

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-53029**

**C-BOND SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**26-1315585**

(I.R.S. Employer  
Identification No.)

**6035 South Loop East, Houston, TX**

(Address of principal executive offices)

**77033**

(Zip Code)

Registrant's telephone number, including area code: **(832) 649-5658**

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

Securities registered pursuant to Section 12(g) of the Exchange Act: **Common Stock, par value \$0.001 per share**

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

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

Indicate by check mark whether the issuer: (1) 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based upon the closing price of \$0.07 per share of common stock as of June 28, 2019 (the last business day of the registrant's most recently completed second fiscal quarter), was \$4,561,735.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 125,199,633 shares of common stock are issued and outstanding as of March 22, 2020.

**Documents Incorporated by Reference**

None

**C-BOND SYSTEMS, INC.**  
**FORM 10-K**  
**December 31, 2019**

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### Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Report”) contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Report, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management and expected market growth, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “could,” “will,” “would,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “intend,” “predict,” “seek,” “contemplate,” “project,” “continue,” “potential,” “ongoing” or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- our ability to obtain additional funds for our operations;
- our ability to obtain and maintain intellectual property protection for our products and our ability to operate our business without infringing the intellectual property rights of others;
- our reliance on third party distributors;
- the initiation, timing, progress and results of our research and development programs;
- our dependence on current and future collaborators for developing new products;
- the rate and degree of market acceptance of our commercial products;
- the implementation of our business model and strategic plans for our business;
- our estimates of our expenses, losses, future revenue and capital requirements, including our needs for additional financing;
- our reliance on third party suppliers to supply the materials and components for our products;
- our ability to attract and retain qualified key management and technical personnel;
- our financial performance;
- the impact of government regulation and developments relating to our competitors or our industry; and
- other risks and uncertainties, including those listed under the caption “Risk Factors.”

These statements relate to future events or our future operational or financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the section titled “Risk Factors” and elsewhere in this Report.

Any forward-looking statement in this Report reflects our current view with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our business, results of operations, industry and future growth. Given these uncertainties, you should not place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

This Report also contains estimates, projections and other information concerning our industry, our business and the markets for certain glass strengthening solutions, hydrophobic products, and window film mounting solutions, including data regarding the estimated size of those markets and their projected growth rates. Information that is based on estimates, forecasts, projections or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained these industry, business, market and other data from reports, research surveys, studies and similar data prepared by third parties, industry, and general publications, government data and similar sources. In some cases, we do not expressly refer to the sources from which these data are derived.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Report. Except as required by law, we do not undertake any obligation to update or release any revisions to these forward-looking statements to reflect any events or circumstances, whether as a result of new information, future events, changes in assumptions or otherwise, after the date hereof.

## PART I

### ITEM 1. BUSINESS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements that appear elsewhere in this Report.

As used in this Report and unless otherwise indicated, the terms “C-Bond Systems, Inc.,” “Company,” “we,” “us,” or “our” refer to C-Bond Systems, Inc. and 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, as the context may require.

#### Overview

We are a materials development company and the sole owner of the patented, proprietary nanotechnology, which we call our C-Bond™ technology. We currently sell our technology primarily to the glass industry. Our product, called C-Bond, is designed to significantly increase the strength of glass, enhance glass flexibility, and improve the structural integrity of glass. The product is scalable across various target segments and industry verticals. To date, we have focused on automotive glass, including windshields, and architectural glass. In the future, other glass segments such as electronics, including display glass, and glass packaging, including bottles, may be targeted but we have not entered these markets yet.

The C-Bond technology provides strength and improved functional performance to brittle materials. Currently focused on the glass industry, 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. C-Bond’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 of the glass.

#### Our Business

##### Product and Service Offerings

C-Bond current products are patented, low-cost technologies that significantly increase the mechanical performance of glass. We have implemented the following product structure integrating a “new strategic product platform” that has enhanced performance capabilities and market reach with a “legacy product platform” that is still generating incremental revenue and earnings.

##### *New Strategic Product Platform*

###### *C-Bond Transportation Windshield Performance Solution*

C-Bond NanoShield™ is a patented nanotechnology windshield glass strengthening and hydrophobic (water repellent) all-in-one performance system. It is designed to improve windshield safety and performance by increasing windshield chip and crack resistance and improving windshield visibility in wet weather conditions to provide extended driver reaction time. We believe that C-Bond NanoShield is unique in the market and that the product has no direct competitors. With C-Bond NanoShield, we intend to create new markets and channels in the aftermarket automotive windshield segment, including fleets, automotive dealers, and service providers.

##### *Legacy Product Platform*

###### *C-Bond I Glass Strengthening Primer and Window Film Mounting Solution*

C-Bond I is a patented, non-toxic, water-based nanotechnology solution designed to significantly increase the strength of glass and improve the performance properties of window film-to-glass products. C-Bond I improves the performance of window film-to-glass products by reducing glass breakage from impact and stress environments, and fills the capillary voids on the glass surface preventing the trapping of moisture and impurities that impede cure time and adhesion between the glass and any succeeding window film product. This is important because when glass does break, this nanotechnology improves the chances that no large shards/pieces will escape the immediate area of the glass surface and result in serious laceration or personal injury. C-Bond I has been tested against untreated glass by third-party laboratories and shown to outperform untreated glass in this capacity. C-Bond I faces market competition from basic soap and water products (such as baby shampoo and dishwashing soap) as the recognized industry standard window film application solution, which we believe provide no structural benefits and are designed to wash hair and dishes, respectively. C-Bond I increases overall glass strength, improves window film product performance, and can be used in conjunction with any manufacturer’s film product.

###### *C-Bond BRS (Ballistic Resistant Film System)*

C-Bond BRS is a patented nanotechnology Ballistic Resistant Film System that increases the structural integrity of glass and provides National Institute of Justice (NIJ) Level I, Level II and Underwriter Laboratories (UL) 752 ballistic-resistant protection. C-Bond BRS includes a specified glass thickness and glass type, the C-Bond window film mounting solution to improve the glass mechanical strength, and the C-Bond window film product. This product is targeted to police, fire, emergency services, media outlets, schools, airports, and mass transit government buildings due to the utility of ballistic resistant glass protection in their respective fields. The C-Bond BRS system seeks to combine simplicity and affordability with a one-way capability (the ability to shoot-out but prevent shooting in) ballistic protection as compared to other costlier ballistic resistant material (polycarbonate and glass laminate) products.

## **Commercial Market Strategy**

We utilize a distributor model to reach potential customers. This approach takes advantage of existing resources and facilitates relationships between us and our enterprise partners in order to leverage their collective strengths. We require industry partners to generate economic growth, support commercialization activities, provide more developed business networks, knowledge of and access to supply and demand channels, and supplement limited financial resources. We and our industrial partners work together to determine scalability, adaptability, affordability, usability and intellectual property. From a business perspective, the long-term scope and strategic benefits of our plug and play business strategy is to be able to carry out business on a global basis at a lower cost and becoming better informed and more adaptive to changing market conditions, which is dependent on securing these relationships.

### ***C-Bond Authorized Distributor Network***

On April 1, 2016, we officially launched our Authorized Distributor Program focused on channeling distribution agreements with industry specific business-to-business and original equipment manufacturing customers to develop a global distribution network. This program aims to partner with high quality distributors that can grow revenues and margins. Our present distribution channels span the United States from Florida to Hawaii and consist of 56 distribution channels, including international sales in Mexico, United Kingdom, the Netherlands, Australia, India, and the UAE. For the year ended December 31, 2019, two customers accounted for approximately 25.9% of total sales (13.9% and 12.0%, respectively). For the year ended December 31, 2018, three customers accounted for approximately 43.3% of our total sales (11.2%, 13.9% and 18.2%, respectively). For the year ended December 31, 2019, approximately 80% of all sales were in the United States. No other geographical area accounting for more than 10% of total sales during the year ended December 31, 2019. 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.

## **Suppliers**

Currently, we rely on one main supplier, Madico, Inc., for our window film and one main supplier, Gelest, Inc., for our chemicals. However, we believe that, if necessary, alternate suppliers could be found without material disruption to our business.

## **Intellectual Property**

To date, we have filed, licensed and/or acquired a total of 22 individual patents and patent applications spanning core and strategic nano-technology applications and processes. We intend to continue to expand our patent coverage. Our focus remains on building a patent portfolio that protects our core intellectual property and delivers shareholder value.

We own five provisional United States patents and licenses, five United States patents, and 12 foreign patents on a non-exclusive basis from William Marsh Rice University ("Rice University") with claims directed toward various aspects of our current products and products under development including the use of nanotechnology for glass strengthening and the processes and composition of our products.

Pursuant to an agreement dated April 8, 2016, between us and Rice University, Rice University has granted a non-exclusive license to us, 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, we 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, we are 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.

The "C-Bond™" and "C-Bond NanoShield™" names and logos are registered trademarks issued by the U.S. Patent and Trademark Office.

## **Research and Development**

During the years ended December 31, 2019 and 2018, we incurred research and development costs of \$31,057 and \$258,294, respectively. These costs were incurred to continue to upgrade C-Bond products.

## **Competition**

### ***C-Bond Nanoshield Windshield Performance System***

We believe we have no direct competition in the windshield glass strengthening space.

C-Bond NanoShield also provides a complementary hydrophobic or water repellent quality. There are competitors in this space, including Rain-X, AquaPel, and Diamon-Fusion. We believe these products do not provide chip or crack resistance and have hydrophobic properties that degrade sooner than C-Bond NanoShield. Accordingly, management believes there is no product that is truly comparable to C-Bond NanoShield currently on the market. We had the performance of C-Bond NanoShield verified at our request, based on a modified chip test for paint on metal parts, SAEJ 400, to provide windshield glass chip protection when compared to untreated glass.

### *C-Bond I Glass Strengthening Primer and Window Film Mounting Solution*

C-Bond I faces competition from alternative window film mounting products in the market; however, all these products have similar ingredients to a soap and water mix, which we believe provides no structural benefit. These solutions are used to provide a window film installer the ability to slip or move the film on the surface to which it is applied. The industry standard solution most commonly used to apply window film products to glass is a mixture containing commonly available baby shampoo or dishwashing soap and water that we believe has the following negative attributes: provides no structural benefits, often bubbles or yellows and scatters light, can only be applied within a limited temperature range, and may require 30 to 120 days of “dry” time to set completely depending on the film thickness. C-Bond I provides the same slip properties while also strengthening the glass and improving film adhesion.

### *C-Bond BRS*

C-Bond BRS faces competition from alternative bulletproof or bullet-resistant glass products in the market. Alternative bulletproof solutions use a polycarbonate or glass laminate materials that are expensive, thick, heavy, often require reframing and retrofit of existing structure and revised building codes, and yellow and discolor over time. These alternative solutions are often cost prohibitive to cost sensitive customers such as educational and municipal facilities. C-Bond BRS allows for increased safety and security at affordable costs. Most importantly, it provides a deterrent to an intruder and valuable time to secure the facility.

### *Employees*

As of December 31, 2019, we had eight full-time employees. We have established an extensive network of external partners, contractors, and consultants to outsource to in an effort to minimize administrative overhead and maximize efficiency.

### **General Company Information**

WestMountain Alternative Energy, Inc. (“WestMountain Alternative Energy”) was incorporated in the state of Colorado on November 13, 2007. C-Bond Systems, LLC is a Texas-based limited liability company that was formed in 2013, headquartered in Houston, Texas. On April 25, 2018, WestMountain Alternative Energy, WestMountain Alternative Energy’s wholly-owned subsidiary, WETM Acquisition Corp., a corporation formed in the State of Colorado on April 18, 2018, (the “Acquisition Sub”), and C-Bond Systems, LLC, entered into an Agreement and Plan of Merger and Reorganization (“Merger Agreement”). 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 and became a wholly-owned subsidiary of WestMountain Alternative Energy (the “Merger”). 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. On July 18, 2018, we changed our name to C-Bond Systems, Inc. Our common stock is currently quoted on the OTC Pink marketplace on a limited basis under the trading symbol “CBNT”. Our principal executive offices are located at 6035 South Loop East, Houston, Texas, 77033. Our website address is <http://cbondsystems.com/>, and our telephone number is (832) 649-5658. The content of any website of ours is not a part of, or incorporated by reference in, this Report. The Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are filed with the Securities and Exchange Commission (the “SEC”). These reports and any other information filed by the Company with the SEC are available free of charge on our website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

### **ITEM 1A. RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should not invest in our stock unless you are able to bear the complete loss of your investment. You should carefully consider the risks described below, as well as other information provided to you in this annual report on Form 10-K, including information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Cautionary Note Regarding Forward-Looking Information” before making an investment decision. The risks and uncertainties described below are not the only ones facing C-Bond Systems. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline, and you may lose all or part of your investment.*

***We have incurred substantial losses to date, may continue to incur losses in the future, and we may never achieve or sustain profitability.***

We have incurred substantial net losses since our inception, including net losses of \$7,240,740 and \$9,904,719 for the years ended December 31, 2019 and 2018, respectively, and these losses may continue. The net cash used in operations was \$1,313,711 and \$1,967,782 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, we had an accumulated deficit, shareholders’ deficit, and working capital deficit of \$40,000,015, \$2,616,937 and \$2,436,639, respectively. We expect to incur additional costs and expenses related to the continued development and expansion of our business, including research and development operations and the commercialization of our C-Bond technologies. Our ability to achieve profitability depends on our success in increasing industry acceptance of our technologies and products. We may never achieve profitability.

***Our ability to continue as a going concern will require us to obtain additional financing to fund our current operations, which may be unavailable on attractive terms, if at all.***

As of December 31, 2019, our recurring operating losses, cash used in operations and our current operating plans raise substantial doubt about our ability to continue as a going concern for a period of twelve months from the issuance date of this report. Our ability to continue as a going concern will require us to obtain additional financing to fund our current operating plans. We believe that our existing cash and cash equivalents will not be sufficient to fund our current operating plans. We have based these estimates, however, on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect and need to raise additional funds sooner than we anticipate. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development efforts and commercialization efforts.

***Our future revenues are very difficult to predict with any accuracy.***

We are an early stage company. That makes predicting the timing or the amount of revenues that we will receive from the sale, or license, of our products very difficult. Any delay in the development and acceptance of one or more of our products, could result in significant delays in the realization of revenues, the need to raise additional capital through the issuance of additional equity or debt securities sooner than we intend, and may allow competitors to reach certain of such markets with products before we do. In view of the emerging nature of the technology involved in certain of these markets, and the attendant uncertainty as to whether our products will achieve meaningful commercial acceptance, if at all, there can be no assurance that we will realize revenues sufficient to achieve profitability.

***Our intellectual property is subject to patents and exclusive license agreements that may expire or change.***

We rely on U.S. patents to protect our proprietary products that form the core of our revenue potential. These patents are subject to standard patent expiration terms. Upon expiration of our patents we will no longer be able to prevent our competitors from developing similar products to ours. Additionally, we rely on exclusive license agreements to use certain technologies. The terms of the exclusive license agreements may change upon expiration of their current terms. We may not be able to renew or extend our current licenses, or they may become non-exclusive licenses. The inability to maintain our exclusive licenses agreements would have a significant impact on our potential future revenues.

***If we are unable to adequately protect our intellectual property, our competitive position and results of operations may be adversely impacted.***

Protecting our intellectual property is critical to our innovation efforts. We own patents, trade secrets, copyrights, trademarks and/or other intellectual property rights related to many of our products, and also have exclusive and non-exclusive license rights under intellectual property owned by others. Our intellectual property rights may be challenged or infringed upon by third parties, particularly in countries where property rights are not highly developed or protected, or we may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Unauthorized use of our intellectual property rights or inability to preserve existing intellectual property rights could adversely impact our competitive position and results of operations.

***We are dependent on key personnel, and our ability to grow and compete in our industry will be harmed if we do not retain the continued services of our key personnel, or we fail to identify, hire, and retain additional qualified personnel.***

Our success depends on the efforts of our senior management team and other key personnel. The loss of services of members of our senior management team could have an adverse effect on our business. In addition, if we expect to grow our operations, it will be necessary for us to attract and retain additional qualified personnel. If we are unable to attract or retain qualified personnel as needed, the growth of our operations could be slowed or hampered.

***Potential adverse outcomes in legal proceedings may adversely affect results.***

Our business exposes us to product liability claims that are inherent in the design, manufacture and sale of our products and the products of suppliers. We may not be able to obtain insurance on acceptable terms or our insurance may not provide adequate protection against actual losses. In addition, we are subject to the risk that one or more of our insurers may become insolvent and become unable to pay claims that may be made in the future. Even if we maintain adequate insurance, claims could have a material adverse effect on our financial condition, liquidity and results of operations and on our ability to obtain suitable, adequate or cost-effective insurance in the future.

***If we are unable to successfully introduce new products, our future growth may be adversely affected.***

Our ability or failure to develop new products based on innovation can affect our competitive position and requires the investment of significant time and resources. Difficulties or delays in research, development, production or commercialization of new products and services may reduce future revenues and adversely affect our competitive position. If we are unable to create sustainable product differentiation, our organic growth may be adversely affected.

***Research and development for continued growth of our IP portfolio and product offerings is expensive, and we may not have sufficient funds to continue research and develop activities and may not be able to acquire additional funding.***

Our ability to continue our research and development activities to improve and expand our products and service offerings requires extensive amounts of funding. We may not be able to obtain the necessary funding on attractive terms and in a timely basis to continue our research and development activities, which would cause our research and development activities to be delayed, reduced or terminated. Delaying, reducing or terminating our research activities would impede our estimated growth and results of operations.

***We rely heavily on collaborative partners such as distributors, manufacturers and vendors and our relationships with such parties may restrict or limit our business operations.***

We are currently working with several third-party entities with respect to the validation, optimization, and distribution of our products. Our current and future collaborations and joint ventures are important as they allow greater access to funds, to research, development and testing resources, validation, and to manufacturing, sales and distribution resources that we would otherwise not have. We intend to continue to significantly rely on such collaborative and joint venture arrangements. Some of the risks and uncertainties related to the reliance on such collaborations and joint ventures include the fact that such relationships could actually serve to limit or restrict us, while our partners are free to pursue other products either on their own or with others. Further, our partners may terminate a collaborative technology relationship and such termination may require us to seek other partners or expend substantial resources to pursue these activities independently.

***We rely primarily on a third-party distribution model for our products and the number and quality of distributors can vary and may impact our revenues.***

We rely on numerous third-party distributors for the distribution of our products. While we believe that alternative distributors could be located if required, our product sales could be affected if any of these distributors do not continue to distribute our products in required quantities or at all, or with the required levels of quality. In addition, difficulties encountered by these distributors, such as fire, accident, natural disasters, or political unrest, could halt or disrupt distributions, resulting in delay or cancellation of orders. Any of these events could result in delayed deliveries by us of our products, causing reduced sales and harm to our reputation and brand name.

***We only have one manufacturing facility.***

We manufacture all of our products at our Houston, Texas facility. In the event of a fire, flood, tornado, hurricane or other form of a catastrophic event, we may be unable to fulfill any then-existing demand for our products, possibly for a prolonged period, depending upon the severity of the event. As a result, should a catastrophic event occur, our financial condition and results of operation would be materially adversely affected.

Additionally, our lease on our Houston, Texas facility expired in November 2019 and was extended to May 31, 2021. There is no guarantee that we will be able to negotiate a favorable lease renewal or extension. If we are not able to renew or extend our lease on the Houston, Texas facility, we may have to move our corporate headquarters and manufacturing facility. Doing so could cause us to incur significant expenses and could delay or reduce our ability to manufacture our products for some time. Our financial condition and results of operation could be materially adversely affected by any such move.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified members of the board of directors.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the OTC and other applicable securities rules and regulations. Compliance with these rules and regulations requires significant legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. We may need to hire more employees in the future to comply with these regulatory requirements, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a public company with these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve any committees, and qualified executive officers.

As a result of disclosure of information in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

We may not reach sufficient size to justify our public reporting status. If we are forced to become a private company, then our stockholders may lose their ability to sell their shares and there would be substantial costs associated with becoming a private company.



***We may not be able to fulfill our obligation to develop and maintain proper and effective internal controls over financial reporting.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting annually. This assessment needs to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Management concluded that our internal controls and procedures as of December 31, 2019 were not effective, see " *We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in a material misstatement in our financial statement.* " below. In the future, we may not be able to complete our evaluation, testing and any required remediation in a timely fashion. Failure to comply, or any adverse results from such evaluation, could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our equity securities. Achieving continued compliance with Section 404 may require us to incur significant costs and expend significant time and management resources. We cannot assure you that we will be able to fully comply with Section 404 or that we will be able to conclude that our internal control over financial reporting is effective at fiscal year-end. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our securities.

#### **Risks Related to the Glass Strengthening and Water Repellent Industries**

***We face competition from companies that have substantially greater capital resources, research and development, manufacturing and marketing resources.***

While we believe that we have significant competitive benefits offered by our proprietary products, there are competitors with much longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we have. As we grow and become successful with our products, we expect these competitors to increase the resources they dedicate to our market. Such competition could materially adversely affect our business, operating results or financial condition.

***We may face increased pricing pressures from current and future competitors and, accordingly, there can be no assurance that competitive pressures will not require us to reduce our prices.***

It is likely that we will experience significant competitive pressure over time. Accordingly, the use and pricing of our products may decline as the market becomes more competitive. Any material reduction in the price of our products will negatively affect our gross margin and results of operations.

***We may have difficulty developing brand awareness for our products.***

We believe that a developed market for glass strengthening products currently does not exist. Generation of the brand and market communications are essential to the Company's long-term success. Funding constraints will limit the Company's ability to build product awareness through marketing and advertising. Without clear market communication the risk of having the product confused with other applications such as a stand-alone hydrophobic product is possible. If we are unable to develop such a market or create demand for our products, it would adversely impact our business and operating results.

#### **Risks Related to our Common Stock**

***Our common stock is quoted on the OTC Pink, which may limit the liquidity and price of our common stock more than if our common stock were listed on the Nasdaq Stock Market or another national exchange.***

Our securities are currently quoted on the Over-the-Counter Markets, specifically the OTC Pink (the "OTC Pink"), an inter-dealer automated quotation system for equity securities. Quotation of our securities on the OTC Pink may limit the liquidity and price of our securities more than if our securities were listed on the Nasdaq Stock Market or another national exchange. As an OTC Pink company, we do not attract the extensive analyst coverage that accompanies companies listed on national securities exchanges. Further, institutional and other investors may have investment guidelines that restrict or prohibit investing in securities traded on the OTC Pink. These factors may have an adverse impact on the trading and price of our common stock.

***The trading price of our common stock may decrease due to factors beyond our control.***

The stock market from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for smaller reporting companies and which often have been unrelated to the operating performance of the companies. These broad market fluctuations may adversely affect the market price of our common stock. If our shareholders sell substantial amounts of their common stock in the public market, the price of our common stock could fall. These sales also might make it more difficult for us to sell equity, or equity-related securities, in the future at a price we deem appropriate.

The market price of our common stock may also fluctuate significantly in response to the following factors, most of which are beyond our control:

- variations in our quarterly operating results,
- changes in general economic conditions and in our industry,
- changes in market valuations of similar companies,
- announcements by us or our competitors of significant new contracts, acquisitions, strategic partnerships or joint ventures, or capital commitments,
- loss of a major customer, partner or joint venture participant and
- the addition or loss of key managerial and collaborative personnel.

Any such fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. As a result, stockholders may be unable to sell their shares, or may be forced to sell them at a loss.

***The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float, limited operating history and lack of profits which could lead to wide fluctuations in our share price. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you.***

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or “risky” investment due to our limited operating history and lack of profits to date. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

***Penny stock regulations may impose certain restrictions on marketability of our securities.***

Our common stock is subject to penny stock rules, which may discourage broker-dealers from effecting transactions in our common stock or affect their ability to sell our securities. As a result, purchasers and current holders of our securities could find it more difficult to sell their securities. Trading volume of OTC Pink stocks have been historically lower and more volatile than stocks traded on an exchange or the Nasdaq Stock Market. In addition, we may be subject to rules of the SEC that impose additional requirements on broker-dealers when selling penny stocks to persons other than established customers and accredited investors. In general, an accredited investor is a person with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 individually, or \$300,000 together with his or her spouse. The relevant SEC regulations generally define penny stocks to include any equity security not traded on an exchange or the Nasdaq Stock Market with a market price (as defined in the regulations) of less than \$5 per share. Under the penny stock regulations, a broker-dealer must make a special suitability determination as to the purchaser and must have the purchaser’s prior written consent to the transaction. Prior to any transaction in a penny stock covered by these rules, a broker-dealer must deliver a disclosure schedule about the penny stock market prepared by the SEC. Broker-dealers must also make disclosure concerning commissions payable to both the broker-dealer and any registered representative and provide current quotations for the securities. Finally, broker-dealers are required to send monthly statements disclosing recent price information for the penny stock held in an account and information on the limited market in penny stocks.

***You may find it difficult to sell our common stock.***

As mentioned above, there has been a limited trading market in our common stock. We cannot assure you that an active trading market for our common stock will develop or be sustained. Regardless of whether an active and liquid public market exists, negative fluctuations in our actual or anticipated operating results will likely cause the market price of our common stock to fall, making it more difficult for you to sell our common stock at a favorable price, or at all.

***We intend to issue additional equity and stock options to employees and consultants as compensation in the future, which will result in dilution to existing and new investors.***

We provide and intend to continue to provide additional equity-based compensation to our employees, officers, directors, consultants and independent contractors through an equity incentive plan. Our equity incentive plan permits the award of options to purchase shares of common stock and the issuance of restricted shares of our common stock. Because stock options granted under the plan will generally only be exercised when the exercise price for such option is below the then market value of the common stock, the exercise of such options or the issuance of shares will cause dilution to the book value per share of our common stock and to existing and new investors.

***Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to fall.***

We have not entered into lock-up agreements with many of our existing stockholders. As a result, sales of a substantial number of shares of our common stock in the public market could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

***Our stock price is likely to be volatile.***

There is generally significant volatility in the market prices and limited liquidity of securities of companies at our stage. Contributing to this volatility are various events that can affect our stock price in a positive or negative manner. These events include, but are not limited to: governmental regulations or actions; market acceptance and sales growth of our products; litigation involving our industry; developments or disputes concerning our patents or other proprietary rights; departure of key personnel; future sales of our securities; fluctuations in our financial results or those of companies that are perceived to be similar to us; investors' general perception of us; announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments, and general economic, industry and market conditions. If any of these events occur, it could cause our stock price to fall.

***The price of our common stock may be adversely affected by the future issuance and sale of shares of our common stock or other equity securities.***

We cannot predict the size of future issuances or sales of our common stock or other equity securities future acquisitions or capital raising activities, or the effect, if any, that such issuances or sales may have on the market price of our common stock. The issuance and sale of substantial amounts of common stock or other equity securities or announcement that such issuances and sales may occur, could adversely affect the market price of our common stock. Any decline in the price of our common stock may encourage short sales, which could place further downward pressure on the price of our common stock and may impair our ability to raise additional capital through the sale of equity securities.

***Our reduced stock price may adversely affect our liquidity.***

Our common stock has limited trading history. Many market makers are reluctant to make a market in stock with a trading price of less than \$5.00 per share, as well as shares quoted on the OTC Pink. To the extent that we have fewer market makers for our common stock, our volume and liquidity will likely decline, which could further depress our stock price.

***We have never paid dividends on our common stock and cannot guarantee that we will pay dividends to our stockholders in the future.***

We have never paid dividends on our common stock. For the foreseeable future, we intend to retain our future earnings, if any, in order to reinvest in the development and growth of our business and, therefore, do not intend to pay dividends on our common stock. However, in the future, our board of directors may declare dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, and such other factors as our board of directors deems relevant. Accordingly, investors may need to sell their shares of our common stock to realize a return on their investment, and they may not be able to sell such shares at or above the price paid for them. We cannot guarantee that we will pay dividends to our stockholders in the future.

***Colorado law and our Articles of Incorporation protect our directors from certain types of lawsuits, which could make it difficult for us to recover damages from them in the event of a lawsuit.***

Colorado law provides that our directors will not be liable to our company or to our stockholders for monetary damages for all but certain types of conduct as directors. Our Articles of Incorporation require us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require our company to use our assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment or other circumstances.

***Additional risks may exist since we became public through a "reverse merger."***

Because our business became public by means of a "reverse merger," we may not be able to attract the attention of major brokerage firms. Securities analysts of major brokerage firms may not provide coverage of us since there is little incentive to brokerage firms to recommend the purchase of our common stock. We cannot assure you that brokerage firms will want to conduct any secondary offerings on our behalf in the future.

*We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in a material misstatement in our financial statements.*

We are subject to the reporting and other obligations under the Securities Exchange Act of 1934 (“Exchange Act”), including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which require annual management assessments of the effectiveness of our internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As further described in Item 9A, “Controls and Procedures,” our management has concluded that, as of December 31, 2019, our internal control over financial reporting was not effective due to material weaknesses. As of the end of our fiscal year, management had identified the following material weaknesses:

- we had not fully implemented comprehensive entity-level internal controls; and
- we did not have sufficient segregation of duties.

While the management has undertaken, and will continue to undertake steps to improve our internal control over financial reporting to address and remediate the material weaknesses, there can be no assurance that we will be able to successfully remediate the identified material weaknesses, or that we will not identify additional control deficiencies or material weaknesses in the future. If we are unable to successfully remediate our existing or any future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected, we may be unable to maintain compliance with securities laws regarding the timely filing of periodic reports, investors may lose confidence in our financial reporting and the price of our ordinary shares may decline.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 2. PROPERTIES**

Our corporate headquarters and manufacturing facility is located in an 8,385 square foot facility in Houston, Texas at 6035 South Loop East, Houston. The lease on the Houston facility expired in November 2019 and was extended to May 31, 2021.

#### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

Other than a small claim in the amount of \$10,000, we are currently not aware of any other pending legal proceedings to which we are a party or of which any of our property is the subject, nor are we aware of any such proceedings that are contemplated by any governmental authority.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the OTC Pink operated by the OTC Markets Group, under the symbol "CBNT." Trading in OTC Pink stocks can be volatile, sporadic and risky, as thinly traded stocks tend to move more rapidly in price than more liquid securities. Such trading may also depress the market price of our common stock and make it difficult for our stockholders to resell their common stock. Our common stock does not have an established public trading market.

The following table reflects the high and low closing price for our common stock for the period indicated. The bid information was obtained from the OTC Markets Group, Inc. and reflects inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

Quarter Ended	High		Low	
December 31, 2019	\$	0.15	\$	0.04
September 30, 2019	\$	0.22	\$	0.03
June 30, 2019	\$	0.20	\$	0.06
March 31, 2019	\$	0.70	\$	0.08
December 31, 2018	\$	2.60	\$	0.55
September 30, 2018	\$	3.05	\$	1.00
June 30, 2018	\$	11.00	\$	0.28
March 31, 2018	\$	0.21	\$	0.21

#### Holders of Common Stock

As of March 22, 2020, there were approximately 189 record holders of our common stock. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

#### Dividends

Historically, we have not paid any cash dividends on our common stock. It is our present intention not to pay any cash dividends in the foreseeable future, but rather to reinvest earnings, if any, in our business operations. However, in the future, our board of directors may declare dividends on our common stock. Payment of future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. We cannot guarantee that we will pay dividends to our stockholders in the future.

#### Securities Authorized for Issuance under Equity Compensation Plans

See "Part III. Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information concerning our equity compensation plans as of December 31, 2019.

#### Recent Sales of Unregistered Securities

On October 1, 2019, we entered into a one-month Digital Marketing and Social Media Exposure Agreement (the "Marketing Agreement") with a third-party entity. Pursuant to the Marketing Agreement, the Company issued 350,000 common shares of the Company which were valued at \$15,400, or \$0.044 per common share, based on contemporaneous common share sales on the agreement date.

On November 19, 2019, we issued 510,000 common shares of the Company for consulting services rendered. These shares were valued at \$25,500, or \$0.05 per common share, based on contemporaneous common share sales on the agreement date.

In November 2019, we entered into restricted stock award agreements with two employees. Pursuant to these restricted stock award agreements, the Company agreed to grant restricted stock awards for an aggregate of 1,300,000 common shares of the Company which were valued at \$65,000, or \$0.05 per common share, based on contemporaneous common share sales. These shares will vest on May 1, 2021. If the employee's employment is terminated for any reason, these shares will immediately be forfeited. In the event of a change of control, the employee shall be 100% vested in all shares of restricted shares subject to these Agreements. Each employee shall have the right to vote the restricted shares awarded to them 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 employee shall not be entitled to delivery of the stock certificate or certificates or electronic book entries representing such restricted shares until the shares are vested, (b) the Company shall retain custody of all retained distributions made or declared with respect to the restricted shares until such time, if ever, as the restricted shares have become vested, and (c) the employee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the restricted shares.

On December 21, 2019, we issued 3,000,000 common shares upon the exercise of 3,000,000 stock options. In connection with these option exercises, we reduced accrued compensation by \$90,000.

In connection with subscription agreements, during the fourth quarter of December 31, 2019, we received cash proceeds of \$150,000 from investors for the purchase of 3,000,000 shares of the Company's common stock at \$0.05 per share.

During October and November 2019, we entered into Series A Preferred Stock Purchase Agreements with accredited investors whereby the investors agreed to purchase an aggregate of 159,600 unregistered shares of the Company's Series A Preferred stock, par value \$0.10, for \$133,000, or \$0.833 per share. During October and November 2019, we received cash proceeds of \$127,000, net of fees of \$6,000.

On December 12, 2019, the Board of Directors of the Company agreed to satisfy \$108,000 of accrued compensation owed to its directors and executive officers (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 108 shares of the Company’s Series B Convertible Preferred Stock in settlement of accrued compensation.

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

#### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

#### **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

#### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information included in this Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, 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 “Cautionary Note Regarding Our Forward-Looking Statements” elsewhere in this Report. You should review the disclosure under the heading “Risk Factors” in this Report for a discussion of important factors 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.*

##### **Overview**

We are a nanotechnology company and sole owner, developer and manufacturer of the patented C-Bond technology. The Company is engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability of brittle material systems. Our present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally.

To date, we have filed, licensed and/or acquired a total of 22 individual patents and patent applications spanning core and strategic nano-technology applications and processes. Our intellectual property portfolio was recently valued at \$33.7 million by a leading, independent, global intellectual property valuation firm. The IP valuation firm’s review covered the valuation of our intangible assets including our developed technology, trade name, customer relationships, and assembled workforce, and the Company’s determination of the fair value or other amounts of any assets and liabilities including current assets, real property, personal property, and current liabilities. Our developed technology includes C-Bond NanoShield, C-Bond I, and C-Bond BRS. The valuation firm also reviewed historical and projected financial information for the Company giving consideration to general economic and industry trends.

On April 25, 2018, our wholly-owned subsidiary, Acquisition Sub, merged with and into C-Bond Systems, LLC, pursuant to which 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. We changed our name to C-Bond Systems, Inc. on July 18, 2018.

##### **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 (“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.

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 3.233733. 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 will account for the transaction as a recapitalization transaction because C-Bond Systems, LLC’s former stockholders 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 our results of operations and the principal factors that have affected our 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 statements of financial condition and results of operations presented herein. The following discussion and analysis are based on our audited financial statements contained in this Report, which have been prepared in accordance with United States generally accepted accounting principles (“GAAP”). You should read the discussion and analysis together with such financial statements and the related notes thereto.

## Operating Overview

We are a nanotechnology company and 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. Our present primary focus is 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. C-Bond'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. C-Bond BRS is sold on a project basis. C-Bond BRS 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 consolidated financial condition and consolidated results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated 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 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 and there was no cumulative effect adjustment.

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.

#### **Derivative financial instruments**

We have certain financial instruments that are embedded derivatives associated with capital raises. We evaluate all our financial instruments to determine if those contracts or any potential embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 810-10-05-4 and 815-40. This accounting treatment requires that the carrying amount of any embedded derivatives be recorded at fair value at issuance and marked-to-market at each balance sheet date. In the event that the fair value is recorded as a liability, as is the case with the Company, the change in the fair value during the period is recorded as either other income or expense. Upon conversion, exercise or repayment, the respective derivative liability is marked to fair value at the conversion, repayment or exercise date and then the related fair value amount is reclassified to other income or expense as part of gain or loss on extinguishment.

In July 2017, FASB issued ASU No. 2017-11, *Earnings Per Share* (Topic 260); *Distinguishing Liabilities from Equity* (Topic 480); *Derivatives and Hedging* (Topic 815): (Part I) *Accounting for Certain Financial Instruments with Down Round Features*. These amendments simplify the accounting for certain financial instruments with down-round features. The amendments require companies to disregard the down-round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The guidance was adopted as of January 1, 2019 and we elected to record the effect of this adoption, if any, retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the condensed consolidated balance sheet as of the beginning of 2019, the period which the amendment is effective. The adoption of ASU No. 2017-11 had no effect on our financial position or results of operations.

#### **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.

Through September 30, 2018, pursuant to ASC 505-50 – “*Equity-Based Payments to Non-Employees*”, all share-based payments to non-employees, including grants of stock options, were 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 adjusts the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company early adopted ASU No. 2018-07 in the fourth quarter of 2018 and there was no cumulative effect of adoption.

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.

See Note 2 to our consolidated financial statements for a summary of significant accounting policies and recent accounting pronouncements.

#### **Results of Operations**

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended December 31, 2019 and 2018, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended December 31, 2019 and 2018.



## Comparison of Results of Operations for the Years ended December 31, 2019 and 2018

### *Sales*

For the year ended December 31, 2019, sales amounted to \$602,636 as compared to \$382,244 for the year ended December 31, 2018, an increase of \$220,392, or 57.7%. This increase was primarily attributable to an increase in sales of C-Bond ballistic resistant glass protection systems of \$150,920 and an increase in sales of C-Bond multi-purpose glass protection system of \$30,454. We use multiple sales channels, including distributors and authorized dealers to generate revenues. Additionally, during the year ended December 31, 2019, we recorded sales from installation and other services of \$32,306 as compared to \$0 during the year ended December 31, 2018.

### *Cost of Goods Sold*

Cost of goods sold is comprised primarily of inventory sold, packaging costs, and warranty costs. For the year ended December 31, 2019, cost of sales amounted to \$121,967 as compared to \$83,384 for the year ended December 31, 2018, an increase of \$38,583, or 46.3%. The increase in cost of sales was primarily due to an increase in sales and an increase in raw material costs incurred associated with the purchase and use of an additional additive used in C-Bond NanoShield product to create hydrophobic properties, which we started using in late 2018, and the increase in film costs associated with C-Bond BRS projects.

### *Gross Profit*

For the year ended December 31, 2019, gross profit amounted to \$480,669, or 79.8% of sales, as compared to \$298,860, or 78.2% of sales, for the year ended December 31, 2018, an increase of \$181,809, or 60.8%. This increase in gross profits is primarily the result of an increase in sales offset by increases in material costs as discussed above.

### *Operating Expenses*

For the year ended December 31, 2019, operating expenses amounted to \$6,839,281 as compared to \$9,566,962 for the year ended December 31, 2018, a decrease of \$2,727,681, or 28.5%. For the years ended December 31, 2019 and 2018, operating expenses consisted of the following:

	Year ended December 31,	
	2019	2018
Compensation and related benefits, including stock-based compensation charges	\$ 5,359,676	\$ 7,823,381
Research and development	31,057	258,294
Professional fees	986,445	1,006,939
General and administrative expenses	462,103	478,348
Total	<u>\$ 6,839,281</u>	<u>\$ 9,566,962</u>

#### *Compensation and related benefits*

For the year ended December 31, 2019, compensation and related benefits decreased by \$2,463,705, or 31.5%, as compared to the year ended December 31, 2018. This decrease was primarily due to a decrease in stock-based compensation of \$2,876,157 offset by an increase in compensation related to a 2019 bonus accrued to executive officers during the three months ended March 31, 2019 of \$255,000 and an increase in compensation expense of \$157,452. During the years ended December 31, 2019 and 2018, stock-based compensation related to the accretion of stock-option expense and other stock-based compensation amounted to \$3,858,967 and \$6,735,124, respectively, a decrease of \$2,876,157.

#### *Research and development*

Research and development expenses consist primarily of contracted development services, third party testing laboratories, materials used and allocated overhead expenses. For the year ended December 31, 2019, research and development expense decreased by \$227,237, or 88.0%, as compared to the year ended December 31, 2018. The decrease in research and development expense is primarily related to a decrease in use of contracted development services due a lack of working capital. We believe continued investment is important to attaining our strategic objectives and expect research and development expenses to increase in the foreseeable future, if working capital is available.

#### *Professional fees*

For the year ended December 31, 2019, professional fees decreased by \$20,494, or 2.0%, as compared to the year ended December 31, 2018. This decrease primarily related to a decrease in legal fees of \$472,685 and a decrease in accounting fees of \$12,393 offset by an increase in consulting fees of \$430,527 which included an increase in stock-based consulting fees of \$339,993, and an increase in other professional fees of \$34,057.

### *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 year ended December 31, 2019, general and administrative expenses increased by \$16,245, or 3.4%, as compared to the year ended December 31, 2018. We expect our general and administrative expenses to increase due to the anticipated growth of our business.

### **Other Expense**

For the year ended December 31, 2019, other expenses increased by \$245,511 as compared to the year ended December 31, 2018. This increase was due to an increase in derivative expense of \$570,059 attributable to the recording of derivative liabilities related to convertible debt and an increase in interest expense of \$289,936 related to the amortization of debt discount and an increase in interest-bearing debt offset by a decrease in loss from extinguishment of debt of \$414,484 and a decrease in settlement expense of \$200,000. During the year ended December 31, 2018, we recorded loss on debt extinguishment related to the issuance of 315,957 shares to a vendor to settle amounts owed to such vendor whereby we recorded a loss on debt extinguishment of \$153,779, and due to a note termination agreement whereby we recorded debt extinguishment expense of \$229,696. On August 20, 2018, pursuant to a settlement and release agreement, we issued 500,000 shares of common stock to settle a claim. These shares were valued at \$200,000, or \$0.40 per common share, based on contemporaneous common share sales. In connection with this settlement agreement, we recorded settlement expense of \$200,000. We did not incur such expense in the 2019 period.

### **Net Loss**

For the year ended December 31, 2019, net loss amounted to \$7,240,740, or \$0.08 per common share (basic and diluted), as compared to \$9,904,719, or \$0.14 per common share (basic and diluted), for the year ended December 31, 2018, a decrease of \$2,663,979. The decrease in net loss was primarily attributable to a decrease in operating and other expenses, offset by an increase gross profit 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 \$77,211 and \$128,567 as of December 31, 2019 and 2018, 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;
- Marketing expense for building brand;
- Capital requirements for production capacity.

Since inception, we have raised from proceeds from the sale of common shares and from debt to fund our operations and research and development initiatives.

In January 2019, we received proceeds of \$19,185 from the collection of subscription receivable related to the exercise of stock options.

From February 13, 2019 to May 15, 2019, we entered into four Securities Purchase Agreements (the "SPAs") with an Accredited Investor ("Investor") for the purchase of a Convertible Promissory Notes in the aggregate principal amount of \$244,800 and received net proceeds of \$192,000, net of original issue discount of \$40,800 and net of origination fees of \$12,000. These Notes bear interest rate ranging from 4% per annum to 12% per annum and were due and payable through May 2020. The Notes were convertible by the Investor after six months into shares of the Company's common stock (as determined in the Note) at a price equal to 81% of the average of the lowest two closing bid prices of the common stock as reported on the OTC Link ATS owned by OTC Markets Group for the 10 prior trading days. We accounted for these convertible promissory notes as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$57,423 with a charge to interest expense. On August 15, 2019, we issued 295,567 shares of our common stock upon conversion of principal balance of \$12,000. On September 6, 2019, we satisfied in full all remaining convertible promissory note obligations with this accredited investor including all Notes and accrued interest for a cash payment of \$238,080. In connection with this debt extinguishment, we reversed all put premiums recorded and debt remaining debt discounts and recorded a gain on debt extinguishment of \$31,009.

In connection with a subscription agreement dated April 23, 2019, during the three months ended June 30, 2019, the Company received cash proceeds of \$300,000 from an investor for the purchase of 2,000,000 shares of the Company's common stock at \$0.15 per share.

In connection with subscription agreements, during the year ended December 31, 2019, the Company received cash proceeds of \$480,000 from investors for the purchase of 10,750,000 shares of the Company's common stock at prices ranging from \$0.04 to \$0.05 per share.

On April 26, 2019, we entered into a Promissory Note ("Promissory Note") with an accredited investor in the aggregate principal amount of \$25,000 and received net proceeds of \$25,000. The Promissory Note bears interest at 4% per annum and is due and payable on April 26, 2020 (the "Maturity Date"). This Promissory Note was repaid during 2019.

On September 6, 2019, we closed a Securities Purchase Agreement (the "Purchase Agreement") with an accredited investor. Pursuant to the terms of the Purchase Agreement, we issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$300,000 (the "Note"), and a warrant to purchase up to 750,000 shares of the Company's common stock (the "Warrant"). We received net proceeds of \$267,250, net of origination fees of \$32,750. The Note bears interest at 12% per annum and becomes due and payable on June 6, 2020. In accordance with the SPA and the Note, subject to the adjustments as defined in the SPA and Note, the conversion price (the "Conversion Price") shall equal the lesser of: (i) the lowest Trading Price (as defined below) during the previous twenty-five Trading Day period ending on the latest complete Trading Day prior to the date of this Note, and (ii) the Variable Conversion Price (as defined below) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Company). The "Variable Conversion Price" shall mean 60% multiplied by the Market Price (as defined herein) (representing a discount rate of 40%). "Market Price" means the lowest Trading Price (as defined below) for the Company's common stock during the twenty-five Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. "Trading Price" means, for any security as of any date, the lesser of: (i) the lowest trade price on the applicable trading market as reported by a reliable reporting service ("Reporting Service") designated by the Holder or (ii) the closing bid price on the applicable trading market as reported by a Reporting Service designated by the Holder. The Company may prepay the Note at any time prior to its six-month anniversary, subject to pre-payment charges as detailed in the Note. The SPA and Note contain customary representations, warranties and covenants, including certain restrictions on the Company's ability to sell, lease or otherwise dispose of any significant portion of its assets. The Investor also has the right of first refusal with respect to any future equity (or debt with an equity component) offerings conducted by the Company until the 12-month anniversary of the Closing. The SPA and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, bankruptcy or insolvency proceedings, delinquency in periodic report filings with the Securities and Exchange Commission, and cross default with other agreements. Upon the occurrence of an event of default, this investor may declare the outstanding obligations due and payable at significant applicable default rates and take such other actions as set forth in the Note.

During October and November 2019, the Company entered into Series A Preferred Stock Purchase Agreements with an accredited investor whereby the investor agreed to purchase an aggregate of 159,600 unregistered shares of the Company's Series A Preferred stock, par value \$0.10, for \$133,000, or \$0.833 per share. During October and November 2019, the Company received the cash proceeds of \$127,000, net of fees of \$6,000. Each share of Series A Preferred Stock will carry an annual dividend in the amount of 4% of the Stated Value (the "Dividend Rate"), which shall be cumulative and compounded daily, payable solely upon redemption, liquidation or conversion. Upon the occurrence of an Event of Default, the Dividend Rate shall automatically increase to 22%. On the earlier to occur of (i) the date which is eighteen months following the Issuance Date and (ii) the occurrence of an Event of Default (the "Mandatory Redemption Date"), the Company shall redeem all of the shares of Series A Preferred Stock of the Holders (which have not been previously redeemed or converted). Within five days of the Mandatory Redemption Date, the Company shall make payment to each Holder of an amount in cash equal to (i) the total number of Series A Preferred Stock held by such Holder multiplied by (ii) the Stated Value plus the Adjustment Amount. The Holder of Series A Preferred stock shall have the right from time to time, and at any time during the period beginning on the date which is 180 days following the issuance date, to convert all or any part of the outstanding Series A Preferred Stock into the Company's common stock. The conversion price (the "Conversion Price") shall equal the Variable Conversion Price (as defined below) (subject to equitable adjustments by the Company relating to the Company's securities or the securities of any subsidiary of the Company, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The "Variable Conversion Price" shall mean 81% multiplied by the Market Price (as defined below) (representing a discount rate of 19%). "Market Price" means the average of the two lowest Trading Prices for the common stock during the ten Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. "Trading Price" means, for any security as of any date, the closing bid price on the applicable trading market as reported by a reliable reporting service designated by the Holder. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the OTC, or on the principal securities exchange or other securities market on which the common stock is then being traded. The Company has accounted for the Series A Preferred Stock as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$31,197 with a charge to interest expense.

Additional cash liquidity is generated from product sales. However, to date, we are not profitable, and we cannot provide any assurances that we will be profitable. We believe that our existing cash and cash equivalents will not be sufficient to fund our current operating plans.

## Cash Flows

### For the Years Ended December 31, 2019 and 2018

The following table shows a summary of our cash flows for the years ended December 2019 and 2018.

	Year Ended December 31,	
	2019	2018
Net cash used in operating activities	\$ (1,313,711)	\$ (1,967,782)
Net cash provided by investing activities	\$ -	\$ 187,401
Net cash provided by financing activities	\$ 1,262,355	\$ 1,862,500
Net (decrease) increase in cash	\$ (51,356)	\$ 82,119
Cash - beginning of the year	\$ 128,567	\$ 46,448
Cash - end of the year	\$ 77,211	\$ 128,567

Net cash flow used in operating activities was \$1,313,711 for the year ended December 31, 2019 as compared to net cash flow used in operating activities of \$1,967,782 for the year ended December 31, 2018, a decrease of \$654,071.

Net cash flow used in operating activities for the year ended December 31, 2019 primarily reflected a net loss of \$7,240,740, which was then adjusted for the add-back of non-cash items primarily consisting of depreciation and amortization of \$24,629, stock-based compensation expense of \$3,858,967, stock-based professional fees of \$355,393, non-cash interest expense related to a put premium on convertible debt and preferred stock of \$88,620, a non-cash gain on extinguishment of debt of \$31,009, derivative expense of \$570,059, and the amortization of debt discount to interest expense of \$160,542, and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of \$61,662, an increase in accounts payable of \$246,105, an increase in accrued expenses of \$89,266, and an increase in accrued compensation of \$628,977. Net cash flow used in operating activities for the year ended December 31, 2018 primarily reflected a net loss of \$9,904,719, which was then adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$33,718, stock-based compensation expense of \$6,735,124, stock-based professional fees of \$118,750, loss on debt extinguishment expense of \$380,171, non-cash settlement expense of \$200,000, and the amortization of debt discount to interest expense of \$40,691, and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of \$55,542, an increase in accounts payable of \$382,067, and an increase in accrued compensation of \$89,528.

For the year ended December 31, 2018, net cash flow provided by investing activities amounted to \$187,401 as compared to \$0 for the year ended December 31, 2019. During the year ended December 31, 2018, we received cash of \$187,401 in connection with the merger transaction discussed elsewhere in this Report (after taking into account financing expenses).

Net cash provided by financing activities was \$1,262,355 for the year ended December 31, 2019 as compared to \$1,862,500 for the year ended December 31, 2018. During the year ended December 31, 2019, we received net proceeds from the sale of common stock of \$780,000, proceeds from the collection of subscriptions receivable related to the exercise of stock options of \$19,185, proceeds from the sale of Series A preferred shares of \$127,000, proceeds from a note payable of \$25,000, and proceeds from convertible notes payable of \$574,250, offset by the repayment of notes payable of \$25,000 and the repayment of convertible debt of \$238,080. During the year ended December 31, 2018, we received net proceeds from the sale of common stock of \$1,267,500, proceeds from the exercise of stock options of \$195,000, and proceeds from notes payable of \$400,000.

## 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 including sales and marketing. Additional uses of capital will include additional headcount, tools and equipment, capacity expansion and operational control software. We believe the estimated net proceeds from the merger with current cash and cash equivalents will not be sufficient to meet anticipated cash requirements not including potential product sales. Additional capital will be required to further research new product verticals and enhancements to current product offerings based on customer requirements.

As of December 31, 2019, 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 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 the company 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. Please see the section titled "Risk Factors" elsewhere in this Report for additional risks associated with our capital requirements.

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 Off-Balance Sheet Arrangements

### Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

The following tables summarize our contractual obligations as of December 31, 2019, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

Contractual obligations:	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	5 + years
Notes payable – related party	\$ 400,000	\$ 400,000	\$ -	\$ -	\$ -
Interest on notes payable– related party	145,000	145,000	-	-	-
Convertible notes payable	430,000	430,000	-	-	-
Mandatorily redeemable series A preferred stock	133,000	-	133,000	-	-
Operating lease	76,346	53,461	22,885	-	-
Total	\$ 1,184,346	\$ 1,028,461	\$ 155,885	\$ -	\$ -

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.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, together with the related notes and report of independent registered public accounting firm, are set forth on the pages indicated in Item 15, Part IV of this Report.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) and 15d-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 company’s 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 our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated our company’s disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2019, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified, in our report on internal control over financial reporting.

### Internal control over financial reporting

#### Management’s annual report on internal control over financial reporting

Our management, including our principal executive officer and principal financial officer, are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2019. Our management’s evaluation of our internal control over financial reporting was based on the 2013 framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that as of December 31, 2019, our internal control over financial reporting was not effective.

The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which we identified in our internal control over financial reporting: (1) the lack of multiples levels of management review on complex business, accounting and financial reporting issues, and (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel. Recently, we developed and implemented system and control procedure manuals and plan on developing and implementing additional controls and procedures in the future. Until such time as we expand our staff to include additional accounting and executive personnel, it is likely we will continue to report material weaknesses in our internal control over financial reporting.

In June 2018, we established an audit committee, consisting of Barry Edelstein (audit committee chairman) and Scott Thomsen. Amongst other responsibilities, the audit committee provides assistance to the Board in fulfilling its oversight responsibilities relating to the quality and integrity of the financial reports of the Company.

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.

**Limitations on Effectiveness of Controls**

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

**Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The following table sets forth certain information regarding our current directors and executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Scott R. Silverman	56	Chief Executive Officer, Chairman of the Board and Director
Vince Pugliese	57	Chief Operating Officer, President, Interim Chief Financial Officer, Treasurer and Director
Barry M. Edelstein	56	Director
Scott V. Thomsen	55	Director

**Scott R. Silverman** has been the Chairman of the Board and a director of the Company since June 1, 2018. Mr. Silverman has served as Chief Executive Officer of C-Bond Systems, LLC since December 2017. From 2003 to 2011, Mr. Silverman served as Executive Chairman of VeriChip Corporation which completed an initial public offering on the NASDAQ in 2007 raising more than \$30 million. VeriChip Corporation subsequently sold to Stanley Works in 2008. From 2011 to 2016, Mr. Silverman founded and served as Chairman and Chief Executive Officer of Veriteq Corporation, a leader in RFID technology for medical devices which went public in 2013 and was subsequently sold to a leading breast implant manufacturer. Mr. Silverman is a graduate from the University of Pennsylvania and Villanova University School of Law. We believe that Mr. Silverman’s knowledge of our company, industry and business makes him well-suited to serve on the board of directors.

**Vince Pugliese** has served as Chief Operating Officer and interim Chief Financial Officer for C-Bond Systems, LLC since October 2015 and has held these positions with the Company since the Merger. Mr. Pugliese has also assumed the title of Treasurer since the completion of the Merger. Mr. Pugliese was appointed President and appointed to the Board on June 1, 2018. From 2012 to 2015, Mr. Pugliese served as Chief Executive Officer of the Pugliese Group, providing consulting services in the areas of operations and supply chain management, technology development, strategic planning, project management and organizational planning. From 2007 to 2012, Mr. Pugliese was with Blackberry Limited (formerly Research in Motion Limited), a global leader in mobile communications, serving as a consultant from 2007 to 2010 and as Director of North American Operations from 2010 to 2012. Mr. Pugliese has an MBA from the University of Baltimore and a Bachelor of Science in Applied Mathematics and in Management Science from Carnegie Mellon University in Pittsburgh, Pennsylvania.

**Barry M. Edelstein** has been a director on the Board of the Company since June 1, 2018. Since June 2008, Mr. Edelstein has served as a Managing Partner of Structured Growth Capital, Inc., which provides monetization financing to non-investment grade entities. Since January 2002, Mr. Edelstein has also served as President and CEO of ScentSational Technologies, LLC, a leader in developing, patenting and licensing Olfaction Packaging technologies to food, beverage and other consumer products companies. Mr. Edelstein has a JD from the Widener University School of Law and a Bachelor of Science in Business Administration, Marketing from Drexel University's LeBow College of Business. Mr. Edelstein brings a wealth of operational and financial experience to our board as well as a deep knowledge of the packaging industry.

**Scott V. Thomsen** has been a director on the Board of the Company since June 1, 2018. Since January 2014, Mr. Thomsen has served as Managing Partner of Innoscovery, Inc., a consulting firm that helps technology entrepreneurs scale companies. From 1994 until January 2014, Mr. Thomsen was with Guardian Industries. He served as Vice President of R&D and Engineering, Optical Imaging Systems, from 1994 to 1996, Vice President of Operations and Engineering, Optical Imaging Systems, from 1996 to 1999, Director of Science and Technology from April 1999 to March 2002, Chief Technology Officer from March 2002 to September 2009, Group Vice President – North America from October 2009 to April 2011, and President of the Global Glass Group from April 2011 to January 2014. Guardian Industries is the largest glass manufacturer in North America. The Guardian Glass Group offers value-added glass products and services to customers in the commercial, residential, automotive, electronics and energy market segments in over 110 countries. As President of the Global Glass Group, Mr. Thomsen was responsible for overseeing a multi-billion-dollar business with facilities in 27 countries on 5 continents and 11,000 employees. Mr. Thomsen has a Bachelor of Science in Electrical and Electronics Engineering from the University of North Dakota and a Master of Science in Systems Engineering from West Coast University. Mr. Thomsen brings a wealth of industry knowledge and knowledge of start-up organizations to our Board.

#### **Terms of Office**

All directors will hold office until the next annual meeting of stockholders or until their successors have been elected and qualified or appointed, unless sooner displaced.

#### **Family Relationships**

There are no family relationships between or among any of the current and incoming directors or executive officers.

#### **Section 16(A) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires executive officers and directors and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% stockholders are required by regulations of the SEC to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of reports we received, or written representations that no such reports were required for those persons, we believe that, for the year ended December 31, 2019, all statements of beneficial ownership required to be filed with the SEC were filed on a timely basis.

#### **Director Independence**

The Company is not a listed issuer whose securities are listed on a national securities exchange, or an inter-dealer quotation system which has requirements that a majority of the board of directors be independent.

#### **Board Meetings; Annual Meeting Attendance**

During the fiscal year ended December 31, 2019, the Board held formal board meetings in person and via teleconference. The Company did not hold an annual meeting.

Holders of our securities can send communications to the Board via mail or telephone to the Secretary at the Company's principal executive offices. The Company has not yet established a policy with respect to our directors' attendance at the annual meetings. A stockholder who wishes to communicate with the Board may do so by directing a written request addressed to our Corporate Secretary at the address appearing on the first page of this Information Statement.

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

As our Common Stock is not presently listed for trading or quotation on a national securities exchange or NASDAQ, we are not presently required to have board committees. However, in June 2018, the Company formally created an audit committee, comprising Barry Edelstein (chairman) and Scott Thomsen.

#### **Code of Ethics and Business Conduct**

On March 12, 2019, we adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions in that our officers and directors serve in these capacities. A copy of the code of conduct is available, without charge, on our website at <http://cbondsystems.com/>. We intend to satisfy the disclosure requirements of Form 8-K regarding any amendment to, or a waiver from, any provision of our code of ethics by posting such amendment or waiver on our website.

## Board Leadership Structure and Role in Risk Oversight

Currently, the Board is comprised of four directors: Scott Silverman, Vince Pugliese, Barry Edelstein and Scott Thomsen, with Scott Silverman serving as our Chairman. Scott Silverman is also our Chief Executive Officer.

The Board recognizes that the leadership structure and combination or separation of the Chief Executive Officer and Chairman roles is driven by the needs of the Company at any point in time. We have no policy requiring combination or separation of these leadership roles and our governing documents do not mandate a particular structure. This has allowed the Board the flexibility to establish the most appropriate structure for the Company at any given time.

## ITEM 11. EXECUTIVE COMPENSATION

The following summarizes the compensation earned by our executive officers named in the “Summary Compensation Table” below (referred to herein as our “named executive officers”) in fiscal years ending December 31, 2019 and 2018.

This section also discusses the material elements of our executive compensation policies and decisions and important factors relevant to an analysis of these policies and decisions. It provides qualitative information regarding the manner and context in which compensation is awarded to and earned by our named executive officers and is intended to place in perspective the information presented in the following tables and the corresponding narrative.

### Overview

Our named executive officers for the years ended December 31, 2019 and 2018, which consists of our Chief Executive Officer and one other most highly compensated executive officer were serving as its executive officers as of December 31, 2019 and 2018, are as follows:

- **Scott R. Silverman** – Chief Executive Officer;
- **Vince Pugliese** – Chief Operating Officer, President, Interim Chief Financial Officer and Treasurer.

### Summary Compensation Table

The following table sets forth information regarding compensation awarded to, earned by or paid to each of the named executive officers for the years ending December 31, 2019 and 2018.

Name and Principal Position	Year	Salary (\$)	Bonus (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
Scott R. Silverman Chief Executive Officer	2019	360,250 <sup>(3)(4)</sup>	201,121	150,000	-	-	711,371
	2018	305,000 <sup>(3)</sup>	59,059	1,225,000	-	-	1,589,059
Vince Pugliese Chief Operating Officer, President, Interim Chief Financial Officer and Treasurer	2019	230,000 <sup>(3)(5)</sup>	128,394	125,000	-	-	483,394
	2018	175,900 <sup>(3)</sup>	25,311	987,500	-	-	1,188,711

- (1) Cash bonuses were earned by Messrs. Silverman and Pugliese in 2019 based on a bonus approved by the Board of Directors in January 2019 and based on a percentage of capital raises, in accordance with their respective employment agreements, and partly awarded with the remaining accrued and unpaid/deferred. Cash bonuses were earned by Messrs. Silverman and Pugliese in 2018 based on a percentage of capital raises, in accordance with their respective employment agreements, and partly awarded with the remaining accrued and unpaid/deferred.
- (2) As required by SEC rules, the amounts in this column reflect the grant date or modification date fair value as required by FASB ASC Topic 718. A discussion of the assumptions and methodologies used to calculate these amounts, are contained in the notes to our financial statements under “Note 9 – Shareholders’ Deficit”.
- (3) Includes accrued and unpaid deferred compensation.
- (4) In lieu of cash compensation, Mr. Silverman received 2,800,000 shares of restricted common stock for unpaid and deferred compensation of \$120,000.
- (5) In lieu of cash compensation, Mr. Pugliese received 3,000,000 shares of restricted common stock for unpaid and deferred compensation of \$130,000.



## *Elements of Executive Compensation*

*Base Salaries.* Base salaries for the named executive officers during 2019 and 2018 was determined, subject in each case to their employment agreements, on the scope of each officer's responsibilities along with his respective experience and contributions during the prior year. When reviewing base salaries, our board of directors (and managers of C-Bond Systems, LLC prior to the Merger) took factors into account such as each officer's experience and individual performance, company performance as a whole, and general industry conditions, but did not assign any specific weighting to any factor.

*Equity Awards.* Historically, our named executive officers participated in the Common Unit Option Plan prior to the Merger. 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 3.233733. As a result, a total of 14,494,213 options were issued. On June 7, 2018, our Board of Directors and our stockholders approved the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (the "2018 Plan"), which became effective on August 2, 2018. The Company anticipates that future equity awards will be made pursuant to the 2018 Plan.

*Bonus.* In accordance with their respective employment agreements, Mr. Silverman and Mr. Pugliese were paid bonuses based on a percentage of capital raises, which includes accrued and unpaid deferred bonus. Additionally, in January 2019, the board of directors approved a bonus to Mr. Silverman and Mr. Pugliese of \$150,000 and \$105,000, respectively

*Other Benefits.* Currently, we do not offer any additional benefit packages to employees.

### *Employment Agreements with Executive Officers*

We entered into employment agreements with each of our named executive officers. Mr. Silverman's was entered into prior to the Merger and will continue in effect.

#### *Employment Agreement with Scott R. Silverman*

We entered into an employment agreement with Mr. Silverman on October 18, 2017, pursuant to which he serves as our Chief Executive Officer 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 such agreement, Mr. Silverman will receive one half of the base salary on a monthly basis with the other one half being deferred. As such financing has been raised, Mr. Silverman was entitled to receive the deferred portion of his compensation and his base salary paid in full. However, due to a lack of working capital, Mr. Silverman is still deferring a portion of his salary.
- 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 share. 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 share 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.

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 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.

To date, the Company has not fulfilled a portion of its cash payment obligations to Mr. Silverman and he has deferred compensation owed to him pursuant to his employment agreement.

*Employment Agreement with Vince Pugliese*

We entered into an employment agreement with Mr. Pugliese dated effective March 1, 2019. Pursuant to this employment agreement, he serves as our President and Chief Operating Officer for an initial term of three years, unless terminated earlier in accordance with the agreement. As consideration for these services, the employment agreement provides Mr. Pugliese with the following compensation and benefits:

- An annual base salary of \$240,000, with a minimum 5-10% increase on each anniversary date, contingent upon achieving performance objectives set by the CEO and our Board.
- Annual cash performance bonus opportunity as determined by the CEO and the Board, with a target of 50-100% of annual salary.
- Annual stock grant opportunity in an amount determined by the Board.
- Certain other employee benefits and perquisites, including paid vacation days, reimbursement of necessary and reasonable travel, participation in health and welfare benefits, housing, and use of company provided computer, cell phone and car.

Mr. Pugliese'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. Pugliese resigns for "good reason" (as defined in his employment agreement), he will be entitled to (i) retain all stock options previously granted, which will vest immediately and be exercisable over a 10 year period ; and (ii) receive any benefits then owed or accrued along with 18 months of base salary and any unreimbursed expenses incurred by him. All amounts shall be paid on the termination date. In the event that Mr. Pugliese's employment is terminated by the Company for "cause" (as defined in his employment agreement), or if Mr. Pugliese resigned without "good reasons" (as defined in his employment agreement), he will be entitled to (i) receive any unpaid base salary and benefits then owed or accrued and any unreimbursed expenses incurred by him through the termination date, and (ii) retain all vested stock options or grants which will be exercisable over a 10 year period. All unvested stock options or grants will terminate.

In the event of a change of control (as defined in his employment agreement), Mr. Pugliese will be entitled to receive a change of control payment equal to two times his current minimum base salary upon the closing of the change of control transaction and all unvested stock options or grants shall vest in full. Upon the closing of such a change of control transaction and the payments mentioned above, the employment agreement will terminate.

Mr. Pugliese's compensation in fiscal 2018 and the first two months of 2019 was pursuant to a prior employment agreement, entered into on October 12, 2015 and amended on February 11, 2016 and December 20, 2016, which expired on its terms.

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.

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

The following are the outstanding equity awards for the named executive officers as of December 31, 2019, which have been adjusted to give effect to the Merger:

Name	Option Awards				Option Exercise Price \$(1)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options			
Scott R. Silverman	2,208,219	791,781(2)	0	\$	0.31	10/18/2027
Vince Pugliese	1,299,998(3)	-	0	\$	0.31	12/23/2026

(1) This reflects the converted exercise price of such options.

(2) These shares vest in tranches of 83,333 shares on the 18<sup>th</sup> of each month for 36 months from October 16, 2017.

(3) These shares are fully vested.

**Stock Awards**

<i>Name</i>	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(*)	Equity	Equity Incentive
			Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Scott R. Silverman (1)	4,970,120	\$ 352,879	4,970,120	\$ 352,879
Vince Pugliese (2)	4,058,433	\$ 288,149	4,058,433	\$ 288,149

\* The market value of shares of stock is computed by multiplying the closing market price of our stock at the end of the last completed fiscal year of \$0.071 by the number of shares of stock set forth to the left of such figure.

(1) 4,970,120 shares vest on May 1, 2020

(2) 4,058,433 shares vest on May 1, 2020

**C-Bond Systems, Inc. 2018 Long-Term Incentive Plan**

On June 7, 2018, our Board of Directors and our stockholders approved the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (the “2018 Plan”), which became effective on August 2, 2018. The purposes 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.

**Summary of the Plan**

*Administration*

The 2018 Plan will be administered by a committee designated by the Board of Directors (the “Committee”) or, in the absence of the Committee or in the case of awards issued to non-employee Directors, the 2018 Plan will be administered by the Board of Directors (as applicable, the “Administrator”). The Administrator also has full and exclusive power and authority to administer the 2018 Plan. In administering awards under our 2018 Plan, the Administrator, has the power, subject to the terms of the 2018 Plan, to determine the terms of the awards granted under our 2018 Plan, including any applicable exercise or grant price, the number of shares subject to each award and the exercisability of the awards. The Administrator also has full power to determine the persons to whom and the time or times at which awards will be made and to make all other determinations and take all other actions advisable for the administration of the 2018 Plan.

On a calendar year basis, the Board of Directors may, by resolution, delegate to the Chief Executive Officer of the Company the limited authority to grant awards under the 2018 Plan during such calendar year to 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 to service providers.

*Types of Awards*

Under our 2018 Plan, the Administrator may grant:

- options to acquire our 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 our 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 our 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 our 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 our Common Stock, or a combination thereof, as determined by the Administrator.
- restricted stock awards, which are awards of our 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 our Common Stock and may be paid in cash or in shares of our 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 our 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.

*Shares Authorized for Issuance*

The aggregate number of shares of Common Stock that may be issued under the 2018 Plan and number of shares of our Common Stock that may be subject to incentive stock options granted under the 2018 Plan is 50,000,000 shares.

*Term*

The Board may alter, amend, or terminate our 2018 Plan and the Administrator may alter, amend, or terminate any award agreement in whole or in part; however, no termination, amendment, or modification shall adversely affect in any material way any award previously granted, without the written consent of the holder. Our 2018 Plan was adopted on June 7, 2018, became effective on August 2, 2018, and will continue indefinitely until it is terminated by the Board as provided in the 2018 Plan. However, as required by the Internal Revenue Code, no incentive stock option awards may be granted under our 2018 Plan on or after the tenth anniversary of the date the plan was adopted by the Board, unless our 2018 Plan is subsequently amended, with the approval of stockholders, to extend the period for granting such awards.

**Director Compensation**

Beginning after the Merger, our non-executive board members receive \$5,000 in cash compensation each quarter, with committee chairs receiving an additional \$2,500 per quarter. Each non-executive board member also received 500,000 shares of restricted stock in October 2018 for their service on the board.

The following table sets forth compensation paid, earned or awarded during 2019 to each of our directors, other than Scott Silverman and Vince Pugliese, whose compensation is described able in "Summary Compensation Table".

**2019 Director Compensation**

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$ (1))</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Barry M. Edelstein	30,000	25,000	-	55,000
Scott V. Thomsen	20,000	25,000	-	45,000

(1) As required by SEC rules, the amounts in this column reflect the grant date or modification date fair value as required by FASB ASC Topic 718. A discussion of the assumptions and methodologies used to calculate these amounts, are contained in the notes to our financial statements under "Note 9 – Shareholders' Deficit". In July 2019, Mr. Edelstein and Mr. Thomsen received 500,000 shares of restricted stock each.

Directors are also entitled to the protection provided by the indemnification provisions in our articles of incorporation, as amended, and our amended and restated bylaws.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information relating to the beneficial ownership of our common stock as of March 22, 2020, by:

- each person, or group of affiliated persons, known by us to beneficially own more than five percent of the outstanding shares of our common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

The number of shares beneficially owned by each entity, person, director or executive officer is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or dispositive power as well as any shares that the individual has the right to acquire within 60 days of March 22, 2020, through the exercise of any stock option, warrants or other rights. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and dispositive power with respect to all shares of common stock held by that person.

The percentage of shares beneficially owned is computed on the basis of 125,199,633 shares of our common stock outstanding as of March 22, 2020, and the implied conversion of 108 shares of our Series B Preferred Stock into 3,619,978 shares of common stock, for total shares outstanding of 128,819,611. Shares of common stock that a person has the right to acquire within 60 days of March 22, 2020, are deemed outstanding for purposes of computing the percentage ownership of the person holding such rights, but are not deemed outstanding for purposes of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors and executive officers as a group. As a result of the Company's issuance of 108 shares of Series B Preferred Stock, which carries majority voting rights of 50 votes of Common Stock to every 1 share of Series B Preferred Stock, to named executive officers and directors, they have the rights to 180,998,899 votes through their Series B holdings, of a total of 306,198,532 votes. The percentage of voting rights in the table below assumes that all Series B shares held by directors and named officers are voted in any instance requiring shareholder vote. Unless otherwise noted below, the address of the persons listed on the table is c/o C-Bond Systems, Inc., 6035 South Loop East, Houston, TX 77033.

Name of Beneficial Owner	Common Stock Beneficially Owned	Percent of Outstanding Shares	Percent of Voting Rights
<b>Greater Than 5% Stockholders:</b>			
Jeff Badders <sup>(1)</sup>	14,235,060	11.1%	4.6%
Scott Silverman <sup>(2)</sup>	11,904,254	9.2%	30.7%
BOCO Investments, LLC <sup>(3)</sup>	10,150,000	7.9%	3.3%
Vince Pugliese <sup>(4)</sup>	9,713,786	7.5%	16.6%
Bruce Rich <sup>(5)</sup>	7,398,366	5.7%	2.4%
<b>Named Executive Officers and Directors:</b>			
Scott Silverman <sup>(2)</sup>	11,904,254	9.2%	30.7%
Vince Pugliese <sup>(4)</sup>	9,713,786	7.9%	16.6%
Barry M. Edelstein <sup>(6)</sup>	1,185,738	*0%	7.4%
Scott V. Thomsen <sup>(7)</sup>	2,222,566	1.7%	11.4%
All directors and executive officers as a group (4 persons) <sup>(8)</sup>	25,026,344	19.4%	66.1%

\* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

- (1) Schedule 13G filed with the SEC on February 20, 2020 indicates that Jeff Badders has sole voting and dispositive power with respect to these shares. Mr. Badders' address is 4002 North Street, Nacogdoches, TX 75965.
- (2) Includes (i) 7,770,120 shares outstanding pursuant to restricted stock awards; (ii) 50 shares of Series B Preferred Stock, which may convert into 1,675,916 shares of Common Stock; and (iii) 2,458,218 shares issuable upon the exercise of stock options within 60 days of March 22, 2020 and those already vested.
- (3) Schedule 13D filed with the SEC on May 10, 2018 indicates that BOCO Investments, LLC, Pat Stryker and Pat Stryker Living Trust have shared voting and dispositive power with respect to these shares. Includes 8,050,000 shares owned by WestMountain Green, LLC, which is controlled by BOCO Investments, LLC. BOCO Investments, LLC's address is 1001-A E. Harmony Road, #366, Fort Collins, Colorado 80525.
- (4) Includes (i) 517,397 shares held by Mr. Pugliese; (ii) 7,058,433 shares outstanding pursuant to restricted stock awards; (iii) 25 shares of Series B Preferred Stock, which may convert into 837,958 shares of Common Stock; and (iv) 1,299,998 shares issuable upon the exercise of stock options within 60 days of March 22, 2020 and those already vested.
- (5) Includes (i) 7,348,366 shares held by Fournace, LLC, an entity controlled by Mr. Rich, and (ii) 50,000 shares held by Mr. Rich personally. Schedule 13G filed with the SEC on January 23, 2020 indicates that Mr. Rich has sole voting and dispositive power with respect to these shares. Mr. Rich's address is 3333 Allen Parkway, Unit Number 305, Houston, Texas 77019.

- (6) Includes (i) 750,000 shares outstanding pursuant to restricted stock awards; and (ii) 13 shares of Series B Preferred Stock, which may convert into 435,738 shares of Common Stock.
- (7) Includes (i) 750,000 shares outstanding pursuant to restricted stock awards; (ii) 20 shares of Series B Preferred Stock, which may convert into 670,366 shares of Common Stock; and (iii) 802,200 shares issuable upon the exercise of stock options that have vested.
- (8) Includes (i) 517,397 shares held by the directors and executive officers; (ii) 16,328,553 shares outstanding pursuant to restricted stock awards; (iii) 108 shares of Series B Preferred Stock, which may convert into 3,619,978 shares of Common Stock; and (iv) 3,758,216 shares issuable upon exercise of stock options within 60 days of March 22, 2020, and those that have vested.

#### Equity Compensation Plan Information

The following table sets forth as of December 31, 2019 information regarding our common stock that may be issued under the Company's equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Columns (a) (c) (1))
Equity compensation plans approved by security holders	8,445,698	\$ 0.40	26,304,302
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>8,445,698</b>	<b>\$ 0.40</b>	<b>26,304,302</b>

\* The table above includes 8,445,698 options that were issued pursuant to the Merger Agreement (adjusted for forfeitures and exercises since the issuance), by converting each option to purchase Common Units issued and outstanding immediately prior to the closing of the Merger into an option to purchase an equivalent number of shares of our common stock.

- (1) Represents shares available under the C-Bond Systems, Inc. 2018 Long-Term Incentive Plan, under which the Company can issue options, stock appreciation rights, restricted stock awards, restricted stock units and other types of stock-based awards.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Bohemian Companies, LLC and BOCO Investments, LLC are two companies under common control. Mr. Klemsz, our President prior to the Merger, has been the Chief Investment Officer of BOCO Investments, LLC since March 2007. Since there was common control between the two companies and a relationship with our prior Company President, we are considering all transactions with Bohemian Companies, LLC related party transactions. Contemporaneously with the closing of the Merger, C-Bond Systems, LLC entered into subscription agreements with investors, including BOCO Investments, LLC, pursuant to which we sold 3,100,000 shares of our common stock at a purchase price of \$0.40 per share.

On November 14, 2018, the Company also entered into a Revolving Credit Facility Loan and Security Agreement ("Loan Agreement") and a Secured Promissory Note (the "Note") with BOCO Investments, LLC. Subject to and in accordance with the terms and conditions of the Loan Agreement and the Note, BOCO Investments, LLC agreed to lend to the Company up to \$400,000 (the "Maximum Loan Amount") against the issuance and delivery by the Company of the Note for use as working capital and to assist in inventory acquisition. As of December 31, 2018, BOCO Investments, LLC loaned us \$400,000 and may loan additional amounts to the Company at any time and from time to time through November 14, 2020, up to an aggregate amount not to exceed the Maximum Loan Amount. The Company must repay all principal, interest and other amounts outstanding on or before November 14, 2020. The Company's obligations under the Loan Agreement and the Note are secured by a first-priority security interest in substantially all of the Company's assets (the "Collateral"). The outstanding principal advanced to Company pursuant to the Loan Agreement bears interest at the rate of 12% per annum, compounded annually. The Loan Agreement and Note contain customary representations, warranties and covenants, including covenants requiring the Company to maintain certain inventory and accounts receivable amounts, certain restrictions on the Company's ability to incur additional debt or create liens on its property. The Loan Agreement and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties and bankruptcy or insolvency proceedings, the occurrence of which, after any applicable cure period, would permit Lender, among other things, to accelerate payment of all amounts outstanding under the Loan Agreement and the Note, as applicable, and to exercise its remedies with respect to the Collateral, including the sale of the Collateral. Commencing March 31, 2019 and at all times thereafter through the remainder of the commitment period and for so long thereafter as there is any amount still due and owing under the Note, the Company must maintain an accounts receivable balances plus inventory such that the outstanding principal borrowed by Company under the Loan Agreement and Note is less than or equal to 85% of accounts receivable plus 50% of inventory, all as measured at the same point in time. Commencing on January 10, 2019 and on or before the 10th day of each month thereafter, the Company shall pay BOCO Investments, LLC all interest accrued on outstanding principal under the Loan Agreement and Notes as of the end of the month then concluded.

As of December 31, 2019, the Company was in default of certain requirements under the Loan Agreement, including not meeting the requirement regarding minimum asset amount as defined therein. Upon the occurrence of such event of defaults, the Lender may, at its option and in accordance with the Loan Agreement, declare all obligations immediately due and payable, however, as of the date of this Report, the Lender has not made any such declaration.

Bruce Rich served as the Chief Executive Officer of C-Bond Systems, LLC until December 18, 2017, for which he earned a total salary of \$364,907 in fiscal 2017. On January 2, 2018, we converted the accrued compensation and other amounts owed to Bruce Rich totaling \$392,577 into 12,694,893 common shares. Through December 2019, Mr. Rich held 3,000,000 stock options for an exercise price of \$0.03 that were fully vested. On December 21, 2019, we issued 3,000,000 common shares upon the exercise of these 3,000,000 stock options. In connection with this option exercise, we reduced accrued compensation by \$90,000 due pursuant to the following consulting agreement. We entered into a consulting agreement with Bruce Rich on January 1, 2018, pursuant to which Mr. Rich agreed to consult as and when requested by C-Bond Systems, LLC, for a period of three years or until the aggregate cash payments total \$300,000. As consideration for these services, Mr. Rich is entitled to a monthly fee equal to half of the base salary paid to Mr. Silverman, subject to a minimum of \$8,333.33. Neither party may terminate this agreement prior to the end of the term. Pursuant to this consulting agreement, Mr. Rich will be subject to a confidentiality covenant, a three-year non-competition covenant and a three-year non-solicitation covenant.

In April 2018, we granted 323,373 restricted shares of common stock each to Paul Brogan, a former director of C-Bond Systems, LLC, and Sergio Moreira, the managing member of SMS Moreira Ventures, LLC, a 5% shareholder. Prior to the Merger, in December 2017, C-Bond Systems, LLC also issued an option to Mr. Moreira to purchase 1,000,000 common shares for an exercise price of \$0.03.

For information regarding the number of restricted shares of stock issued to, or options held by the Company's executive officers, and directors, or an affiliate or immediate family member thereof, see "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation." For ease of reference, units of membership interest issued by C-Bond Systems, LLC prior to the Merger has been adjusted, to give effect to the Merger and the share conversion ratio pursuant to the Merger Agreement, and described as common shares of our Company in the above discussion. Additionally, the exercise prices of stock options issued prior to the Merger have been adjusted to give effect to the Merger in accordance with the Merger Agreement.

Our board of directors intends to adopt a written related person transaction policy, to set forth the policies and procedures for the review and approval or ratification of related person transactions. This policy will cover, with certain exceptions set forth in Item 404 of Regulation S-K promulgated under the Exchange Act, any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant, where the amount involved exceeds or will exceed the lesser of \$120,000 or 1% of the average of our total assets as of the end of the last two completed fiscal years and a related person had, has or will have a direct or indirect material interest, including purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed by our principal independent accountants, Salberg & Company, P.A., for each of our last two fiscal years for the categories of services indicated.

Category	Years Ended December 31,	
	2019	2018
Audit Fees	\$ 65,500	\$ 66,000
Audit Related Fees	\$ -	\$ 18,200
Tax Fees	\$ -	\$ -
All Other Fees	\$ -	\$ -

*Audit fees.* Consists of fees billed for the audit of our annual consolidated financial statements, review of our Form 10-K, review of our interim financial statements included in our Form 10-Q and services that are normally provided by the accountant in connection with year-end statutory and regulatory filings or engagements.

*Audit-related fees.* Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees", review of our Forms 8-K filings and services that are normally provided by the accountant in connection with non-year-end statutory and regulatory filings or engagements.

*Tax fees.* Consists of professional services rendered by a company aligned with our principal accountant for tax compliance, tax advice and tax planning.

*Other fees.* The services provided by our accountants within this category consisted of advice and other services relating to SEC matters, registration statement review, accounting issues and client conferences.

In June 2018, we established an audit committee, consisting of Barry Edelstein (audit committee chairman) and Scott Thomsen. The audit committee's charter requires that the audit committee pre-approve all audit and non-audit services that our independent auditors provide to the Company, provided that pre-approval of non-audit services is not required if (i) the fees for all such services do not aggregate to more than 5% of total fees paid to the independent auditors in that fiscal year; (ii) such services were not recognized as non-audit services at that time of engagement; and (iii) such services are promptly brought to the attention of the audit committee and approved by the audit committee prior to the completion of the audit. Prior to the formation of the audit committee, our board of directors would evaluate the scope and cost of the engagement of an auditor before the auditor renders audit and audit-related services. All of the audit and audit related fees described above for fiscal years ended December 31, 2019 were pre-approved by the board of directors. All of the audit and audit related fees described above for fiscal years ended December 31, 2018 were pre-approved by the audit committee.

**PART IV**

**ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES**

A. The following documents are filed as part of this Report:

1. Consolidated Financial Statements:

	<b>Page</b>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets at December 31, 2019 and 2018</a>	F-3
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2019 and 2018</a>	F-4
<a href="#">Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2019 and 2018</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018</a>	F-6
<a href="#">Notes to Consolidated Financial Statements</a>	F-7 to F-33

2. Financial Statement Schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

3. Exhibits:

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

<b>Exhibit No.</b>	<b>Exhibit Description</b>
2.1	<a href="#">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).</a>
3.1	<a href="#">Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's SB-2 Registration Statement filed with the SEC on January 2, 2008, File No. 333-148440).</a>
3.2	<a href="#">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).</a>
3.3	<a href="#">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).</a>
3.4	<a href="#">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).</a>
3.5	<a href="#">Certificate of Designations, Preferences, Rights and Limitations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 21, 2019, File No. 000-53029).</a>
3.6	<a href="#">Certificate of Designations, Preferences, Rights and Limitations of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 13, 2019, File No. 000-53029).</a>
4.1	<a href="#">Secured Promissory Note, dated November 14, 2018, with BOCO Investments, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 20, 2018, File No. 000-53029).</a>
4.2	<a href="#">Convertible Promissory Note, dated February 13, 2019, with Power Up Lending Group Ltd., (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
4.3	<a href="#">Convertible Promissory Note, dated March 4, 2019, with Power Up Lending Group Ltd., (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
4.4	<a href="#">Convertible Promissory Note, dated April 8, 2019, with Power Up Lending Group Ltd. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 12, 2019, File No. 000-53029).</a>
4.5	<a href="#">Convertible Promissory Note, dated May 15, 2019, with Power Up Lending Group Ltd. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 17, 2019, File No. 000-53029).</a>



4.6	<a href="#">Form of Convertible Promissory Note, dated September 6, 2019, between C-Bond Systems, Inc. and Investor (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 9, 2019, File No. 000-53029).</a>
4.7	<a href="#">Form of Common Stock Purchase Warrant, dated September 6, 2019, between C-Bond Systems, Inc. and Investor (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on September 9, 2019, File No. 000-53029).</a>
4.8	<a href="#">Form of Convertible Promissory Note, dated December 9, 2019, between C-Bond Systems, Inc. and Investor (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 13, 2019, File No. 000-53029).</a>
4.9	<a href="#">Form of Common Stock Purchase Warrant, dated December 9, 2019, between C-Bond Systems, Inc. and Investor (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on December 13, 2019, File No. 000-53029).</a>
10.1+	<a href="#">C-Bond Systems, Inc. 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Form S-8 Registration Statement filed with the SEC on September 25, 2018, File No. 333-227522).</a>
10.2+	<a href="#">Form of C-Bond Systems, Inc. Restricted Stock Award Agreement under 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.2 to the Company's Form S-8 Registration Statement filed with the SEC on September 25, 2018, File No. 333-227522).</a>
10.3+	<a href="#">Form of C-Bond Systems, Inc. Nonqualified Stock Option Award Agreement under 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.3 to the Company's Form S-8 Registration Statement filed with the SEC on September 25, 2018, File No. 333-227522).</a>
10.4+	<a href="#">Employment Agreement between C-Bond Systems, LLC and Scott Silverman dated October 18, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2018, File No. 000-53029).</a>
10.5+	<a href="#">Employment Agreement between C-Bond Systems, LLC and Vince Pugliese dated October 12, 2015, as amended on February 11, 2016 and December 20, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2018, File No. 000-53029).</a>
10.6+	<a href="#">Employee Agreement between C-Bond Systems, LLC and Vince Pugliese dated effective March 1, 2019 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019).</a>
10.7+	<a href="#">Consulting Agreement between C-Bond Systems, LLC and Bruce Rich dated January 1, 2018 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2018, File No. 000-53029).</a>
10.8	<a href="#">License Agreement between William Marsh Rice University and C-Bond Systems, Inc. dated April 8, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2018, File No. 000-53029).</a>
10.9	<a href="#">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).</a>
10.10	<a href="#">Form of Lockup Agreement related to the Offering (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K dated May 1, 2018, File No. 000-53029).</a>
10.11	<a href="#">Registration Rights Agreement between C-Bond Systems, LLC and Fournace, LLC dated April 27, 2018 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2018, File No. 000-53029).</a>
10.12	<a href="#">Revolving Credit Facility Loan and Security Agreement, dated November 14, 2018, between C-Bond Systems, Inc. and BOCO Investments, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 20, 2018, File No. 000-53029).</a>
10.13	<a href="#">Securities Purchase Agreement, dated February 13, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd., (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.14	<a href="#">Securities Purchase Agreement, dated March 4, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd., (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.15	<a href="#">Securities Purchase Agreement, dated April 8, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 12, 2019, File No. 000-53029).</a>
10.16	<a href="#">Securities Purchase Agreement, dated May 15, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 17, 2019, File No. 000-53029).</a>
10.17+	<a href="#">Employee Agreement between C-Bond Systems, Inc., and Vince Pugliese dated effective March 1, 2019 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.18	<a href="#">Form of Subscription Agreement, dated July 11, 2019, between C-Bond Systems, Inc., and an Accredited Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 16, 2019, File No.: 000-53029).</a>
10.19	<a href="#">Form of Subscription Agreement, dated July 17, 2019, between C-Bond Systems, Inc., and an Accredited Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 19, 2019, File No.: 000-53029).</a>

10.20	<a href="#">Form of Subscription Agreement, dated July 29, 2019, between C-Bond Systems, Inc., and an Accredited Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 31, 2019, File No.: 000-53029).</a>
10.21	<a href="#">Form of Subscription Agreement, dated September 6, 2019, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 9, 2019, File. No. 000-53029).</a>
10.22	<a href="#">Form of Securities Purchase Agreement, dated October 15, 2019, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 21, 2019, File. No. 000-53029).</a>
10.23	<a href="#">Form of Subscription Agreement, dated October 17, 2019, between C-Bond Systems, Inc., and Investor II (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on October 21, 2019, File. No. 000-53029).</a>
10.24	<a href="#">Form of Securities Purchase Agreement, dated November 19, 2019, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 22, 2019, File. No. 000-53029).</a>
10.25+	<a href="#">Executive Employment Agreement, dated October 18, 2017 and amended November 19, 2019, between C-Bond Systems, Inc. and Scott R. Silverman (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on November 22, 2019, File. No. 000-53029).</a>
10.26	<a href="#">Form of Securities Purchase Agreement, dated December 9, 2019, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 13, 2019, File. No. 000-53029).</a>
14.1	<a href="#">Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K, filed with the SEC on April 1, 2019, File. No. 000-53029).</a>
21.1*	<a href="#">List of Subsidiaries</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
32.1*	<a href="#">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</a>
32.2*	<a href="#">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</a>

+ Indicates a management contract or any compensatory plan, contract or arrangement.  
\* Filed herewith

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

#### ITEM 16. 10-K SUMMARY

As permitted, the registrant has elected not to supply a summary of information required by Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 25, 2020

By: /s/ Scott R. Silverman  
Scott R. Silverman  
Chief Executive Officer and  
Chairman of the Board

## POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Scott R. Silverman as attorney-in-fact with full power of substitution, severally, to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report on Form 10-K, which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the annual report on Form 10-K with the Securities and Exchange Commission. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Scott R. Silverman</u> Scott R. Silverman	Chief Executive Officer, Chairman of the Board and Director (principal executive officer)	March 25, 2020
<u>/s/ Vince Pugliese</u> Vince Pugliese	Chief Operating Officer, President, Interim Chief Financial Officer and Treasurer (principal financial and accounting officer)	March 25, 2020
<u>/s/ Barry M. Edelstein</u> Barry M. Edelstein	Director	March 25, 2020
<u>/s/ Scott V. Thomsen</u> Scott V. Thomsen	Director	March 25, 2020

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018**

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**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of:  
C-Bond Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of C-Bond Systems, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has a net loss and cash used in operations of \$7,240,740 and \$1,313,711 respectively, in 2019 and a working capital deficit, shareholders' deficit and accumulated deficit of \$2,436,639, \$2,616,937 and \$40,000,015 respectively, at December 31, 2019. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's Plan in regards to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.  
We have served as the Company's auditor since 2017.  
Boca Raton, Florida  
March 25, 2020

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Member CPAConnect with Affiliated Offices Worldwide • Member Center for Public Company Audit Firms*

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 77,211	\$ 128,567
Accounts receivable, net	151,989	91,319
Inventory	14,820	8,977
Prepaid expenses and other current assets	18,577	31,199
	<u>262,597</u>	<u>260,062</u>
<b>OTHER ASSETS:</b>		
Property, plant and equipment, net	32,776	57,405
Right of use asset, net	69,808	-
Security deposit	7,132	8,977
	<u>109,716</u>	<u>66,382</u>
<b>TOTAL ASSETS</b>	<u>\$ 372,313</u>	<u>\$ 326,444</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable - related party	\$ 400,000	\$ 400,000
Convertible notes payable, net	135,833	-
Accounts payable	746,663	507,058
Accrued expenses	126,986	46,278
Accrued compensation	351,708	188,231
Lease liability	47,636	-
Derivative liability	890,410	-
	<u>2,699,236</u>	<u>1,141,567</u>
<b>LONG-TERM LIABILITIES:</b>		
Lease liability, net of current portion	22,216	-
Mandatorily redeemable convertible Series A preferred stock; \$0.10 par value, 800,000 shares designated; 159,600 and no shares issued and outstanding at December 31, 2019 and 2018, respectively (\$1.00 per share redemption and liquidation value)	159,798	-
	<u>182,014</u>	<u>-</u>
<b>Total Long-term Liabilities</b>	<u>182,014</u>	<u>-</u>
<b>Total Liabilities</b>	<u>2,881,250</u>	<u>1,141,567</u>
<b>Commitments and Contingencies (See Note 10)</b>		
Series B convertible preferred stock: \$0.10 par value, 100,000 shares designated; 108 and no shares issued and outstanding at December 31, 2019 and 2018, respectively (\$1,000 per share redemption and liquidation value)	108,000	-
	<u>108,000</u>	<u>-</u>
<b>SHAREHOLDERS' DEFICIT:</b>		
Preferred stock: \$0.10 par value, 1,000,000 shares authorized; 800,000 Series A and 100,000 Series B designated	-	-
Common stock: \$0.001 par value, 500,000,000 shares authorized; 116,749,633 and 80,459,006 issued and outstanding at December 31, 2019 and 2018, respectively	116,750	80,459
Additional paid-in capital	37,266,328	31,863,693
Accumulated deficit	(40,000,015)	(32,759,275)
	<u>(2,616,937)</u>	<u>(815,123)</u>
<b>Total Shareholders' Deficit</b>	<u>(2,616,937)</u>	<u>(815,123)</u>
<b>Total Liabilities and Shareholders' Deficit</b>	<u>\$ 372,313</u>	<u>\$ 326,444</u>

See accompanying notes to consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Year Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
SALES	\$ 602,636	\$ 382,244
COST OF SALES (excluding depreciation expense)	<u>121,967</u>	<u>83,384</u>
GROSS PROFIT	<u>480,669</u>	<u>298,860</u>
<b>OPERATING EXPENSES:</b>		
Compensation and related benefits (including stock-based compensation of \$3,858,967 and \$6,735,124 for the year ended December 31, 2019 and 2018, respectively)	5,359,676	7,823,381
Research and development	31,057	258,294
Professional fees	986,445	1,006,939
General and administrative expenses	<u>462,103</u>	<u>478,348</u>
Total Operating Expenses	<u>6,839,281</u>	<u>9,566,962</u>
LOSS FROM OPERATIONS	<u>(6,358,612)</u>	<u>(9,268,102)</u>
<b>OTHER EXPENSES:</b>		
Gain (loss) on debt extinguishment	31,009	(383,475)
Derivative expense	(570,059)	-
Settlement expense	-	(200,000)
Interest expense	<u>(343,078)</u>	<u>(53,142)</u>
Total Other Expenses	<u>(882,128)</u>	<u>(636,617)</u>
NET LOSS	<u>\$ (7,240,740)</u>	<u>\$ (9,904,719)</u>
<b>NET LOSS PER COMMON SHARE:</b>		
Basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.14)</u>
<b>WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:</b>		
Basic and diluted	<u>94,236,036</u>	<u>68,521,112</u>

See accompanying notes to consolidated financial statements.



**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
	<u># of Shares</u>	<u>Amount</u>			
Balance, December 31, 2017	45,717,635	\$ 45,717	\$ 22,127,796	\$ (22,854,556)	\$ (681,043)
Recapitalization of Company	9,106,250	9,106	178,295	-	187,401
Shares issued for conversion of accrued compensation	12,694,893	12,695	650,760	-	663,455
Common shares issued for cash	3,132,337	3,132	1,264,368	-	1,267,500
Common shares issued for conversion of debt	136,894	137	105,696	-	105,833
Common shares issued for services	6,689,575	6,690	112,060	-	118,750
Accretion of stock-based compensation	-	-	1,885,417	-	1,885,417
Common shares issued for settlement and debt extinguishment	815,957	816	467,878	-	468,694
Beneficial conversion feature on convertible note payable	-	-	260,000	-	260,000
Stock option exercise compensation	-	-	60,000	-	60,000
Exercise of stock options	2,650,525	2,651	232,109	-	234,760
Forfeiture of non-vested shares	(485,060)	(485)	485	-	-
Accretion of stock option expense	-	-	4,518,829	-	4,518,829
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,904,719)</u>	<u>(9,904,719)</u>
Balance, December 31, 2018	80,459,006	80,459	31,863,693	(32,759,275)	(815,123)
Shares issued for conversion of accrued compensation	6,400,000	6,400	267,600	-	274,000
Common shares issued for cash	12,750,000	12,750	767,250	-	780,000
Common shares issued for conversion of debt	295,567	296	11,704	-	12,000
Common shares issued for services	13,845,060	13,845	188,515	-	202,360
Issuance of warrants in connection with convertible debt	-	-	61,899	-	61,899
Stock option exercise compensation	-	-	7,500	-	7,500
Exercise of stock options for accrued compensation	3,000,000	3,000	87,000	-	90,000
Accretion of stock-based compensation and professional fees	-	-	2,068,368	-	2,068,368
Accretion of stock option expense	-	-	1,942,799	-	1,942,799
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,240,740)</u>	<u>(7,240,740)</u>
Balance, December 31, 2019	<u>116,749,633</u>	<u>\$ 116,750</u>	<u>\$ 37,266,328</u>	<u>\$ (40,000,015)</u>	<u>\$ (2,616,937)</u>

See accompanying notes to consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (7,240,740)	\$ (9,904,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	24,629	33,718
Bad debt expense (recovery)	992	(552)
Amortization of debt discount to interest expense	160,542	40,691
Stock-based compensation	3,858,967	6,735,124
Stock-based professional fees	355,393	118,750
Settlement expense	-	200,000
(Gain) loss on debt extinguishment	(31,009)	380,171
Interest expense related to put premium on convertible debt	88,620	-
Derivative expense	570,059	-
Lease costs	44	-
Change in operating assets and liabilities:		
Accounts receivable	(61,662)	(55,542)
Inventory	(5,843)	1,516
Prepaid expenses and other assets	1,949	(11,243)
Accounts payable	239,605	382,067
Accrued expenses	89,266	22,709
Accrued compensation	635,477	89,528
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,313,711)</b>	<b>(1,967,782)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash acquired in recapitalization	-	187,401
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>187,401</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of stock	780,000	1,267,500
Proceeds from sale of series A preferred stock	127,000	-
Proceeds from exercise of stock options	19,185	195,000
Proceeds from note payable	25,000	400,000
Repayment of note payable	(25,000)	-
Repayment of convertible note payable	(238,080)	(260,000)
Proceeds from convertible notes payable	574,250	260,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,262,355</b>	<b>1,862,500</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(51,356)</b>	<b>82,119</b>
CASH, beginning of year	128,567	46,448
CASH, end of year	\$ 77,211	\$ 128,567
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for:		
Interest	\$ 37,339	\$ 6,791
Income taxes	\$ -	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Beneficial conversion feature reflected in debt discount	\$ -	\$ 260,000
Common stock issued as prepaid for services	\$ 161,460	\$ 18,333
Common stock issued for accrued compensation	\$ 364,000	\$ 392,577
Series B preferred stock issued for accrued compensation	\$ 108,000	\$ -
Exercise of stock options for accrued compensation	\$ -	\$ 20,575
Common stock issued for debt and accrued interest	\$ 12,000	\$ 105,833
Common stock issued for accrued settlement	\$ -	\$ 114,915
Increase in debt discount and derivative liability	\$ 320,351	\$ -
Increase in debt discount and paid-in capital for warrants	\$ 61,899	\$ -
Increase in right of use asset and lease liability	\$ 74,296	\$ -

See accompanying notes to consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of organization**

C-Bond Systems, Inc. and its subsidiaries (the "Company") is a materials development company and sole owner, developer and manufacturer of the patented C-Bond technology. The Company is engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability of brittle material systems. The Company's present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally.

On April 25, 2018, the Company (which was formerly known as WestMountain Alternative Energy, 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 had 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 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. 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. 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**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Going concern**

These 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 consolidated financial statements, the Company had a net loss of \$7,240,740 and \$9,904,719 for the years ended December 31, 2019 and 2018, respectively. The net cash used in operations was \$1,313,711 and \$1,967,782 for the years ended December 31, 2019 and 2018, respectively. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$40,000,015, \$2,616,937 and \$2,436,639, respectively, at December 31, 2019. 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 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 years ended December 31, 2019 and 2018 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 estimate of the fair value of the right of use asset and lease liability, the valuation of redeemable and mandatorily redeemable preferred stock, the fair value of derivative liabilities, the 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. Disclosures about the fair value of financial instruments are based on pertinent information available to the Company on December 31, 2019. Accordingly, the estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2—Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3—Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, notes payable – related party, convertible note payable, accounts payable, accrued expenses, accrued compensation, and lease liability approximate their fair market value based on the short-term maturity of these instruments.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

Assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018 is as follows:

Description	At December 31, 2019			At December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative liabilities	-	-	890,410	-	-	-

A roll forward of the level 3 valuation financial instruments is as follows:

	For the Year Ended December 31,	
	2019	2018
Balance at beginning of period	\$ -	\$ -
Initial valuation of derivative liabilities included in debt discount	320,351	-
Initial valuation of derivative liabilities included in derivative expense	516,634	-
Change in fair value included in derivative expense	53,425	-
Balance at end of period	<u>\$ 890,410</u>	<u>\$ -</u>

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.

**Cash and cash equivalents**

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three 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 three 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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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.

**Derivative financial instruments**

The Company has certain financial instruments that are embedded derivatives. The Company evaluates all its financial instruments to determine if those contracts or any potential embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815-10-05-4, *Derivatives and Hedging* and 815-40, *Contracts in Entity's Own Equity*. This accounting treatment requires that the carrying amount of any embedded derivatives be recorded at fair value at issuance and marked-to-market at each balance sheet date. In the event that the fair value is recorded as a liability, as is the case with the Company, the change in the fair value during the period is recorded as either other income or expense. Upon conversion, exercise or repayment, the respective derivative liability is marked to fair value at the conversion, repayment or exercise date and then the related fair value amount is reclassified to other income or expense as part of gain or loss on extinguishment.

In July 2017, FASB issued ASU No. 2017-11, *Earnings Per Share* (Topic 260); *Distinguishing Liabilities from Equity* (Topic 480); *Derivatives and Hedging* (Topic 815): (Part I) *Accounting for Certain Financial Instruments with Down Round Features*. These amendments simplify the accounting for certain financial instruments with down-round features. The amendments require companies to disregard the down-round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The guidance was adopted as of January 1, 2019 and the Company elected to record the effect of this adoption, if any, retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of 2019, the period which the amendment is effective. The adoption of ASU No. 2017-11 had no effect on the Company's financial position or results of operations and there was no cumulative effect adjustment.

**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 on January 1, 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 and there was no cumulative effect adjustment.

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 \$33,151 and \$20,380 for the year ended December 31, 2019 and 2018, respectively. Shipping and handling costs charged to customers are included in sales.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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 \$26,933 and \$24,190 at December 31, 2019 and 2018, respectively. For the year ended December 31, 2019 and 2018, warranty expense amounted to \$4,650 and \$7,403, respectively, and is included in cost of sales on the accompanying consolidated statements of operations. For the year ended December 31, 2019 and 2018, a roll forward of warranty liability is as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ 24,190	\$ 21,935
Increase in estimated warranty liability	4,650	7,403
Warranty expenses incurred	(1,907)	(5,148)
Balance at end of period	\$ 26,933	\$ 24,190

**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 year ended December 31, 2019 and 2018, research and development costs incurred in the development of the Company's products were \$31,057 and \$258,294, respectively, and are included in operating expenses on the accompanying 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 year ended December 31, 2019 and 2018, advertising costs charged to operations were \$36,238 and \$51,719, respectively and are included in general and administrative expenses on the accompanying 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.

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 December 31, 2019 and 2018, 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, 2015. 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 December 31, 2019 and 2018.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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.

Through September 30, 2018, pursuant to ASC 505-50 – “Equity-Based Payments to Non-Employees”, all share-based payments to non-employees, including grants of stock options, were 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 adjusts the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company early adopted ASU No. 2018-07 in the fourth quarter of 2018 and there was no cumulative effect of adoption.

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 dilutive securities and non-vested forfeitable shares. 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 and non-vested forfeitable shares (using the treasury stock method) and shares issuable upon conversion of preferred shares and 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:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Convertible notes	14,333,333	-
Stock options	8,445,698	12,704,009
Warrants	2,050,000	-
Series A preferred stock	3,283,951	-
Series B preferred stock	3,600,000	-
Non-vested, forfeitable common shares	17,475,299	4,498,672



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**Segment reporting**

During the year ended December 31, 2019 and 2018, the Company operated in one business segment.

**Leases**

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. For the Company’s administrative office lease, the Company analyzed if it would be required to record a lease liability and a right of use asset on its consolidated balance sheets at fair value upon adoption of ASU 2016-02. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less.

Operating lease ROU assets represents the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, the Company use an incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Lease expense for minimum lease payments is amortized on a straight-line basis over the lease term and is included in general and administrative expenses in the consolidated statements of operations.

**Recent accounting pronouncements**

In August 2018, the FASB issued ASU 2018-13 to modify the disclosure requirements on fair value measurements. The amendments are effective beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until the effective date. Most amendments should be applied retrospectively, but certain amendments will be applied prospectively. The Company is in the process of assessing the impact of the standard on the Company’s fair value disclosures. However, the standard is not expected to have an impact on the Company’s consolidated financial position, results of operations and cash flows.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12 – Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes, as part of its initiative to reduce complexity in the accounting standards. The amendments in ASU 2019-12 eliminate certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. The amendments in ASU 2019-12 will become effective for us as of the beginning of our 2022 fiscal year. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact that this guidance will have upon our financial position and results of operations, if any.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

**NOTE 3 – ACCOUNTS RECEIVABLE**

At December 31, 2019 and 2018, accounts receivable consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounts receivable	\$ 151,989	\$ 91,319
Less: allowance for doubtful accounts	-	-
Accounts receivable, net	\$ 151,989	\$ 91,319

For the year ended December 31, 2019 and 2018, bad debt (recovery) expense amounted to \$992 and \$(552), respectively.

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**NOTE 4 – INVENTORY**

At December 31, 2019 and 2018, inventory consisted of the following:

	December 31, 2019	December 31, 2018
Raw materials	\$ 12,250	\$ 6,149
Finished goods	2,570	2,828
Inventory	<u>\$ 14,820</u>	<u>\$ 8,977</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

At December 31, 2019 and 2018, property and equipment consisted of the following:

	Useful Life	2019	2018
Machinery and equipment	5 - 7 years	\$ 52,184	\$ 52,184
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
		<u>182,289</u>	<u>182,289</u>
Less: accumulated depreciation		(149,513)	(124,884)
Property and equipment, net		<u>\$ 32,776</u>	<u>\$ 57,405</u>

For the year ended December 31, 2019 and 2018, depreciation and amortization expense is included in general and administrative expenses and amounted to \$24,629 and \$33,718, 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. 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 and all accrued interest of \$5,833 was converted into 136,894 common shares and the Convertible Note was terminated. As of December 31, 2018, this Convertible Note was 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 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 \$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.

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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.

February to May 2019 Financings

From February 13, 2019 to May 15, 2019, the Company entered into four Securities Purchase Agreements (the “SPAs”) with an Accredited Investor (“Investor”) for the purchase of a Convertible Promissory Notes in the aggregate principal amount of \$244,800 and received net proceeds of \$192,000, net of original issue discount of \$40,800 and net of origination fees of \$12,000. These Notes bear interest rate ranging from 4% per annum to 12% per annum and were due and payable through May 2020. The Notes were convertible by the Investor after six months from each respective Note date into shares of the Company’s common stock (as determined in the Note) at a price equal to 81% of the average of the lowest two closing bid prices of the common stock as reported on the OTC Link ATS owned by OTC Markets Group for the 10 prior trading days. The Company may prepay the Notes at any time prior to the six-month anniversary, subject to pre-payment charges as detailed in the Notes. The SPAs and Notes contain customary representations, warranties and covenants, including certain restrictions on the Company’s ability to sell, lease or otherwise dispose of any significant portion of its assets. Investor also has the right of first refusal with respect to any future equity (or debt with an equity component) offerings of less than \$100,000 conducted by the Company until the six-month anniversary of the Note. The SPA and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, proceedings, delinquency in periodic report filings with the SEC, and cross default with other agreements. In the event of default, at the option of the Investor and in the Investor’s sole discretion, the Investor may consider the Note immediately due and payable. The Company has accounted for these convertible promissory notes as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$57,423 with a charge to interest expense. On August 15, 2019, the Company issued 295,567 shares of its common stock upon conversion of principal balance of \$12,000.

On September 6, 2019, the Company satisfied in full all remaining convertible promissory note obligations with this accredited investor including all Notes in the amount of \$232,800 and accrued interest of \$7,624 for a cash payment of \$238,080. Additionally, in connection with this debt extinguishment, the Company reversed all put premiums recorded of \$57,423 and remaining debt discounts of \$28,758 and recorded a gain on debt extinguishment of \$31,009.

September 2019 and December 2019 Financings

On September 6, 2019 and on December 9, 2019, the Company closed on Securities Purchase Agreements (the “SPAs”) with an accredited investor. Pursuant to the terms of the September 6, 2019 SPA, the Company issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$300,000 and a warrant to purchase up to 750,000 shares of the Company’s common stock. The Company received net proceeds of \$267,250, net of original issue discount of \$30,000 and origination fees of \$2,750. The Note bears interest at 12% per annum and becomes due and payable on June 6, 2020. Pursuant to the terms of the December 9, 2019 SPA, the Company issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$130,000, and a warrant to purchase up to 300,000 shares of the Company’s common stock. The Company received net proceeds of \$115,000, net of original issue discount of \$15,000. These Notes bear interest at 12% per annum. The September 6, 2019 Note becomes due and payable on June 6, 2020 and the December 9, 2019 Note is due and payable on September 9, 2020.

In accordance with these SPAs and these Notes, subject to the adjustments as defined in the respective SPA and Note, the conversion price (the “Conversion Price”) shall equal the lesser of: (i) the lowest Trading Price (as defined below) during the previous twenty-five Trading Day period ending on the latest complete Trading Day prior to the date of this Note, and (ii) the Variable Conversion Price (as defined below) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Company). The “Variable Conversion Price” shall mean 60% multiplied by the Market Price (as defined herein) (representing a discount rate of 40%). “Market Price” means the lowest Trading Price (as defined below) for the Company’s common stock during the twenty-five Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. “Trading Price” means, for any security as of any date, the lesser of: (i) the lowest trade price on the applicable trading market as reported by a reliable reporting service (“Reporting Service”) designated by the Holder or (ii) the closing bid price on the applicable trading market as reported by a Reporting Service designated by the Holder. The Company may prepay the Note at any time prior to its six-month anniversary, subject to pre-payment charges as detailed in the Note.

The SPAs and Notes contain customary representations, warranties and covenants, including certain restrictions on the Company’s ability to sell, lease or otherwise dispose of any significant portion of its assets. The Investor also has the right of first refusal with respect to any future equity (or debt with an equity component) offerings conducted by the Company until the 12-month anniversary of the Closing. The SPA and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, bankruptcy or insolvency proceedings, delinquency in periodic report filings with the Securities and Exchange Commission, and cross default with other agreements. Upon the occurrence of an event of default, this investor may declare the outstanding obligations due and payable at significant applicable default rates and take such other actions as set forth in the Notes.

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The Warrants are exercisable at any time on or after the date of the issuance and entitles this investor to purchase shares of the Company's common stock for a period of five years from the initial date the warrants become exercisable. Under the terms of the Warrants, the holder is entitled to exercise the Warrant to purchase up to an aggregate of 1,050,000 shares of the Company's common stock at an initial exercise price of \$0.10, subject to adjustment as detailed in the Warrants.

These Notes and related Warrants include a down-round provision under which the Notes conversion price and warrant exercise price could be affected on a full-ratchet basis by future equity offerings undertaken by the Company.

In connection with the issuance of the Notes, the Company determined that the terms of the Note contain terms that are not fixed monetary amounts at inception. Accordingly, under the provisions of ASC 815-40 - *Derivatives and Hedging – Contracts in an Entity's Own Stock*, the embedded conversion options contained in the convertible instruments were bifurcated and accounted for as derivative liability at the date of issuance and shall be adjusted to fair value through earnings at each reporting date. The fair value of the embedded conversion option derivatives was determined using the Binomial valuation model. At the end of each period and on the date that debt is converted into common shares, the Company revalues the embedded conversion option derivative liabilities. In connection with the issuance of these Notes, during the year ended December 31, 2019, on the initial measurement date, the fair values of the embedded conversion option derivative of \$836,985 was recorded as derivative liabilities and was allocated as a debt discount up to the net proceeds of the Note of \$320,351, with the remainder of \$516,634 charged to current period operations as initial derivative expense. At the end of the period, the Company revalued the embedded conversion option derivative liabilities and recorded a derivative expense of \$53,425. In connection with the revaluation and the initial derivative expense, the Company recorded an aggregate derivative expense of \$570,059 during the year ended December 31, 2019.

In connection with the warrants issued in connection with these Notes, the Company determined that the terms of the warrants contain terms that are fixed monetary amounts at inception and, accordingly, the warrants were not considered derivatives. The fair value of the warrants was determined using the Binomial valuation model. In connection with the issuance of the warrants, on the initial measurement date, the relative fair value of the warrants of \$61,899 was recorded as a debt discount and an increase in paid-in capital.

During the year ended December 31, 2019, the fair value of the derivative liabilities and warrants was estimated using the Binomial valuation model with the following assumptions:

	<b>2019</b>
Dividend rate	—%
Term (in years)	0.69 to 5.00 years
Volatility	275.8 to 317.5%
Risk—free interest rate	1.56% to 1.75%

For the year ended December 31, 2019 and 2018, interest expense related to convertible notes and warrants amounted to \$237,445 and \$49,003, including amortization of debt discount and debt premium charged to interest expense of \$217,298 and \$40,691, respectively.

The weighted average interest rate on the above notes and notes payable – related party (see note 7) during the years ended December 31, 2019 and 2018 was 14.9% and 8.7%, respectively.

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At December 31, 2019 and 2018, convertible notes consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Principal amount	\$ 430,000	\$ -
Less: unamortized debt discount	(294,167)	-
Convertible notes payable, net	<u>\$ 135,833</u>	<u>\$ -</u>

**NOTE 7 – NOTES PAYABLE – RELATED PARTY**

On November 14, 2018, the Company entered into a Revolving Credit Facility Loan and Security Agreement (“Loan Agreement”) and a Secured Promissory Note (the “Note”) with BOCO Investments, LLC (the “Lender”), a beneficial shareholder of the Company. Subject to and in accordance with the terms and conditions of the Loan Agreement and the Note, the Lender agrees to lend to the Company up to \$400,000 (the “Maximum Loan Amount”) against the issuance and delivery by the Company of the Note for use as working capital and to assist in inventory acquisition. The Lender loaned an initial amount of \$200,000 at closing and loaned an additional \$200,000 to the Company and may loan at any time and from time to time through November 14, 2020, up to an aggregate amount not to exceed the Maximum Loan Amount. The Company must repay all principal, interest and other amounts outstanding on or before November 14, 2020. The Company’s obligations under the Loan Agreement and the Note are secured by a first-priority security interest in substantially all of the Company’s assets (the “Collateral”). The outstanding principal advanced to Company pursuant to the Loan Agreement bears interest at the rate of 12% per annum, compounded annually.

Upon the occurrence of an Event of Default under the Loan Agreement and Note, all amounts then outstanding (including principal and interest) shall bear interest at the rate of 18% per annum, compounded annually until the Event of Default is cured. Additionally, at or prior to December 31, 2018, the Company should have achieved an accounts receivable balance plus inventory equal to the unpaid principal balance of the Note (the “Minimum Asset Amount”).

In the event that the Company’s accounts receivable balance plus inventory balance is less than paid principal balance of the Note as of December 31, 2018 the Company shall have 45 days (through and until February 15, 2019) to cure such violation and establish accounts receivable plus inventory equal to the unpaid principal balance of the Note. Commencing March 31, 2019 and at all times thereafter through the remainder of the commitment period and for so long thereafter as there is any amount still due and owing under the Note, the Company must maintain an accounts receivable balances plus inventory such that the outstanding principal borrowed by Company under the Loan Agreement and Note is less than or equal to eighty five percent (85%) of accounts receivable plus fifty percent (50%) of inventory, all as measured at the same point in time.

Commencing on January 10, 2019 and on or before the 10th day of each month thereafter, the Company shall pay Lender all interest accrued on outstanding principal under the Loan Agreement and Notes as of the end of the month then concluded. Upon the occurrence of any Event of Default and at any time thereafter, Lender may, at its option, declare any and all Obligations immediately due and payable without demand or notice. As of December 31, 2019 and December 31, 2018, the Company did not meet the Minimum Asset Amount covenant as defined in the Loan Agreement, failed to timely pay interest payments due, and has violated other default provisions. Accordingly, the note balance due of \$400,000 has been reflected as a current liability on the accompanying consolidated balance sheet.

The Loan Agreement and Note contain customary representations, warranties and covenants, including certain restrictions on the Company’s ability to incur additional debt or create liens on its property. The Loan Agreement and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, breach of covenants, and bankruptcy or insolvency proceedings, the occurrence of which, after any applicable cure period, would permit Lender, among other things, to accelerate payment of all amounts outstanding under the Loan Agreement and the Note, as applicable, and to exercise its remedies with respect to the Collateral, including the sale of the Collateral.

For the years ended December 31, 2019 and 2018, interest expense related to this Note amounted to \$72,000 and \$4,044, respectively.

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**NOTE 8 – NOTE PAYABLE**

On April 26, 2019, the Company entered into a Promissory Note (“Promissory Note”) with an accredited investor in the aggregate principal amount of \$25,000 and received net proceeds of \$25,000. The Promissory Note bears interest at 4% per annum and is due and payable on April 26, 2020 (the “Maturity Date”). At the time the Promissory Note reaches its Maturity Date, the holder and the Company will discuss and mutually agree on potential conversion rights of the holder, including pricing, method of conversion, etc. At any time during which the Promissory Note is outstanding, the Company may prepay the Note in full, without penalty. The Promissory Note provides for certain events of default, including, among other things, payment defaults, bankruptcy, liquidation, and cessation of operations. In the event of default, the holder shall be entitled to an injunction or injunctions restraining, preventing or curing any breach of this Promissory Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required. In September 2019, the Company repaid \$12,500 this note and in October 2019, the remaining balance of \$12,500 was repaid.

**NOTE 9 - SHAREHOLDERS’ DEFICIT**

**Preferred Stock**

Series A Preferred stock

On October 16, 2019, the Company filed an Amendment to its Articles of Incorporation to designate a series of preferred stock, the Series A Convertible Preferred Stock, with the Secretary of State of the State of Colorado.

The Certificate of Designations established 800,000 shares of the Series A Preferred Stock, par value \$0.10, having such designations, preferences, and rights as determined by the Company’s Board of Directors in its sole discretion, in accordance with the Company’s Articles of Incorporation and Amended and Restated Bylaws. The Certificate of Designations, Preferences, Rights, and Limitations of Series A Convertible Preferred Stock (“Certificate of Designations”) provides that the Series A Convertible Preferred Stock shall have no right to vote on any matters on which the common shareholders are permitted to vote. The Series A Convertible Preferred Stock ranks senior with respect to dividends and right of liquidation to the Company’s common stock and junior with respect to dividends and right of liquidation to all existing and future indebtedness of the Company and existing and outstanding preferred stock of the Company. Each share of Series A Preferred Stock shall have a stated value of \$1.00 (the “Stated Value”).

Each share of Series A Preferred Stock will carry an annual dividend in the amount of 4% of the Stated Value (the “Dividend Rate”), which shall be cumulative and compounded daily, payable solely upon redemption, liquidation or conversion. Upon the occurrence of an Event of Default, the Dividend Rate shall automatically increase to 22%.

At any time during the periods set forth on the table immediately following this paragraph (the “Redemption Periods”) provided that an Event of Default has not occurred, the Company will have the right, at the Company’s option, to redeem all or any portion of the shares of Series A Preferred Stock for an amount equal to (i) the total number of Series A Preferred Stock held by the applicable Holder multiplied by (ii) the Stated Value plus the Adjustment Amount, (the “Optional Redemption Amount”). The Adjustment Amount shall equal to any accrued but unpaid dividends, the default adjustment amounts, as defined in the Certificate of Designation, if applicable, failure to deliver fees, if any, and any other fees as set forth in the Certificate of Designation. After the expiration of 180 days following the Issuance Date of the applicable shares of Series A Preferred Stock, the Company shall have no right of redemption.

<b>Redemption Period</b>	<b>Redemption Percentage</b>
1. The period beginning on the date of the issuance of shares of Series A Preferred Stock and ending on the date which is sixty days following the Issuance Date.	100%
2. The period beginning on the date that is sixty-one days from the Issuance Date and ending ninety days following the Issuance Date.	107%
3. The period beginning on the date that is ninety-one days from the Issuance Date and ending one hundred twenty days following the Issuance Date.	112%
4. The period beginning on the date that is one hundred twenty-one days from the Issuance Date and ending one hundred fifty days following the Issuance Date.	117%
5. The period beginning on the date that is one hundred fifty-one days from the Issuance Date and ending one hundred eighty days following the Issuance Date.	120%

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On the earlier to occur of (i) the date which is eighteen months following the Issuance Date and (ii) the occurrence of an Event of Default (the "Mandatory Redemption Date"), the Company shall redeem all of the shares of Series A Preferred Stock of the Holders (which have not been previously redeemed or converted). Within five days of the Mandatory Redemption Date, the Company shall make payment to each Holder of an amount in cash equal to (i) the total number of Series A Preferred Stock held by such Holder multiplied by (ii) the Stated Value plus the Adjustment Amount.

The Holder of Series A Preferred stock shall have the right from time to time, and at any time during the period beginning on the date which is 180 days following the issuance date, to convert all or any part of the outstanding Series A Preferred Stock into the Company's common stock. The conversion price (the "Conversion Price") shall equal the Variable Conversion Price (as defined below) (subject to equitable adjustments by the Company relating to the Company's securities or the securities of any subsidiary of the Company, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The "Variable Conversion Price" shall mean 81% multiplied by the Market Price (as defined below) (representing a discount rate of 19%). "Market Price" means the average of the two lowest Trading Prices for the common stock during the ten Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. "Trading Price" means, for any security as of any date, the closing bid price on the applicable trading market as reported by a reliable reporting service designated by the Holder. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the OTC, or on the principal securities exchange or other securities market on which the common stock is then being traded. The Company has accounted for the Series A Preferred Stock as stock settled debt under ASC 480 due to mandatory redemption and recorded an aggregate debt premium of \$31,197 with a charge to interest expense.

During October and November 2019, the Company entered into a Series A Preferred Stock Purchase Agreements with accredited investors whereby the investors agreed to purchase an aggregate of 159,600 unregistered shares of the Company's Series A Preferred stock, par value \$0.10 for \$133,000, or \$0.833 per share. During October and November 2019, the Company received the cash proceeds of \$127,000, net of fees of \$6,000. A total discount of \$6,000 was recognized and is being amortized to interest expense over the redemption terms of the Series A preferred shares. For the year ended December 31, 2019, amortization of discount charged to interest expense amounted to \$667. The Company has accrued \$934 of interest on these liabilities which is included in mandatorily redeemable convertible Series A preferred stock liability on the accompanying consolidated balance sheet.

The Company has classified the Series A Preferred Stock as a liability in accordance with ASC Topic No. 480, "*Distinguishing Liabilities from Equity*," which states that mandatorily redeemable financial instruments should be classified as liabilities and therefore the related dividend payments are treated as a component of interest expense in the accompanying consolidated statements of operations. The mandatorily redeemable Series A preferred stock is recorded at the liquidation preference, less unamortized discounts plus the debt premium and accrued dividends due, on the Company's accompanying consolidated statements of operations as of December 31, 2019 which in total exceeds the redemption value.

Series B Preferred Stock

On December 12, 2019, the Company filed an Amendment to its Articles of Incorporation to designate a series of preferred stock, the Series B Convertible Preferred Stock (the "Series B"), with the Secretary of State of the State of Colorado. The Certificate of Designations established 100,000 shares of the Series B, par value \$0.10, having such designations, preferences, and rights as determined by the Company's Board of Directors in its sole discretion, in accordance with the Company's Articles of Incorporation and Amended and Restated Bylaws. The Certificate of Designations became effective with the State of Colorado upon filing.

The Series B ranks senior with respect to dividends and right of liquidation with the Company's common stock and junior to all existing and future indebtedness of the Company. The Series B has a stated value per share of \$1,000, subject to adjustment as provided in the Certificate of Designations (the "Stated Value"), and a dividend rate of 2% per annum of the Stated Value.

The Series B is subject to redemption (at Stated Value, plus any accrued, but unpaid dividends (the "Liquidation Value")) by the Company no later than three years after a Deemed Liquidation Event and at the Company's option after one year from the issuance date of the Series B, subject to a ten-day notice (to allow holder conversion). A "Deemed Liquidation Event" will mean: (a) a merger or consolidation in which the Company is a constituent party or a subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation, except any such merger or consolidation involving the Company or a subsidiary in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of the surviving or resulting corporation or, if the surviving or resulting corporation is a wholly-owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or (b) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any subsidiary of the Company of all or substantially all the assets of the Company and its subsidiaries taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Company.

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The Series B is convertible at the option of a holder or if the closing price of the common stock exceeds 400% of the Conversion Price for a period of twenty consecutive trading days, at the option of the Company. Conversion Price means a price per share of the common stock equal to 100% of the lowest daily volume weighted average price of the common stock during the two years preceding or subsequent two years following the Issuance Date, subject to adjustment as otherwise provided in the Certificate of Designations (the "Conversion Price").

In the event of a conversion of any Series B, the Company shall issue to the holder a number of shares of common stock equal to the Liquidation Value multiplied by the number of shares of Series B Preferred Stock being converted divided by the Conversion Price.

Upon liquidation of the Company after payment or provision for payment of liabilities of the Company and after payment or provision for any liquidation preference payable to the holders of any preferred stock ranking senior to the Series B but prior to any distribution to the holders of Common Stock or preferred stock ranking junior upon liquidation to the Series B, the holders of Series B will be entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount with respect to each share of Series B equal to the Liquidation Value.

The Series B has voting rights per Series B Share equal to the Liquidation Value per share, divided by the Conversion Price, multiplied by fifty (50). Subject to applicable Colorado law, the holders of Series B will have functional voting control in situations requiring shareholder vote.

The Series B Preferred Stock will vest on May 1, 2020, subject to acceleration in the event of conversion or redemption.

On December 12, 2019, the Board of Directors of the Company agreed to satisfy \$108,000 of accrued compensation owed to its directors and executive officers (collectively, the "Management") through a Liability Reduction Plan (the "Plan"). Under this Plan, Management agreed to accept 108 shares of the Company's Series B convertible preferred stock in settlement of accrued compensation.

These Series B preferred share issuances with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the consolidated balance sheet was appropriate. As per the terms of the Series B preferred stock agreements, Series B preferred stock is redeemable for cash and other assets on the occurrence of a deemed liquidation event. A deemed liquidation event includes a change of control which is not in the Company's control. As such, since Series B preferred stock is redeemable upon the occurrence of an event that is not within the Company's control, the Series B preferred stock is classified as temporary equity.

The Company concluded that the Series B Preferred Stock represented an equity host and, therefore, the redemption feature of the Series B Preferred Stock was not considered to be clearly and closely related to the associated equity host instrument. However, the redemption features did not meet the net settlement criteria of a derivative and, therefore, were not considered embedded derivatives that required bifurcation. The Company also concluded that the conversion rights under the Series B Preferred Stock were clearly and closely related to the equity host instrument. Accordingly, the conversion rights features on the Series B Preferred Stock were not considered an embedded derivative that required bifurcation.

#### **Common Stock**

##### **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.



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**Sale of common stock**

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 five 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 connection with a subscription agreement dated April 23, 2019, during the year ended December 31, 2019, the Company received cash proceeds of \$300,000 from an investor for the purchase of 2,000,000 shares of the Company's common stock at \$0.15 per share.

In connection with subscription agreements, during the year ended December 31, 2019, the Company received cash proceeds of \$480,000 from investors for the purchase of 10,750,000 shares of the Company's common stock at prices ranging from \$0.04 to \$0.05 per share.

**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 year ended December 31, 2018, the Company recorded stock-based professional fees of \$88,750.

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 shares 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 year ended December 31, 2018, the Company recorded stock-based compensation expense of \$1,558,333 related to these shares.

On August 15, 2018 (the "Effective Date"), the Company entered into an employment agreement with its vice president of sales and distribution. Pursuant to this employment agreement, the Company agreed to grant a restricted stock award of 500,000 common shares of the Company which will vest on the first anniversary date of the employment agreement. If the employee's employment is terminated without cause or for good reason (both as defined in the employment agreement), or a change of control event (as defined in the employment agreement) occurs, these shares will immediately vest. For any other termination of employment, unvested restricted stock shall immediately terminate. These shares were valued on the date of grant at \$200,000, or \$0.40 per common share, based on contemporaneous common share sales. These shares vest on August 15, 2019. In connection with these shares, the Company shall record stock-based compensation over the one-year vesting period. For the years ended December 31, 2019 and 2018, the Company recorded stock-based compensation expense of \$125,000 and \$75,000 related to these shares, respectively.

In September 2018, the Company entered into a 90-day consulting agreement for marketing services. In connection with this consulting agreement, the Company issued 25,000 restricted common shares of the Company to a consultant for marketing services to be rendered for the term effective October 1, 2018. These shares were valued at \$10,000, or \$0.40 per common share, based on contemporaneous common share sales, which was amortized over the term of the agreement. In connection with this consulting agreement, for the year ended December 31, 2018, the Company recorded stock-based professional fees of \$10,000.

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On October 6, 2018, the Company entered into restricted stock award agreements (the “Restricted Stock Award Agreements”) with executive officers and employees. Pursuant to the Restricted Stock Award Agreements, the Company agreed to grant restricted stock awards for an aggregate of 2,750,000 common shares of the Company which were valued at \$1,100,000, or \$0.40 per common share, based on contemporaneous common share sales. These shares will vest on the first anniversary date of the Restricted Stock Award Agreements. If the employee’s employment is terminated for any reason, these shares will immediately be forfeited. In the event of a change of control, the employee shall be 100% vested in all shares of restricted shares subject to these Agreements. Each executive officer and employee shall have the right to vote the restricted shares awarded to them 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 employee shall not be entitled to delivery of the stock certificate or certificates or electronic book entries representing such restricted shares until the shares are vested, (b) the Company shall retain custody of all retained distributions made or declared with respect to the restricted shares until such time, if ever, as the restricted shares have become vested, and (c) the employee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the restricted shares. For the years ended December 31, 2019 and 2018, the Company recorded stock-based compensation expense of \$847,916 and \$252,085 related to these shares, respectively. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs.

On November 14, 2018, the Company entered into a consulting agreement for marketing services. In connection with this consulting agreement, the Company issued 50,000 restricted common shares of the Company to a consultant for marketing services to be rendered. These shares were valued at \$20,000, or \$0.40 per common share, based on contemporaneous common share sales, which was amortized over the term of the agreement. In connection with this consulting agreement, for the year ended December 31, 2018, the Company recorded stock-based professional fees of \$20,000.

On March 12, 2019, the Company entered into a consulting agreement for advisory services to be rendered. In connection with this consulting agreement, the Company issued 485,060 restricted vested common shares of the Company to a consultant for services to be rendered. These shares were valued at \$82,460, or \$0.17 per common share, based on quoted closing price on the date of grant. In connection with this consulting agreement, during the year ended December 31, 2019, the Company recorded stock-based professional fees of \$82,460.

On March 14, 2019, the Company entered into an Advisory Board Agreement and a related Restricted Stock Award Agreement with an advisor (the “Advisor”) to act as a member of the Company’s advisory board. The Advisory Board Agreement has a term of one year and will renew automatically unless terminated by either party. In connection with this advisory agreement, the Company issued 200,000 restricted common shares of the Company to the Advisor under its 2018 Long Term Incentive Plan. These shares will vest on the first anniversary date of the Restricted Stock Award Agreement. If the Advisor’s employment is terminated for any reason, these shares will immediately be forfeited. In the event of a change of control, the employee shall be 100% vested in all shares of restricted shares subject to these Agreements. These shares were valued at \$32,000, or \$0.16 per common share, based on quoted closing price on the date of grant. In connection with this Advisory Board Agreement, during the year ended December 31, 2019, the Company recorded stock-based professional fees of \$25,333 and at December 31, 2019 and prepaid expenses of \$6,667, which will be amortized over the remaining one-year vesting period.

On May 20, 2019, the Company entered into a six-month consulting agreement with an individual for business development services. In connection with this consulting agreement, the Company issued 500,000 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at \$47,000, or \$0.094 per common share, based on quoted closing price on the date of grant. In connection with this consulting agreement, the Company recorded stock-based professional fees of \$47,000.

On July 29, 2019, the Company entered into restricted stock award agreements (the “Restricted Stock Award Agreements”) with executive officers and employees. Pursuant to the Restricted Stock Award Agreements, the Company agreed to grant restricted stock awards for an aggregate of 10,500,000 common shares of the Company which were valued at \$525,000, or \$0.05 per common share, based on contemporaneous common share sales. These shares will vest on May 1, 2020. If the employee’s employment is terminated for any reason, these shares will immediately be forfeited. In the event of a change of control, the employee shall be 100% vested in all shares of restricted shares subject to these Agreements. Each executive officer and employee shall have the right to vote the restricted shares awarded to them 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 employee shall not be entitled to delivery of the stock certificate or certificates or electronic book entries representing such restricted shares until the shares are vested, (b) the Company shall retain custody of all retained distributions made or declared with respect to the restricted shares until such time, if ever, as the restricted shares have become vested, and (c) the employee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the restricted shares. For the year ended December 31, 2019, the Company recorded stock-based compensation expense of \$313,889 related to these shares. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs. In connection with these shares, the Company shall record stock-based compensation over the vesting period.

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On October 1, 2019, the Company entered into a one-month Digital Marketing and Social Media Exposure Agreement (the “Marketing Agreement”) with a third-party entity. Pursuant to the Marketing Agreement, the Company issued 350,000 common shares of the Company which were valued at \$15,400, or \$0.044 per common share, based on contemporaneous common share sales on the agreement date. In connection with this agreement, the Company recorded professional fees of \$15,400.

On November 19, 2019, the Company issued 510,000 common shares of the Company for consulting services rendered. These shares were valued at \$25,500, or \$0.05 per common share, based on contemporaneous common share sales on the agreement date. In connection with this agreement, the Company recorded professional fees of \$25,500.

In November 2019, the Company entered into restricted stock award agreements with two employees. Pursuant to these restricted stock award agreements, the Company agreed to grant restricted stock awards for an aggregate of 1,300,000 common shares of the Company which were valued at \$65,000, or \$0.05 per common share, based on contemporaneous common share sales. These shares will vest on May 1, 2021. If the employee’s employment is terminated for any reason, these shares will immediately be forfeited. In the event of a change of control, the employee shall be 100% vested in all shares of restricted shares subject to these Agreements. Each employee shall have the right to vote the restricted shares awarded to them 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 employee shall not be entitled to delivery of the stock certificate or certificates or electronic book entries representing such restricted shares until the shares are vested, (b) the Company shall retain custody of all retained distributions made or declared with respect to the restricted shares until such time, if ever, as the restricted shares have become vested, and (c) the employee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the restricted shares. For the years ended December 31, 2019 and 2018, the Company recorded stock-based compensation expense of \$2,397 and \$0 related to these shares, respectively. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs. In connection with these shares, the Company shall record stock-based compensation over the vesting period.

The following table summarizes activity related to non-vested shares:

	<b>Number of Non-vested Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested, December 31, 2017	-	\$
Granted	6,483,732	0.62
Forfeited	(485,060)	0.85
Non-vested, December 31, 2018	5,998,672	0.61
Granted	12,000,000	0.05
Shares vested	(323,373)	(0.59)
Non-vested, December 31, 2019	<u>17,675,299</u>	<u>\$ 0.23</u>

Total unrecognized compensation expense related to these unvested common shares at December 31, 2019 amounted to \$273,714 which will be amortized over the remaining vesting period.

**Common shares issued for exercise of stock options**

During the year ended December 31, 2018, the Company issued 2,650,525 common shares upon the exercise of 1,757,032 stock options. In connection with these option exercises, the Company received proceeds of \$195,000 and reduced accrued compensation by \$20,575, and at December 31, 2018 had a subscription receivable of \$19,185 included in prepaid and other current assets on the accompanying consolidated balance sheet, which was collected in January 2019.

On December 21, 2019, the Company issued 3,000,000 common shares upon the exercise of 3,000,000 stock options. In connection with this option exercise, the Company reduced accrued compensation by \$90,000.

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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.

Prior to the Closing of the Merger, C-Bond Systems LLC received a letter from counsel to Arnold Jay Boisdrenghein/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. On August 20, 2018, pursuant to a settlement and release agreement, the Company issued 500,000 shares of common stock to settle this claim. These shares were valued at \$200,000, or \$0.40 per common share, based on contemporaneous common share sales. In connection with this settlement agreement, the Company recorded a settlement expense of \$200,000.

**Shares issued for deferred compensation**

On July 12, 2019, the Company's Chief Executive Officer, elected to convert \$80,000 of deferred compensation owed to him into 2,000,000 shares of the Company's common stock at \$0.04 per share. On July 18, 2019, the Company's President and Chief Operating Officer, elected to convert \$80,000 of deferred compensation owed to him into 2,000,000 shares of the Company's common stock at \$0.04 per share. The fair market value of these shares of \$0.04 per share is based on contemporaneous common share sales. Since the deferred compensation was converted at fair value, no gain or loss was recorded. These shares are issued under the Company's 2018 Long-Term Incentive Plan and are restricted as to resale until May 1, 2020.

On July 18, 2019, two employees of the Company elected to convert an aggregate of \$24,000 of deferred compensation owed to them into 600,000 shares of the Company's common stock at \$0.04 per share, the fair market value of these shares based on contemporaneous common share sales. Since the deferred compensation was converted at fair value, no gain or loss was recorded. These shares are issued under the Company's 2018 Long-Term Incentive Plan and are restricted as to resale until May 1, 2020.

On July 29, 2019, the Company's Chief Executive Officer, elected to convert \$40,000 of deferred compensation owed to him into 800,000 shares of the Company's common stock at \$0.05 per share. On July 29, 2019, the Company's President and Chief Operating Officer, elected to convert \$50,000 of deferred compensation owed to him into 1,000,000 shares of the Company's common stock at \$0.05 per share. The fair market value of these shares of \$0.05 per share is based on contemporaneous common share sales. Since the deferred compensation was converted at fair value, no gain or loss was recorded. These shares are issued under the Company's 2018 Long-Term Incentive Plan and are restricted as to resale until May 1, 2020.

**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 December 31, 2019 and 2018, the employee was credited \$182,500 and \$175,000 towards the options exercise, respectively. No cash disbursement will be required by the Company under this provision. The Company recognized compensation expense of \$7,500 and \$60,000 during the year ended December 31, 2019 and 2018, respectively, with a corresponding increase to shareholders' equity.

**Common stock 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 \$392,577 into 12,694,893 common shares, or \$0.031 per share based on the original employment agreement (See Note 9). Upon conversion, the Company reduced accrued compensation by \$392,577 and 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 9).

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).

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On August 15, 2019, the Company issued 295,567 shares of its common stock upon the partial conversion of a convertible note principal balance of \$12,000 at the contractual conversion price (see Note 6).

**Stock options**

In connection with the exercise of stock options in 2018, in January 2019, the Company collected a subscription receivable of \$19,185 which was included in prepaid expenses and other current assets at December 31, 2018.

For the year ended December 31, 2019 and 2018, the Company recorded \$1,942,799 and \$4,518,829 of compensation expense related to stock options, respectively. Total unrecognized compensation expense related to unvested stock options at December 31, 2019 amounted to \$609,661. The weighted average period over which stock-based compensation expense related to these options will be recognized is approximately 11 months.

Stock option activities for the years ended December 31, 2019 and 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		
Exercised	(1,757,032)	0.12		
Forfeited	(1,691,483)	0.66		
Balance Outstanding, December 31, 2018	11,445,698	0.30		
Exercised	(3,000,000)	0.03		
Balance Outstanding, December 31, 2019	8,445,698	\$ 0.40	6.27	\$ 24,600
Exercisable, December 31, 2019	7,653,917	\$ 0.41	6.11	\$ 24,600

**Warrants**

On March 14, 2019, the Company entered into a letter agreement (“Letter Agreement”) with Dinosaur Financial Group, LLC (“Dinosaur”), to act as the Company’s financial advisor and agent for raising investment capital through a private placement (or pursuant to an alternate form of capital investment or capital transaction). For services rendered under the Letter Agreement, Dinosaur shall receive cash fees of up to seven percent of funds raised and the Company shall issue to Dinosaur warrants to purchase an equal proportion of warrants to the number of shares issued or issuable to investors in the private placement. Additionally, per the terms of the Letter Agreement, upon signing of the agreement, the Company issued to Dinosaur warrants (the “Warrants”) to purchase 1,000,000 shares of C-Bond Common Stock, granted in three successive tranches as outlined below, with an exercise price of \$0.18 or current market price at the time, whichever is lower, as set forth in the Letter Agreement. Upon signing of the Letter Agreement, Dinosaur received Warrants to purchase 200,000 shares of the Company’s common stock at \$0.18 per share. On June 14, 2019, the three-month anniversary of the Letter Agreement, Dinosaur received Warrants to purchase 400,000 shares of the Company’s common stock at \$0.08 per share. On September 14, 2019, Dinosaur received Warrants to purchase 200,000 shares of the Company’s common stock at \$0.05 per share. On December 14, 2019, Dinosaur received Warrants to purchase 200,000 shares of the Company’s common stock at \$0.07 per share. The Warrants shall be exercisable over a five-year term from date each tranche date and shall be assignable to others at Dinosaur’s discretion. These warrants were valued at the grant date using a Black-Scholes option pricing model with the following assumptions; risk-free interest rate of 2.43%, expected dividend yield of 0%, expected warrant term of five years, and an expected volatility of 275.0%. The aggregate grant date fair value of these awards amounted to \$159,700. The Company recognizes compensation cost for unvested stock-based warrant awards on a straight-line basis over the requisite service period. For the year ended December 31, 2019 and 2018, the Company recorded \$159,700 and \$0 of stock-based professional fees related to stock warrants, respectively.

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On September 6, 2019 and December 9, 2019, in connection with Purchase Agreements with an accredited investor (See Note 6), the Company issued warrants to purchase an aggregate of up to 1,050,000 shares of the Company's common stock (the "Warrants"). The Warrants are exercisable at any time on or after the date of the issuance and entitles this investor to purchase shares of the Company's common stock for a period of five years from the initial date the warrants become exercisable. Under the terms of the Warrant, the holder is entitled to exercise the Warrants to purchase up to 1,050,000 shares of the Company's common stock at an initial exercise price of \$0.10, subject to adjustment as detailed in the Warrant. In connection with the issuance of the warrants, on the initial measurement date, the relative fair value of the warrants of \$61,899 was recorded as a debt discount and an increase in paid-in capital (See Note 6).

The Company did not have any outstanding warrants during 2018. Warrant activities for the year ended December 31, 2019 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2018	-	\$ -	-	\$ -
Granted	2,050,000	0.10		
Cancelled	-	-		
Balance Outstanding December 31, 2019	<u>2,050,000</u>	<u>\$ 0.10</u>	<u>4.66</u>	<u>\$ 4,400</u>
Exercisable, December 31, 2019	<u>2,050,000</u>	<u>\$ 0.10</u>	<u>4.66</u>	<u>\$ 4,400</u>

**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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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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 and 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, of which 8,445,698 shares have been issued or granted under incentive stock options and 15,250,000 shares of restricted stock have been issued as of December 31, 2019. All shares underlying grants are expected to be issued from the Company's unissued authorized shares available.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Legal matters**

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. Other than the matter discussed below, as of December 31, 2019, the Company is not involved in any other 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.

*Roy Duplantier and Sleeping Creek Partners vs. C-Bond Systems LLC; Court Filed: Harris County, Texas, Precinct 7; Small Claims Case Number: 207100033133; Date Filed: January 24, 2020.*

On January 24, 2020, Roy Duplantier and Sleeping Creek Partners ("Plaintiff") filed a Citation (Small Claims Case) against C-Bond Systems LLC. Pursuant to the Small Claims Case, the Plaintiff demanded \$10,000 for unpaid commissions and damages. The Company believes that this claim is without merit and will vigorously defend against this claim.

**Employment agreements**

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.
- After 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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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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 August 15, 2018 (the "Effective Date"), the Company entered into an employment agreement with an employee. The term of this agreement shall begin as of the Effective Date and shall end on the time of the termination of this employee's employment. Pursuant to this employment agreement, this employee shall receive a 5% commission on sales generated by the employee of the Company's products. Additionally, the Company agreed to grant a restricted stock award of 500,000 common shares of the Company which will vest on the first anniversary date of the employment agreement. If the employee's employment is terminated without cause or for good reason (both as defined in the employment agreement), or a change of control event (as defined in the employment agreement) occurs, these shares will immediately vest. For any other termination of employment, unvested restricted stock shall immediately terminate. These shares were valued on the date of grant at \$200,000, or \$0.40 per common share, based on recent common share sales. These shares vest on August 15, 2019. In connection with these shares, the Company shall record stock-based compensation over the one-year vesting period.

On March 27, 2019 and effective March 1, 2019, the Company entered into an employment agreement with Mr. Vincent Pugliese. Pursuant to this employment agreement, he serves as the President and Chief Operating Officer of the Company. The employment agreement shall terminate on the earliest of a) the third anniversary or b) terminated pursuant to terms in the employment agreement. As consideration for these services, the employment agreement provided Mr. Pugliese with the following compensation and benefits:

- An annual base salary of \$240,000.
- Annual cash performance bonus opportunity as determined by the Board.
- Annual stock grant as determined by the Board.
- Certain other employee benefits and perquisites, including reimbursement of necessary and reasonable travel.

In the event that the Company terminates the term of Mr. Pugliese's employment hereunder without Cause or for "good reason" (as defined in this employment agreement) by Mr. Pugliese, then in such event:

- (A) Mr. Pugliese will retain and vest immediately all stock options/grants previously granted and will be exercisable over a ten-year period;
- (B) the Company shall pay any benefits but not limited to accrued and deferred base salary, commissions and expense reimbursements then owed or accrued plus eighteen (18) months of the current Base Salary, and any unreimbursed expenses incurred through the termination date, and each of which shall be paid on the termination date (in cash and/or stock as mutually agreed between the Parties)

In the event of a change of control (as defined in this employment agreement), all unvested stock options/grants of Mr. Pugliese shall vest in full, and Mr. Pugliese will be entitled to receive, subject to a complete release of all claims, a lump sum payment equal to two times his current annual base salary upon closing of the change in control transaction, and then this employment agreement shall terminate. 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. All unvested stock will expire upon termination unless termination is with cause for incapacity for physical or mental illness, without cause or change of control as defined in the employment agreement.



**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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**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 December 31, 2019.

**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 of the agreement 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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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**NOTE 11 – INCOME TAXES**

For the period from January 1, 2018 to April 25, 2018, the Company’s subsidiaries operated as limited liability companies and passed all income and loss to each member based on their proportionate interest in the Company. Accordingly, no provision for federal and state income taxes has been made in these consolidated financial statements for this period. 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 deferred tax assets at December 31, 2019 and 2018 consist only of net operating loss carryforwards. The net deferred tax asset has been fully offset by a valuation allowance because of the uncertainty of the attainment of future taxable income.

The items accounting for the difference between income taxes at the effective statutory rate and the provision for income taxes for the years ended December 31, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Income tax expense (benefit) at U.S. statutory rate	\$ (1,520,555)	\$ (2,079,991)
Income tax benefit on LLC losses prior to merger	-	555,608
Non-deductible expenses	1,057,052	1,125,358
Change in valuation allowance	463,503	399,025
Total provision for income tax	<u>\$ -</u>	<u>\$ -</u>

The Company’s approximate net deferred tax asset as of December 31, 2019 and 2018 was as follows:

<b>Deferred Tax Asset:</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Net operating loss carryforward	\$ 862,528	\$ 399,025
Total deferred tax asset before valuation allowance	862,528	399,025
Valuation allowance	(862,528)	(399,025)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The net operating loss carryforward was approximately \$4,107,000 at December 31, 2019. The Company provided a valuation allowance equal to the net deferred income tax asset as of December 31, 2019 and 2018 because it was not known whether future taxable income will be sufficient to utilize the loss carryforward. During the year ended December 31, 2019, the valuation allowance increased by \$463,503. Additionally, the future utilization of the net operating loss carryforward to offset future taxable income is subject to an annual limitation as a result of ownership changes that may occur in the future. The potential tax benefit arising from the loss carryforward may be carried forward indefinitely subject to usage limitations.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company’s 2019 and 2018 Corporate Income Tax Returns are subject to Internal Revenue Service examination.

**NOTE 12 – 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 December 31, 2019 and 2018. The Company has not experienced any losses in such accounts through December 31, 2019.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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**Geographic concentrations of sales**

For the year ended December 31, 2019, approximately 80% of all sales were in the United States. No other geographical area accounting for more than 10% of total sales during the year ended December 31, 2019. For the year ended December 31, 2018, all sales were in the United States.

**Customer concentrations**

For the year ended December 31, 2019, two customers accounted for approximately 25.9% of total sales (13.9% and 12.0%, respectively). For the year ended December 31, 2018, three customers accounted for approximately 43.3% of total sales (11.2%, 13.9% and 18.2%, 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. At December 31, 2019, three customers accounted for 58.3% (15.8%, 25.5% and 17.0%, respectively) of the total accounts receivable balance. At December 31, 2018, two customers accounted for 82.4% of total accounts receivable (24.1% and 58.3%, respectively).

**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.

**NOTE 13 – REVENUE RECOGNITION**

The revenue that the Company recognizes arises from purchase requests the Company receives from its customers. The Company's performance obligations under the purchase orders correspond to each shipment of product that the Company makes to its customer under the purchase orders; as a result, each purchase order generally contains more than one performance obligation based on the number of products ordered, the quantity of product to be shipped and the mode of shipment requested by the customer. Control of the Company's products transfers to its customers when the customer is able to direct the use of, and obtain substantially all of the benefits from, the Company's products, which generally occurs at the later of when the customer obtains title to the product or when the customer assumes risk of loss of the product. The transfer of control generally occurs at a point of shipment from the Company's warehouse. Once this occurs, the Company has satisfied its performance obligation and the Company recognizes revenue.

When the Company receives a purchase order from a customer, the Company is obligated to provide the product during a mutually agreed upon time period. Depending on the terms of the purchase order, either the Company or the customer arranges delivery of the product to the customer's intended destination. In situations where the Company has agreed to arrange delivery of the product to the customer's intended destination and control of the product transfers upon loading of the Company's product onto transportation equipment, the Company has elected to account for any freight income associated with the delivery of these products as freight revenue, since this activity fulfills the Company's obligation to transfer the product to the customer.

*Transaction Price*

The Company agrees with its customers on the selling price of each transaction. This transaction price is generally based on the product, market conditions, including supply and demand balances and freight. In the Company's contracts with customers, the Company allocates the entire transaction price to the sale of product to the customer, which is the basis for the determination of the relative standalone selling price allocated to each performance obligation. Returns of the Company's product by its customers are permitted only when the product is not to specification and were not material for the year ended December 31, 2019 and 2018. Any sales tax, value added tax, and other tax the Company collects concurrently with its revenue-producing activities are excluded from revenue.

The Company adopted the new revenue 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 and there was no cumulative effect adjustment (See Note 2—Revenue Recognition).

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*Revenue Disaggregation*

The Company tracks its revenue by product. The following table summarizes our revenue by product for the year ended December 31, 2019 and 2018:

	<b>For the Year Ended December 31, 2019</b>	<b>For the Year Ended December 31, 2018</b>
C-Bond I multi-purpose and BRS ballistic resistant glass protection systems	\$ 430,915	\$ 279,995
C-Bond Nanoshield solution sales	121,163	90,709
Installation and other services	32,306	-
Freight and delivery	18,252	11,540
<b>Total</b>	<b>\$ 602,636</b>	<b>\$ 382,244</b>

**NOTE 14 – OPERATING LEASE RIGHT-OF-USE (“ROU”) ASSETS AND OPERATING LEASE LIABILITIES**

In October 2019, the Company entered into an 18-month lease agreement for the lease of office and warehouse space under a non-cancelable operating lease through May 31, 2021. From the lease commencement date of December 1, 2019 until November 30, 2020, monthly rent shall be \$4,444 and from December 1, 2020 to May 31, 2021, monthly rent shall be \$4,577 per month.

In adopting ASC Topic 842, Leases (Topic 842) on January 1, 2019, the Company had elected the ‘package of practical expedients’, which permitted it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs (see Note 2). In addition, the Company elected not to apply ASC Topic 842 to arrangements with lease terms of 12 month or less. Since the terms of the Company’s operating lease for its office space prior to October 2019 was 12 months or less on the date of adoption, pursuant to ASC 842, the Company determined that the lease met the definition of a short-term lease and the Company did not recognize the right-of-use asset and lease liability arising from this lease. Upon renewal of the lease in October 2019, the Company analyzed the new lease and determined it is required to record a lease liability and a right of use asset on its consolidated balance sheet, at fair value.

During the years ended December 31, 2019 and 2018, in connection with its operating lease, the Company recorded rent expense of \$101,114 and \$101,271, respectively, which is expensed during the period and included in operating expenses on the accompanying consolidated statements of operations.

The significant assumption used to determine the present value of the lease liability in October 2019 was a discount rate of 12% which was based on the Company’s estimated incremental borrowing rate.

At December 31, 2019, right-of-use asset (“ROU”) is summarized as follows:

	<b>December 31, 2019</b>
Office leases right of use assets	\$ 74,296
Less: accumulated amortization into rent expense	(4,488)
<b>Balance of ROU assets as of December 31, 2019</b>	<b>\$ 69,808</b>

At December 31, 2019, operating lease liabilities related to the ROU assets are summarized as follows:

	<b>December 31, 2019</b>
Lease liabilities related to office leases right of use assets	\$ 69,852
Less: current portion of lease liabilities	(47,636)
<b>Lease liabilities – long-term</b>	<b>\$ 22,216</b>

At December 31, 2019, future minimum base lease payments due under non-cancelable operating leases are as follows:

<b>Year ended December 31,</b>	<b>Amount</b>
2020	\$ 53,461
2021	22,885
<b>Total minimum non-cancelable operating lease payments</b>	<b>76,346</b>
Less: discount to fair value	(6,494)
<b>Total lease liability at December 31, 2019</b>	<b>\$ 69,852</b>

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
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**NOTE 15 – SUBSEQUENT EVENTS**

Common shares issued for cash

In connection with subscription agreements dated January 13, 2020 and February 18, 2020, the Company received cash proceeds of \$280,000 from an investor for the purchase of 7,000,000 shares of the Company's common stock at \$0.04 per share.

Shares issued for services

On February 20, 2020 and effective March 1, 2020, the Company entered into a six-month consulting agreement with an entity for investor relations services. In connection with this consulting agreement, the Company issued 1,250,000 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at \$80,000, or \$0.064 per common share, based on quoted closing price on the date of grant. In connection with this consulting agreement, the Company shall record stock-based professional fees of \$80,000 over the term of the agreement.

Shares issued for debt conversion

On March 9, 2020, the Company issued 200,000 common shares upon conversion of accrued interest of \$5,870 and fees of \$250.

**C-Bond Systems, Inc.**

**List of Subsidiaries**

<b>Company Name</b>	<b>State of Incorporation</b>
C-Bond Systems, LLC	Texas

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019 of C-Bond Systems, Inc.;

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: March 25, 2020

/s/ Scott R. Silverman

Scott R. Silverman  
Chief Executive Officer and Chairman of the Board  
(principal executive officer)

Certifications

I, Vince Pugliese, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019 of C-Bond Systems, Inc.;

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: March 25, 2020

/s/ Vince Pugliese

Vince Pugliese  
Chief Financial Officer  
(principal financial officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of C-Bond Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, as amended, I, Scott R. Silverman, Chief Executive Officer and Chairman of the Board of the Company, certify to the best of my knowledge:

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

Date: March 25, 2020

*/s/ Scott R. Silverman*

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Scott R. Silverman  
Chief Executive Officer and Chairman of the Board  
(principal executive officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of C-Bond Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, as amended, I, Vince Pugliese, Chief Financial Officer of the Company, certify to the best of my knowledge:

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

Date: March 25, 2020

*/s/ Vince Pugliese*

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Vince Pugliese  
Chief Financial Officer  
(principal financial officer)