

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

FORM 10-K/A
(Amendment No. 1)

(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, 2020

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:

Title of each class	Trading Symbol	Name of each exchange on which registered
N/A	N/A	N/A

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

Indicate by check mark whether the registrant has submitted electronically 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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 \$0.012 per share of common stock as of June 30, 2020 (the last business day of the registrant's then-most recently completed second fiscal quarter), was \$1,317,490. The aggregate market value of the voting and non-voting common equity held by non-affiliates based upon the closing price of \$0.012 per share of common stock as of June 30, 2021 (the last business day of the registrant's most recently completed second fiscal quarter) was \$2,726,881.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 285,174,171 shares of common stock are issued and outstanding as of April 13, 2022.

None

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K (the "Amendment") of C-Bond Systems, Inc. (the "Company") amends the Annual Report of C-Bond Systems, Inc. on Form 10-K for the fiscal year ended December 31, 2020 (the "Form 10-K"), as filed with the Securities and Exchange Commission (the "Commission") on April 14, 2021, and is being filed to amend and restate the Company's consolidated statement of operations and consolidated statement of cash flows, and certain notes to the consolidated financials, and other sections in the Form 10-K, including certain risk factors, and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. The restatement had the cumulative effect of decreasing the Company's reported revenue for fiscal 2020 by \$102,569 and decreasing the Company's bad debt expense for the same period by \$102,569. The restatement did not effect the Company's balance sheet, net loss, or cash used in operations.

The following items have been amended to reflect the restatement:

10-K Cover Page

Part I, Item 1. Business

Part I, Item 1A. Risk Factors

Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8. Financial Statements and Supplementary Data

Part IV, Item 15. Exhibits, Financial Statement Schedules

This Amendment includes new certifications by our Principal Executive Officer and Principal Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, 31.2, 32.1 and 32.2. hereto.

Except as expressly set forth above, this Amendment does not, and does not purport to, amend, update, or restate the information in any other item of the original Form 10-K or reflect any events that have occurred after the filing of the original Form 10-K.

C-BOND SYSTEMS, INC.
FORM 10-K/A
December 31, 2020

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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 nanotechnology company and the sole owner, developer and manufacturer of the patented C-Bond technology. We are engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability of brittle material systems. Our present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally. We operate in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellent solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions (“C-Bond Secure”), ballistic-resistant film systems (“C-Bond BRS”) and disinfection products.

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. As a result of the COVID-19 pandemic we created partnerships to distribute disinfection related products, which we began to sell in the second quarter of 2020.

Our Business

Product and Service Offerings

C-Bond’s 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 Platforms

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.

Disinfectant Products

On May 20, 2020, we entered into a two-year Distributor Agreement with an entity where we were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets for use in certain markets. MB-10 Disinfectant Tablets are the most convenient way yet to deliver the benefits of chlorine dioxide to hygiene or biosafety programs. MB-10 disinfectant tablets have one of the broadest, most complete EPA registration labels on the market. It is a safe, easy and effective way to disinfect a vehicle’s interior using an EPA registered disinfectant (Reg No.70060-19-46269) included on List N for use against human coronavirus SARS-CoV-2. It is proven effective against emerging viral pathogens, including enveloped and large and small non-enveloped viruses. MB-10 Tablets provide fast-acting virus and bacteria protection that is safe for all vehicle surfaces including LED screens and electronics without leaving a residue or odor. We were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets for use in the following markets:

- Automotive, Trucking, RV, rental agencies (auto and truck), service vehicles (taxi, Uber, Lyft), mass transit (train, buses), golf carts, aviation, train, marine (potential future growth)
- School facilities and buses
- Dealerships
- Global Distribution
- Service Providers
- Transportation Detailing.

Legacy Product Platform

C-Bond Secure Strengthening Primer and Window Film Mounting Solution

C-Bond Secure (formerly known as 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 Secure 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 Secure has been tested against untreated glass by third-party laboratories and shown to outperform untreated glass in this capacity. C-Bond Secure 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 Secure 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 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 Philippines, India, and the UAE. For the year ended December 31, 2020, two customers accounted for approximately 40.1% of total sales (18.6% and 21.5%, respectively). 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, 2020, approximately 59.9% of all sales were in the United States, 21.5% of sales were from one customer based in India and 18.6% of sales were from one customer based in the Philippines. 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, 2020 and 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; one main supplier, Gelest, Inc., for our chemicals; and two suppliers for disinfectant products. 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. To date, no royalties have been due under this 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, 2020 and 2019, we incurred research and development costs of \$16,627 and \$31,057, 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 Secure Glass Strengthening Primer and Window Film Mounting Solution

C-Bond Secure 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 Secure 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 an affordable cost. Most importantly, it provides a deterrent to an intruder and valuable time to secure the facility.

Employees

As of December 31, 2020, we had two full-time employees, and multiple full and part-time employees, including our chief executive officer, who operate as independent contractors of the Company. 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

C-Bond Systems, Inc., formerly WestMountain Alternative Energy, Inc. (“WestMountain”), 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 Energy, WestMountain’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 (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.

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 \$4,434,443 and \$7,240,740 for the years ended December 31, 2020 and 2019, respectively, and these losses may continue. The net cash used in operations was \$1,783,027 and \$1,313,711 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, we had an accumulated deficit, shareholders’ deficit, and working capital deficit of \$45,968,839, \$3,167,220 and \$1,414,268, respectively. 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.

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, 2020, 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.

Unfavorable global economic, business or political conditions could adversely affect our business, financial condition or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets, including conditions that are outside of our control, including the impact of health and safety concerns, such as those relating to the current COVID-19 outbreak. The most recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for our products and our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could strain our domestic and international customers, possibly resulting in delays in customer payments. Any of the foregoing could harm our business and we cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact our business.

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 license 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 development 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, 2020 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-adverse 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, 2020, 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 expires on 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.

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, 2020	\$	0.12	\$	0.007
September 30, 2020	\$	0.02	\$	0.007
June 30, 2020	\$	0.14	\$	0.006
March 31, 2020	\$	0.18	\$	0.03
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

Holders of Common Stock

As of April 12, 2021, there were approximately 195 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, 2020.

Recent Sales of Unregistered Securities

During the three months ended December 31, 2020, we entered into subscription agreements with an accredited investor whereby the investor agreed to purchase an aggregate of 7,000 shares of the Company's Series C Convertible Preferred Stock for \$700,000, or \$100.00 per share (the "Stated Value"), which proceeds were used for working capital purposes.

On October 1, 2020, we entered into a patent expense reimbursement agreement. In connection with this agreement, we issued 25,000 restricted common shares of the Company to this entity. These shares were valued at \$275, or \$0.011 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On October 6, 2020, we entered into a settlement agreement related to the termination of a previous investor relations agreement. In connection with this settlement agreement, we issued 1,275,000 restricted common shares of the Company to this consultant. These shares were valued at \$10,200, or \$0.008 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On October 7, 2020, we entered into a six-month consulting agreement for investor relations services to be rendered. In connection with this consulting agreement, we issued 9,000,000 restricted common shares of the Company to this consultant. These shares were valued at \$76,500, or \$0.0085 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On October 9, 2020, we issued 500,000 shares of our common stock for strategic consulting services to be rendered. These shares were valued at \$6,000, or \$0.012 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On December 18, 2020, we issued an aggregate of 547,945 shares upon conversion of an accrued deferred compensation liability of \$8,000. The fair market value of these shares of \$12,603, \$0.023 per share, was based on quoted closing price on the date of grant.

On December 21, 2020, the Board of Directors of the Company agreed to satisfy \$318,970 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 319 shares of the Company's Series B convertible preferred stock in settlement of accrued compensation.

In connection with a subscription agreement dated December 31, 2020, we received cash proceeds of \$100,000 from an investor for the purchase of 1,851,852 shares of the Company's common stock at \$0.054 per share.

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. We operate in two divisions: C-Bond Transportation Solutions and C-Bond Safety Solutions.

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 Secure, 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.

On May 20, 2020, we entered into a two-year Distributor Agreement with an entity where we were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets for use in certain markets. MB-10 Disinfectant Tablets are the most convenient way yet to deliver the benefits of chlorine dioxide to hygiene or biosafety programs. MB-10 disinfectant tablets have one of the broadest, most complete EPA registration labels on the market. It is a safe, easy and effective way to disinfect a vehicle's interior using an EPA registered disinfectant (Reg No.70060-19-46269) included on List N for use against human coronavirus SARS-CoV-2. It is proven effective against emerging viral pathogens, including enveloped and large and small non-enveloped viruses. MB-10 Tablets provide fast-acting virus and bacteria protection that is safe for all vehicle surfaces including LED screens and electronics without leaving a residue or odor. We were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets for use in the following markets:

- Automotive, Trucking, RV, rental agencies (auto and truck), service vehicles (taxi, Uber, Lyft), mass transit (train, buses), golf carts, aviation, train, marine (potential future growth)
- School facilities and buses
- Dealerships
- Global Distribution
- Service Providers
- Transportation Detailing.

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 consolidated 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 Company operates in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellent solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions ("C-Bond Secure"), ballistic resistant film systems (C-Bond BRS™) and disinfection products. 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. As a result of the COVID-19 pandemic we created partnerships to distribute disinfection related products which we began to sell in the second quarter of 2020.

Revenue is generated by the sale of products through distributors and directly to dealers. C-Bond nanoShield and disinfection sales are generated through large distribution channels. Sales of C-Bond Secure are made to window film dealers who offer the product as an upsell during installation. Revenue is generated from the sale of C-Bond BRS on a project basis. C-Bond BRS is specified into project plans providing authorized installers 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.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. We are monitoring this closely, and although operations have not been materially affected by the COVID-19 outbreak to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. As of April 12, 2021, our facilities are open. However, we have seen a material decrease in sales from our international customers as a result of the unprecedented public health crisis from the COVID-19 pandemic and a decrease in domestic sales due to a decrease in business spending on discretionary items. As a result, our international customers have delayed the ordering of products and have delayed payment of balances due to us. Accordingly, we anticipate that there will be an impact on our operations. We cannot estimate the duration of the pandemic and potential impact on our business if customer's business remains closed or if customers are otherwise unable or unwilling to make payments to us. In addition, a severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for our products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. At this time, the Company is unable to estimate the impact of this event on its operations.

Critical Accounting Policies

The following discussion and analysis of our consolidated financial condition and consolidated results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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 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. The warranty does not represent a separate performance obligation.

Derivative financial instruments

We have had 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, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee 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, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under ASU 2016-09 *Improvements to Employee Share-Based Payment*.

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, 2020 and 2019, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended December 31, 2020 and 2019.

Comparison of Results of Operations for the Years ended December 31, 2020 and 2019

Sales

For the year ended December 31, 2020, sales amounted to \$555,863 as compared to \$602,636 for the year ended December 31, 2019, a decrease of \$46,773, or 7.8%. This decrease was primarily attributable to a decrease in sales of C-Bond ballistic-resistant glass protection systems and C-Bond Secure window film solution of \$275,160, a decrease in installation and freight and delivery revenue of \$18,739, and a decrease in sales of C-Bond Nanoshield solution sales of \$3,082, offset by an increase in the sale of disinfection products of \$250,208 in our new C-Bond Safety Solutions division. The decrease in sales of C-Bond ballistic-resistant glass protection systems and C-Bond Secure was primarily due to a decrease in both domestic and international sales resulting from the shutdown of economies caused by COVID-19. These decreases were offset by the sale of disinfection products which consisted primarily of hand sanitizer and MB-10 Tablets and related products.

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, 2020, cost of sales amounted to \$242,506, or 36.8% of sales, as compared to \$121,967, or 20.2% of sales, for the year ended December 31, 2019, an increase of \$120,539, or 98.8%. The increase in cost of sales was primarily due to an increase in cost of sales related to disinfection products offset by a decrease in sales of C-Bond ballistic-resistant glass protection systems and C-Bond Secure window film application solution.

Gross Profit

For the year ended December 31, 2020, gross profit amounted to \$313,357, or 56.4% of sales, as compared to \$480,669, or 79.8% of sales, for the year ended December 31, 2019, a decrease of \$167,312, or 34.8%. This decrease in gross profits is primarily the result of the reduction in sales of C-Bond BRS sales and an implemented price decrease on C-Bond Secure window film application solution. Additionally, gross profit generated from the sale of disinfection products is lower than gross profits generated from the sale of BRS products.

Operating Expenses

For the year ended December 31, 2020, operating expenses amounted to \$4,790,390 as compared to \$6,839,281 for the year ended December 31, 2019, a decrease of \$2,048,891, or 30.0%. For the years ended December 31, 2020 and 2019, operating expenses consisted of the following:

	Year ended December 31,	
	2020	2019
Compensation and related benefits, including stock-based compensation charges	\$ 3,741,051	\$ 5,359,676
Research and development	16,627	31,057
Professional fees	546,979	986,445
General and administrative expenses	485,733	462,103
Total	<u>\$ 4,790,390</u>	<u>\$ 6,839,281</u>

Compensation and related benefits

For the year ended December 31, 2020, compensation and related benefits decreased by \$1,618,625, or 30.2%, as compared to the year ended December 31, 2019. This decrease was primarily due to a decrease in stock-based compensation of \$1,750,495, offset by an increase in executive compensation of \$131,870. During the year ended December 31, 2020 and 2019, stock-based compensation related to the accretion of stock-option expense and other stock-based compensation amounted to \$2,108,472 and \$3,858,967, respectively, a decrease of \$1,750,495.

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, 2020, research and development expense decreased by \$14,430, or 46.5%, as compared to the year ended December 31, 2019. 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 and business impacted by the COVID-19 global pandemic.

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, 2020, professional fees decreased by \$439,466, or 44.6%, as compared to the year ended December 31, 2019. This decrease primarily related to a decrease in legal fees of \$86,923 and a decrease in consulting fees of \$438,855, offset by an increase in investor relations fees of \$111,297. During the year ended December 31, 2020 and 2019, stock-based professional fees amounted to \$132,892 and \$355,393, respectively, a decrease of \$222,501.

General and Administrative

General and administrative expenses consist primarily of rent, insurance, depreciation expense, bad debt expense, sale and marketing, delivery and freight, travel and entertainment, and other office expenses. For the year ended December 31, 2020, general and administrative expenses increased by \$23,630, or 5.1%, as compared to the year ended December 31, 2019. This increase was primarily attributable to an increase in bad debt expense of \$98,919 offset by a decrease in travel of \$74,119. We expect our general and administrative expenses to increase due to the anticipated growth of our business.

Loss from Operations

For the year ended December 31, 2020, loss from operations decreased by \$1,881,579, or 29.6%, as compared to the year ended December 31, 2019.

Other Income (Expenses), net

For the year ended December 31, 2020, other income, net amounted to \$42,590 as compared to other expenses, net of \$(882,128) for the year ended December 31, 2019, a positive change of \$924,718, or 104.8%. This change was due to a decrease in derivative expense of \$479,436 attributable to the recording of or extinguishment of derivative liabilities related to convertible debt and due to the recording of a gain from debt extinguishment which increased over the 2019 period by \$846,814 related to the conversion of convertible debt and the settlement of accounts payable, offset by an increase in interest expense of \$408,106 related to the amortization of debt discount, an increase in interest-bearing debt, and an increase in interest expense related to accretion of debt discount related to Series A preferred shares.

Net Loss

For the year ended December 31, 2020, net loss amounted to \$4,434,443, or \$(0.03) per common share (basic and diluted), as compared to \$7,240,740, or \$(0.08) per common share (basic and diluted), for the year ended December 31, 2019, a decrease of \$2,806,297. The decrease in net loss was primarily attributable to a decrease in operating expenses and a decrease in other expenses 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 \$323,407 and \$77,211 as of December 31, 2020 and 2019, 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 and preferred shares and from debt to fund our operations and research and development initiatives.

In connection with subscription agreements dated January 13, 2020 and February 18, 2020, we 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.

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. During the year ended December 31, 2020, we entered into Series A Preferred Stock Purchase Agreements with an accredited investor whereby the investor agreed to purchase an aggregate of 154,800 unregistered shares of the Company's Series A Preferred stock, par value \$0.10, for \$129,000, or \$0.833 per share for which we received cash proceeds of \$120,000, net of fees of \$9,000. During the year ended December 31, 2020, we issued 16,132,701 shares of our common stock upon the conversion of 211,200 shares of Series A preferred with a stated redemption value of \$211,200 and related accrued dividends payable of \$4,224. The conversion price was based on contractual terms of the related Series A preferred shares. Additionally, on August 24, 2020, we settled with the investor and redeemed the remaining 103,200 Series A preferred shares for a cash payment of \$117,047 which included the redemption of stated value of \$103,200, accrued dividends of \$1,562, and redemption penalties of \$12,285 which was included in interest expense on the accompanying consolidated statement of operations.

On March 30, 2020, we closed on a Securities Purchase Agreement (the "March 2020 SPA") with an accredited investor. Pursuant to the terms of the March 2020 SPA, we issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$57,750 and a warrant to purchase up to 144,375 shares of the Company's common stock. We received net proceeds of \$50,000, net of original issue discount of \$5,000 and origination fees of \$2,750. The Note bore interest at 12% per annum and was due and payable on December 30, 2020. The March 30, 2020 Note was repaid in full on August 24, 2020 and the 144,375 warrants were cancelled.

On April 23, 2020, we closed on a Securities Purchase Agreement (the "April 2020 SPA") with an accredited investor. Pursuant to the terms of the April 2020 SPA, we issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$57,750 and a warrant to purchase up to 144,375 shares of the Company's common stock. We received net proceeds of \$50,000, net of original issue discount of \$5,000 and origination fees of \$2,750. The Note bore interest at 12% per annum and was due and payable on January 23, 2021. The April 23, 2020 Note was repaid in full on August 24, 2020 and the 144,375 warrants were cancelled.

During the year ended December 31, 2020, we issued 37,171,800 shares of our common stock upon the conversion of convertible notes with bifurcated embedded conversion option derivatives including principal of \$152,285, accrued interest of \$36,244, and fees of \$2,500. The conversion price was based on contractual terms of the related debt. Additionally, we repaid principal of \$393,215 and accrued interest of \$15,917.

On April 28, 2020, we entered into a Paycheck Protection Program Promissory Note (the "PPP Note") with respect to a loan of \$156,200 (the "PPP Loan") from Comerica Bank. The PPP Loan was obtained pursuant to the Paycheck Protection Program (the "PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES act") administered by the U.S. Small Business Administration ("SBA"). The PPP Loan matures on April 28, 2022 and bears interest at a rate of 1.00% per annum. The PPP Loan is payable in 18 equal monthly payments of approximately \$8,900 commencing November 1, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. We may apply to have the loan forgiven pursuant to the terms of the PPP if certain criteria are met.

On May 8, 2020, we closed a subscription agreement with an accredited investor (the "Investor") whereby the Investor purchased 7,000,000 unregistered shares of the Company's common stock for proceeds of \$161,000, or \$0.023 per share.

In connection with subscription agreements dated July 2, 2020, we received cash proceeds of \$280,000 from investors for the purchase of 21,538,462 shares of the Company's common stock at \$0.013 per share.

During August and September 2020, we entered into subscription agreements with an accredited investor whereby the investor agreed to purchase an aggregate of purchase 6,300 shares of the Company's Series C Convertible Preferred Stock for \$630,000, or \$100.00 per share (the "Stated Value"), which proceeds were used to pay off various discounted convertible instruments and redeem the Series A preferred stock. During the three months ended December 31, 2020, we entered into subscription agreements with an accredited investor whereby the investor agreed to purchase an aggregate of purchase 7,000 shares of the Company's Series C Convertible Preferred Stock for \$700,000, or \$100.00 per share, which proceeds were used for working capital purposes.

In connection with a subscription agreement dated December 31, 2020, the Company received cash proceeds of \$100,000 from an investor for the purchase of 1,851,852 shares of the Company's common stock at \$0.054 per share.

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, 2020 and 2019

The following table shows a summary of our cash flows for the years ended December 2020 and 2019.

	Year Ended December 31,	
	2020	2019
Net cash used in operating activities	\$ (1,783,027)	\$ (1,313,711)
Net cash provided by investing activities	\$ -	\$ -
Net cash provided by financing activities	\$ 2,029,223	\$ 1,262,355
Net increase (decrease) in cash	\$ 246,196	\$ (51,356)
Cash - beginning of the year	\$ 77,211	\$ 128,567
Cash - end of the year	\$ 323,407	\$ 77,211

Net Cash Used in Operating Activities:

Net cash flow used in operating activities was \$1,783,027 for the year ended December 31, 2020 as compared to net cash flow used in operating activities of \$1,313,711 for the year ended December 31, 2019, an increase of \$469,316.

Net cash flow used in operating activities for the year ended December 31, 2020 primarily reflected a net loss of \$4,434,443, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of \$14,093, stock-based compensation expense of \$2,108,472, stock-based professional fees of \$132,892, non-cash interest expense related to a put premium on convertible debt of \$47,405, derivative expense of \$90,623, accretion of preferred share stated value to interest expense of \$52,400, bad debt expense of \$99,911, non-cash gain on debt extinguishment of \$(877,823), and the amortization of debt discount to interest expense of \$424,001, and changes in operating assets and liabilities consisting primarily of an increase in accounts payable of \$139,300, an increase in accrued expenses of \$96,022, and an increase in accrued compensation of \$417,308, offset by an increase in accounts receivable of \$27,619, an increase in inventory of \$62,380.

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 \$239,605, an increase in accrued expenses of \$89,266, and an increase in accrued compensation of \$635,477.

Net Cash Provided by Financing Activities:

Net cash provided by financing activities was \$2,029,223 for the year ended December 31, 2020 as compared to \$1,262,355 for the year ended December 31, 2019.

During the year ended December 31, 2020, we received net proceeds from the sale of common stock of \$821,000, proceeds from the sale of Series A preferred shares of \$120,000, proceeds from convertible notes payable of \$100,000, proceeds from the sale of Series C preferred shares of \$1,330,000, and proceeds from a note payable of \$156,200, offset by the repayment of convertible notes payable of \$393,215 and the redemption of Series A preferred shares of \$104,762.

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.

Funding Requirements

We expect the primary use of capital to continue to be product costs, 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 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, 2020, 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, 2020, 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	\$ 556,200	\$ 521,138	\$ 35,062	\$ -	\$ -
Interest on notes payable	150,000	150,000	-	-	-
Operating lease gross base rent	22,885	22,885	-	-	-
Total	<u>\$ 729,085</u>	<u>\$ 694,023</u>	<u>\$ 35,062</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2020, 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, 2020. 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, 2020, 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, (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel (3) a lack of review on the recording of revenue transactions and accounts receivable collectibility, and (4) a lack of management review of employee expense reports. 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), our independent Board member and Scott Thomsen (Mr. Thomsen resigned on January 22, 2021). 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, 2020 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:

Name	Age	Position
Scott R. Silverman	57	Chief Executive Officer, Chairman of the Board and Director
Allison Tomek	45	President and Director
Barry M. Edelstein	57	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.

Allison Tomek has served as Vice President of Corporate Communications and Corporate Secretary since April 2018, and as President and Director since March 8, 2021. She was previously Senior Vice President Investor Relations at PositiveID Corporation from 2007 to 2018, as well as Vice President of Investor Relations at VeriTeQ from 2011 to 2015. She served as the director of investor relations and corporate communications at Andrx Corporation at the time of its acquisition by Watson Pharmaceuticals in 2006 for \$1.9 billion. She is a former two-time President of the National Investor Relations Institute, South Florida chapter. She holds a B.S. in News/Editorial from the School of Journalism and Mass Communication at the University of Colorado, Boulder. We believe that Ms. Tomek's knowledge of our company, regulations, and business makes her well-suited to serve on the board of directors.

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.

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, 2020, 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, 2020, 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, comprised of Barry Edelstein (chairman) and Scott Thomsen. Mr. Thomsen resigned on January 22, 2021.

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 three directors: Scott Silverman, Allison Tomek and Barry Edelstein, 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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019, are as follows:

- **Scott R. Silverman** – Chief Executive Officer;
- **Vince Pugliese** – Chief Operating Officer, President, Interim Chief Financial Officer and Treasurer through his resignation date of March 8, 2021.

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, 2020 and 2019.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)⁽¹⁾	Stock Awards (\$)⁽²⁾	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Scott R. Silverman <i>Chief Executive Officer, Interim Chief Financial Officer and Treasurer</i>	2020	370,562 ⁽³⁾⁽⁵⁾	247,585	829,143	-	1,207	1,448,497
	2019	360,250 ⁽³⁾⁽⁴⁾	201,121	150,000	-	-	711,371
Vince Pugliese (7) <i>Former Chief Operating Officer, President, Interim Chief Financial Officer and Treasurer</i>	2020	260,000 ⁽³⁾	125,865	80,000	-	-	465,865
	2019	230,000 ⁽³⁾⁽⁶⁾	128,394	125,000	-	-	483,394

- (1) Cash bonuses were earned by Messrs. Silverman and Pugliese in 2020 and 2019 based on a bonus approved by the Board of Directors in May 2020 and January 2019, respectively, and based on a percentage of capital raises, in accordance with Mr. Silverman’s employment agreement, 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”. Additionally, in 2020, Mr. Silverman’s stock awards include non-cash compensation of \$749,143 related to the conversion of accrued compensation to convertible Series B preferred shares. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the issue date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, during the year ended December 31, 2020, the Company immediately recorded non-cash stock-based compensation of \$749,143 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.
- (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. Silverman received 228 shares of series B preferred shares for unpaid and deferred compensation and bonus of \$227,547.
- (6) In lieu of cash compensation, Mr. Pugliese received 3,000,000 shares of restricted common stock for unpaid and deferred compensation of \$130,000.
- (7) Mr. Pugliese resigned on March 8, 2021. The Company is reviewing the legal effect of his resignation on his compensation and restricted shares, as well as reviewing other legal issues regarding his fiduciary responsibility to the Company.

Elements of Executive Compensation

Base Salaries. Base salaries for the named executive officers during 2020 and 2019 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 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 Mr. Silverman's employment agreement, Mr. Silverman and Mr. Pugliese were paid bonuses based on a percentage of capital raises, which includes accrued and unpaid deferred bonus. Additionally, in May 2020, the board of directors approved a bonus to Mr. Silverman and Mr. Pugliese of \$150,000 and \$105,000, respectively, and 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. On June 30, 2020, we amended the employment agreement of Mr. Silverman to include an allowance of up to \$10,000 per year to cover uncovered medical/dental expenses for Mr. Silverman and his family. Currently, we do not offer any additional benefit packages to other 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.
- 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. On June 30, 2020, the Company amended the employment agreement of Mr. Silverman to provide for successive one-year extensions until either the executive or the Board of Directors of the Company gives notice to terminate the employment agreement per its terms. This employment agreement amendment also includes an allowance of up to \$10,000 per year to cover uncovered medical/dental expenses for Mr. Silverman and his family.

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.

Mr. Pugliese resigned on March 8, 2021. The Company is reviewing the legal effect of his resignation on his compensation and restricted shares, as well as reviewing other legal issues regarding his fiduciary responsibility to the Company.

Outstanding Equity Awards at Fiscal Year-End

The following are the outstanding equity awards for the named executive officers as of December 31, 2020:

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	3,000,000(2)	-	0	\$ 0.31	10/18/2027
Vince Pugliese	1,299,998(2)	-	0	\$ 0.31	12/23/2026

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

(2) These shares are fully vested.

<i>Name</i>	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(*)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Scott R. Silverman (1)	6,970,120	\$ 766,713	6,970,120	\$ 766,713
Vince Pugliese (2)	6,058,433	\$ 666,428	6,058,433	\$ 666,428

* 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 \$0.11 by the number of shares of stock set forth to the left of such figure.

- (1) 6,970,120 shares vest on May 1, 2021
(2) 6,058,433 shares vest on May 1, 2021

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

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 2019 and 2020 for their service on the board.

The following table sets forth compensation paid, earned or awarded during 2020 to each of our directors, other than Scott Silverman and Vince Pugliese, whose compensation is described able in “Summary Compensation Table”.

2020 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	All Other Compensation (\$)	Total (\$)
Barry M. Edelstein	30,000	112,000	-	142,000
Scott V. Thomsen (2)	20,000	79,143	-	99,143

- (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 April 2020, Mr. Edelstein and Mr. Thomsen received 500,000 shares of restricted stock each. Additionally, Mr. Edelstein’s and Mr. Thomsen’s stock awards amount includes non-cash compensation of \$92,000 and \$59,143, respectively, related to the conversion of accrued compensation to convertible Series B preferred shares. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the issue date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, during the year ended December 31, 2020, the Company immediately recorded non-cash stock-based compensation of \$92,000 and \$59,143 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock, respectively.
- (2) Mr. Thomsen resigned on January 22, 2021.

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 April 12, 2021, 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 April 12, 2021 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 237,049,741 shares of our common stock outstanding as of April 12, 2021, the implied conversion of 722 shares of our Series B Preferred Stock and related accrued dividends as of April 12, 2021 into 115,519,841 shares of common stock, and the implied conversion of 15,800 shares of our Series C Preferred Stock and related accrued dividends as of April 12, 2021 into 253,566,508 shares of common stock for total shares outstanding of 606,136,090. Shares of common stock that a person has the right to acquire within 60 days of April 12, 2021, 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 722 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 4,525,117,720 votes through their Series B holdings, of a total of 6,266,298,789 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.

<u>Name of Beneficial Owner</u>	<u>Common Stock Beneficially Owned</u>	<u>Percent of Outstanding Shares</u>	<u>Percent of Voting Rights</u>
Named Executive Officers and Directors:			
Scott Silverman ⁽²⁾	85,989,326	27.5%	58.6%
Barry M. Edelstein ⁽⁴⁾	7,840,635	3.2%	5.3%
Allison Tomek ⁽⁵⁾	15,421,111	6.2%	8.3%
All directors and executive officers as a group (3 persons) ⁽⁶⁾	106,251,072	36.9%	72.2%
Greater Than 5% Stockholders:			
Jeff Badders ⁽¹⁾	286,340,030	58.4%	4.6%
Vince Pugliese ⁽³⁾	30,074,241	11.7%	15.5%

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

- (1) Schedule 13D/A filed with the SEC on December 18, 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) 9,770,120 shares outstanding pursuant to restricted stock awards; (ii) 458 shares of Series B Preferred Stock, which may convert into 73,219,206 shares of Common Stock; and (iii) 3,000,000 shares issuable upon the exercise of stock options within 60 days of April 12, 2021, and those already vested.
- (3) Includes (i) 517,397 shares held by Mr. Pugliese; (ii) 9,058,433 shares outstanding pursuant to restricted stock awards; (iii) 120 shares of Series B Preferred Stock, which may convert into 19,198,413 shares of Common Stock; and (iv) 1,299,998 shares issuable upon the exercise of stock options within 60 days of April 12, 2021, and those already vested.
- (4) Includes (i) 1,250,000 shares outstanding pursuant to restricted stock awards; and (ii) 41 shares of Series B Preferred Stock, which may convert into 6,590,635 shares of Common Stock.
- (5) Includes (i) 5,050,000 shares outstanding pursuant to restricted stock awards; and (ii) 65 shares of Series B Preferred Stock, which may convert into 10,371,111 shares of Common Stock.
- (6) Includes (i) 16,070,120 shares held pursuant to restricted stock awards; (iii) 564 shares of Series B Preferred Stock, which may convert into 90,180,952 shares of Common Stock; and (iv) 3,000,000 shares issuable upon exercise of stock options within 60 days of April 12, 2021, and those that have vested.

Equity Compensation Plan Information

The following table sets forth as of December 31, 2020 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	9,403,232
Equity compensation plans not approved by security holders	-	-	-
Total	8,445,698	\$ 0.40	9,403,232

* 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. 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, 2020, 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.

On December 31, 2020, the Company has an amount due from the Company's chief executive officer of \$5,526 related to the overpayment of accrued compensation. The Company's chief executive officer intends to repay this overpayment during the second quarter of 2021.

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."

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,	
	2020	2019
Audit Fees	\$ 65,500	\$ 65,500
Audit Related Fees	\$ -	\$ -
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 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 not related to the above categories.

In June 2018, we established an audit committee, which consisted of Barry Edelstein (audit committee chairman) and Scott Thomsen. Mr. Thomsen resigned as a board member for personal reasons on January 22, 2021. 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, 2020 were pre-approved by the board of directors. All of the audit and audit related fees described above for fiscal years ended December 31, 2019 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:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2020 and 2019	F-4
Consolidated Statements of Operations for the years ended December 31, 2020 and 2019	F-5
Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2020 and 2019	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019	F-7
Notes to Consolidated Financial Statements	F-8 to F-37

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.

Exhibit No.	Exhibit Description
2.1	Agreement and Plan of Merger and Reorganization dated as of April 25, 2018, among WestMountain Alternative Energy, Inc., WETM Acquisition Corp. and C-Bond Systems, LLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2018, File No. 000-53029).
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's SB-2 Registration Statement filed with the SEC on January 2, 2008, File No. 333-148440).
3.2	First Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed with SEC on August 11, 2014, File No. 000-53029).
3.3	Second Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 20, 2018, File No. 000-53029).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 8, 2018, File No. 000-53029).
3.5	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).
3.6	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).
3.7	Third Amendment to the Articles of Incorporation of C-Bond Systems, Inc. dated June 30, 2020 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 2, 2020, File No. 000-53029).
3.8	Certificate of Designations, Preferences, Rights and Limitations of Series C 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 August 25, 2020, File No. 000-53029).
3.9	Certificate of Elimination of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on August 25, 2020, File No. 000-53029).
4.1	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).
4.2	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).
4.3	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).
4.4	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).
4.5	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).
4.6	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).
4.7	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).
4.8	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).

4.9	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).
4.10	Form of Convertible Promissory Note, dated March 30, 2020, between C-Bond Systems, Inc. and Investor II (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2020, File No. 000-53029).
4.11	Form of Stock Purchase Warrant, dated March 30, 2020, between C-Bond Systems, Inc. and Investor II (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2020, File No. 000-53029).
4.12	Form of Convertible Promissory Note, dated April 23, 2020, 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 May 4, 2020, File No. 000-53029).
4.13	Form of Stock Purchase Warrant, dated April 23, 2020, 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 May 4, 2020, File No. 000-53029).
10.1+	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).
10.2+	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).
10.3+	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).
10.4+	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).
10.5+	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).
10.6+	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).
10.7+	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).
10.8	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).
10.9	Form of Subscription Agreement related to the Offering (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2018, File No. 000-53029).
10.10	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).
10.11	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).
10.12	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).
10.13	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).
10.14	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).
10.15	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).

10.16	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).
10.17+	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).
10.18	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).
10.19	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).
10.20	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).
10.21	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).
10.22	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).
10.23	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).
10.24	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).
10.25+	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).
10.26	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).
10.27	Form of Securities Purchase Agreement, dated March 26, 2020, between C-Bond Systems, Inc., and Investor I (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2020, File No. 000-53029).
10.28	Form of Securities Purchase Agreement, dated March 26, 2020, 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 April 1, 2020, File No. 000-53029).
10.29	Note dated April 28, 2020, between Comerica Bank and C-Bond Systems, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 4, 2020, File No. 000-53029).
10.30	Form of Securities Purchase Agreement, dated April 23, 2020, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 4, 2020, File No. 000-53029).
10.31	Form of Subscription Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 15, 2020, File No. 000-53029).
10.32	Form of Securities Purchase Agreement, dated June 2, 2020, 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 June 5, 2020, File No. 000-53029).

10.33+	Executive Employment Agreement, dated October 18, 2017, and amended November 19, 2019 and June 30, 2020, between C-Bond Systems, Inc. and Scott R. Silverman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 2, 2020, File No. 000-53029).
10.34	Form of Subscription Agreement, dated August 20, 2020, 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 August 25, 2020, File No. 000-53029).
10.35	Form of Subscription Agreement, dated September 8, 2020, 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 11, 2020, File No. 000-53029).
10.36	Form of Subscription Agreement, dated October 20, 2020, 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 23, 2020, File No. 000-53029).
10.37	Form of Subscription Agreement, dated November 6, 2020, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on November 16, 2020, File No. 000-53029).
10.38	Form of Subscription Agreement, dated December 14, 2020, 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 18, 2020, File No. 000-53029).
10.39	Form of Subscription Agreement, dated February 24, 2021, 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 February 26, 2021, File No. 000-53029).
14.1	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).
21.1*	List of Subsidiaries
31.1*	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ 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: April 15, 2022

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, Interim Chief Financial Officer and Treasurer, Chairman of the Board and Director (principal executive officer and principal financial and accounting officer)	April 15, 2022
<u>/s/ Allison Tomek</u> Allison Tomek	President and Director	April 15, 2022
<u>/s/ Barry M. Edelstein</u> Barry M. Edelstein	Director	April 15, 2022

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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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, 2020 and 2019, the related consolidated statements of operations, changes in shareholders’ deficit, and cash flows, for each of the two years in the period ended December 31, 2020, 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, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 16 to the consolidated financial statements, the 2020 consolidated financial statements have been restated to correct a misstatement.

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 \$4,434,443 and \$1,783,027 respectively, in 2020 and a working capital deficit, shareholders’ deficit and accumulated deficit of \$1,414,268, \$3,167,220 and \$45,968,839 respectively, at December 31, 2020. 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.

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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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Existence and valuation of accounts receivable

As described in footnote 1 “Accounts receivable” and in footnote 3, to the consolidated financial statements, the Company’s consolidated accounts receivable balances, net of the related allowance for doubtful receivables, was \$79,697 at December 31, 2020. Account receivable balances are evaluated by management for collectability periodically and at year end. The determination of the existence and valuation of these balances requires management to make significant estimates and assumptions related to the intent and ability of the debtor to pay the amounts due to the Company.

We identified the existence and valuation of accounts receivable as a critical audit matter. Auditing management’s judgments regarding the existence and the intent and ability of the debtor to pay the amounts due to the Company involved a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included (a) reviewing management’s process for developing an estimate of the allowance to be recorded, or reversal of some revenues and reviewing management’s analysis of the same, (b) sending an audit confirmation letter to a sample of debtors, (c) reviewing the relevant sale documents as evidence of a valid sale and related receivable and (d) reviewing and verifying the historical and subsequent collection history and the age of these receivables through the date of our procedures.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.

We have served as the Company’s auditor since 2017.

Boca Raton, Florida

April 14, 2021 (Except for Note 16 as to which the date is April 15, 2022)

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

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 323,407	\$ 77,211
Accounts receivable, net	79,697	151,989
Inventory	77,200	14,820
Prepaid expenses and other current assets	50,723	18,577
Due from related party	<u>5,526</u>	<u>-</u>
Total Current Assets	<u>536,553</u>	<u>262,597</u>
OTHER ASSETS:		
Property and equipment, net	18,683	32,776
Right of use asset, net	21,772	69,808
Security deposit	<u>7,132</u>	<u>7,132</u>
Total Other Assets	<u>47,587</u>	<u>109,716</u>
TOTAL ASSETS	<u>\$ 584,140</u>	<u>\$ 372,313</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Notes payable - related party	\$ -	\$ 400,000
Convertible notes payable, net	-	135,833
Note payable, current portion	521,138	-
Accounts payable	794,905	746,663
Accrued expenses	186,765	126,986
Accrued compensation	425,797	351,708
Lease liability	22,216	47,636
Derivative liability	<u>-</u>	<u>890,410</u>
Total Current Liabilities	<u>1,950,821</u>	<u>2,699,236</u>
LONG-TERM LIABILITIES:		
Note payable, net of current portion	35,062	-
Lease liability, net of current portion	-	22,216
Mandatorily redeemable convertible Series A preferred stock; \$0.10 par value, 0 and 800,000 shares designated at December 31, 2020 and 2019, respectively; 0 and 159,600 shares issued and outstanding at December 31, 2020 and 2019, respectively (\$0 redemption and liquidation value at December 31, 2020)	<u>-</u>	<u>159,798</u>
Total Long-term Liabilities	<u>35,062</u>	<u>182,014</u>
Total Liabilities	<u>1,985,883</u>	<u>2,881,250</u>
Commitments and Contingencies (See Note 9)		
Series B convertible preferred stock: \$0.10 par value, 100,000 shares designated; 427 and 108 shares issued and outstanding at December 31, 2020 and 2019, respectively (\$429,446 redemption and liquidation value at December 31, 2020)	<u>429,446</u>	<u>108,000</u>
Series C convertible preferred stock: \$0.10 par value, 100,000 shares designated; 13,300 and 0 shares issued and outstanding at December 31, 2020 and 2019, respectively (\$2,004,046 liquidation value at December 31, 2020)	<u>1,336,031</u>	<u>-</u>
SHAREHOLDERS' DEFICIT:		
Preferred stock: \$0.10 par value, 2,000,000 shares authorized; 100,000 Series B and 100,000 Series C designated	-	-
Common stock: \$0.001 par value, 4,998,000,000 shares authorized; 228,346,974 and 116,749,633 issued and outstanding at December 31, 2020 and 2019, respectively	228,347	116,750
Additional paid-in capital	42,573,272	37,266,328
Accumulated deficit	<u>(45,968,839)</u>	<u>(40,000,015)</u>
Total Shareholders' Deficit	<u>(3,167,220)</u>	<u>(2,616,937)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 584,140</u>	<u>\$ 372,313</u>

See accompanying notes to consolidated financial statements.

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

	For the Year Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
SALES	\$ 555,863	\$ 602,636
COST OF SALES (excluding depreciation expense)	<u>242,506</u>	<u>121,967</u>
GROSS PROFIT	<u>313,357</u>	<u>480,669</u>
OPERATING EXPENSES:		
Compensation and related benefits (including stock-based compensation of \$2,108,472 and \$3,858,967 for the years ended December 31, 2020 and 2019, respectively)	3,741,051	5,359,676
Research and development	16,627	31,057
Professional fees	546,979	986,445
General and administrative expenses	<u>485,733</u>	<u>462,103</u>
Total Operating Expenses	<u>4,790,390</u>	<u>6,839,281</u>
LOSS FROM OPERATIONS	<u>(4,477,033)</u>	<u>(6,358,612)</u>
OTHER INCOME (EXPENSES):		
Gain on debt extinguishment, net	877,823	31,009
Other income	6,574	-
Derivative expense	(90,623)	(570,059)
Interest expense	<u>(751,184)</u>	<u>(343,078)</u>
Total Other Income (Expenses)	<u>42,590</u>	<u>(882,128)</u>
NET LOSS	(4,434,443)	(7,240,740)
Preferred Stock Dividend and Deemed Dividend	<u>(1,534,381)</u>	<u>-</u>
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (5,968,824)</u>	<u>\$ (7,240,740)</u>
NET LOSS PER COMMON SHARE:		
Basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:		
Basic and diluted	<u>172,978,187</u>	<u>94,236,036</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, 2020 AND 2019

	<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, 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 and warrant 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	116,749,633	116,750	37,266,328	(40,000,015)	(2,616,937)
Shares issued for conversion of accounts payable	151,456	151	5,907	-	6,058
Shares issued for conversion of accrued compensation	751,070	751	28,102	-	28,853
Beneficial conversion charge for issuance of Series B preferred shares for accrued compensation	-	-	1,048,143	-	1,048,143
Common shares issued for cash	37,390,314	37,390	783,610	-	821,000
Common shares issued for conversion of debt, accrued interest and fees	37,171,800	37,172	153,857	-	191,029
Common shares issued for services	20,000,000	20,000	129,475	-	149,475
Extinguishment loss related to conversion of debt	-	-	297,919	-	297,919
Common shares issued for conversion of Series A preferred shares and dividends	16,132,701	16,133	199,291	-	215,424
Issuance of warrants in connection with convertible debt	-	-	14,498	-	14,498
Reclassification of put premium to equity upon conversion of Series A preferred	-	-	49,543	-	49,543
Accretion of stock-based compensation	-	-	446,064	-	446,064
Accretion of stock-based professional fees	-	-	15,000	-	15,000
Accretion of stock option expense	-	-	609,662	-	609,662
Preferred stock dividends and deemed dividend	-	-	1,525,873	(1,534,381)	(8,508)
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,434,443)</u>	<u>(4,434,443)</u>
Balance, December 31, 2020	<u>228,346,974</u>	<u>\$ 228,347</u>	<u>\$ 42,573,272</u>	<u>\$ (45,968,839)</u>	<u>\$ (3,167,220)</u>

See accompanying notes to consolidated financial statements.

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

	For the Year Ended	
	December 31,	
	2020	2019
	(As Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,434,443)	\$ (7,240,740)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	14,093	24,629
Amortization of debt discount to interest expense	424,001	160,542
Accretion of preferred shares stated value to interest expense	52,400	-
Stock-based compensation	2,108,472	3,858,967
Stock-based professional fees	132,892	355,393
Bad debt expense	99,911	992
Interest expense related to put premium on convertible debt	47,405	88,620
Derivative expense	90,623	570,059
Non-cash gain on debt extinguishment	(877,823)	(31,009)
Non-cash fees upon conversion	2,500	-
Lease costs	400	44
Change in operating assets and liabilities:		
Accounts receivable	(27,619)	(61,662)
Inventory	(62,380)	(5,843)
Prepaid expenses and other assets	(563)	1,949
Due from related party	(5,526)	-
Accounts payable	139,300	239,605
Accrued expenses	96,022	89,266
Accrued compensation	417,308	635,477
NET CASH USED IN OPERATING ACTIVITIES	(1,783,027)	(1,313,711)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	821,000	780,000
Proceeds from sale of series A preferred stock	120,000	127,000
Redemption of Series A preferred stock	(104,762)	-
Proceeds from sale of series C preferred stock	1,330,000	-
Proceeds from exercise of stock options	-	19,185
Proceeds from note payable	156,200	25,000
Repayment of note payable	-	(25,000)
Repayment of convertible note payable	(393,215)	(238,080)
Proceeds from convertible notes payable	100,000	574,250
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,029,223	1,262,355
NET INCREASE (DECREASE) IN CASH	246,196	(51,356)
CASH, beginning of year	77,211	128,567
CASH, end of year	\$ 323,407	\$ 77,211
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ 130,399	\$ 37,339
Income taxes	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued as prepaid for services	\$ 133,000	\$ 161,460
Common stock issued for accrued compensation	\$ 24,250	\$ 364,000
Series B preferred stock issued for accrued compensation	\$ 318,969	\$ 108,000
Common stock issued for accounts payable	\$ 6,058	\$ -
Common stock issued for conversion of debt and accrued interest	\$ 188,529	\$ 12,000
Common stock issued for conversion of Series A preferred shares and related dividends	\$ 215,424	\$ -
Preferred stock dividend accrued	\$ 8,508	\$ -
Deemed dividend related to beneficial conversion feature of Series C preferred shares	\$ 1,525,873	\$ -
Reclassification of put premium to equity	\$ 49,543	\$ -
Increase in debt discount and derivative liability	\$ 85,502	\$ 320,351
Increase in debt discount and paid-in capital for warrants	\$ 14,498	\$ 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, 2020 and 2019

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. Additionally, the Company has expanded its product line to include disinfection products. The Company operates in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellent solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions, ballistic-resistant film systems and disinfection products.

On April 25, 2018, the Company (which was formerly known as West Mountain 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.

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 have been 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.

Basis of presentation and principles of consolidation

The Company’s consolidated financial statements include the financial statements of its wholly-owned subsidiary, C-Bond Systems, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 \$4,434,443 and \$7,240,740 for the years ended December 31, 2020 and 2019, respectively. The net cash used in operations was \$1,783,027 and \$1,313,711 for the years ended December 31, 2020 and 2019, respectively. Additionally, the Company had an accumulated deficit, shareholders’ deficit, and working capital deficit of \$45,968,839, \$3,167,220 and \$1,414,268, respectively, on December 31, 2020. 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.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete or slow moving 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, 2020. 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.

Assets and liabilities measured at fair value on a recurring basis on December 31, 2020 and 2019 is as follows:

Description	On December 31, 2020			On December 31, 2019		
	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,	
	2020	2019
Balance at beginning of period	\$ 890,410	\$ -
Initial valuation of derivative liabilities included in debt discount	85,502	320,351
Initial valuation of derivative liabilities included in derivative expense	160,416	516,634
Gain on extinguishment of debt related to repayment/conversion of debt	(1,066,535)	-
Change in fair value included in derivative expense	(69,793)	53,425
Balance at end of period	<u>\$ -</u>	<u>\$ 890,410</u>

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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. The Company has no cash equivalents as of December 31, 2020 and 2019.

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.

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.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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

The Company follows Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). This standard 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. ASC 606 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 sells its products which include standard warranties 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. The warranty does not represent a separate performance obligation.

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 \$49,515 and \$33,151 for the year ended December 31, 2020 and 2019, respectively. Shipping and handling costs charged to customers are included in sales.

Warranty liability

The Company provides limited warranties on its products for product defects for periods ranging from 12 months to the life of the product. Warranty costs may include the cost of product replacement, refunds, labor costs and other costs. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product warranty claim rates and expected costs to repair or to replace the products under warranty. The Company currently establishes warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior 12 months' sales activities. If actual return rates and/or repair and replacement costs differ significantly from the Company's estimates, adjustments to recognize additional cost of sales may be required in future periods. Historically the warranty accrual and the expense amounts have been immaterial. The warranty liability is included in accrued expenses on the accompanying consolidated balance sheets and amounted \$26,833 and \$26,933 at December 31, 2020 and 2019, respectively. For the year ended December 31, 2020 and 2019, warranty expense amounted to \$0 and \$4,650, respectively, and is included in cost of sales on the accompanying consolidated statements of operations. For the year ended December 31, 2020 and 2019, a roll forward of warranty liability is as follows:

	For the Year Ended	
	December 31,	
	2020	2019
Balance at beginning of period	\$ 26,933	\$ 24,190
Increase in estimated warranty liability	-	4,650
Warranty expenses incurred	(100)	(1,907)
Balance at end of period	<u>\$ 26,833</u>	<u>\$ 26,933</u>

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019, research and development costs incurred in the development of the Company's products were \$16,627 and \$31,057, 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, 2020 and 2019, advertising costs charged to operations were \$46,276 and \$36,238, 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

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, 2020 and 2019, 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, 2016. 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, 2020 and 2019.

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, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee 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, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under ASU 2016-09 *Improvements to Employee Share-Based Payment*.

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.

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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:

	December 31, 2020	December 31, 2019
Convertible notes	-	14,333,333
Stock options	8,445,698	8,445,698
Warrants	2,050,000	2,050,000
Series A preferred stock	-	3,283,951
Series B preferred stock	68,166,032	3,600,000
Series C preferred stock	211,111,111	-
Non-vested, forfeitable common shares	23,826,926	17,475,299

Segment reporting

During the year ended December 31, 2020 and 2019, 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.

Risk factors

The Company's results of operations could be adversely affected by general conditions in the global economy and in the global financial markets, including conditions that are outside of its control, including the impact of health and safety concerns, such as those relating to the current COVID-19 outbreak. The most recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for the company's products and its ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could strain the Company's domestic and international customers, possibly resulting in delays in customer payments. Any of the foregoing could harm the Company's business and it cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact the Company's business.

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Recent accounting pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies certain disclosure requirements related to fair value measurements including (i) requiring disclosures on changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value measurements; and (ii) a requirement to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 was effective for fiscal years beginning after December 15, 2019, including interim periods within those years. The adoption of this standard on January 1, 2020 did not have a material impact on our fair value measurement disclosures.

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.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for the exception. The ASU also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, and early adoption is permitted for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

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

On December 31, 2020 and 2019, accounts receivable consisted of the following:

	December 31, 2020	December 31, 2019
	(As Restated)	
Accounts receivable	\$ 179,608	\$ 151,989
Less: allowance for doubtful accounts	(99,911)	-
Accounts receivable, net	\$ 79,697(a)	\$ 151,989

For the years ended December 31, 2020 and 2019, bad debt expense amounted to \$99,911 and \$992, respectively.

(a) See Note 16 – Restatement.

NOTE 4 – INVENTORY

On December 31, 2020 and 2019, inventory consisted of the following:

	December 31, 2020	December 31, 2019
Raw materials	\$ 24,477	\$ 12,250
Finished goods	52,723	2,570
Inventory	\$ 77,200	\$ 14,820

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NOTE 5 – PROPERTY AND EQUIPMENT

On December 31, 2020 and 2019, property and equipment consisted of the following:

	<u>Useful Life</u>	<u>2020</u>	<u>2019</u>
Machinery and equipment	5 - 7 years	\$ 50,722	\$ 52,184
Furniture and office equipment	3 - 7 years	30,245	45,063
Vehicles	5 years	55,941	68,341
Leasehold improvements	3 years	16,701	16,701
		<u>153,609</u>	<u>182,289</u>
Less: accumulated depreciation		(134,926)	(149,513)
Property and equipment, net		<u>\$ 18,683</u>	<u>\$ 32,776</u>

For the years ended December 31, 2020 and 2019, depreciation and amortization expense is included in general and administrative expenses and amounted to \$14,093 and \$24,629, respectively.

NOTE 6 – CONVERTIBLE NOTES PAYABLE

2019

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 bore 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 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 contained 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 had 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. During 2019, the Company 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, in 2019, 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.

On September 6, 2019 and on December 9, 2019, the Company closed on Securities Purchase Agreements (the “September and December 2019 SPAs”) with an accredited investor. Pursuant to the terms of the September 6, 2019 and December 9, 2019 SPAs, the Company issued and sold to this investor convertible promissory notes in the aggregate principal amount of \$430,000 and warrants to purchase up to 1,050,000 shares of the Company’s common stock. The Company received net proceeds of \$382,250, net of original issue discount of \$45,000 and origination fees of \$2,750. These Notes bore interest at 12% per annum. The September 6, 2019 Note was due and payable on June 6, 2020 and the December 9, 2019 Note was due and payable on September 9, 2020. The September 6, 2019 Note and the December 9, 2019 Note were repaid in full on September 11, 2020.

2020

On March 30, 2020, the Company closed on a Securities Purchase Agreement (the “March 2020 SPA”) with an accredited investor. Pursuant to the terms of the March 2020 SPA, the Company issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$57,750 and a warrant to purchase up to 144,375 shares of the Company’s common stock. The Company received net proceeds of \$50,000, net of original issue discount of \$5,000 and origination fees of \$2,750. The Note bore interest at 12% per annum and was due and payable on December 30, 2020. The March 30, 2020 Note was repaid in full on August 24, 2020 and the 144,375 warrants were cancelled.

On April 23, 2020, the Company closed on a Securities Purchase Agreement (the “April 2020 SPA”) with an accredited investor. Pursuant to the terms of the April 2020 SPA, the Company issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$57,750 and a warrant to purchase up to 144,375 shares of the Company’s common stock. The Company received net proceeds of \$50,000, net of original issue discount of \$5,000 and origination fees of \$2,750. The Note bore interest at 12% per annum and was due and payable on January 23, 2021. The April 23, 2020 Note was repaid in full on August 24, 2020 and the 144,375 warrants were cancelled.

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In accordance with the September and December 2019 SPAs, the March 2020 SPA, the April 2020 SPA and the related convertible promissory Notes, subject to the adjustments as defined in the respective SPA and Note, the conversion price (the "Conversion Price") equaled 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" meant 60% multiplied by the Market Price (as defined herein) (representing a discount rate of 40%). "Market Price" meant 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" meant, 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 had the option to prepay the Note at any time prior to its six-month anniversary, subject to pre-payment charges as detailed in the Note, which it did on August 24, 2020.

The September and December 2019 SPAs, the March 2020 SPA, the April 2020 SPA and the related Notes contained 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 had the right of first refusal with respect to any future equity offerings (or debt with an equity component) conducted by the Company until the 12-month anniversary of the Closing. The September and December 2019 SPAs, the March 2020 SPA, the April 2020 SPA and the related Notes also provided 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 could declare the outstanding obligations due and payable at significant applicable default rates and take such other actions as set forth in the Notes.

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 Warrants to purchase up to an aggregate of 1,050,000 shares of the Company's common stock at a fixed exercise price of \$0.01. On January 7, 2021, the Company issued 1,008,000 shares of its common stock in connection with the cashless exercise of the 1,050,000 warrants. The exercise price was based on contractual terms of the related warrant.

These Notes and related Warrants included a down-round provision under which the Notes conversion price and warrant exercise price could have been affected by future equity offerings undertaken by the Company.

In connection with the issuance of the September and December 2019 Notes, the March 2020 Note and the April 2020 Note, 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 the September and December 2019 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 issuance of the March 30, 2020 and April 23, 2020 Notes, in March and April 2020, on the initial measurement dates, the fair values of the embedded conversion option derivatives of \$245,918 was recorded as a derivative liability and was allocated as a debt discount up to the net proceeds of the Notes of \$85,502, with the remainder of \$160,416 charged to current period operations as initial derivative expense. During the year ended December 31, 2020, at the end of each period and upon conversion or repayment, the Company revalued the embedded conversion option derivative liabilities and recorded a derivative gain of \$69,793. In connection with the revaluation and the initial derivative expense, the Company recorded an aggregate derivative expense of \$90,623 during the year ended December 31, 2020.

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In connection with the warrants issued in connection with the September and December 2019 SPAs, the March 2020 SPA, the April 2020 SPA, 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 2019 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. In connection with the issuance of the March 2020 and April 2020 warrants, on the initial measurement date, the relative fair value of the warrants of \$14,498 was recorded as a debt discount and an increase in paid-in capital.

During the years ended December 31, 2020 and 2019, the fair value of the derivative liabilities and warrants was estimated using the Binomial valuation model with the following assumptions:

	<u>2020</u>	<u>2019</u>
Dividend rate	—	—%
Term (in years)	0.25 to 5.00 years	0.69 to 5.00 years
Volatility	293.4% to 345.7%	275.8 to 317.5%
Risk—free interest rate	0.12% to 0.39%	1.56% to 1.75%

During the year ended December 31, 2020, the Company issued 37,171,800 shares of its common stock upon the conversion of principal of \$152,285, accrued interest of \$36,244 and fees of \$2,500. Additionally, the Company repaid principal of \$393,215 and accrued interest of \$15,917. Upon conversion, exercise or repayment, the respective derivative liabilities were marked to fair value at the conversion, repayment or exercise date and then the related fair value amount of \$1,066,535 was reclassified to other income as part of gain or loss on extinguishment. Additionally, upon repayment, the Company and Investor agreed to cancel 288,750 warrants and agreed to modify the exercise price of the remaining warrants to \$0.01 per share (see Note 8 - warrants). Since the fair value of the warrants using the new exercise price was less than the initial fair value amount, no additional expense was recorded (see Note 8 – warrants).

As of December 31, 2020, all of these convertible notes were either converted or repaid off resulting in a zero balance.

For the year ended December 31, 2020 and 2019, interest expense related to convertible notes and warrants amounted to \$551,100 and \$237,445, including amortization of debt discount and debt premium charged to interest expense of \$409,668 and \$217,298, respectively.

The weighted average interest rate on the above notes and notes payable – related party (see note 7) during the years ended December 31, 2020 and 2019 was 13.2% and 14.9%, respectively.

On December 31, 2020 and 2019, convertible notes consisted of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Principal amount	\$ -	\$ 430,000
Less: unamortized debt discount	-	(294,167)
Convertible notes payable, net	<u>\$ -</u>	<u>\$ 135,833</u>

NOTE 7 – NOTES PAYABLE

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”), who was a beneficial shareholder of the Company through December 31, 2019. 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 for use as working capital and to assist in inventory acquisition. The Lender loaned the Company \$400,000 in 2018. The Company should have repaid 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 bore interest at the rate of 12% per annum, compounded annually through the default date.

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”).

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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 balance 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, 2020 and 2019, 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 sheets. As of December 31, 2019, this note payable was included in note payable – related party on the accompanying consolidated balance sheet. As of December 31, 2020, this note payable was reclassified to notes payable 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, 2020 and 2019, interest expense related to this Note amounted to \$72,198 and \$72,000, respectively.

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.

On April 28, 2020, the Company entered into a Paycheck Protection Program Promissory Note (the "PPP Note") with respect to a loan of \$156,200 (the "PPP Loan") from Comerica Bank. The PPP Loan was obtained pursuant to the Paycheck Protection Program (the "PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES act") administered by the U.S. Small Business Administration ("SBA"). The PPP Loan matures on April 28, 2022 and bears interest at a rate of 1.00% per annum. The PPP Loan is payable in 18 equal monthly payments of approximately \$8,900 commencing November 1, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Company may apply to have the loan forgiven pursuant to the terms of the PPP if certain criteria are met. For the year ended December 31, 2020, interest expense related to this Note amounted to \$1,061.

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On December 31, 2020 and 2019, notes payable consisted of the following:

	December 31, 2020	December 31, 2019
Note payable – related party	\$ -	\$ 400,000
Note payable	400,000	-
Note payable _ PPP note	156,200	-
Total notes payable	<u>556,200</u>	<u>400,000</u>
Less: current portion of notes payable	<u>(521,138)</u>	<u>(400,000)</u>
Notes payable – long-term	<u>\$ 35,062</u>	<u>\$ -</u>

NOTE 8 - 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 Designation 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 carried 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 had 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 had no right of redemption.

Redemption Period	Redemption Percentage
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 had 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 accounted for the Series A Preferred Stock as stock settled debt under ASC 480 due to mandatory redemption and during the year ended December 31, 2020 and 2019, the Company recorded an aggregate debt premium of \$42,553 and \$31,197 with a charge to interest expense, respectively.

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. This discount of \$6,000 was recognized and was amortized to interest expense over the redemption terms of the Series A preferred shares or the date that the debt is convertible into common shares, whichever is shorter.

During the year ended December 31, 2020, the Company entered into Series A Preferred Stock Purchase Agreements with an accredited investor whereby the investor agreed to purchase an aggregate of 154,800 unregistered shares of the Company’s Series A Preferred stock, par value \$0.10 for \$129,000, or \$0.833 per share. During the year ended December 31, 2020, the Company received cash proceeds of \$120,000, net of fees of \$9,000. This discount of \$9,000 was recognized and was amortized to interest expense over the redemption terms of the Series A preferred shares or the date that the debt is convertible into common shares, whichever is shorter.

For the year ended December 31, 2020 and 2019, amortization of discount charged to interest expense amounted to \$14,333 and \$667, respectively. On December 31, 2019, 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. During the year ended December 31, 2020, the Company accrued a dividend payable of \$4,852 which was included in interest expense on the accompanying consolidated statement of operations. As of December 31, 2020, the Company had paid or converted into common stock all accrued dividends due.

During the year ended December 31, 2020, the Company issued 16,132,701 shares its common stock upon the conversion of 211,200 shares of Series A preferred with a stated redemption value of \$211,200 and related accrued dividends payable of \$4,224. The conversion price was based on contractual terms of the related Series A preferred shares. Upon conversion, the Company reclassified put premium of \$49,543 to paid-in capital. Additionally, on August 24, 2020, the Company settled with the investor and redeemed the remaining 103,200 Series A preferred shares for a cash payment of \$117,047 which included the redemption of stated value of \$103,200, accrued dividends of \$1,562, and a redemption penalty of \$12,285 which was included in interest expense on the accompanying consolidated statement of operations. Additionally, upon repayment, the Company wrote off the remaining put premium balance of \$24,207 and recorded a gain on extinguishment of \$24,207.

On August 24, 2020, the Company filed a Certificate of Elimination with the State of Colorado to eliminate the Series A preferred stock.

The Company 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 were treated as a component of interest expense in the accompanying consolidated statements of operations.

The mandatorily redeemable Series A preferred stock was recorded at the liquidation preference, less unamortized discounts plus the debt premium and accrued dividends due, on the Company’s accompanying consolidated balance sheet as of December 31, 2019 which in total exceeded the redemption value. As of December 31, 2020, the net Series A Preferred Stock balance was \$0 and fully redeemed. The Company recognized interest expense on the Series A Preferred Stock of \$126,423 for the year ended December 31, 2020, which includes accretion expense, put premium on stock-settled debt, accrued dividends, amortization of offering costs and redemption penalties paid.

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Series B Convertible 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.

The Series B is convertible into common stock 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 sum of the Stated Value plus accrued but unpaid dividends 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, 2021, subject to acceleration in the event of conversion or redemption.

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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.

On December 21, 2020, the Board of Directors of the Company agreed to satisfy \$318,970 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 319 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 feature on the Series B Preferred Stock were not considered an embedded derivative that required bifurcation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, during the year ended December 31, 2020, the Company immediately recorded non-cash stock-based compensation of \$1,048,143 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock. This non-cash stock-based compensation increased the Company’s net loss attributable to common stockholders and net loss per share.

During the year ended December 31, 2020, the Company accrued a dividend payable of \$2,476 which was included in preferred stock dividends on the accompanying consolidated statement of shareholders’ deficit. As of December 31, 2020, the net Series B Preferred Stock balance was \$429,446 which includes stated liquidation value of \$426,970 and accrued dividends payable of \$2,476. As of December 31, 2019, the net Series B Preferred Stock balance was \$108,000 which includes stated liquidation value of \$108,000.

Series C Convertible Preferred Stock

On August 20, 2020, the Company filed an Amendment to its Articles of Incorporation to designate a series of preferred stock, the Series C Convertible Preferred Stock (the “Series C”), with the Secretary of State of the State of Colorado. The Certificate of Designations established 100,000 shares of the Series C, 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 C 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 C has a stated value per share of \$100, 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 Company has no option to redeem the Series C Preferred Stock. If the Company determines to liquidate, dissolve or wind-up its business and affairs, or effect any Deemed Liquidation Event as defined below, each of which has been approved by the holders of a majority of the shares of Series C Preferred Stock then outstanding, the Company will redeem all of the shares of Series C Preferred Stock outstanding immediately prior to such mandatory redemption event at a price per share of Series C Preferred Stock equal to the aggregate Series C Liquidation Value, which is 150% of the sum of the Stated Value plus accrued and unpaid dividends, for the shares of Series C Preferred Stock being redeemed.

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The Company will deliver ten-day advance written notice prior to the consummation of any mandatory redemption event via email or overnight courier (“Notice of Mandatory Redemption”) to each Holder whose shares are to be redeemed. The Series C is subject to redemption at liquidation Value noted above by the Company. Upon receipt by any Holder of a Notice of Mandatory Redemption, if Holder does not choose to convert, such Holder will promptly submit to the Company such Holder’s Series C Preferred Stock certificates on the Redemption Payment Date. Upon receipt of such Holder’s Series C Preferred Stock certificates, the Company will pay the applicable redemption price to such Holder in cash. 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. Since the Company has determined that a deemed liquidation event is not probable, the Series C is stated at the Stated Value plus accrued and unpaid dividends rather than redemption value, which is liquidation value.

The Series C is convertible at the option of a holder at any time following the issuance date. In the event of a conversion of any Series C Preferred Stock, the Company shall issue to such Holder a number of Conversion Shares equal to (x) the sum of (1) the Stated Value per share of Series C Preferred Stock plus (2) any accrued but unpaid dividends thereon multiplied by (y) the number of shares of Series C Preferred Stock held by such Holder and subject to the Holder Conversion Notice, divided by (z) the Conversion Price with respect to such Series C Preferred Stock. Conversion Price means a price per share of the common stock equal to the lowest daily volume weighted average price of the common stock for any trading day during the two years preceding the date of delivery of the conversion notice, subject to adjustment as otherwise provided in the Series C Certificate of Designation.

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 C but prior to any distribution to the holders of Common Stock or preferred stock ranking junior upon liquidation to the Series C, the holders of Series C 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 C equal to the Liquidation Value.

Each share of Series C Preferred Stock shall be entitled to vote on all matters requiring shareholder vote. Each share of Series C Preferred Stock will be entitled to the number of votes per share based on the calculation of the number of conversion shares of Series C Preferred Stock is then convertible.

During August and September 2020, the Company entered into subscription agreements with an accredited investor whereby the investor agreed to purchase an aggregate of purchase 6,300 shares of the Company’s Series C Convertible Preferred Stock for \$630,000, or \$100.00 per share (the “Stated Value”), which were used to pay off various discounted convertible instruments and redeem Series A preferred stock.

During the three months ended December 31, 2020, the Company entered into subscription agreements with an accredited investor whereby the investor agreed to purchase an aggregate of purchase 7,000 shares of the Company’s Series C Convertible Preferred Stock for \$700,000, or \$100.00 per share (the “Stated Value”), which were used from working capital purposes.

These Series C preferred share issuances with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the holder, were evaluated to determine whether temporary or permanent equity classification on the consolidated balance sheet was appropriate. As per the terms of the Series C preferred stock agreements, Series C 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 C preferred stock is redeemable upon the occurrence of an event that is not within the Company’s control, the Series C preferred stock is classified as temporary equity.

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The Company concluded that the Series C Preferred Stock represented an equity host and, therefore, the redemption feature of the Series C 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 C Preferred Stock were clearly and closely related to the equity host instrument. Accordingly, the conversion rights feature on the Series C Preferred Stock were not considered an embedded derivative that required bifurcation. The conversion feature of the Series C Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series C Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, during the year ended December 31, 2020, the Company immediately recorded a non-cash deemed dividend of \$1,525,873 related to the beneficial conversion feature arising from the issuance of Series C Preferred Stock. This non-cash deemed dividend increased the Company's net loss attributable to common stockholders and net loss per share.

During the year ended December 31, 2020, the Company accrued a dividend payable of \$6,031 which was included in preferred stock dividends on the accompanying consolidated statement of shareholders' deficit. As of December 31, 2020, the net Series C Preferred Stock balance was \$1,336,031 which includes stated value of \$1,330,000 and accrued dividends payable of \$6,031.

Common Stock

Sale of common stock

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.

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.

In connection with subscription agreements dated May 8, 2020, the Company received cash proceeds of \$161,000 from an investor for the purchase of 7,000,000 shares of the Company's common stock at \$0.023 per share.

In connection with subscription agreements dated July 2, 2020, the Company received cash proceeds of \$280,000 from investors for the purchase of 21,538,462 shares of the Company's common stock at \$0.013 per share.

In connection with a subscription agreement dated December 31, 2020, the Company received cash proceeds of \$100,000 from an investor for the purchase of 1,851,852 shares of the Company's common stock at \$0.054 per share.

Issuance of common shares for professional fees

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 years ended December 31, 2020 and 2019, the Company recorded stock-based professional fees of \$6,667 and \$25,333, respectively.

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.

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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.

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 \$50,000, or \$0.04 per common share, based on contemporaneous common share sales by the Company. In connection with this consulting agreement, during the year ended December 31, 2020, the Company recorded stock-based professional fees of \$50,000.

On March 31, 2020 and effective April 1, 2020, the Company entered into two one-year advisory board agreements with two individuals for services to be rendered on the Company's medical advisory board. In connection with these advisory board agreements, the Company issued an aggregate of 500,000 restricted common shares of the Company to these advisory board members. These shares vest on April 1, 2021. These shares were valued at \$20,000, or \$0.04 per common share, based on contemporaneous common share sales by the Company. In connection with this consulting agreement, during the year ended December 31, 2020, accretion of stock-based consulting fees amounted to \$15,000 and the remaining stock-based consulting fees of \$5,000 shall be accreted over the remaining vesting period.

On July 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 500,000 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at \$6,500, or \$0.013 per common share, based on contemporaneous common share sales by the Company. In connection with this consulting agreement, during the year ended December 31, 2020, the Company recorded stock-based professional fees of \$6,500.

On October 1, 2020, the Company entered into a patent expense reimbursement agreement. In connection with this agreement, the Company issued 25,000 restricted common shares of the Company to this entity. These shares were valued at \$275, or \$0.011 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with this agreement, the Company recorded research and development expense of \$275.

On October 6, 2020, the Company entered into a settlement agreement related to the termination of a previous investor relations agreement. In connection with this settlement agreement, the Company issued 1,275,000 restricted common shares of the Company to this consultant. These shares were valued at \$10,200, or \$0.008 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with this settlement agreement, the Company recorded stock-based consulting fees of \$10,200.

On October 7, 2020, the Company entered into a six-month consulting agreement for investor relations services to be rendered. In connection with this consulting agreement, the Company issued 9,000,000 restricted common shares of the Company to this consultant. These shares were valued at \$76,500, or \$0.0085 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with this consulting agreement, during the year ended December 31, 2020, the Company recorded stock-based professional fees of \$38,250 and as of December 31, 2020, recorded prepaid expenses of \$38,250 which will be amortized into stock-based consulting fees over the remaining term of the agreement.

On October 9, 2020, the Company issued 500,000 shares of its common stock for strategic consulting services to be rendered. These shares were valued at \$6,000, or \$0.012 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with this consulting agreement, during the year ended December 31, 2020, the Company recorded stock-based professional fees of \$6,000 since there was no defined term of the agreement.

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Issuance of common shares for stock-based compensation

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. In connection with these shares, the Company shall record stock-based compensation over the vesting period, which is included in the aggregate accretion of stock-based compensation reflected below. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs.

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. In connection with these shares, the Company recorded stock-based compensation over the vesting period, which is included in the aggregate accretion of stock-based compensation reflected below. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs.

On April 1, 2020, the Company entered into an employment agreement with an accounting manager. Pursuant to this employment agreement, the Company agreed to grant a restricted stock award of 200,000 common shares of the Company which will vest on May 1, 2021. 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 \$8,000, or \$0.04 per common share, based on contemporaneous common share sales. In connection with these shares, the Company recorded stock-based compensation over the vesting period, which is included in the aggregate accretion of stock-based compensation reflected below.

On April 28, 2020, the Company entered into restricted stock award agreements (the “April 2020 Restricted Stock Award Agreements”) with executive officers and employees. Pursuant to the April 2020 Restricted Stock Award Agreements, the Company agreed to grant restricted stock awards for an aggregate of 6,750,000 common shares of the Company which were valued at \$270,000, or \$0.04 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 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. In connection with these shares, the Company shall record stock-based compensation over the vesting period, which is included in the aggregate accretion of stock-based compensation reflected below.

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

	Number of Non-vested Shares	Weighted Average Grant Date Fair Value
Non-vested, December 31, 2018	5,998,672	\$ 0.61
Granted	12,000,000	0.05
Forfeited	(323,373)	(0.59)
Non-vested, December 31, 2019	17,675,299	0.23
Granted	7,450,000	0.04
Shares vested	(1,298,373)	(0.41)
Non-vested, December 31, 2020	23,826,926	\$ 0.16

During the year ended December 31, 2020 and 2019, aggregate accretion of stock-based compensation expense on granted non-vested shares amounted to \$446,064 and \$2,068,368, respectively. Total unrecognized compensation expense related to these unvested common shares on December 31, 2020 amounted to \$110,650 which will be amortized over the remaining vesting period through May 1, 2021.

Shares Issued for Accounts Payable

On January 13, 2020, the Company issued 151,456 common shares upon conversion of accounts payable of \$6,058, or \$0.04 per common share, based on contemporaneous common share sales by the Company.

Common stock issued for debt conversion

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).

During the year ended December 31, 2020, the Company issued 37,171,800 shares of its common stock upon the conversion of convertible notes with bifurcated embedded conversion option derivatives including principal of \$152,285, accrued interest of \$36,244, and fees of \$2,500. The conversion price was based on contractual terms of the related debt. The Company accounted for the partial conversion of these convertible notes pursuant to the guidance of ASC 470-20, *Debt with Conversion and Other Options*. Under ASC 470-20, the Company recognized an aggregate loss on debt extinguishment upon conversion in the amount of \$297,919 which is related to the principal amount only and is associated with the difference between the fair market value of the shares issued upon conversion of \$450,204 and the conversion price and is equal to the fair value of the additional shares of common stock transferred upon conversion.

Common Stock Issued for Conversion of Series A Preferred Shares

During the year ended December 31, 2020, the Company issued 16,132,701 shares its common stock upon the conversion of 211,200 shares of Series A preferred with a stated redemption value of \$211,200 and related accrued dividends payable of \$4,224. The conversion price was based on contractual terms of the related Series A preferred shares. Upon conversion, the Company reclassified put premium of \$49,543 to paid-in capital.

Common shares issued for exercise of stock options

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.

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.

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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, 2021.

On April 17, 2020, the Company issued 203,125 common shares upon conversion of an accrued deferred compensation liability of \$16,250, or \$0.08 per share. The shares issued were value at a per share price of \$0.055, which was based on quoted closing price on the date of grant and the gain was not material.

On December 18, 2020, the Company issued an aggregate of 547,945 shares upon conversion of an accrued deferred compensation liability of \$8,000. The fair market value of these shares of \$12,603, \$0.023 per share, was based on quoted closing price on the date of grant. Since the deferred compensation amount converted of \$8,000 was lower than fair value of shares issued, the Company recorded additional stock-based compensation of \$4,603.

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 received 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, 2020 and 2019, the employee was credited \$182,500 towards the options exercise. No cash disbursement will be required by the Company under this provision. The Company recognized compensation expense of \$7,500 during the year ended December 31, 2019, with a corresponding increase to shareholders' equity.

Stock options

For the year ended December 31, 2020 and 2019, the Company recorded \$609,662 and \$1,783,099 of compensation expense related to stock options, respectively. There is no unrecognized compensation expense related to unvested stock options as of December 31, 2020.

Stock option activities for the years ended December 31, 2020 and 2019 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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		
Exercised	-	-		
Balance Outstanding, December 31, 2020	8,445,698	\$ 0.40	5.10	\$ 48,000
Exercisable, December 31, 2020	8,445,698	\$ 0.40	5.10	\$ 48,000

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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 years ended December 31, 2020 and 2019, the Company recorded \$0 and \$159,700 of stock-based professional fees related to stock warrants, respectively.

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). On January 7, 2021, the Company issued 1,008,000 shares of its common stock in connection with the cashless exercise of the 1,050,000 warrants. The exercise price was based on contractual terms of the related warrant.

On March 30, 2020 and on April 23, 2020, in connection with Purchase Agreements with an accredited investor (See Note 6), the Company issued warrants to purchase an aggregate amount up to 288,750 shares of the Company’s common stock (the “Warrants”). The Warrants were exercisable at any time on or after the date of the issuance and entitled 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 was entitled to exercise the Warrants to purchase up to 288,750 shares of the Company’s common stock at an initial exercise price of \$0.10, subject to adjustment as detailed in the Warrants. In connection with the issuance of the warrants, on the initial measurement date, the relative fair value of the warrants of \$14,498 was recorded as a debt discount and an increase in paid-in capital (See Note 6). In September 2020, in connection with the repayment of the debt, these warrants were cancelled.

During the year ended December 31, 2020, the Company issued common shares related to the sale of common stock and issued shares upon the conversion of convertible debt at prices lower than the warrant exercise price of \$0.10 and accordingly, the warrant down-round provisions were triggered. As a result, the warrant exercise price was reduced to \$0.003 per share. As a result of the trigger of down-round provisions, the Company calculated the difference between the warrants fair value on the date the down round feature was triggered using the current exercise price and the new exercise price. If applicable, additional expense shall be recorded as an increase in accumulated deficit and increase in paid-in capital and increased the net loss to common shareholders by the same amount. Since the fair value of the warrants using the new exercise price was less than the initial fair value amount, no additional expense was recorded. In connection with the repayment of the debt, the Company and investor agreed upon a fixed warrant exercise price of \$0.01 per share.

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Warrant activities for the years ended December 31, 2020 and 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	2,050,000	\$ 0.10	4.66	\$ 4,400
Granted	288,750	0.10		
Cancelled	(288,750)	(0.10)		
Exercisable, December 31, 2020	2,050,000	\$ 0.05	3.66	\$ 137,000

2018 Long-term Incentive Plan

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

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

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

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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 11,445,698 shares have been issued or granted under incentive stock options and 25,951,070 shares of restricted stock have been issued as of December 31, 2020. All shares underlying grants are expected to be issued from the Company's unissued authorized shares available.

NOTE 9 – 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. As of December 31, 2020, the Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations, or cash flows.

Employment agreements

On 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 vested 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.

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 June 30, 2020, the Company amended the employment agreement of Mr. Silverman to provide for successive one-year extensions until either the executive or the Board of Directors of the Company gives notice to terminate the employment agreement per its terms. This employment agreement amendment also includes an allowance of up to \$10,000 per year to cover uncovered medical/dental expenses for Mr. Silverman and his family.

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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.

On April 28, 2020, the Company's board of directors approved a bonus to officers and an employee of the Company in the aggregate amount of \$280,000 which shall be initially deferred and was recorded as an accrued liability on the bonus approval date.

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, 2020.

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.

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

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

NOTE 10 – INCOME TAXES

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 on December 31, 2020 and 2019 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, 2020 and 2019 were as follows:

	2020	2019
Income tax benefit at U.S. statutory rate	\$ (931,233)	\$ (1,520,555)
Non-deductible expenses	457,894	1,057,052
Change in valuation allowance	473,339	463,503
Total provision for income tax	\$ -	\$ -

The Company’s approximate net deferred tax asset as of December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Deferred Tax Asset:		
Net operating loss carryforward	\$ 1,335,867	\$ 862,528
Total deferred tax asset before valuation allowance	1,335,867	862,528
Valuation allowance	(1,335,867)	(862,528)
Net deferred tax asset	\$ -	\$ -

The net operating loss carryforward was approximately \$6,361,000 on December 31, 2020. The Company provided a valuation allowance equal to the net deferred income tax asset as of December 31, 2020 and 2019 because it was not known whether future taxable income will be sufficient to utilize the loss carryforward. During the year ended December 31, 2020, the valuation allowance increased by \$473,339. 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 2020 and 2019 Corporate Income Tax Returns are subject to Internal Revenue Service examination.

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NOTE 11 – 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. On December 31, 2020, the Company had approximately \$77,000 of cash in excess of FDIC limits of \$250,000. There were no balances in excess of FDIC insured levels as of December 31, 2019. The Company has not experienced any losses in such accounts through December 31, 2020.

Geographic concentrations of sales

For the year ended December 31, 2020, approximately 59.9% of all sales were in the United States, 21.5% of sales were from one customer based in India and 18.6% of sales were from one customer based in the Philippines. No other geographical area accounting for more than 10% of total sales during the year ended December 31, 2020. For the year ended December 31, 2019, approximately 80% of all sales were in the United States, respectively. No other geographical area accounting for more than 10% of total sales during the year ended December 31, 2019.

Customer concentrations

For the year ended December 31, 2020, two customers accounted for approximately 40.1% of total sales (18.6% and 21.5%, respectively). For the year ended December 31, 2019, two customers accounted for approximately 25.9% of total sales (13.9% and 12.0%, 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. On December 31, 2020, one customer accounted for 64.0% of the total accounts receivable balance. On December 31, 2019, three customers accounted for 58.3% (15.8%, 25.5% and 17.0%, respectively) of the total accounts receivable balance.

Vendor concentrations

Generally, during 2020, the Company purchases substantially all of its inventory from four 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 12 – 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.

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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, 2020 and 2019. Any sales tax, value added tax, and other tax the Company collects concurrently with its revenue-producing activities are excluded from revenue.

Revenue Disaggregation

The Company tracks its revenue by product. The following table summarizes our revenue by product for the year ended December 31, 2020 and 2019:

	For the Year Ended December 31, 2020	For the Year Ended December 31, 2019
	(As Restated)	
C-Bond I multi-purpose and BRS ballistic resistant glass protection systems	\$ 155,755	\$ 430,915
C-Bond Nanoshield solution sales	118,081	121,163
Disinfection products	250,208	-
Installation and other services	8,992	32,306
Freight and delivery	22,827	18,252
Total	<u>\$ 555,863</u>	<u>\$ 602,636</u>

NOTE 13 – 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, 2020 and 2019, in connection with its operating leases, the Company recorded rent expense of \$95,811 and \$101,114, respectively, which includes rent on a short-term lease for a corporate apartment, and 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.

On December 31, 2020 and 2019, right-of-use asset (“ROU”) is summarized as follows:

	December 31, 2020	December 31, 2019
Office leases right of use assets	\$ 74,296	\$ 74,296
Less: accumulated amortization	(52,524)	(4,488)
Balance of ROU assets	<u>\$ 21,772</u>	<u>\$ 69,808</u>

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On December 31, 2020 and 2019, operating lease liabilities related to the ROU assets are summarized as follows:

	December 31, 2020	December 31, 2019
Lease liabilities related to office leases right of use assets	\$ 22,216	\$ 69,852
Less: current portion of lease liabilities	(22,216)	(47,636)
Lease liabilities – long-term	<u>\$ -</u>	<u>\$ 22,216</u>

On December 31, 2020, future minimum base lease payments due under non-cancelable operating leases are as follows:

Year ended December 31,	Amount
2021	<u>\$ 22,885</u>
Total minimum non-cancelable operating lease payments	22,885
Less: discount to fair value	(669)
Total lease liability on December 31, 2020	<u>\$ 22,216</u>

NOTE 14 – RELATED PARTY TRANSACTIONS

Due from related party

On December 31, 2020, the Company has an amount due from the Company’s chief executive officer of \$5,526 related to the overpayment of accrued compensation. The Company’s chief executive officer intends to repay this overpayment during the second quarter of 2021.

NOTE 15 – SUBSEQUENT EVENTS

Executive bonus

On January 18, 2021, the Company’s board of directors approved a bonus to officers and an employee of the Company in the aggregate amount of \$330,000 which shall be initially deferred and was recorded as an accrued liability on the bonus approval date.

Series C preferred shares issued for cash

On February 24, 2021, the Company entered into a subscription agreement with an accredited investor whereby the investor agreed to purchase 2,500 shares of the Company’s Series C Convertible Preferred Stock for \$250,000, or \$100.00 per share, the stated value, which were used from working capital purposes. The conversion feature of the Series C Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series C Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded a non-cash deemed dividend of \$2,845,238 related to the beneficial conversion feature arising from the issuance of Series C Preferred Stock.

Series B preferred shares issued for accrued compensation

On January 18, 2021, the Board of Directors of the Company agreed to satisfy \$295,000 of accrued compensation owed to its executive officers (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 295 shares of the Company’s Series B convertible preferred stock in settlement of accrued compensation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded non-cash stock-based compensation of \$3,451,032 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

Shares issued for services

On January 6, 2021, the Company issued 100,000 shares of its common stock for business development services rendered. These shares were valued at \$10,000, or \$0.10 per common share, based on the quoted closing price of the Company’s common stock on the measurement date.

On February 1, 2021, the Company issued an aggregate of 900,000 shares of its common stock for business development, advisory and consulting services rendered and to be rendered. These shares were valued at \$70,200, or \$0.078 per common share, based on the quoted closing price of the Company’s common stock on the measurement date and will be amortized into stock-based consulting fees over the term of the agreement or vesting period.

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On March 8, 2021, the Company issued an aggregate of 750,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at \$49,500, or \$0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date and will be amortized into stock-based consulting fees over the term of the agreement or vesting period.

On March 8, 2021, the Company agreed to grant restricted stock awards for an aggregate of 2,500,000 common shares of the Company which were valued at \$165,000, or \$0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares will vest on May 1, 2022. In connection with these shares, the Company will record stock-based compensation over the vesting period.

On March 19, 2021, the Company issued 944,767 shares of its common stock pursuant to the terms of a Notice of Separation and General Release Agreement. These shares were valued at \$55,741, or \$0.059 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On April 7, 2021, the Company issued 2,500,000 shares of its common stock for investor relations services to be rendered. These shares were valued at \$135,000, or \$0.054 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, the Company will record stock-based professional fees over the three-month agreement term.

Shares issued for cashless warrant exercise

On January 7, 2021, the Company issued 1,008,000 shares of its common stock in connection with the cashless exercise of 1,050,000 warrants. The exercise price was based on contractual terms of the related warrant.

NOTE 16 – RESTATEMENT

On April 11, 2022, the Company's management determined that the Company's consolidated financial statements for the year ended December 31, 2020 included herein should be restated because management determined that it had overstated its sales and bad debt expense in its consolidated financial statements for the year ended December 31, 2020.

Based on management's analysis, the Company determined that a sale in the amount of \$102,569 that was recorded in December 2020 did not meet the Company's revenue recognition policy pursuant to ASC 606 and should not have been reflected as a sale. Additionally, in the same period, in connection with the Company's analysis of collectability, the Company recorded a bad debt allowance and a related bad debt expense of \$102,569. Since the sale and related allowance for bad debt should not have been recorded, the Company is restating its consolidated financial statements to reduce sales and bad debt expense by \$102,569.

Accordingly, the Company's consolidated statement of operations and cash flows for the year ended December 31, 2020 have been restated herein. The effect of correcting this error in the Company's consolidated financial statements on December 31, 2020 and for the year ended December 31, 2020 are summarized and shown in the table as follows:

Consolidated Statement of Operations:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Sales	\$ 658,432	\$ (102,569)	\$ 555,863
Operating Expenses:			
General and administrative expenses - bad debt expense	588,302	(102,569)	485,733
Total Operating Expenses	<u>4,892,959</u>	<u>(102,569)</u>	<u>4,790,390</u>
Loss from Operations	<u>\$ (4,477,033)</u>	<u>\$ -</u>	<u>\$ (4,477,033)</u>

Consolidated Statement of Cash Flows:

Net loss	\$ (4,434,443)	\$ -	\$ (4,434,443)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt expense	202,480	(102,569)	99,911
Change in operating assets and liabilities:			
Accounts receivable	<u>(130,188)</u>	<u>102,569</u>	<u>(27,619)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,783,027)</u>	<u>\$ -</u>	<u>\$ (1,783,027)</u>

C-Bond Systems, Inc.

List of Subsidiaries

Company Name	State of Incorporation
C-Bond Systems, LLC	Texas

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this annual report on Form 10-K/A for the year ended December 31, 2020 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: April 15, 2022

/s/ Scott R. Silverman

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

Certifications

I, Scott. R. Silverman, certify that:

1. I have reviewed this annual report on Form 10-K/A for the year ended December 31, 2020 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: April 15, 2022

/s/ Scott R. Silverman

Scott Silverman
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/A for the year ended December 31, 2020, 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: April 15, 2022

/s/ Scott R. Silverman

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/A for the year ended December 31, 2020, 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 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: April 15, 2022

/s/ Scott R. Silverman

Scott R. Silverman
Chief Financial Officer
(principal financial officer)