the outstanding Stock, the aggregate number of shares of Stock available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.
 - (e) After a merger of one or more corporations into the Company in which the Company shall be the surviving corporation, each Holder shall be entitled to have his or her Restricted Stock appropriately adjusted based on the manner in which the shares of Stock were adjusted under the terms of the agreement of merger or consolidation.
 - (f) The issuance by the Company of stock of any class or series, or securities convertible into, or exchangeable for, stock of any class or series, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe for them, or upon conversion or exchange of stock or obligations of the Company convertible into, or exchangeable for, stock or other securities, shall not affect, and no adjustment by reason of such issuance shall be made with respect to, the number, class or series, or price of shares of Stock then subject to outstanding Awards.

- (a) Notwithstanding any other provision of the Plan or an Award Agreement to the contrary, if a determination is made as provided in Section 4.7(b) (a "**Forfeiture Determination**") that (i) the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award), before or after the termination of such individual's employment or service with the Company and all Affiliates, (A) committed fraud, embezzlement, theft, felony or an act of dishonesty (as defined below) in the course of his employment by or service to the Company or an Affiliate, (B) knowingly caused or assisted in causing the publicly released financial statements of the Company to be misstated or the Company or a subsidiary of the Company to engage in criminal misconduct, (C) disclosed trade secrets of the Company or an Affiliate or (D) violated the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) is a party, and (ii) in the case of the actions described in clause (A), (C) and (D), such action materially and adversely affected the Company, then at or after the time such Forfeiture Determination is made the Board, in good faith, if such Forfeiture Determination is made prior to a Change of Control, or, as determined by a final, non-appealable order of a court of competent jurisdiction, if such Forfeiture Determination is made after a Change of Control, as a fair and equitable forfeiture to reflect the harm done to the Company and a reduction of the benefit bestowed on the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) had the facts existing at the time the benefit was bestowed that led to the Forfeiture Determination been known to the Company at the time the benefit was bestowed, may determine that some or all (x) of the Holder's rights to shares of the Stock covered by an Award (including vested rights that have been exercised or paid, vested rights that have not been exercised or paid and rights that have not yet vested or been paid) or cash payments paid or payable under an Award (including payments for vested rights, amounts payable for vested rights that have not been paid and rights that have not yet vested), (y) some or all of the dividends that have been paid with respect to shares of the Stock covered by the Award, and (z) some or all shares of the Stock received as a result of the Holder's grant, receipt, exercise or holding of the Award and some or all net proceeds realized with respect to any shares of the Stock received as a result of the Holder's exercise or holding of the Award in excess of the price paid for such shares, will be forfeited to the Company on such terms as determined by the Board or the final, non-appealable order of a court of competent jurisdiction. For purposes of this Section 4.7, an "**act of dishonesty**" shall require a material breach by the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) of his or her duties, obligations or undertakings owed to or on behalf of the Company and its Affiliates, as determined by the Board if such determination is made prior to a Change of Control, or, as determined by a final, non-appealable order of a court of competent jurisdiction, if such determination is made after a Change of Control. In determining whether a matter materially and adversely affects the Company, the Board shall be entitled to consider all relevant factors and exercise business judgment in making such determination, including but not limited to the financial consequences, adverse reputational consequences or legal consequences to the Company and/or its subsidiaries, individually or taken as a whole, as a result of such action.

- (b) A Forfeiture Determination for purposes of Section 4.7(a) shall be made (i) before the occurrence of a Change of Control, by a majority vote of the Board and (ii) on or after the occurrence of a Change of Control, by the final, non-appealable order of a court of competent jurisdiction. The findings and decision of the Board with respect to a Forfeiture Determination made before the occurrence of a Change of Control, including those regarding the acts of the original grantee of the Award and the damage done to the Company, will be final for all purposes absent a showing by clear and convincing evidence of manifest error by, or a lack of good faith on the part of, the Board. No decision of the Board, however, will affect the finality of the discharge of the original grantee of the Award by the Company or an Affiliate.

4.8 **Forfeiture Events.** Without limiting the applicability of Section 4.7 or Section 4.9, the Committee may specify in an Award Agreement that the Holder's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, Separation from Service for cause, Separation from Service for any other reason, violation of material policies of the Company and its Affiliates, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Holder, or other conduct by the Holder that is detrimental to the business or reputation of the Company and its Affiliates.

4.9 **Recoupment in Restatement and Other Situations.** Without limiting the applicability of Section 4.7 or Section 4.8 if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, the current or former Holder who was a current or former executive officer of the Company or an Affiliate shall forfeit and must repay to the Company any compensation awarded under the Plan to the extent specified in any of the Company's recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission under or in connection with Section 10D of the Exchange Act. In addition, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

4.10 **Award Agreements.** Each Award shall be embodied in a written or electronic Award Agreement that shall be subject to the terms and conditions of the Plan. The Award Agreement shall be signed by or delivered on behalf of an authorized executive officer of the Company, other than the Holder, on behalf of the Company, and may be signed or acknowledged by the Holder to the extent required by the Committee. The Award Agreement may specify the effect of a Change of Control of the Company on the Award. The Award Agreement may contain any other provisions that the Committee in its discretion shall deem advisable which are not inconsistent with the terms and provisions of the Plan. An Award Agreement may be altered, amended, modified, or suspended as provided in Section 13.2. An Award Agreement may be terminated as provided in Section 13.2 and elsewhere in the Plan including Sections 4.7, 4.8 and 4.9. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

4.11 **Rights as Stockholder.** A Holder shall not have any rights as a stockholder with respect to Stock covered by an Option, a SAR, an RSU, or an Other Stock-Based Award payable in Stock until the date, if any, such Stock is issued by the Company; and, except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such Stock.

4.12 **Issuance of Shares of Stock.** Shares of Stock, when issued, may be represented by a certificate or by book or electronic entry.

4.13 **Restrictions on Stock Received.** The Committee may impose such conditions and restrictions on any shares of Stock issued pursuant to an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock for a specified period of time.

4.14 **Compliance With Section 409A.** Awards shall be designed, granted and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A and the applicable provisions of the Plan and the applicable Award Agreement shall be construed and interpreted in accordance with such intent. If the Committee determines that an Award, Award Agreement, payment, distribution, deferral election, transaction, or any other action or arrangement contemplated by the provisions of the Plan would, if undertaken, cause a Holder to become subject to additional taxes under Section 409A, then unless the Committee specifically provides otherwise, such Award, Award Agreement, payment, distribution, deferral election, transaction or other action or arrangement shall not be given effect to the extent it causes such result and the related provisions of the Plan and Award Agreement will be deemed modified, or, if necessary, suspended in order to comply with the requirements of Section 409A to the extent determined appropriate by the Committee, in each case without the consent of or notice to the Holder. The exercisability of an Option or a SAR shall not be extended to the extent that such extension would subject the Holder to additional taxes under Section 409A. Notwithstanding any other provision of the Plan or an Award Agreement, if an Award is not exempt from the requirements of Section 409A and the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) is a "specified employee" (as such term is defined for purposes of Section 409A) and a payment under the Award is due as a result of such individual's "termination of employment", "separation from service" (as that term is defined for purposes of Section 409A using the default rules) or comparable event then no payment shall be made under the Award due to such termination of employment, separation from service or comparable event before the date that is six (6) months after the date on which the Holder incurs a separation from service, except as otherwise allowed by Section 409A. Unless otherwise determined by the Committee, each amount to be paid or benefit to be provided under this Plan shall be construed as a separate identified payment for purposes of Section 409A. Notwithstanding the above, each Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A with respect to Awards granted under the Plan.

4.15 **Date of Grant.** The date on which an Option or SAR is granted shall be the date the Company completes the corporate action constituting an offer of stock for sale to a Holder under the terms and conditions of the Option or SAR; *provided* that such corporate action shall not be considered complete until the date on which the *maximum* number of shares that can be purchased under the Option and the minimum Option price are fixed or determinable. If the corporate action contemplates an immediate offer of stock for sale to a class of individuals, then the date of the granting of an Option is the time or date of that corporate action, if the offer is to be made immediately. If the corporate action contemplates a particular date on which the offer is to be made, then the date of grant is the contemplated date of the offer.

4.16 **Source of Shares Deliverable Under Awards.** Any shares of **Stock** delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued shares of Stock or of treasury shares of Stock.

4.17 **Limitations on Vesting of Awards.**

- (a) Unless the applicable Award Agreement specifies otherwise, an Award shall not continue to vest after the Separation from Service of the Holder of the Award (or, if the Holder is not the original grantee of the applicable Award, the Separation from Service of the original grantee of the applicable Award) for any reason.
- (b) An Award granted under the Plan must include a minimum vesting period of at least one (1) year, provided, however, that
 - (i) an Award may provide that the Award will vest before the completion of such one (1) year period upon the death or Disability of the original grantee of the Award or a Change of Control of the Company and
 - (ii) Awards covering, in the aggregate, 25,000,000 (not exceeding fifty percent (50%) of the Authorized Shares) shares of Stock may be issued without any minimum vesting period.

4.18 **Administrative Stand Still.** In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of the Company assets to stockholders, or any other extraordinary transaction or change affecting the Stock or the share price of the Stock, including any change in the Company's capitalization or any securities offering or other similar transaction, for administrative convenience, the Committee may refuse to permit the exercise of any Award for up to sixty days before or after such transaction.

ARTICLE V

OPTIONS

5.1 **Authority to Grant Options.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Options under the Plan to eligible persons in such number and upon such terms as the Committee shall determine; *provided* that ISOs may be granted only to eligible Employees of the Company or of any Parent Corporation or Subsidiary Corporation (as permitted by section 422 of the Code and the regulations thereunder).

5.2 **Type of Options Available.** Options granted under the Plan may be NQSOs or ISOs.

5.3 **Option Agreement.** Each Option grant under the Plan shall be evidenced by an Award Agreement that shall specify (a) whether the Option is intended to be an ISO or an NQSO, (b) the Option Price, (c) the duration of the Option, (d) the number of shares of Stock to which the Option pertains, (e) the exercise restrictions, if any, applicable to the Option and (f) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. Notwithstanding the designation of an Option as an ISO in the applicable Award Agreement for such Option, to the extent the limitations of Section 5.10 of the Plan are exceeded with respect to the Option, the portion of the Option in excess of the limitation shall be treated as a NQSO. An Option granted under the Plan may not be granted with any Dividend Equivalents rights.

5.4 **Option Price.** The price at which shares of Stock may be purchased under an Option (the "**Option Price**") shall not be less than one hundred percent (100%) of the Fair Market Value of the shares of Stock on the date the Option is granted; *provided, however*, if the Option is an ISO granted to a Ten Percent Stockholder, the Option Price must not be less than one hundred ten percent (110%) of the Fair Market Value of the shares of Stock on the date the ISO is granted. Subject to the limitations set forth in the preceding sentences of this Section 5.4, the Committee shall determine the Option Price for each grant of an Option under the Plan.

5.5 **Duration of Option.** An Option shall not be exercisable after the earlier of (a) the general term of the Option specified in the applicable Award Agreement (which shall not exceed ten years, and, in the case of a Ten Percent Stockholder, no ISO shall be exercisable on or after the fifth (5th) anniversary of the date of its grant) or (b) the period of time specified in the applicable Award Agreement that follows the Holder's Separation from Service (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award).

5.6 **Amount Exercisable.** Each Option may be exercised at the time, in the manner and subject to the conditions the Committee specifies in the Award Agreement in its sole discretion.

5.7 **Exercise of Option.**

- (a) *General Method of Exercise.* Subject to the terms and provisions of the Plan and the applicable Award Agreement, Options may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee stating (i) that the Holder wishes to exercise such Option on the date such notice is so delivered, (ii) the number of shares of Stock with respect to which the Option is to be exercised and (iii) the address to which a stock certificate, if any, representing such shares of Stock should be mailed or delivered, or the account to which the shares of Stock represented by book or electronic entry should be delivered. Except in the case of exercise by a third party broker as provided below, in order for the notice to be effective the notice must be accompanied by payment of the Option Price (and all applicable federal, state, local and foreign withholding taxes described in Section 14.3) by any combination of the following: (w) cash, certified check, or bank draft for an amount equal to the Option Price under the Option, (x) Mature Shares with a Fair Market Value on the date of exercise equal to the Option Price under the Option (if approved in advance by the Committee or an executive officer of the Company), (y) as described further in (c) below, an election to make a cashless exercise through a registered broker-dealer (if approved in advance by the Committee or an executive officer of the Company) or (z) except as specified below, any other form of payment which is acceptable to the Committee. If Mature Shares are used for payment by the Holder, the aggregate Fair Market Value of the shares of Stock tendered must be equal to or less than the aggregate Option Price of the shares of Stock being purchased upon exercise of the Option, and any difference must be paid by cash, certified check, or bank draft payable to the order of the Company. Whenever an Option is exercised by exchanging shares of Stock owned by the Holder, the Holder shall deliver to the Company or its delegate certificates registered in the name of the Holder representing a number of shares of Stock legally and beneficially owned by the Holder, free of all liens, claims, and encumbrances of every kind, accompanied by stock powers duly endorsed in blank by the record holder of the shares represented by the certificates, (with signature guaranteed by a commercial bank or trust company or by a brokerage firm having a membership on a registered national stock exchange). The delivery of certificates upon the exercise of Option is subject to the condition that the person exercising the Option provide the Company with the information the Company might reasonably request pertaining to exercise, sale or other disposition of an Option.

- (b) *Issuance of Shares.* Subject to Section4.3 and Section5.7(c), as promptly as practicable after receipt of written notification and payment, in the form required by Section5.7(a), of an amount of money necessary to satisfy the aggregate option price and any withholding tax liability that *may* result from the exercise of such Option, the Company shall deliver to the Holder certificates for the number of shares with respect to which the Option has been exercised, issued in the Holder's name. Delivery of the shares shall be deemed effected for all purposes when a stock transfer agent of the Company shall have deposited the certificates in the United States mail, addressed to the Holder, at the address specified by the Holder or shall have transferred to the account designated by the Holder to which the shares of Stock represented by book or electronic entry are to be delivered.
- (c) *Exercise Through Third-Party Broker.* The Committee may permit a Holder to elect to pay the Option Price and any applicable tax withholding resulting from such exercise by authorizing a third-party broker to sell all or a portion of the shares of Stock acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the Option Price and any applicable federal, state, local and foreign tax withholding resulting from such exercise.
- (d) *Exercise of ISOs.* All ISOs granted to an Employee under this Article V shall be exercisable during his or her lifetime only by such Employee
- (e) *Limitations on Exercise Alternatives.* The Committee shall not permit a Holder to pay such Holder's Option Price upon the exercise of an Option by having the Company reduce the number of shares of Stock that will be delivered pursuant to the exercise of the Option. In addition, the Committee shall not permit a Holder to pay such Holder's Option Price upon the exercise of an Option by using shares of Stock other than Mature Shares. An Option may not be exercised for a fraction of a share of Stock.

5.8 Notification of Disqualifying Disposition. If any Employee shall make any disposition of shares of Stock issued pursuant to the exercise of an ISO under the circumstances described in section 421(b) of the Code (relating to certain disqualifying dispositions), such Employee shall notify the Company of such disposition within ten (10) days thereof.

5.9 No Rights as Stockholder. A Holder of an Option shall not have any rights as a stockholder with respect to Stock covered by an Option until the date a stock certificate for such Stock is issued by the Company. Except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such certificate.

5.10 \$100,000 Limitation on ISOs. To the extent that the aggregate Fair Market Value of shares of Stock with respect to which ISOs first become exercisable by a Holder in any calendar year exceeds \$100,000, taking into account both shares of Stock subject to ISOs under the Plan and Stock subject to ISOs under all other plans of the Company, such Options shall be treated as NQSOs. For this purpose, the "Fair Market Value" of the shares of Stock subject to Options shall be determined as of the date the Options were awarded. In reducing the number of Options treated as ISOs to meet the \$100,000 limit, the most recently granted Options shall be reduced first. To the extent a reduction of simultaneously granted Options is necessary to meet the \$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Stock are to be treated as shares acquired pursuant to the exercise of an ISO.

5.11 **Separation from Service.** Each Award Agreement shall set forth the extent to which the Holder of an Option shall have the right to exercise the Option following the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Award Agreement or the Plan, and may reflect distinctions based on the reasons for termination or severance.

ARTICLE VI

STOCK APPRECIATION RIGHTS

6.1 **Authority to Grant SAR Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant SARs under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Subject to the terms and conditions of the Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Holder and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

6.2 **General Terms.** Subject to the terms and conditions of the Plan, a SAR granted under the Plan shall confer on the recipient a right to receive, upon exercise thereof, an amount equal to the excess of (a) the Fair Market Value of one share of the Stock on the date of exercise over (b) the grant price of the SAR, which shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the Stock on the date of grant of the SAR. A SAR granted under the Plan may not be granted with any Dividend Equivalent rights.

6.3 **SAR Agreement.** Each Award of SARs granted under the Plan shall be evidenced by an Award Agreement that shall specify (a) the grant price of the SAR, (b) the term of the SAR, (c) the vesting and termination provisions of the SAR and (d) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. The Committee may impose such additional conditions or restrictions on the exercise of any SAR as it may deem appropriate.

6.4 **Term of SAR.** The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided that no SAR shall be exercisable on or after the tenth anniversary date of its grant.

6.5 **Exercise of SARs.** Subject to the terms and provisions of the Plan and the applicable Award Agreement, a SAR may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee stating (a) that the Holder wishes to exercise such SAR on the date such notice is so delivered, (b) the number of shares of Stock with respect to which the SAR is to be exercised and (c) the address to which the payment due under such SAR should be delivered or the account to which any shares of Stock payable as a result of the exercise of the SAR represented by book or electronic entry should be delivered. In accordance with applicable law, a SAR may be exercised subject to whatever additional terms and conditions the Committee, in its sole discretion, imposes.

6.6 **Payment of SAR Amount.** Upon the exercise of a SAR, a Holder shall be entitled to receive payment from the Company in an amount determined by multiplying the excess of the Fair Market Value of a share of Stock on the date of exercise over the grant price of the SAR by the number of shares of Stock with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon SAR exercise may be in cash, in shares of Stock of equivalent value, in some combination thereof or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

6.7 **Separation from Service.** Each Award Agreement shall set forth the extent to which the Holder of a SAR shall have the right to exercise the SAR following the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, may be included in the Award Agreement entered into with the Holder, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination or severance.

6.8 **No Rights as Stockholder.** A grantee of a SAR award, as such, shall have no rights as a stockholder.

6.9 **Restrictions on Stock Received.** The Committee may impose such conditions and restrictions on any shares of Stock received upon exercise of a SAR granted pursuant to the Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock received upon exercise of a SAR for a specified period of time.

ARTICLE VII

RESTRICTED STOCK AWARDS

7.1 **Restricted Stock Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may make Awards of Restricted Stock under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. The amount of and the vesting, transferability and forfeiture restrictions applicable to any Restricted Stock Award shall be determined by the Committee in its sole discretion. If the Committee imposes vesting, transferability and forfeiture restrictions on a Holder's rights with respect to Restricted Stock, the Committee may issue such instructions to the Company's share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for shares of Stock issued pursuant to a Restricted Stock Award to be imprinted with any legend which counsel for the Company considers advisable with respect to the restrictions or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law.

7.2 **Restricted Stock Award Agreement.** Each Restricted Stock Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

7.3 **Holder's Rights as Stockholder.** Subject to the terms and conditions of the Plan, each recipient of a Restricted Stock Award shall have all the rights of a stockholder with respect to the shares of Restricted Stock included in the Restricted Stock Award during the Period of Restriction established for the Restricted Stock Award. Dividends paid with respect to Restricted Stock in cash or property other than shares of Stock or rights to acquire shares of Stock shall be paid to the recipient of the Restricted Stock Award currently. Dividends paid in shares of Stock or rights to acquire shares of Stock shall be added to and become a part of the Restricted Stock. During the Period of Restriction, certificates representing the Restricted Stock shall be registered in the Holder's name and bear a restrictive legend to the effect that ownership of such Restricted Stock, and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and the applicable Award Agreement. Such certificates shall be deposited by the recipient with the Secretary of the Company or such other officer or agent of the Company as may be designated by the Committee, together with all stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock which shall be forfeited in accordance with the Plan and the applicable Award Agreement.

ARTICLE VIII

RESTRICTED STOCK UNIT AWARDS

8.1 **Authority to Grant RSU Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant RSU Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. The amount of and the vesting, transferability and forfeiture restrictions applicable to any RSU Award shall be determined by the Committee in its sole discretion. The Committee shall maintain a bookkeeping ledger account which reflects the number of RSUs credited under the Plan for the benefit of a Holder.

8.2 **RSU Award.** An RSU Award shall be similar in nature to a Restricted Stock Award except that no shares of Stock (or equivalent value in cash) are actually transferred to the Holder until a later date specified in the applicable Award Agreement. Each RSU shall have a value equal to the Fair Market Value of a share of Stock.

8.3 **RSU Award Agreement.** Each RSU Award shall be evidenced by an Award Agreement that contains any Substantial Risk of Forfeiture, vesting, transferability and forfeiture restrictions, form and time of payment provisions and other provisions not inconsistent with the Plan as the Committee may specify.

8.4 **Dividend Equivalents.** An Award Agreement for an RSU Award may specify that the Holder shall be entitled to the payment of Dividend Equivalents under the Award.

8.5 **Form of Payment Under RSU Award.** Payment under an RSU Award shall be made in cash, shares of Stock or any combination thereof, as specified in the applicable Award Agreement.

8.6 **Time of Payment Under RSU Award.** A Holder's payment under an RSU Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the Fiscal Year in which the RSU Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

8.7 **Holder's Rights as Stockholder.** Each recipient of an RSU Award shall have no rights of a stockholder with respect to the Holder's RSUs. A Holder shall have no voting rights with respect to any RSU Awards.

ARTICLE IX

OTHER STOCK-BASED AWARDS

9.1 **Authority to Grant Other Stock-Based Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant other types of equity-based or equity-related Awards not otherwise described by the terms and provisions of the Plan (including the grant or offer for sale of unrestricted and fully vested shares of Stock) under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Such Awards may involve the transfer of actual shares of Stock to Holders, or payment in cash or otherwise of amounts based on the value of shares of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

9.2 **Value of Other Stock-Based Award.** Each Other Stock-Based Award shall be expressed in terms of shares of Stock or units based on shares of Stock, as determined by the Committee.

9.3 **Written Agreement.** Each Other Stock-Based Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

9.4 **Payment of Other Stock-Based Award.** Payment, if any, with respect to an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash, shares of Stock or any combination thereof, as the Committee determines.

9.5 **Separation from Service.** The Committee shall determine the extent to which a Holder's rights with respect to Other Stock-Based Awards shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Other Stock-Based Awards issued pursuant to the Plan.

9.6 **Time of Payment of Other Stock-Based Award.** A Holder's payment under an Other Stock-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Other Stock-Based Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

ARTICLE X

OTHER CASH-BASED AWARDS

10.1 **Authority to Grant Other Cash-Based Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Other Cash-Based Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine.

10.2 **Value of Other Cash-Based Award.** Each Other Cash-Based Award shall specify a payment amount or payment range as determined by the Committee.

10.3 **Written Agreement.** Each Other Cash-Based Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

10.4 **Payment of Other Cash-Based Award.** Payment, if any, with respect to an Other Cash-Based Award shall be made in accordance with the terms of the Award, in cash.

10.5 **Time of Payment of Other Cash-Based Award.** Payment under an Other Cash-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Other Cash-Based Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

10.6 **Separation from Service.** The Committee shall determine the extent to which a Holder's rights with respect to an Other Cash-Based Award shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Other Cash-Based Awards issued pursuant to the Plan.

ARTICLE XI

SUBSTITUTION AWARDS

Awards may be granted under the Plan from time to time in substitution for stock options and other awards held by employees of other entities who are about to become Employees, or whose employer is about to become an Affiliate as the result of a merger or consolidation of the Company with another corporation, or the acquisition by the Company of substantially all the assets of another corporation, or the acquisition by the Company of at least fifty percent (50%) of the issued and outstanding stock of another corporation as the result of which such other corporation will become a subsidiary of the Company. The terms and conditions of the substitute Awards so granted may vary from the terms and conditions set forth in the Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted. If shares of Stock are issued under the Plan with respect to an Award granted under this Article such shares of Stock will not count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.

ARTICLE XII

ADMINISTRATION

12.1 **Awards.** The Plan shall be administered by the Committee or, in the absence of the Committee or in the case of awards issued to Non-Employee Directors, the Plan shall be administered by the Board. The members of the Committee (that is not itself the Board) shall serve at the discretion of the Board. The Committee shall have full and exclusive power and authority to administer the Plan and to take all actions that the Plan expressly contemplates or are necessary or appropriate in connection with the administration of the Plan with respect to Awards granted under the Plan.

12.2 **Authority of the Committee.**

- (a) The Committee shall have full and exclusive power to interpret and apply the terms and provisions of the Plan and Awards made under the Plan, and to adopt such rules, regulations and guidelines for implementing the Plan as the Committee may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business relating to the Plan or Awards made under the Plan, and the vote of a majority of those members present at any meeting shall decide any question brought before that meeting. Any decision or determination reduced to writing and signed by a majority of the members shall be as effective as if it had been made by a majority vote at a meeting properly called and held. All questions of interpretation and application of the Plan, or as to Awards granted under the Plan, shall be subject to the determination, which shall be final and binding, of a majority of the whole Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee or for any act or omission on his or her own part, including the exercise of any power or discretion given to him or her under the Plan, except those resulting from his or her own willful misconduct. In carrying out its authority under the Plan, the Committee shall have full and final authority and discretion, including the following rights, powers and authorities to (i) determine the persons to whom and the time or times at which Awards will be made; (ii) determine the number and exercise price of shares of Stock covered in each Award subject to the terms and provisions of the Plan; (iii) determine the terms, provisions and conditions of each Award, which need not be identical; (iv) accelerate the time at which any outstanding Award will vest; (v) prescribe, amend and rescind rules and regulations relating to administration of the Plan; and (vi) make all other determinations and take all other actions deemed necessary, appropriate or advisable for the proper administration of the Plan.
- (b) The Committee may make an Award to an individual who the Company expects to become an Employee of the Company or any of its Affiliates within three (3) months after the date of grant of the Award, with the Award being subject to and conditioned on the individual actually becoming an Employee within that time period and subject to other terms and conditions as the Committee may establish.
- (c) The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award to a Holder in the manner and to the extent the Committee deems necessary or desirable to further the Plan's objectives. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan.
- (d) On a Fiscal Year basis, the Committee may, by resolution, delegate to the Chief Executive Officer of the Company the limited authority to grant Awards under the Plan during such Fiscal Year to (i) designated classes of Employees who are not officers of the Company or any Affiliate and subject to the provisions of Section 16 of the Exchange Act and (ii) Third Party Service Providers. The resolution providing such authorization must set forth the total number of shares of Stock that may be granted under Awards by the Chief Executive Officer during the Fiscal Year. The Chief Executive Officer of the Company shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.
- (e) The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers shall be entitled to rely upon the advice, opinions, or valuations of any such person. As permitted by law and the terms and provisions of the Plan, the Committee may delegate to one or more of its members or to one or more officers of the Company or its Affiliates or other Employees or to one or

more agents or advisors such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

12.3 **Decisions Binding.** All determinations and decisions made by the Committee or the Board, as the case may be, pursuant to the provisions of the Plan and all related orders and resolutions of the Committee or the Board, as the case may be, shall be final, conclusive and binding on all persons, including the Company, its Affiliates, its stockholders, Holders and the estates and beneficiaries of Holders.

12.4 **No Liability.** Under no circumstances shall the Company, its Affiliates, the Board or the Committee incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's, its Affiliates', the Committee's or the Board's roles in connection with the Plan.

ARTICLE XIII

AMENDMENT OR TERMINATION OF PLAN OR AWARD AGREEMENT

13.1 **Amendment, Modification, Suspension, and Termination of the Plan.** Subject to Section 13.3, the Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan, provided, however, no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by applicable law or stock exchange rules.

13.2 **Amendment, Modification, Suspension, and Termination of Award Agreement.** Subject to Section 13.3, the Committee may, in its discretion and at any time and from time to time, alter, amend, modify, suspend, or terminate any Award Agreement in whole or in part in any manner that it deems appropriate and that is consistent with the terms of the Plan or necessary to implement the requirements of the Plan. Notwithstanding the preceding sentence, without the prior approval of the Company's stockholders or except as provided in Section 4.5, the Committee shall not directly or indirectly lower the Option Price of a previously granted Option or the grant price of a previously granted SAR, or cancel a previously granted Option or previously granted SAR for a payment of cash or other property, in each case if the aggregate fair market value of such Option or SAR is less than the gross Option Price of such Option or the gross grant price of such SAR.

13.3 **Awards Previously Granted.** Except as expressly provided otherwise under the Plan (including Sections 4.7, 4.8 and 4.9), no alteration, amendment, modification, suspension or termination of the Plan or an Award Agreement shall adversely affect in any material manner any Award previously granted under the Plan, without the written consent of the Holder holding such Award.

ARTICLE XIV

MISCELLANEOUS

14.1 **Unfunded Plan/No Establishment of a Trust Fund.** Holders shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Affiliates may make to aid in meeting obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Holder, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as expressly set forth in the Plan. No property shall be set aside nor shall a trust fund of any kind be established to secure the rights of any Holder under the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

14.2 **No Employment Obligation.** The granting of any Award shall not constitute an employment or service contract, express or implied, and shall not impose upon the Company or any Affiliate any obligation to employ or continue to employ, or to utilize or continue to utilize the services of, any Holder. The right of the Company or any Affiliate to terminate the employment of, or the provision of services by, any person shall not be diminished or affected by reason of the fact that an Award has been granted to him, and nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or its Affiliates to terminate any Holder's employment or service relationship at any time or for any reason not prohibited by law.

14.3 **Tax Withholding.**

- (a) The Company or any Affiliate shall be entitled to deduct from other compensation payable to each Holder any sums required by federal, state, local or foreign tax law to be withheld with respect to the vesting or exercise of an Award or lapse of restrictions on an Award. In the alternative, the Company may require the Holder (or other person validly exercising the Award) to pay such sums for taxes directly to the Company or any Affiliate in cash or by check within one day after the date of vesting, exercise or lapse of restrictions.
- (b) The Committee may, in its discretion, permit a Holder to satisfy any Minimum Statutory Tax Withholding Obligation arising upon the vesting or exercise of, or payment under, an Award by delivering to the Holder a reduced number of shares of Stock in the manner specified herein. If permitted by the Committee and acceptable to the Holder, at the time of the vesting or exercise of, or payment under, an Award with respect to which the Company or an Affiliate has a tax withholding obligation the Company or the Affiliate may (a) calculate the amount of the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation on the assumption that all such shares of Stock vested under the Award are made available for delivery, (b) reduce the number of such shares of Stock made available for delivery so that the Fair Market Value of the shares of Stock withheld on the date of the event giving rise to the withholding obligation approximates the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation and (c) in lieu of the withheld shares of Stock, remit cash to the United States Treasury or other applicable governmental authorities, on behalf of the Holder, in the amount of the Minimum Statutory Tax Withholding Obligation. The Company shall withhold only whole shares of Stock to satisfy its Minimum Statutory Tax Withholding Obligation. Where the Fair Market Value of the withheld shares of Stock does not equal the amount of the Minimum Statutory Tax Withholding Obligation, the Company shall withhold shares of Stock with a Fair Market Value less than the amount of the Minimum Statutory Tax Withholding Obligation and the Holder must satisfy the remaining minimum withholding obligation in some other manner permitted under this Section 14.3. The withheld shares of Stock not made available for delivery by the Company shall be retained as treasury shares or will be cancelled and the Holder's right, title and interest in such shares of Stock shall terminate.
- (c) The Company shall have no obligation upon vesting or exercise of any Award or lapse of restrictions on an Award or other event requiring payment until the Company or an Affiliate has received payment from the Holder sufficient to cover the Minimum Statutory Tax Withholding Obligation of the Holder with respect to that vesting, exercise, lapse of restrictions or other event. Neither the Company nor any Affiliate shall be obligated to advise a Holder of the existence of the tax or the amount which it will be required to withhold.

14.4 **Gender and Number.** If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

14.5 **Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

14.6 **Headings.** Headings of Articles and Sections are included for convenience of reference only and do not constitute part of the Plan and shall not be used in construing the terms and provisions of the Plan.

14.7 **Other Compensation Plans.** The adoption of the Plan shall not affect any other option, incentive or other compensation or benefit plans in effect for the Company or any Affiliate, nor shall the Plan preclude the Company from establishing any other forms of incentive compensation arrangements for Employees, Non-Employee Directors or Third Party Service Providers.

14.8 **Retirement and Welfare Plans.** Neither Awards made under the Plan nor shares of Stock or cash paid pursuant to such Awards, may be included as "compensation" for purposes of computing the benefits payable to any person under the Company's or any Affiliate's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a participant's benefit.

14.9 **Other Awards.** The grant of an Award shall not confer upon the Holder the right to receive any future or other Awards under the Plan, whether or not Awards may be granted to similarly situated Holders, or the right to receive future Awards upon the same terms or conditions as previously granted.

14.10 **Law Limitations/Governmental Approvals.** The granting of Awards and the issuance of shares of Stock under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

14.11 **Delivery of Title.** The Company shall have no obligation to issue or deliver evidence of title for shares of Stock issued under the Plan prior to (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and (b) completion of any registration or other qualification of the Stock under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

14.12 **Inability to Obtain Authority.** The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained.

14.13 **Investment Representations.** The Committee may require any person receiving Stock pursuant to an Award under the Plan to represent and warrant in writing that the person is acquiring the shares of Stock for investment and without any present intention to sell or distribute such Stock.

14.14 **Persons Residing Outside of the United States.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company or any of its Affiliates operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (a) determine which Affiliates shall be covered by the Plan; (b) determine which persons employed Outside the United States are eligible to participate in the Plan; (c) amend or vary the terms and provisions of the Plan and the terms and conditions of any Award granted to persons who reside Outside the United States; (d) establish subplans and modify exercise procedures and other terms and procedures to the extent such actions may be necessary or advisable (and any subplans and modifications to Plan terms and procedures established under this Section 14.14 by the Committee shall be attached to the Plan document as Appendices); and (e) take any action, before or after an Award is made, that it deems advisable to obtain or comply with any necessary local government regulatory exemptions or approvals. Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Code, the Exchange Act or any securities law or governing statute or any other applicable law.

14.15 **Data Privacy.** As a condition for receiving any Award, each Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this section by and among the Company and its subsidiaries and other Affiliates exclusively for implementing, administering and managing the Participant's participation in the Plan. The Company and its subsidiaries and other Affiliates may hold certain personal information about a Participant, including the Participant's name, address and telephone number; birthdate; social security, insurance number or other identification number; salary; nationality; job title(s); any shares of Stock held in the Company or its subsidiaries and other Affiliates; and Award details, to implement, manage and administer the Plan and Awards (the "**Data**"). The Company and its subsidiaries and other Affiliates may transfer the Data amongst themselves as necessary to implement, administer and manage a Participant's participation in the Plan, and the Company and its subsidiaries and other Affiliates may transfer the Data to third parties assisting the Company with Plan implementation, administration and management. These recipients may be located in the Participant's country, or elsewhere, and the Participant's country may have different data privacy laws and protections than the recipients' country. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, to implement, administer and manage the Participant's participation in the Plan, including any required Data transfer to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of the Stock. The Data related to a Participant will be held only as long as necessary to implement, administer, and manage the Participant's participation in the Plan. A Participant may, at any time, view the Data that the Company holds regarding such Participant, request additional information about the storage and processing of the Data regarding such Participant, recommend any necessary corrections to the Data regarding the Participant or refuse or withdraw the consents in this Section 14.15 in writing, without cost, by contacting the local human resources representative. The Company may cancel Participant's ability to participate in the Plan and, in the Committee's discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents in this Section 14.15. For more information on the consequences of refusing or withdrawing consent, Participants may contact their local human resources representative.

14.16 **Arbitration of Disputes.** Any controversy arising out of or relating to the Plan or an Award Agreement shall be resolved by arbitration conducted in Houston, Texas pursuant to the arbitration rules of the American Arbitration Association. The arbitration shall be final and binding on the parties.

14.17 **No Fractional Shares.** No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, additional Awards, or other property shall be issued or paid in lieu of fractional shares of Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

14.18 **Interpretation.** The term "including" means "including without limitation". The term "or" means "and/or" unless clearly indicated otherwise. The term "vest" includes the lapse of restrictions on Awards, including Forfeiture Restrictions. Reference herein to a "Section" shall be to a section of the Plan unless indicated otherwise.

14.19 **Governing Law; Venue.** The provisions of the Plan and the rights of all persons claiming thereunder shall be construed, administered and governed under the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the sole and exclusive jurisdiction and venue of the federal or state courts of the State of Texas to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

This **Restricted Stock Award Agreement** (this "**Agreement**") is made by and between C-Bond Systems, Inc., a [_____] corporation (the "**Company**"), and [_____] (the "**Participant**") effective as of [_____, 201__] (the "**Grant Date**"), pursuant to the terms and conditions of the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (the "**Plan**"), a copy of which previously has been made available to the Participant and the terms and provisions of which are incorporated by reference herein.

Whereas, the Company desires to grant to the Participant the shares of the Company's common stock, \$____ par value per share, specified herein (the "**Shares**"), subject to the terms and conditions of this Agreement; and

Whereas, the Participant desires to have the opportunity to hold the Shares subject to the terms and conditions of this Agreement.

Now, Therefore, in consideration of the premises, mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated below:

(a) "**Forfeiture Restrictions**" means the prohibitions and restrictions set forth herein with respect to the sale or other disposition of the Shares issued to the Participant hereunder and the obligation to forfeit and surrender such Shares to the Company in accordance with the terms and conditions of the Plan and this Agreement.

(b) "**Period of Restriction**" means the period during which Restricted Shares are subject to Forfeiture Restrictions and during which Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered.

(c) "**Restricted Shares**" means the Shares that are subject to the Forfeiture Restrictions under this Agreement.

Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

2. **Grant of Restricted Shares.** Effective as of the Grant Date, the Company shall cause to be issued in the Participant's name [] shares of the Company's common stock, \$____ par value, as Restricted Shares. The Company shall cause certificates or electronic book entries evidencing the Restricted Shares, and any shares of Stock or rights to acquire shares of Stock distributed by the Company in respect of Restricted Shares during any Period of Restriction (the "**Retained Distributions**"), to be issued in the Participant's name. During the Period of Restriction such electronic book entries and certificates shall bear a restrictive legend to the effect that ownership of such Restricted Shares (and any Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and this Agreement. The Participant shall have the right to vote the Restricted Shares awarded to the Participant and to receive and retain all regular dividends paid in cash or property (other than Retained Distributions), and to exercise all other rights, powers and privileges of a holder of shares of the Stock, with respect to such Restricted Shares, with the exception that (a) the Participant shall not be entitled to delivery of the stock certificate or certificates or electronic book entries representing such Restricted Shares until the Forfeiture Restrictions applicable thereto shall have expired, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Shares (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (c) the Participant may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Shares or any Retained Distributions during the Period of Restriction. Upon issuance any certificates shall be delivered to such depository as may be designated by the Committee as a depository for safekeeping until the forfeiture of such Restricted Shares occurs or the Forfeiture Restrictions lapse, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Shares and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award set forth in this Agreement the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

3. **Transfer Restrictions.** The Shares awarded hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, to the extent then subject to the Forfeiture Restrictions. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, the Shares awarded hereby that are no longer subject to Forfeiture Restrictions may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable securities laws. The Participant also agrees that the Company may (a) refuse to cause the transfer of the Shares to be registered on the applicable stock transfer records of the Company if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) give related instructions to the transfer agent, if any, to stop registration of the transfer of the Shares. The Shares granted hereby are registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the Shares is available from the Company.

4. ***Vesting/Lapse of Period of Restriction.*** The Restricted Shares awarded hereby are subject to the Forfeiture Restrictions. The Forfeiture Restrictions will lapse as to the Restricted Shares as provided below.

(a) ***Vesting in General.*** The Forfeiture Restrictions will lapse as to the Restricted Shares that are awarded hereby, and the Participant's right to sell or other dispose of the Restricted Shares shall vest in accordance with the following schedule, provided that the Participant's employment or other service relationship with the Company and its Affiliates has not terminated prior to the applicable lapse date set forth below:

Lapse Date	Cumulative Vested Percentage of Restricted Stock Award
First Anniversary of Grant Date	
Second Anniversary of Grant Date	
Third Anniversary of Grant Date	
Fourth Anniversary of Grant Date	
Fifth Anniversary of Grant Date	

(b) ***Termination of Employment or Service for Any Reason.*** Notwithstanding the vesting schedule set forth in Section 4(a), upon the Participant's termination of employment or other service relationship with the Company and its Affiliates for any reason during the applicable Period of Restriction, all non-vested shares of Restricted Shares then subject to Forfeiture Restrictions under this Agreement shall be immediately forfeited to the Company by the Participant and the Participant shall cease to have any rights of a stockholder with respect to such forfeited shares. Upon any such forfeiture, all rights of the Participant to such forfeited shares of Restricted Shares shall cease and terminate, without any further obligation on the part of the Company.

(c) ***[Change of Control.*** Notwithstanding the vesting schedule set forth in Section 4(a), in the event of a Change of Control, the Forfeiture Restrictions shall lapse and the Participant shall be 100% vested in all shares of Restricted Shares subject to this Agreement.]

(d) ***Issuance of Shares Upon Vesting.*** Upon the lapse of the Forfeiture Restrictions with respect to Shares awarded hereby the Company shall cause to be delivered to the Participant a stock certificate or electronic book entry representing such Shares, and such Shares shall be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

5. **Capital Adjustments and Reorganizations.** The existence of the Restricted Shares shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

6. **Tax Withholding.** To the extent that the receipt of the Restricted Shares or the lapse of any Forfeiture Restrictions results in income to the Participant for federal, state, local or foreign income, employment or other tax purposes with respect to which the Company or its subsidiaries or any other Affiliate has a withholding obligation, the Participant shall deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money as the Company or its subsidiaries or any other Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if the Participant fails to do so, the Company or its subsidiaries or any other Affiliate is authorized to withhold from the Shares granted hereby or from any cash or stock remuneration then or thereafter payable to the Participant in any capacity any tax required to be withheld by reason of such resulting income, sufficient to satisfy the withholding obligation. The Company shall have no obligation to deliver a stock certificate or electronic book entry for the Shares granted hereby on lapse of the Forfeiture Restrictions until the Company, a proper subsidiary or other Affiliate has received payment sufficient to cover the withholding tax obligations described in this section.

7. **Section 83(b) Election.** The Participant shall not exercise the election permitted under section 83(b) of the Internal Revenue Code of 1986, as amended, with respect to the Restricted Shares without the prior written approval of the Chief Financial Officer of the Company. If the Chief Financial Officer of the Company permits the election, the Participant shall timely pay the Company the amount necessary to satisfy the Company's attendant tax withholding obligations, if any.

8. **No Fractional Shares.** All provisions of this Agreement concern whole shares. If the application of any provision hereunder would yield a fractional share, such fractional share shall be rounded down to the next whole share if it is less than 0.5 and rounded up to the next whole share if it is 0.5 or more.

9. **Employment or Service Relationship.** For purposes of this Agreement, the Participant shall be considered to be in the employment of, or service to, the Company and its Affiliates as long as the Participant has an employment or service relationship with the Company and its Affiliates. The Committee shall determine any questions as to whether and when there has been a termination of such employment or service relationship, and the cause of such termination, for purposes of the Plan and the Committee's determination shall be final and binding on all persons.

10. **Not an Employment or Service Agreement.** This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or other service relationship between the Participant and the Company or any Affiliate, to guarantee the right to remain employed by or in the service of the Company or any Affiliate for any specified term or require the Company or any Affiliate to employ or utilize the services of the Participant for any period of time.

11. **Legend.** The Participant consents to the placing on the certificate or electronic book entry for the Shares an appropriate legend restricting resale or other transfer of the Shares except in accordance with all applicable securities laws and rules thereunder.

12. **Notices.** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office and addressed to the attention of the Committee and to the Participant at the Participant's residential address indicated in the records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

13. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and the Participant. Only a written instrument executed and delivered by the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized executive officer of the Company other than the Participant. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner affect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

14. **Dispute Resolution.** In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

15. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of [_____], excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

16. **Headings.** Headings of Sections are included for convenience of reference only and do not constitute part of this Agreement and shall not be used in construing the terms and provisions of this Agreement.

17. **Gender and Number.** If the context requires, words of one gender when used in this Agreement will include the other genders, and words used in the singular or plural will include the other.

18. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Shares awarded hereby, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and the Participant, the Participant's permitted assigns, executors, administrators, agents, legal and personal representatives.

19. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

In Witness Whereof, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Participant has executed this Agreement, all effective as of the date first above written.

C-BOND SYSTEMS, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

Name: _____

Irrevocable Stock Power

Know all men by these presents, that the undersigned, **For Value Received**, has bargained, sold, assigned and transferred and by these presents does bargain, sell, assign and transfer unto the Secretary of C-Bond Systems, Inc., a [_____] corporation (the "**Company**"), the Shares transferred pursuant to the Restricted Stock Award Agreement dated effective [_____, 201____], between the Company and the undersigned; **and** subject to and in accordance with such Restricted Stock Award Agreement the undersigned does hereby constitute and appoint the Secretary of the Company the undersigned's true and lawful attorney, IRREVOCABLY, to sell, assign, transfer, hypothecate, pledge and make over all or any part of such Shares and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or his substitutes shall lawfully do by virtue hereof.

In Witness Whereof, the undersigned has executed this Irrevocable Stock Power effective the _____ day of _____, 201____.

Name: _____

C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

C-Bond Systems, Inc., a [] corporation (the "**Company**"), has granted an option (the "**Option**") to purchase shares of the Company's common stock, [\$.] par value (the "**Stock**"), to the individual whose name is set forth below on the "Name of Optionee" line ("**Optionee**"). The terms and conditions of the Option are set forth in this Nonqualified Stock Option Award Agreement, including the additional terms and conditions attached hereto (this "**Agreement**"), and in the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (the "**Plan**"), the terms of which are incorporated by reference herein in their entirety. Any term used in this Agreement that is not specifically defined herein shall have the meaning specified in the Plan.

Grant Date: _____, 20__

Name of Optionee: _____

Number of Shares of the Stock Covered by the Option: _____

Option Price per Share of the Stock: \$ ____.

By signing this Agreement, you agree to, and agree to be bound by, all of the terms and conditions described in this Agreement, including the additional terms and conditions attached hereto, and in the Plan, a copy of which has been previously made available to you. You acknowledge that you have had an opportunity to carefully reviewed the Plan, and agree that the terms of the Plan will control in the event any provision of this Agreement is inconsistent with the terms of the Plan.

Optionee: _____
(Optionee's Signature)

Optionee's Address: _____

C-BOND SYSTEMS, INC.

By: _____
Name: _____
Title: _____

Attachment

this agreement is not a stock certificate or a negotiable instrument

C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN

**ADDITIONAL TERMS AND CONDITIONS FOR
NONQUALIFIED STOCK OPTION AWARD AGREEMENT**

1. **Grant of Option.** Subject to the terms of the Plan and this Agreement, on the Grant Date set forth on the first page of this Agreement (the "**Grant Date**"), the Company granted to Optionee the Option to purchase that number of shares of the Stock set forth on the first page of this Agreement, at the Option Price per Share of the Stock set forth on the first page of this Agreement (the "**Option Price**"), subject to adjustment as provided in the Plan.

2. **Type of Option.** The Option is a nonqualified stock option which is not intended to be governed by section 422 of the Code and will be interpreted accordingly.

3. **Optionee's Agreement.** In accepting the Option, Optionee accepts and agrees to be bound by all the terms and conditions of the Plan which pertain to Nonqualified Stock Options (also referred to as "NQSOs") granted under the Plan.

4. **Vesting of Option.** Subject to the provisions of the Plan and the provision of this Agreement (including the requirement in Section 6 that Optionee continue to be employed by or in an applicable service relationship with the Company on the dates set forth below), the Option will be exercisable in accordance with the following schedule:

(a) on the first anniversary of the Grant Date, the Option will vest with respect to, and may be exercised for up to, _____ percent (____%) of the total number of shares of the Stock covered by the Option as set forth on the first page of this Agreement (the "**Option Shares**");

(b) on each succeeding anniversary of the Grant Date, the Option will vest with respect to, and may be exercised for up to, an additional _____ percent (____%) of the Option Shares, so that on the ____ anniversary of the Grant Date the Option shall be fully vested and exercisable in full; and

(c) to the extent not exercised, installments shall be cumulative and may be exercised in whole or in part.

Notwithstanding any other provision of this Agreement to the contrary, upon the occurrence of a Change of Control, the Option shall become fully vested and exercisable immediately prior to the occurrence of the Change of Control provided that the Optionee has not incurred a Termination of Employment or Termination of Service and continues to be employed by, a Non-Employee Director or affiliated as a service provider to, the Company or an Affiliate immediately prior to the occurrence of such Change of Control.

5. ***Manner of Exercise.***

(a) To the extent that the Option is vested and exercisable in accordance with Section 4 of this Agreement and the Plan, the Option may be exercised by Optionee at any time, or from time to time, in whole or in part, on or prior to the termination of the Option (as set forth in Section 6 of this Agreement) upon payment of the Option Price for the Option Shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan and, if applicable, satisfaction of the Company's tax withholding obligations associated with Optionee's exercise of the Option.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee shall (i) deliver to the Company, as directed by the Company, a fully completed and executed notice of exercise, in the form set forth on Exhibit A to this Agreement or on such other form as may be designated by the Company in its sole discretion from time to time, specifying the exercise date and the number of Option Shares to be purchased pursuant to such exercise and (ii) remit to the Company, in a form satisfactory to the Company, in its sole discretion, the Option Price for the Option Shares to be acquired on exercise of the Option, plus an amount sufficient to satisfy any withholding tax obligations of the Company that arise in connection with such exercise (as determined by the Company) in accordance with the provisions of the Plan.

(c) The Company's obligation to deliver shares of the Stock to Optionee under this Agreement is subject to and conditioned upon Optionee satisfying all tax obligations associated with Optionee's receipt, holding and exercise of the Option. Unless otherwise approved by the Committee, all such tax obligations shall be payable in accordance with the provisions of the Plan. The Company and any Affiliates, as applicable, shall be entitled to deduct from any compensation otherwise due to Optionee the amount necessary to satisfy all such taxes.

(d) Upon full payment of the Option Price and satisfaction of all applicable tax withholding obligations of the Company and its Affiliates that arise in connection with the exercise of the Option, and subject to the applicable terms and conditions of the Plan and the terms and conditions of this Agreement, the Company shall cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing such shares to be made.

6. ***Termination of Option.*** Unless the Option terminates earlier as provided in this Section 6 the Option shall terminate and become null and void at the close of business at the Company's Principal Corporate Office on the day before the date of the tenth anniversary of the Grant Date (the "***Option General Expiration Date***"). If Optionee ceases to be an Employee, Non-Employee Director or Third Party Service Provider for any reason the Option shall not continue to vest after such cessation of service as an Employee, Non-Employee Director or Third Party Service Provider. If Optionee is an Employee and incurs a Termination of Employment or is a Non-Employee Director or Third Party Service Provider and incurs a Termination of Service, in either case prior to the Option General Expiration Date, the Option shall terminate and become null and void on the date that is _____ days following the date of such Termination of Employment or Termination of Service, but in no case later than the Option General Expiration Date; provided, however, that if Termination of Employment or Termination of Service is with cause the Option shall terminate and become null and void on the date of such Termination of Employment or Termination of Service.

7. **Tax Withholding.** To the extent that the receipt of the Option or this Agreement, the vesting of the Option or the exercise of the Option results in income to the Optionee for federal, state or local income, employment or other tax purposes with respect to which the Company or its Affiliates have a withholding obligation, the Optionee shall deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company or its Affiliates may require to meet such obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company and any Affiliate is authorized to withhold from the shares of the Stock acquired upon exercise of the Option (based on the Fair Market Value of such shares of the Stock as of the date the amount of tax to be withheld is determined) or from any cash or other remuneration then or thereafter payable to the Optionee any tax required to be withheld by reason of such taxable income, sufficient to satisfy the withholding obligation. As of the Grant Date, the Company has no obligation under any federal, state or local income, employment or other tax law to withhold any taxes with respect to a person who is an independent contractor and, if the Optionee is characterized by the Company as an independent contractor, the Optionee acknowledges and agrees that, until any applicable tax laws are otherwise revised to expressly otherwise provide, he or she, and not the Company, is responsible for all tax reporting and payments with respect to the receipt of the Option or this Agreement, the vesting of the Option or the exercise of the Option and the Optionee agrees to indemnify and hold the Company harmless from all costs and expenses incurred by the Company from the Optionee's failure to properly report and pay all taxes imposed on an independent contractor granted an option under the Plan.

8. **Employment or Service Relationship.** For purposes of this Agreement, Optionee shall be considered to be an Employee as long as Optionee has an employment relationship with the Company and its Affiliates and subsidiaries and shall be considered to be a Third Party Service Provider as long as Optionee provides services contemplated by the definition of "Third Party Service Provider" set forth in the Plan. The Committee shall determine any questions as to whether and when there has been a cessation of such employment or service relationship, and the cause of such cessation, for purposes of the Plan and the Committee's determination shall be final and binding on all persons.

9. **Not an Employment or Service Agreement.** This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or other service relationship between Optionee and the Company, the Affiliates and subsidiaries or guarantee the right to remain employed by or to continue to provide services to the Company, the Affiliates and subsidiaries, for any specified term or require the Company or any Affiliate or subsidiary to employ or utilize the services of Optionee for any period of time.

10. **No Rights As Stockholder.** Optionee shall not have any rights as a stockholder with respect to any Option Shares until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares and all tax obligations. No adjustment shall be made for dividends or other rights for which the record date is prior to the date a certificate or certificates are issued for such shares or an uncertificated book-entry representing such shares is made.

11. **Investment Intent.** Optionee hereby represents that as of the dates any of the shares of the Stock are acquired by Optionee, such shares shall be acquired for Optionee's own account, for investment and not with a view to the distribution thereof.

12. **Notices.** Any notice, instruction, authorization, request, demand or other communications required hereunder, other than a notice required under Section 5(b) which shall be provided as provided in Section 5(b), shall be in writing, and shall be delivered either by personal delivery, by telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the then current address of the Company's Principal Corporate Office, and to the Optionee at the Optionee's residential address indicated as it appears on the first page of this Agreement, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

13. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and Optionee. Only a written instrument executed and delivered by the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized officer of the Company other than Optionee. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner affect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

14. **Dispute Resolution.** In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

15. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of [_____], excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

16. **Transfer Restrictions.** The Option Shares may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. Optionee also agrees (a) that the Company may refuse to cause the transfer of Option Shares to be registered on the applicable stock transfer records if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Option Shares.

17. **Successors and Assigns.** This Agreement shall, except as herein stated to the contrary, bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and Optionee, Optionee's permitted assigns, executors, administrators, agents, legal and personal representatives.

18. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

19. **Option Transfer Prohibitions.** The Option granted to Optionee under this Agreement shall not be transferable or assignable by Optionee other than by will or the laws of descent and distribution, and shall be exercisable during Optionee's lifetime only by Optionee.

EXHIBIT A

C-BOND SYSTEMS, INC.
2018 LONG-TERM INCENTIVE PLAN

NOTICE OF EXERCISE OF OPTION

I was granted by C-Bond Systems, Inc., a [_____] corporation (the "*Company*"), or I am otherwise validly holding, under the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (the "*Plan*"), the option described below (the "*Option*") to purchase shares of the Company's common stock, \$_____ par value (the "*Stock*"):

Date of Grant of the Option: _____, 20____

Total Number of Shares of the Stock Subject to the Option: _____

Option Price per Share of the Stock: \$ _____

Total Number of Shares of the Stock with respect to which the Option is being exercised: _____

Aggregate Option Price Payable: \$ _____

Aggregate Withholding Taxes Payable: \$ _____

Effective as of the date of the Company's receipt of this notice, I hereby exercise the Option and purchase that number of shares of the Stock of the Company indicated above that are offered under the Option, at the exercise price per share set forth in the Option, under and pursuant to the terms of the Plan and the award agreement evidencing the Option (the "*Option Agreement*").

I hereby elect to pay to the Company (a) the aggregate exercise price that is payable by me to the Company as a result of my exercise of the Option (the "*Aggregate Option Price Payable*") and (b) the taxes and any other amounts that the Company is required by law or otherwise directed by me to withhold with respect to my exercise of the Option (the "*Aggregate Withholding Taxes Payable*") by (please indicate your election below by placing an "X" on the line for the alternative elected):

_____ enclosing a certified check in the amount of \$ _____ in payment of the Aggregate Option Price Payable and the Aggregate Withholding Taxes Payable; or

_____ authorize and direct the Company to (a) reduce the number of shares of the Stock to be issued as a result of my exercise of the Option by that number of whole shares of the Stock with a value equal to (or as close as reasonably possible to such amount, with any balance to be paid by my attached check) the Aggregate Option Price Payable and the Aggregate Withholding Taxes Payable, and (b) retain, as payment or satisfaction of the Aggregate Option Price Payable and the Aggregate Withholding Taxes Payable, and cancel all rights to such shares of the Stock that are so retained by the Company.

I hereby direct the Company to issue the shares of the Stock that will be issued as a result of my exercise of the Option to:

Name: _____

Address: _____

_____ Social Security Number: _____

I have attached hereto the original or a copy of the Option Agreement.

I hereby agree to provide such additional documents and information as you may require pursuant to the terms of the Plan and the Option Agreement or as otherwise necessary to be issued the net shares of the Stock to be issued as a result of my exercise of the Option.

Very truly yours,

Name: _____

Date: _____, 20____

**Copy of the
Option Agreement**

[To Be Attached]

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement ("*Agreement*") is made and entered into this 27th day of April 2018, between Ofurace, LLC ("*Shareholder*"), and C-Bond Systems, LLC, a Texas limited liability company ("*Company*") (Company and Shareholder collectively, "*Parties*"). WHEREAS, the Company is prepared to consummate a proposed merger with WestMountain described below; and

WHEREAS, the Shareholder and affiliates of the Shareholder are large equity owners of Company and will thus benefit from Company merging with a public entity; and

WHEREAS, the Company will provide registration rights to the Shareholder to allow the Shareholder to sell its shares in the market and the Shareholder will agree to restrict its sale of shares to allow for an orderly exit from the Company for various investors; and NOW, THEREFORE, for and in consideration of the mutual agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. **Planned Merger.** Shareholder is aware that the Company intends to enter into an agreement and plan of merger and reorganization pursuant to which the Company will merge with a wholly owned subsidiary of WestMountain Alternative Energy, Inc., a Colorado corporation ("WestMountain") (the "Merger"). The result of the Merger will be that Company will become a wholly-owned subsidiary of WestMountain, Company management and directors will become the management and directors of the Company and common units of the Company will become common stock of WestMountain (the "**Merger**").
2. **Registration.** Company agrees to cause WestMountain to file a shelf registration statement registering 1,000,000 shares of WestMountain common stock ("Common Stock") obtained in the Merger by Shareholder (but no other shares owned by Shareholder) as soon as reasonably practicable after completion of the Merger and to use commercially reasonable efforts to cause that registration statement to be declared effective as soon as reasonably practical. The registration statement shall register a total of 4,100,000 shares of WestMountain Common Stock for shareholders of WestMountain, including 1,000,000 shares owned by Shareholder. The registration statement shall not include any other shares of Common Stock owned by Shareholder. Shareholder shall be treated as least as favorably under the registration statement and pursuant to any applicable registration rights agreements as any other shareholders who are getting their stock registered as described and provided above.
3. **Limitations on Resale.** Shareholder agrees that Shareholder will not sell any of its Common Stock, until the registration statement described above is effective and once the registration statement is effective, the Shareholder may sell each trading day, a number of shares of Common Stock equal to no more than 15% of the average trading volume of the Company's common stock for the five trading days prior to the sale on the OTC or such national exchange as the Company's common stock may then be traded. This trading restriction applies to all shares of Common Stock owned by the Shareholder and not just those registered. Each day a new five day lookback applies. Shareholder may not carryforward any shares of Common Stock not sold on a particular day to a later day.
4. **Entire Agreement; No Oral Modifications; No Waivers.** This is a single integrated Agreement expressing the Parties' entire understanding regarding the subjects it addresses. As such, it supersedes all oral and written agreements and discussions that occurred before the date hereof. This Agreement may be

amended or modified only by an agreement in writing signed by an authorized representative of each Party.

5. Applicable Law and Dispute Settlement. This Agreement shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

FOURNACE, LLC

By: /s/ Bruce Rich

Name: Bruce Rich

Title: Manager

C-BOND SYSTEMS, LLC

By: /s/ Scott Silverman

Name: Scott Silverman

Title: CEO

CERTIFICATIONS

I, Scott. R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2018 of C-Bond Systems, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Scott R. Silverman

Scott R. Silverman
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Vincent J. Pugliese, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2018 of C-Bond Systems, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Vincent J. Pugliese

Vincent J. Pugliese

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of C-Bond Systems, Inc. (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott R. Silverman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 14, 2018

/s/ Scott R. Silverman

Scott R. Silverman
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of C-Bond Systems, Inc. (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vincent J. Pugliese, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 14, 2018

/s/ Vincent J. Pugliese

Vincent J. Pugliese
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.