

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2019**

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

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

Commission File No. 0-53029

**C-BOND SYSTEMS, INC.**

(Exact name of Registrant as Specified in its Charter)

**Colorado**

(State or Other Jurisdiction of  
Incorporation or Organization)

**26-1315585**

(IRS Employer  
Identification No.)

**6035 South Loop East  
Houston, Texas**

(Address of Principal Executive Offices)

**77033**

(Zip Code)

**832-649-5658**

(Registrant's telephone number, including area code)

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

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

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 (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files. Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

There were 111,939,633 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of November 14, 2019.

C-BOND SYSTEMS, INC.  
FORM 10-Q  
September 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1.	<a href="#"><u>Financial Statements</u></a> 1
	<a href="#"><u>Condensed Consolidated Balance Sheets - As of September 30, 2019 (unaudited) and December 31, 2018</u></a> 1
	<a href="#"><u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u></a> 2
	<a href="#"><u>Condensed Consolidated Statements of Changes in Shareholders' Deficit for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u></a> 3
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018 (unaudited)</u></a> 4
	<a href="#"><u>Condensed Notes to Unaudited Consolidated Financial Statements</u></a> 5
Item 2.	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a> 23
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a> 31
Item 4.	<a href="#"><u>Controls and Procedures</u></a> 31
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 1.	<a href="#"><u>Legal Proceedings</u></a> 32
Item 1A.	<a href="#"><u>Risk Factors</u></a> 32
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a> 32
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a> 33
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a> 33
Item 5.	<a href="#"><u>Other Information</u></a> 33
Item 6.	<a href="#"><u>Exhibits</u></a> 33
	<a href="#"><u>Signatures</u></a> 34

**PART I - FINANCIAL INFORMATION**

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

**ITEM 1. CONDENSED FINANCIAL STATEMENTS**

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 101,487	\$ 128,567
Accounts receivable, net	46,223	91,319
Inventory	15,905	8,977
Prepaid expenses and other current assets	31,070	31,199
	<u>194,685</u>	<u>260,062</u>
<b>Total Current Assets</b>	<b>194,685</b>	<b>260,062</b>
<b>OTHER ASSETS:</b>		
Property, plant and equipment, net	38,197	57,405
Security deposit	7,132	8,977
	<u>45,329</u>	<u>66,382</u>
<b>Total Other Assets</b>	<b>45,329</b>	<b>66,382</b>
<b>TOTAL ASSETS</b>	<b>\$ 240,014</b>	<b>\$ 326,444</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable - related party	\$ 400,000	\$ 400,000
Note payable	12,500	-
Convertible notes payable, net	25,000	-
Accounts payable	668,388	507,058
Accrued expenses	89,751	46,278
Accrued compensation	404,927	188,231
Derivative liability	603,725	-
	<u>2,204,291</u>	<u>1,141,567</u>
<b>Total Current Liabilities</b>	<b>2,204,291</b>	<b>1,141,567</b>
<b>Total Liabilities</b>	<b>2,204,291</b>	<b>1,141,567</b>
Commitments and Contingencies (See Note 10)		
<b>SHAREHOLDERS' DEFICIT:</b>		
Preferred stock: \$0.10 par value, 1,000,000 shares authorized; none issued and outstanding at September 30, 2019 and December 31, 2018, respectively	-	-
Common stock: \$0.001 par value, 500,000,000 shares authorized; 108,589,633 and 80,459,006 issued and outstanding at September 30, 2019 and December 31, 2018, respectively	108,590	80,459
Additional paid-in capital	36,509,774	31,863,693
Accumulated deficit	(38,582,641)	(32,759,275)
	<u>(1,964,277)</u>	<u>(815,123)</u>
<b>Total Shareholders' Deficit</b>	<b>(1,964,277)</b>	<b>(815,123)</b>
<b>Total Liabilities and Shareholders' Deficit</b>	<b>\$ 240,014</b>	<b>\$ 326,444</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
SALES	\$ 171,383	\$ 89,301	\$ 416,178	\$ 230,586
COST OF SALES (excluding depreciation expense)	30,230	15,998	86,367	44,010
GROSS PROFIT	141,153	73,303	329,811	186,576
<b>OPERATING EXPENSES:</b>				
Compensation and related benefits (including stock-based compensation of \$913,348 and \$1,836,653 for the three months ended September 30, 2019 and 2018, and \$3,392,522 and \$5,101,319 for the nine months ended September 30, 2019 and 2018, respectively)	1,252,366	2,161,564	4,573,248	5,903,804
Research and development	3,525	80,376	23,925	148,981
Professional fees	171,882	213,386	681,986	776,618
General and administrative expenses	106,628	112,436	352,962	311,596
Total Operating Expenses	1,534,401	2,567,762	5,632,121	7,140,999
LOSS FROM OPERATIONS	(1,393,248)	(2,494,459)	(5,302,310)	(6,954,423)
<b>OTHER EXPENSES:</b>				
Gain (loss) on debt extinguishment	31,009	-	31,009	(383,475)
Derivative expense	(381,005)	-	(381,005)	-
Settlement expense	-	(200,000)	-	(200,000)
Interest expenses	(58,421)	-	(171,060)	(49,003)
Total Other Expenses	(408,417)	(200,000)	(521,056)	(632,478)
NET LOSS	\$ (1,801,665)	\$ (2,694,459)	\$ (5,823,366)	\$ (7,586,901)
<b>NET LOSS PER COMMON SHARE:</b>				
Basic and diluted	\$ (0.02)	\$ (0.04)	\$ (0.07)	\$ (0.11)
<b>WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:</b>				
Basic and diluted	102,189,132	75,591,641	88,146,289	68,041,147

See accompanying notes to unaudited condensed consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**  
(Unaudited)

	Common Stock		Additional	Accumulated	Total
	# of Shares	Amount	Paid-in Capital	Deficit	Shareholders' Deficit
Balance, December 31, 2018	80,459,006	\$ 80,459	\$ 31,863,693	\$ (32,759,275)	\$ (815,123)
Common shares issued for services and prepaid services	685,060	685	113,775	-	114,460
Accretion of stock-based compensation	-	-	909,375	-	909,375
Stock option exercise compensation	-	-	7,500	-	7,500
Accretion of stock option and warrant expense	-	-	586,934	-	586,934
Net loss	-	-	-	(2,360,423)	(2,360,423)
Balance, March 31, 2019	81,144,066	81,144	33,481,277	(35,119,698)	(1,557,277)
Common shares issued for cash	2,000,000	2,000	298,000	-	300,000
Common shares issued for services and prepaid services	500,000	500	46,500	-	47,000
Accretion of stock-based compensation	-	-	519,792	-	519,792
Accretion of stock option and warrant expense	-	-	589,029	-	589,029
Net loss	-	-	-	(1,661,278)	(1,661,278)
Balance, June 30, 2019	83,644,066	83,644	34,934,598	(36,780,976)	(1,762,734)
Common shares issued for cash	7,750,000	7,750	322,250	-	330,000
Issuance of warrants in connection with convertible debt	-	-	44,530	-	44,530
Common shares issued for accrued compensation	6,400,000	6,400	267,600	-	274,000
Common shares issued for debt conversion	295,567	296	11,704	-	12,000
Common shares issued for services and prepaid services	10,500,000	10,500	(10,500)	-	-
Accretion of stock-based compensation	-	-	416,667	-	416,667
Accretion of stock option and warrant expense	-	-	522,925	-	522,925
Net loss	-	-	-	(1,801,665)	(1,801,665)
Balance, September 30, 2019	108,589,633	\$ 108,590	\$ 36,509,774	\$ (38,582,641)	\$ (1,964,277)

	Common Stock		Additional	Accumulated	Total
	# of Shares	Amount	Paid-in Capital	Deficit	Shareholders' Deficit
Balance, December 31, 2017	45,717,635	\$ 45,717	\$ 22,127,796	\$ (22,854,556)	\$ (681,043)
Shares issued for conversion of accrued compensation	12,694,893	12,695	650,760	-	663,455
Common shares issued for conversion of debt	136,894	137	105,696	-	105,833
Common shares issued for services	80,843	81	68,669	-	68,750
Beneficial conversion feature on convertible note payable	-	-	260,000	-	260,000
Stock option exercise compensation	-	-	15,000	-	15,000
Exercise of stock options	323,373	323	9,677	-	10,000
Accretion of stock option expense	-	-	1,444,933	-	1,444,933
Net loss	-	-	-	(2,286,848)	(2,286,848)
Balance, March 31, 2018	58,953,638	58,953	24,682,531	(25,141,404)	(399,920)
Recapitalization of Company	9,106,250	9,106	178,295	-	187,401
Common shares issued for cash	3,132,337	3,132	1,264,368	-	1,267,500
Common shares issued for services	3,283,732	3,284	16,716	-	20,000
Accretion of stock-based compensation	-	-	389,583	-	389,583
Common shares issued for settlement	315,957	316	268,378	-	268,694
Stock option exercise compensation	-	-	15,000	-	15,000
Exercise of stock options	970,119	971	29,029	-	30,000
Forfeiture of non-vested shares	(485,060)	(485)	485	-	-
Accretion of stock option expense	-	-	1,058,855	-	1,058,855
Net loss	-	-	-	(2,605,594)	(2,605,594)
Balance, June 30, 2018	75,276,973	75,277	27,903,240	(27,746,998)	231,519
Common shares issued for services	25,000	25	9,975	-	10,000
Accretion of stock-based compensation	-	-	609,374	-	609,374
Common shares issued for settlement	500,000	500	199,500	-	200,000
Stock option exercise compensation	-	-	15,000	-	15,000
Exercise of stock options	1,195,403	1,195	89,380	-	90,575
Accretion of stock option expense	-	-	1,282,696	-	1,282,696
Net loss	-	-	-	(2,694,459)	(2,694,459)
Balance, September 30, 2018	76,997,376	\$ 76,997	\$ 30,109,165	\$ (30,441,457)	\$ (255,295)

See accompanying notes to consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (5,823,366)	\$ (7,586,901)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	19,208	25,937
Bad debt expense (recovery)	-	(915)
Amortization of debt discount to interest expense	49,042	40,691
Stock-based compensation	3,392,522	5,101,319
Stock-based professional fees	292,785	80,417
Settlement expense	-	200,000
(Gain) loss on debt extinguishment	(31,009)	380,171
Interest expense related to put premium on convertible debt	57,423	-
Derivative expense	381,005	-
Change in operating assets and liabilities:		
Accounts receivable	45,096	35,777
Inventory	(6,928)	1,470
Prepaid expenses and other assets	11,164	771
Accounts payable	161,330	207,693
Accrued expenses	51,097	1,389
Accrued compensation	490,696	37,321
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(909,935)</b>	<b>(1,474,860)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash acquired in recapitalization	-	187,401
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>187,401</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of stock	630,000	1,267,500
Proceeds from exercise of stock options	19,185	110,000
Proceeds from note payable	25,000	-
Repayment of note payable	(12,500)	-
Repayment of convertible note payable	(238,080)	(260,000)
Proceeds from convertible notes payable	459,250	260,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>882,855</b>	<b>1,377,500</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(27,080)</b>	<b>90,041</b>
CASH, beginning of period	128,567	46,448
CASH, end of period	\$ 101,487	\$ 136,489
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for:		
Interest	\$ 8,018	\$ 6,696
Income taxes	\$ -	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Beneficial conversion feature reflected in debt discount	\$ -	\$ 260,000
Common stock issued as prepaid for services	\$ 161,460	\$ 18,333
Common stock issued for accrued compensation	\$ 274,000	\$ 392,577
Exercise of stock options for accrued compensation	\$ -	\$ 20,575
Common stock issued for debt and accrued interest	\$ 12,000	\$ 105,833
Common stock issued for accrued settlement	\$ -	\$ 114,915
Increase in debt discount and derivative liability	\$ 222,720	\$ -
Increase in debt discount and paid-n capital for warrants	\$ 44,530	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

**Nature of organization**

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

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

Pursuant to the Merger, the Company acquired all of the outstanding equity interests of C-Bond Systems, LLC. At the time a certificate of merger reflecting the Merger was filed with the Secretary of State of Texas, or the Effective Time, all of the outstanding common units of C-Bond Systems, LLC (“Common Units”) that were issued and outstanding immediately prior to the closing of the Merger were converted into an aggregate of 63,505,783 shares of our common stock. As a result, each common unit of C-Bond Systems, LLC was converted into approximately 3.233733 shares of our common stock (the “Conversion Ratio”). In addition, pursuant to the Merger Agreement, each option to purchase Common Units, issued and outstanding immediately prior to the closing of the Merger was assumed and converted into an option to purchase an equivalent number of shares of our common stock and the exercise price of each such option was divided by the Conversion Ratio. As a result, a total of 14,494,213 options were issued.

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

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

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

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

**Basis of presentation and principles of consolidation**

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

Management acknowledges its responsibility for the preparation of the accompanying unaudited condensed consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its financial position and the results of its operations for the periods presented. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (the “U.S. GAAP”) for interim financial information and with the instructions Article 8-03 of Regulation S-X. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP has been condensed or omitted from these statements pursuant to such accounting principles and, accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to the consolidated financial statements for the years ended December 31, 2018 and 2017 of the Company which were included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 1, 2019.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**Going concern**

These unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying unaudited condensed consolidated financial statements, the Company had a net loss of \$5,823,366 and \$7,586,901 for the nine months ended September 30, 2019 and 2018, respectively. The net cash used in operations was \$909,935 and \$1,474,860 for the nine months ended September 30, 2019 and 2018, respectively. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$38,582,641, \$1,964,277 and \$2,009,606, respectively, at September 30, 2019. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. Although the Company has historically raised capital from sales of common shares and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed 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 nine months ended September 30, 2019 and 2018 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the 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 September 30, 2019. Accordingly, the estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

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

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

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

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, notes payable – related party, convertible note payable, accounts payable, accrued expenses, accrued compensation, and subscription payable 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 at September 30, 2019 and December 31, 2018 is as follows:

Description	At September 30, 2019			At December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative liabilities	-	-	603,725	-	-	-



**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ -	\$ -
Initial valuation of derivative liabilities included in debt discount	222,720	-
Initial valuation of derivative liabilities included in derivative expense	371,103	-
Change in fair value included in derivative expense	9,902	-
Balance at end of period	\$ 603,725	\$ -

ASC 825-10 "Financial Instruments", allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

**Cash and cash equivalents**

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

**Accounts receivable**

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

**Inventory**

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

**Property and equipment**

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

**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**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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 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 the Company's financial position or results of operations and there was no cumulative effect adjustment.

**Revenue recognition**

In May 2014, FASB issued an update Accounting Standards Update ("ASU") ("ASU 2014-09") establishing Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard on January 1, 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.

Based on an evaluation of the impact ASU 2014-09 will have on the Company's sources of revenue, the Company has concluded that ASU 2014-09 did not have a material impact on the process for, timing of, and presentation and disclosure of revenue recognition from customers and there was no cumulative effect adjustment.

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

**Cost of sales**

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

**Shipping and handling costs**

Shipping and handling costs incurred for product shipped to customers are included in general and administrative expenses and amounted to \$27,715 and \$12,197 for the nine months ended September 30, 2019 and 2018, 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 unaudited condensed consolidated balance sheets and amounted \$27,003 and \$24,190 at September 30, 2019 and December 31, 2018, respectively. For the nine months ended September 30, 2019 and 2018, warranty expense amounted to \$4,650 and \$4,478, respectively, and is included in cost of sales on the accompanying unaudited condensed consolidated statements of operations. For the nine months ended September 30, 2019 and 2018, a roll forward of warranty liability is as follows:

	<b>For the Nine months Ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ 24,190	\$ 21,935
Increase in estimated warranty liability	4,650	4,478
Warranty expenses incurred	(1,837)	(5,047)
Balance at end of period	\$ 27,003	\$ 21,366

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**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 nine months ended September 30, 2019 and 2018, research and development costs incurred in the development of the Company's products were \$23,925 and \$148,981, respectively, and are included in operating expenses on the accompanying unaudited condensed consolidated statements of operations.

**Advertising costs**

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. For the nine months ended September 30, 2019 and 2018, advertising costs charged to operations were \$31,692 and \$10,082, respectively and are included in general and administrative expenses on the accompanying unaudited condensed consolidated statements of operations. These advertising expenses do not include cooperative advertising and sales incentives which have been deducted from sales.

**Federal and state income taxes**

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

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 September 30, 2019, and December 31, 2018, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years that remain subject to examination are the years ending on and after December 31, 2015. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of September 30, 2019 and December 31, 2018.

**Stock-based compensation**

Stock-based compensation is accounted for based on the requirements of ASC 718 – "Compensation—Stock Compensation", which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company utilizes the Black-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

Additionally, effective January 1, 2017, the Company adopted the Accounting Standards Update No. 2016-09 ("ASU 2016-09"), *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. The Company has elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company's consolidated financial statements and related disclosures.

Through September 30, 2018, pursuant to ASC 505-50 – "Equity-Based Payments to Non-Employees", all share-based payments to non-employees, including grants of stock options, were recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black-Scholes valuation model, the Company periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and the Company adjusts the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company early adopted ASU No. 2018-07 in the fourth quarter of 2018 and there was no cumulative effect of adoption.

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

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**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 convertible notes payable (using the as-if converted method). These common share equivalents may be dilutive in the future.

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

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Convertible notes	16,666,667	-
Stock options	11,445,698	13,164,213
Warrants	1,750,000	-
Non-vested, forfeitable common shares	16,375,299	-

**Segment reporting**

During the nine months ended September 30, 2019 and 2018, the Company operated in one business segment.

**Leases**

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The pronouncement requires a modified retrospective method of adoption and is effective on January 1, 2019, with early adoption permitted. For the Company’s administrative office lease, the Company analyzed if it would be required to record a lease liability and a right of use asset on its consolidated balance sheets at fair value upon adoption of ASU 2016-02. Since the terms of the Company’s operating lease for its office space is 12 months or less, pursuant to ASC 842, the Company determined that the lease meets the definition of a short-term lease and the Company will not recognize the right-of use asset and lease liability arising from this lease.

**Recent accounting pronouncements**

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

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

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**NOTE 3 – ACCOUNTS RECEIVABLE**

At September 30, 2019 and December 31, 2018, accounts receivable consisted of the following:

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 46,223	\$ 91,319
Less: allowance for doubtful accounts	-	-
Accounts receivable, net	<u>\$ 46,223</u>	<u>\$ 91,319</u>

For the nine months ended September 30, 2019 and 2018, bad debt (recovery) expense amounted to \$0 and \$(915), respectively.

**NOTE 4 – INVENTORY**

At September 30, 2019 and December 31, 2018, inventory consisted of the following:

	September 30, 2019	December 31, 2018
Raw materials	\$ 13,234	\$ 6,149
Finished goods	2,671	2,828
Inventory	<u>\$ 15,905</u>	<u>\$ 8,977</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

At September 30, 2019 and December 31, 2018, property and equipment consisted of the following:

	Useful Life	2019	2018
Machinery and equipment	5 - 7 years	\$ 52,184	\$ 52,184
Furniture and office equipment	3 - 7 years	45,063	45,063
Vehicles	5 years	68,341	68,341
Leasehold improvements	3 years	16,701	16,701
		<u>182,289</u>	<u>182,289</u>
Less: accumulated depreciation		(144,092)	(124,884)
Property and equipment, net		<u>\$ 38,197</u>	<u>\$ 57,405</u>

For the nine months ended September 30, 2019 and 2018, depreciation and amortization expense is included in general and administrative expenses and amounted to \$19,208 and \$25,937, respectively.

**NOTE 6 – CONVERTIBLE NOTES PAYABLE**

February to May 2019 Financings

From February 13, 2019 to May 15, 2019, the Company entered into four Securities Purchase Agreements (the “SPAs”) with an Accredited Investor (“Investor”) for the purchase of a Convertible Promissory Notes in the aggregate principal amount of \$244,800 and received net proceeds of \$192,000, net of original issue discount of \$40,800 and net of origination fees of \$12,000. These Notes bear interest rate ranging from 4% per annum to 12% per annum and were due and payable through May 2020. The Notes were convertible by the Investor after six months from each respective Note date into shares of the Company’s common stock (as determined in the Note) at a price equal to 81% of the average of the lowest two closing bid prices of the common stock as reported on the OTC Link ATS owned by OTC Markets Group for the 10 prior trading days. The Company may prepay the Notes at any time prior to the six-month anniversary, subject to pre-payment charges as detailed in the Notes. The SPAs and Notes contain customary representations, warranties and covenants, including certain restrictions on the Company’s ability to sell, lease or otherwise dispose of any significant portion of its assets. Investor also has the right of first refusal with respect to any future equity (or debt with an equity component) offerings of less than \$100,000 conducted by the Company until the six-month anniversary of the Note. The SPA and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, proceedings, delinquency in periodic report filings with the SEC, and cross default with other agreements. In the event of default, at the option of the Investor and in the Investor’s sole discretion, the Investor may consider the Note immediately due and payable. The Company has accounted for these convertible promissory notes as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$57,423 with a charge to interest expense. On August 15, 2019, the Company issued 295.567 shares of its common stock upon conversion of principal balance of \$12,000.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

September 2019 Financing

On September 6, 2019, the Company closed a Securities Purchase Agreement (the "Purchase Agreement") with an accredited investor. Pursuant to the terms of the Purchase Agreement, the Company issued and sold to this investor a convertible promissory note in the aggregate principal amount of \$300,000 (the "Note"), and a warrant to purchase up to 750,000 shares of the Company's common stock (the "Warrant"). The Company received net proceeds of \$267,250, net of original issue discount of \$30,000 and origination fees of \$2,750. The Note bears interest at 12% per annum and becomes due and payable on June 6, 2020.

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

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

The Warrant is 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 Warrant to purchase up to 750,000 shares of the Company's common stock at an initial exercise price of \$0.10, subject to adjustment as detailed in the Warrant.

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

In connection with the issuance of the 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 option contained in the convertible instrument were 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 this Note, during the nine months ended September 30, 2019, on the initial measurement date, the fair values of the embedded conversion option derivative of \$593,823 was recorded as derivative liabilities and was allocated as a debt discount up to the net proceeds of the Note of \$222,720, with the remainder of \$371,103 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 \$9,901. In connection with the revaluation and the initial derivative expense, the Company recorded an aggregate derivative expense of \$381,005 during the three and nine months ended September 30, 2019.

In connection with the warrants issued in connection with this Note, the Company determined that the terms of the warrants contain terms that are fixed monetary amounts at inception and, accordingly, the warrants were not considered derivatives. The fair value of the warrants was determined using the Binomial valuation model. In connection with the issuance of the warrants, on the initial measurement date, the relative fair value of the warrants of \$44,530 was recorded as a debt discount and an increase in paid-in capital.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

During the nine months ended September 30, 2019, the fair value of the derivative liabilities and warrants was estimated using the Binomial valuation model with the following assumptions:

	<b>2019</b>
Dividend rate	—%
Term (in years)	0.75 to 5.00 years
Volatility	275.8 to 280.8%
Risk—free interest rate	1.42% to 1.75%

For the nine months ended September 30, 2019 and 2018, interest expense related to convertible notes and warrants amounted to \$116,555 and \$0, including amortization of debt discount and debt premium charged to interest expense of \$106,465 and \$40,691, respectively.

The weighted average interest rate on the above notes and notes payable – related party (see note 7) during the nine months ended September 30, 2019 was 12.8%.

At September 30, 2019 and December 31, 2018, convertible notes consisted of the following:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Principal amount	\$ 300,000	\$ -
Less: unamortized debt discount	(275,000)	-
Convertible notes payable, net	\$ 25,000	\$ -

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

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

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

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

Commencing on January 10, 2019 and on or before the 10th day of each month thereafter, the Company shall pay Lender all interest accrued on outstanding principal under the Loan Agreement and Notes as of the end of the month then concluded. Upon the occurrence of any Event of Default and at any time thereafter, Lender may, at its option, declare any and all Obligations immediately due and payable without demand or notice. As of September 30, 2019 and December 31, 2018, the Company did not meet the Minimum Asset Amount covenant as defined in the Loan Agreement, failed to timely pay interest payments due, and has violated other default provisions. Accordingly, the note balance due of \$400,000 has been reflected as a current liability on the accompanying unaudited condensed 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 nine months ended September 30, 2019 and 2018, interest expense related to this Note amounted to \$53,852 and \$0, respectively.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**NOTE 8 – NOTE PAYABLE**

On April 26, 2019, the Company entered into a Promissory Note (“Promissory Note”) with an accredited investor in the aggregate principal amount of \$25,000 and received net proceeds of \$25,000. The Promissory Note bears interest at 4% per annum and is due and payable on April 26, 2020 (the “Maturity Date”). At the time the Promissory Note reaches its Maturity Date, the holder and the Company will discuss and mutually agree on potential conversion rights of the holder, including pricing, method of conversion, etc. At any time during which the Promissory Note is outstanding, the Company may prepay the Note in full, without penalty. The Promissory Note provides for certain events of default, including, among other things, payment defaults, bankruptcy, liquidation, and cessation of operations. In the event of default, the holder shall be entitled to an injunction or injunctions restraining, preventing or curing any breach of this Promissory Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required. In September 2019, the Company repaid \$12,500 this note. At September 30, 2019, note payable amounted to \$12,500. In October 2019, the remaining balance of \$12,500 was repaid.

**NOTE 9 - SHAREHOLDERS’ DEFICIT**

**Sale of common stock**

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

In connection with subscription agreements, during the nine months ended September 30, 2019, the Company received cash proceeds of \$330,000 from investors for the purchase of 7,750,000 shares of the Company’s common stock at prices ranging from \$0.04 to \$0.05 per share.

**Issuance of common shares for services**

On March 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 nine months ended September 30, 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 nine months ended September 30, 2019, the Company recorded stock-based professional fees of \$17,333 and at September 30, 2019 and prepaid expenses of \$14,667, which will be amortized over the remaining one-year vesting period.

On May 20, 2019, the Company entered into a six-month consulting agreement with an individual for business development services. In connection with this consulting agreement, the Company issued 500,000 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at \$47,000, or \$0.094 per common share, based on quoted closing price on the date of grant. In connection with this consulting agreement, the Company recorded stock-based professional fees of \$33,292 and prepaid expenses of \$13,708, which will be amortized over the remaining service period.

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. These shares shall be considered outstanding for legal purposes but shall be excluded from basic earnings per share until vesting occurs. In connection with these shares, the Company shall record stock-based compensation over the vesting period.



**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

	<b>Number of Non-vested Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested, December 31, 2018	5,998,672	\$ 0.61
Granted	10,700,000	0.05
Shares vested	(323,373)	(0.85)
Forfeited	-	-
Non-vested, September 30, 2019	<u>16,375,299</u>	<u>\$ 0.24</u>

During the nine months ended September 30, 2019 and 2018, aggregate accretion of stock-based compensation expense on granted non-vested shares amounted to \$1,845,834 and \$973,957, respectively. Total unrecognized compensation expense related to these unvested common shares at September 30, 2019 amounted to \$431,248 which will be amortized over the remaining vesting period.

**Shares issued for deferred compensation**

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

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

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

**Common share exercise compensation**

As compensation for services commencing on February 1, 2016 and continuing through February 14, 2019, on December 27, 2016, the Company granted a stock option exercise right to an employee of the Company, whereby the employee will receive a credit of \$5,000 per month towards the cash required to exercise his 750,000 options at \$0.31 per share. Accordingly, the employee can exercise options on a cashless basis up to the amount he has been credited. As of September 30, 2019 and December 31, 2018, the employee was credited \$182,500 and \$175,000 towards the options exercise, respectively. No cash disbursement will be required by the Company under this provision. The Company recognized compensation expense of \$7,500 and \$30,000 during the nine months ended September 30, 2019 and 2018, respectively, with a corresponding increase to shareholders' equity.

**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).

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**Stock options**

In connection with the exercise of stock options in 2018, in January 2019, the Company collected a subscription receivable \$19,185.

For the nine months ended September 30, 2019 and 2018, the Company recorded \$1,539,188 and \$3,786,484 of compensation expense related to stock options, respectively. Total unrecognized compensation expense related to unvested stock options at September 30, 2019 amounted to \$853,572. The weighted average period over which stock-based compensation expense related to these options will be recognized is approximately 1 year.

Stock option activities for the nine months ended September 30, 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		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Balance Outstanding, September 30, 2019	<u>11,445,698</u>	<u>\$ 0.30</u>	<u>5.86</u>	<u>\$ 50,400</u>
Exercisable, September 30, 2019	<u>10,401,862</u>	<u>\$ 0.30</u>	<u>5.64</u>	<u>\$ 50,400</u>

**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 sell to Dinosaur, and Dinosaur shall purchase from the Company, for \$0.001 per each share of common stock covered, 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 shall sell to Dinosaur, and Dinosaur shall purchase from the Company for \$0.001 per each share of common stock covered, 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 the six-month anniversary of the Letter Agreement, Dinosaur received Warrants to purchase 400,000 shares of the Company’s common stock at \$0.05 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. In the event either party terminates the Letter agreement before the three or six month anniversary, the Company has no obligation to sell the common stock or related Warrants referenced herein. 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 nine months ended September 30, 2019 and 2018, the Company recorded \$159,700 and \$0 of stock-based professional fees related to stock warrants, respectively.

On September 6, 2019, in connection with a Purchase Agreement with an accredited investor (See Note 6), the Company issued a warrant to purchase up to 750,000 shares of the Company’s common stock (the “Warrant”). The Warrant is 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 Warrant to purchase up to 750,000 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 \$44,530 was recorded as a debt discount and an increase in paid-in capital (See Note 6).

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

Warrant activities for the nine months ended September 30, 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	1,750,000	0.09		
Cancelled	-	-		
Balance Outstanding September 30, 2019	1,750,000	\$ 0.09	4.84	\$ 0
Exercisable, September 30, 2019	1,750,000	\$ 0.09	4.84	\$ 0

**2018 Long-term Incentive Plan**

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

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

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

The aggregate number of shares of common stock 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 13,950,000 shares of restricted stock have been issued as of September 30, 2019. All shares underlying grants are expected to be issued from the Company's unissued authorized shares available.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Legal matters**

From time to time, the Company may be involved in litigation related to claims arising out of its operations in the normal course of business. As of September 30, 2019, 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 will vest pro rata on a monthly basis for the term of the employment agreement. On each anniversary, Mr. Silverman will be eligible to be granted a minimum of 500,000 stock options of the Company at a strike price of \$0.85 per common unit contingent upon the achievement of certain performance objectives.
- Certain other employee benefits and perquisites, including reimbursement of necessary and reasonable travel and participation in retirement and welfare benefits.

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

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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

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

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

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

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

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

#### **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 September 30, 2019.

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

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

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

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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 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. There were no balances in excess of FDIC insured levels as of September 30, 2019 and December 31, 2018. The Company has not experienced any losses in such accounts through September 30, 2019.

**Geographic concentrations of sales**

For the nine months ended September 30, 2019 and 2018, approximately 81% of all sales were in the United States. No other geographical area accounting for more than 10% of total sales during the nine months ended September 30, 2019 and 2018.

**Customer concentrations**

For the nine months ended September 30, 2019, one customer accounted for approximately 20.1% of total sales. For the nine months ended September 30, 2018, three customers accounted for approximately 37.8% of total sales (16.0%, 11.2%, and 10.6%, respectively). A reduction in sales from or loss of such customers would have a material adverse effect on the Company's consolidated results of operations and financial condition. At September 30, 2019, four customers accounted for 87.8% (33.8%, 18.4%, 25.0% and 10.6%, respectively) of the total accounts receivable balance.

**Vendor concentrations**

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

**NOTE 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.

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

*Transaction Price*

The Company agrees with its customers on the selling price of each transaction. This transaction price is generally based on the product, market conditions, including supply and demand balances and freight. In the Company's contracts with customers, the Company allocates the entire transaction price to the sale of product to the customer, which is the basis for the determination of the relative standalone selling price allocated to each performance obligation. Returns of the Company's product by its customers are permitted only when the product is not to specification and were not material for the nine months ended September 30, 2019 and 2018. Any sales tax, value added tax, and other tax the Company collects concurrently with its revenue-producing activities are excluded from revenue.

The Company adopted the new revenue standard in 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Based on an evaluation of the impact ASU 2014-09 will have on the Company's sources of revenue, the Company has concluded that ASU 2014-09 did not have a material impact on the process for, timing of, and presentation and disclosure of revenue recognition from customers and there was no cumulative effect adjustment (See Note 2—Revenue Recognition).

*Revenue Disaggregation*

The Company tracks its revenue by product. The following table summarizes our revenue by product for the nine months ended September 30, 2019 and 2018:

	<b>For the Nine months Ended September 30, 2019</b>	<b>For the Nine months Ended September 30, 2018</b>
C-Bond I multi-purpose and BRS ballistic resistant glass protection systems	\$ 300,501	\$ 155,443
C-Bond Nanoshield solution sales	89,381	69,039
Installation and other services	10,409	-
Freight and delivery	15,887	6,104
<b>Total</b>	<b>\$ 416,178</b>	<b>\$ 230,586</b>

**NOTE 13 – SUBSEQUENT EVENT**

Designation of Series A Preferred shares

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

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

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

**C-BOND SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(Unaudited)**

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

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

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

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

Series A Preferred shares and common shares issued for cash

On October 15, 2019, the Company entered into a Series A Preferred Stock Purchase Agreement with an accredited investor whereby the investor agreed to purchase 96,000 unregistered shares of the Company’s Series A Preferred stock, par value \$0.10 for \$80,000, or \$0.05 per share. In October 2019, the Company received the cash proceeds of \$77,000, net of fees of \$3,000. Although the Series A preferred shares have a mandatory redemption feature, the Series A preferred shares are convertible into the Company’s common stock at the option of the investor and therefore, shall be treated as temporary equity for accounting purposes.

On October 17, 2019, the Company entered into a Subscription Agreement with an accredited investor whereby the investor agreed to purchase 2,000,000 unregistered shares of the Company’s common stock, par value \$0.001 for \$100,000, or \$0.05 per share. In October 2019, the Company received the cash proceeds of \$100,000.

On October 29, 2019, the Company entered into a Subscription Agreement with an accredited investor whereby the investor agreed to purchase 1,000,000 unregistered shares of the Company’s common stock, par value \$0.001 for \$50,000, or \$0.05 per share. In October 2019, the Company received the cash proceeds of \$50,000.

Shares issued for services

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 \$17,500, 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 \$17,500.

Note payable

In October 2019, the Company repaid \$12,500 of the remaining balance of a note payable (see Note 8).



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

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

*You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Forward-Looking Statements" elsewhere in this Report on Form 10-Q. Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in our industry. These forward-looking statements are not guarantees of future performance. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, which include, but are not limited to: the risk that we continue to sustain prolonged losses and never achieve profitability, our ability to continue as a going concern, and risks related to protection and maintenance of our intellectual property. You should review the disclosure under the heading "Risk Factors" in our Annual Report on Form 10-K as filed on April 1, 2019, for a discussion of important factors and risks that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Overview

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

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

On April 25, 2018, our wholly-owned subsidiary, Acquisition Sub, merged with and into C-Bond Systems, LLC, pursuant to which C-Bond Systems, LLC was the surviving corporation and became our wholly-owned subsidiary. All of the outstanding membership interests of C-Bond Systems, LLC were converted into shares of our common stock, as described in more detail below. We changed our name to C-Bond Systems, Inc. on July 18, 2018.

### Reverse Merger

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

At the time a certificate of merger reflecting the Merger was filed with the Secretary of State of Texas, or the Effective Time, all of the outstanding Common Units of C-Bond Systems, LLC ("Common Units") that were issued and outstanding immediately prior to the closing of the Merger were converted into an aggregate of 63,505,783 shares of our common stock. As a result, each common unit of C-Bond Systems, LLC was converted into approximately 3.233733 shares of our common stock.

In addition, pursuant to the Merger Agreement, each option to purchase Common Units issued and outstanding immediately prior to the closing of the Merger was assumed and converted into an option to purchase an equivalent number of shares of our common stock and the exercise price of each such option was divided by the conversion ratio of 3.233733. As a result, a total of 14,494,213 options were issued.

C-Bond Systems, LLC was considered the accounting acquirer in the Merger and accounted for the transaction as a recapitalization transaction because C-Bond Systems, LLC's former stockholders received substantially all of the voting rights in the combined entity and C-Bond Systems, LLC's senior management represents all of the senior management of the combined entity.

The following discussion highlights our results of operations and the principal factors that have affected our financial condition as well as our liquidity and capital resources for the periods described and provides information that management believes is relevant for an assessment and understanding of the statements of financial condition and results of operations presented herein. The following discussion and analysis are based on our audited financial statements contained in this Report, which have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). You should read the discussion and analysis together with such financial statements and the related notes thereto.

## Operating Overview

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

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

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

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

## Critical Accounting Policies

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

### *Accounts receivable*

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

### *Inventory*

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

### *Revenue recognition*

In May 2014, FASB issued an update Accounting Standards Update ("ASU") ("ASU 2014-09") establishing Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard in 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Based on an evaluation of the impact ASU 2014-09 will have on the Company's sources of revenue, the Company has concluded that ASU 2014-09 did not have a material impact on the process for, timing of, and presentation and disclosure of revenue recognition from customers and there was no cumulative effect adjustment.

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

## Derivative financial instruments

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

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

## Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – “*Compensation—Stock Compensation*”, which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company utilizes the Black-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

Additionally, effective January 1, 2017, the Company adopted the Accounting Standards Update No. 2016-09 (“ASU 2016-09”), *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. The Company has elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company’s consolidated financial statements and related disclosures.

Through September 30, 2018, pursuant to ASC 505-50 – “*Equity-Based Payments to Non-Employees*”, all share-based payments to non-employees, including grants of stock options, were recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black-Scholes valuation model, the Company periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and the Company adjusts the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company early adopted ASU No. 2018-07 in the fourth quarter of 2018 and there was no cumulative effect of adoption.

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

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

## Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative unaudited condensed consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited condensed consolidated financial statements and the notes to those statements for the three and nine months ended September 30, 2019 and 2018, which are included elsewhere in this quarterly report on Form 10-Q. The results discussed below are for the three and nine months ended September 30, 2019 and 2018.

## **Comparison of Results of Operations for the Three and Nine Months ended September 30, 2019 and 2018**

### ***Sales***

For the three months ended September 30, 2019, sales amounted to \$171,383 as compared to \$89,301 for the three months ended September 30, 2018, an increase of \$82,082, or 91.9%. For the nine months ended September 30, 2019, sales amounted to \$416,178 as compared to \$230,586 for the nine months ended September 30, 2018, an increase of \$185,592, or 80.5%. These increases were primarily attributable to an increase in sales of C-Bond ballistic resistant glass protection systems offset by a decrease in sales of C-Bond multi-purpose glass protection system. We use multiple sales channels, including distributors and authorized dealers to generate revenues.

### ***Cost of Goods Sold***

Cost of goods sold is comprised primarily of inventory sold, packaging costs, and warranty costs. For the three months ended September 30, 2019, cost of sales amounted to \$30,230 as compared to \$15,998 for the three months ended September 30, 2018, an increase of \$14,232, or 89.0%. For the nine months ended September 30, 2019, cost of sales amounted to \$86,367 as compared to \$44,010 for the nine months ended September 30, 2018, an increase of \$42,357, or 96.2%. The increase in cost of sales was primarily due to an increase in sales and an increase in raw material costs incurred associated with the purchase and use of an additional additive used in C-Bond NanoShield product to create hydrophobic properties, which we started using in late 2018, and the increase in film costs associated with C-Bond BRS projects.

### ***Gross Profit***

For the three months ended September 30, 2019, gross profit amounted to \$141,153, or 82.4% of sales, as compared to \$73,303, or 82.1% of sales, for the three months ended September 30, 2018, an increase of \$67,850, or 92.6%. For the nine months ended September 30, 2019, gross profit amounted to \$329,811, or 79.3% of sales, as compared to \$186,576, or 80.9% of sales, for the nine months ended September 30, 2018, an increase of \$143,235, or 76.8%. This increase in gross profits is primarily the result of an increase in sales offset by increases in material costs as discussed above.

### ***Operating Expenses***

For the three months ended September 30, 2019, operating expenses amounted to \$1,534,401 as compared to \$2,567,762 for the three months ended September 30, 2018, a decrease of \$1,033,361, or 40.2%. For the nine months ended September 30, 2019, operating expenses amounted to \$5,632,121 as compared to \$7,140,999 for the nine months ended September 30, 2018, a decrease of \$1,508,878, or 21.1%. For the three and nine months ended September 30, 2019 and 2018, operating expenses consisted of the following:

	<b>Three Months ended September 30,</b>		<b>Nine Months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Compensation and related benefits, including stock-based compensation charges	\$ 1,252,366	\$ 2,161,564	\$ 4,573,248	\$ 5,903,804
Research and development	3,525	80,376	23,925	148,981
Professional fees	171,882	213,386	681,986	776,618
General and administrative expenses	106,628	112,436	352,962	311,596
Total	<u>\$ 1,534,401</u>	<u>\$ 2,567,762</u>	<u>\$ 5,632,121</u>	<u>\$ 7,140,999</u>

#### *Compensation and related benefits*

For the three months ended September 30, 2019, compensation and related benefits decreased by \$909,198, or 42.1%, as compared to the three months ended September 30, 2018. This decrease was primarily due to a decrease in stock-based compensation of \$923,305. During the three months ended September 30, 2019 and 2018, stock-based compensation expense amounted to \$913,348 and \$1,836,653, respectively. For the nine months ended September 30, 2019, compensation and related benefits decreased by \$1,330,556, or 22.5%, as compared to the nine months ended September 30, 2018. This decrease was primarily due to a decrease in stock-based compensation of \$1,708,797 offset by an increase in compensation related to a 2019 bonus accrued to executive officers during the three months ended March 31, 2019 of \$255,000. During the nine months ended September 30, 2019 and 2018, stock-based compensation expense amounted to \$3,392,522 and \$5,101,319, respectively.

#### *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 three months ended September 30, 2019, research and development expense decreased by \$76,851, or 95.6%, as compared to the three months ended September 30, 2018. For the nine months ended September 30, 2019, research and development expense decreased by \$125,056, or 83.9%, as compared to the nine months ended September 30, 2018. The decrease in research and development expense is primarily related to a decrease in use of contracted development services due a lack of working capital.

### *Professional fees*

For the three months ended September 30, 2019, professional fees decreased by \$41,504, or 19.5%, as compared to the three months ended September 30, 2018. This decrease primarily related to a decrease in legal fees of \$132,862 offset by an increase in consulting fees of \$92,666 which included an increase in stock-based consulting fees of \$47,742. For the nine months ended September 30, 2019, professional fees decreased by \$94,632, or 12.2%, as compared to the nine months ended September 30, 2018. This decrease primarily related to a decrease in legal fees of \$401,129 offset by an increase in consulting fees of \$282,923 which included an increase in stock-based consulting fees of \$212,368, an increase in accounting fees of \$70,555 and an increase in other professional fees of \$20,045.

### *General and Administrative*

General and administrative expenses consist primarily of rent, insurance, depreciation expense, sale and marketing, delivery and freight, travel and entertainment, and other office expenses. For the three months ended September 30, 2019, general and administrative expenses decreased by \$5,808, or 5.2%, as compared to the three months ended September 30, 2018. For the nine months ended September 30, 2019, general and administrative expenses increased by \$41,366, or 13.3%, as compared to the nine months ended September 30, 2018. We expect our general and administrative expenses to increase due to the anticipated growth of our business.

### *Other Expense*

For the three months ended September 30, 2019, other expenses increased by \$208,417, or 104.2%, as compared to the three months ended September 30, 2018. This increase was due to an increase in derivative expense of \$381,005 attributable to the recording of derivative liabilities related to convertible debt and by an increase in interest expense of \$58,421 related to the amortization of debt discount and an increase in interest-bearing debt offset by a decrease in settlement expense of \$200,000 and the recording of a gain on debt extinguishment of \$31,009. For the nine months ended September 30, 2019, other expenses decreased by \$111,422, or 17.6%, as compared to the nine months ended September 30, 2018. This decrease was due to an increase in derivative expense of \$381,005 attributable to the recording of derivative liabilities related to convertible debt and an increase in interest expense of \$122,057 related to the amortization of debt discount and an increase in interest-bearing debt offset by a decrease in loss from extinguishment of debt of \$414,484 and a decrease in settlement expense of \$200,000. During the nine months ended September 30, 2018, we recorded loss on debt extinguishment related to the issuance of 315,957 shares to a vendor to settle amounts owed to such vendor whereby we recorded a loss on debt extinguishment of \$153,779, and due to a note termination agreement whereby we recorded debt extinguishment expense of \$229,696.

### *Net Loss*

For the three months ended September 30, 2019, net loss amounted to \$1,801,665, or \$0.02 per common share (basic and diluted), as compared to \$2,694,459, or \$0.04 per common share (basic and diluted), for the three months ended September 30, 2018, a decrease of \$892,794. For the nine months ended September 30, 2019, net loss amounted to \$5,823,366, or \$0.07 per common share (basic and diluted), as compared to \$7,586,901, or \$0.11 per common share (basic and diluted), for the nine months ended September 30, 2018, a decrease of \$1,763,535. The decrease in net loss was primarily attributable to a decrease in operating and other expenses, offset by an increase gross profit as discussed above.

### **Liquidity and Capital Resources**

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of \$101,487 and \$128,567 as of September 30, 2019 and December 31, 2018, respectively.

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

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

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

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

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

In the event that the Company’s accounts receivable balance plus inventory balance is less than paid principal balance of the Note as of December 31, 2018 we 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, we must maintain an accounts receivable balances plus inventory such that the outstanding principal borrowed by us 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, we 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 September 30, 2019 and December 31, 2018, we 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 unaudited condensed consolidated balance sheet.

The Loan Agreement and Note contain customary representations, warranties and covenants, including certain restrictions on our 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.

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

From February 13, 2019 to May 15, 2019, we entered into four Securities Purchase Agreements (the “SPAs”) with an Accredited Investor (“Investor”) for the purchase of a Convertible Promissory Notes in the aggregate principal amount of \$244,800 and received net proceeds of \$192,000, net of original issue discount of \$40,800 and net of origination fees of \$12,000. These Notes bear interest rate ranging from 4% per annum to 12% per annum and were due and payable through May 2020. The Notes may be converted by the Investor after six months into shares of the Company’s common stock (as determined in the Note) at a price equal to 81% of the average of the lowest two closing bid prices of the common stock as reported on the OTC Link ATS owned by OTC Markets Group for the 10 prior trading days. The Company may prepay the Notes at any time prior to the six-month anniversary, subject to pre-payment charges as detailed in the Notes. The SPAs and Notes contain customary representations, warranties and covenants, including certain restrictions on the Company’s ability to sell, lease or otherwise dispose of any significant portion of its assets. Investor also has the right of first refusal with respect to any future equity (or debt with an equity component) offerings of less than \$100,000 conducted by the Company until the six-month anniversary of the Note. The SPA and the Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties, proceedings, delinquency in periodic report filings with the SEC, and cross default with other agreements. In the event of default, at the option of the Investor and in the Investor’s sole discretion, the Investor may consider the Note immediately due and payable. We accounted for these convertible promissory notes as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$57,423 with a charge to interest expense. On August 15, 2019, we issued 295,567 shares of our common stock upon conversion of principal balance of \$12,000. On September 6, 2019, we satisfied in full all remaining convertible promissory note obligations with this accredited investor including all Notes and accrued interest for a cash payment of \$238,080. In connection with this debt extinguishment, we reversed all put premiums recorded and debt remaining debt discounts and recorded a gain on debt extinguishment of \$31,009.

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

In connection with subscription agreements, during the nine months ended September 30, 2019, we received cash proceeds of \$330,000 from investors for the purchase of 7,750,000 shares of the Company's common stock at prices ranging from \$0.04 to \$0.05 per share.

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

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

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 Nine months ended September 30, 2019 and 2018

The following table shows a summary of our cash flows for the nine months ended September 30, 2019 and 2018.

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash used in operating activities	\$ (909,935)	\$ (1,474,860)
Net cash provided by investing activities	\$ -	\$ 187,401
Net cash provided by financing activities	\$ 882,855	\$ 1,377,500
Net (decrease) increase in cash	\$ (27,080)	\$ 90,041
Cash - beginning of the period	\$ 128,567	\$ 46,448
Cash - end of the period	\$ 101,487	\$ 136,489

Net cash flow used in operating activities was \$909,935 for the nine months ended September 30, 2019 as compared net cash flow used in operating activities to \$1,474,860 for the nine months ended September 30, 2018, a decrease of \$564,925.

Net cash flow used in operating activities for the nine months ended September 30, 2019 primarily reflected a net loss of \$5,823,366, which was then adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$19,208, stock-based compensation expense of \$3,392,522, stock-based professional fees of \$292,785, non-cash interest expense related to a put premium on convertible debt of \$57,423, a non-cash gain on extinguishment of debt of \$31,009, derivative expense of \$381,005, and the amortization of debt discount to interest expense of \$49,042, and changes in operating assets and liabilities consisting primarily of a decrease in accounts receivable of \$45,096, an increase in accounts payable of \$161,330, and increase in accrued expenses of \$51,097, and an increase in accrued compensation of \$490,696.

Net cash flow used in operating activities was \$1,474,860 for the nine months ended September 30, 2018 as compared net cash flow used in operating activities to \$814,331 for the nine months ended September 30, 2017, an increase of \$660,529. Net cash flow used operating activities for the nine months ended September 30, 2018 primarily reflected a net loss of \$7,586,901, which was then adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$25,937, stock-based compensation expense of \$5,101,319, stock-based professional fees of \$80,417, loss on debt extinguishment expense of \$380,171, non-cash settlement expense of \$200,000, and the amortization of debt discount to interest expense of \$40,691, and changes in operating assets and liabilities consisting primarily of a decrease in accounts receivable of \$35,777 and an increase in accounts payable of \$207,693.

For the nine months ended September 30, 2018, net cash flow provided by investing activities amounted to \$187,401 as compared to net cash used in investing activities of \$0 for the nine months ended September 30, 2019. During the nine months ended September 30, 2018, we received cash of \$187,401 in connection with the merger transaction discussed elsewhere.

Net cash provided by financing activities was \$882,855 for the nine months ended September 30, 2019 as compared to \$1,377,500 for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we received net proceeds from the sale of common stock of \$630,000, proceeds from the collection of subscriptions receivable related to the exercise of stock options of \$19,185, proceeds from a note payable of \$25,000, and proceeds from convertible notes payable of \$459,250, offset by the repayment of notes payable of \$12,500 and the repayment of convertible debt of \$238,080. During the nine months ended September 30, 2018, we received net proceeds from the sale of common stock of \$1,267,500 and proceeds from the exercise of stock options of \$110,000.

#### ***Funding Requirements***

We expect the primary use of capital to continue to be salaries, third party outside research and testing services, product and research supplies, legal and regulatory expenses and general overhead costs including sales and marketing. Additional uses of capital will include additional headcount, tools and equipment, capacity expansion and operational control software. We believe that our 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 September 30, 2019, we determined that there was substantial doubt about our ability to maintain operations as a going concern. Our unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. 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 unaudited condensed 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 financial resources will not be adequate to support our operations. Any 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 estimates 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" in our Annual Report on Form 10-K as filed with U.S. Securities and Commission on April 1, 2019 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 September 30, 2019, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

Contractual obligations:	Payments Due by Period				
	Total	Less than 1 year	1-2 years	3-4 years	5 + years
Notes payable – related party	\$ 400,000	\$ 400,000	\$ -	\$ -	\$ -
Current and future interest on notes payable– related party	127,000	118,000	9,000	-	-
Note payable	12,500	12,500	-	-	-
Convertible notes payable	300,000	300,000	-	-	-
Total	<u>\$ 839,500</u>	<u>\$ 830,500</u>	<u>\$ 9,000</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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of September 30, 2019, our disclosure controls and procedures were not effective.

As reported in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2018, our management concluded that our internal control over financial reporting was not effective as of that date because of a material weakness in our internal controls over financial reporting. The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses in our internal control over financial reporting: (1) the lack of multiples levels of management review on complex business, accounting and financial reporting issues, and (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel. In the fourth quarter of 2018, 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.

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

### Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

In connection with subscription agreements, during July 2019, we received cash proceeds of \$330,000 from investors for the purchase of 7,750,000 shares of the Company's common stock at prices ranging from \$0.04 to \$0.05 per share.

On July 29, 2019, we entered into restricted stock award agreements (the "Restricted Stock Award Agreements") with executive officers and employees. Pursuant to the Restricted Stock Award Agreements, we 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.

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

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

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

On August 15, 2019, we issued 295.567 shares of its common stock upon conversion of principal balance of \$12,000.

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

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of September 30, 2019, we were in default of certain requirements under a Loan Agreement with a principal amount of \$400,000, 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. As of September 30, 2019 and as of the date of this report, we are in default on monthly interest payments of \$57,896 and approximately \$66,000, respectively.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
2.1	<a href="#">Agreement and Plan of Merger and Reorganization dated as of April 25, 2018, among WestMountain Alternative Energy, Inc., WETM Acquisition Corp. and C-Bond Systems, LLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2018, File No. 000-53029).</a>
3.1	<a href="#">Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's SB-2 Registration Statement filed with the SEC on January 2, 2008, File No. 333-148440).</a>
3.2	<a href="#">First Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed with SEC on August 11, 2014, File No. 000-53029).</a>
3.3	<a href="#">Second Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 20, 2018, File No. 000-53029).</a>
3.4	<a href="#">Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 8, 2018, File No. 000-53029).</a>
4.1	<a href="#">Convertible Promissory Note, dated February 13, 2019, with Power Up Lending Group Ltd., (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
4.2	<a href="#">Convertible Promissory Note, dated March 4, 2019, with Power Up Lending Group Ltd., (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
4.3	<a href="#">Convertible Promissory Note, dated April 8, 2019, with Power Up Lending Group Ltd., (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 12, 2019, File No.: 000-53029).</a>
10.1	<a href="#">Securities Purchase Agreement, dated February 13, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd., (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.2	<a href="#">Securities Purchase Agreement, dated March 4, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd., (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.3+	<a href="#">Employee Agreement between C-Bond Systems, Inc., and Vince Pugliese dated effective March 1, 2019 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 1, 2019, File No.: 000-53029).</a>
10.4	<a href="#">Securities Purchase Agreement, dated April 8, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 12, 2019, File No.: 000-53029).</a>
10.5	<a href="#">Securities Purchase Agreement, dated May 15, 2019, between C-Bond Systems, Inc., and Power Up Lending Group Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 17, 2019, File No.: 000-53029).</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2*	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL INSTANCE DOCUMENT
101.SCH*	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL*	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF*	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB*	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE*	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

\* Filed herewith.

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

**SIGNATURES**

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

Dated: November 14, 2019

**C-BOND SYSTEMS, INC.**

By: /s/ Scott R. Silverman  
Scott R. Silverman  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 14, 2019

By: /s/ Vincent J. Pugliese  
Vincent J. Pugliese  
Chief Financial Officer  
(Principal Financial Officer)

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2019 of C-Bond Systems, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2019

/s/ Scott R. Silverman

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

Certifications

I, Vince Pugliese, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2019 of C-Bond Systems, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2019

/s/ Vince Pugliese

Vince Pugliese

Chief Financial Officer

(principal financial officer)

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

In connection with the quarterly report of C-Bond Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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) 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: November 14, 2019

*/s/ Scott R. Silverman*

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

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

In connection with the quarterly report of C-Bond Systems, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, I, Vince Pugliese, Chief Financial Officer of the Company, certify to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) 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: November 14, 2019

*/s/ Vince Pugliese*

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Vince Pugliese  
Chief Financial Officer  
(principal financial officer)