

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, 2022

☐ 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. 000-53029



C-BOND SYSTEMS, INC.

(Exact name of Registrant as Specified in its Charter)

Colorado

(State or Other Jurisdiction of
Incorporation or Organization)

26-1315585

(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)

N/A

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

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

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

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

There were 328,734,898 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of November 14, 2022.

C-BOND SYSTEMS, INC.
FORM 10-Q
SEPTEMBER 30, 2022

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 152,567	\$ 519,898
Accounts receivable, net	255,853	173,248
Inventory	84,218	82,931
Prepaid expenses and other current assets	92,287	151,746
Contract assets	-	82,805
Due from related party	-	3,750
	<u>584,925</u>	<u>1,014,378</u>
Total Current Assets		
OTHER ASSETS:		
Property and equipment, net	104,670	135,022
Right of use asset, net	403,551	251,172
Intangible asset, net	292,543	330,421
Goodwill	350,491	350,491
Security deposit	6,482	6,482
	<u>1,157,737</u>	<u>1,073,588</u>
Total Other Assets		
TOTAL ASSETS	\$ 1,742,662	\$ 2,087,966
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Convertible note payable, net	\$ 740,000	\$ 171,875
Notes payable, net	1,528,084	488,414
Accounts payable	820,753	831,648
Accrued expenses	558,807	436,733
Accrued interest payable - related party	6,247	-
Accrued compensation	436,950	691,602
Contract liabilities	63,888	10,426
Lease liability	114,770	44,927
	<u>4,269,499</u>	<u>2,675,625</u>
Total Current Liabilities		
LONG-TERM LIABILITIES:		
Notes payable, less current portion	13,014	539,440
Note payable - related party	250,000	-
Lease liability, less current portion	289,441	206,319
	<u>552,455</u>	<u>745,759</u>
Total Long-term Liabilities		
Total Liabilities	<u>4,821,954</u>	<u>3,421,384</u>
Commitments and Contingencies (See Note 10)		
Series B convertible preferred stock: \$0.10 par value, 100,000 shares designated; 1,000 and 722 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively (\$1,032,156 redemption and liquidation value at September 30, 2022)	<u>1,032,156</u>	<u>738,611</u>
Series C convertible preferred stock: \$0.10 par value, 100,000 shares designated; 17,540 and 18,680 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively (\$2,729,898 redemption and liquidation value at September 30, 2022)	<u>1,819,932</u>	<u>1,907,012</u>
SHAREHOLDERS' DEFICIT:		
Preferred stock: \$0.10 par value, 2,000,000 shares authorized; 100,000 Series B and 100,000 Series C designated	-	-
Common stock: \$0.001 par value, 4,998,000,000 shares authorized; 325,734,898 and 282,216,632 issued and outstanding at September 30, 2022 and December 31, 2021, respectively	325,735	282,217
Additional paid-in capital	54,990,166	53,064,616
Accumulated deficit	(61,404,921)	(57,515,129)
Total C-Bond Systems, Inc. shareholders' deficit	<u>(6,089,020)</u>	<u>(4,168,296)</u>
Noncontrolling interest	<u>157,640</u>	<u>189,255</u>
Total Shareholders' Deficit	<u>(5,931,380)</u>	<u>(3,979,041)</u>

Total Liabilities and Shareholders' Deficit	\$ 1,742,662	\$ 2,087,966
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See accompanying unaudited notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
SALES	\$ 573,649	\$ 674,518	\$ 1,624,725	\$ 963,838
COST OF SALES (excluding depreciation expense)	246,346	248,607	705,680	304,158
GROSS PROFIT	327,303	425,911	919,045	659,680
OPERATING EXPENSES:				
Compensation and related benefits (including stock-based compensation of \$4,445 and \$89,254 for the three months ended September 30, 2022, and 2021, and \$1,025,571 and \$4,042,926 for the nine months ended September 30, 2022 and 2021, respectively)	412,642	464,230	2,253,374	5,395,161
Research and development	-	-	-	(2,404)
Professional fees	217,123	260,447	663,387	777,393
General and administrative expenses	198,362	162,111	588,366	417,634
Total Operating Expenses	828,127	886,788	3,505,127	6,587,784
LOSS FROM OPERATIONS	(500,824)	(460,877)	(2,586,082)	(5,928,104)
OTHER INCOME (EXPENSES):				
Loss on debt extinguishment, net	-	-	(231,395)	-
Other income	-	-	-	67,778
Interest expense	(440,552)	(29,900)	(1,051,437)	(73,449)
Interest expense - related party	(5,014)	-	(6,247)	-
Total Other Income (Expenses), net	(445,566)	(29,900)	(1,289,079)	(5,671)
NET LOSS	(946,390)	(490,777)	(3,875,161)	(5,933,775)
Net loss (income) of subsidiary attributable to noncontrolling interest	8,529	(34,151)	31,615	(34,151)
NET LOSS ATTRIBUTABLE TO C-BOND SYSTEMS, INC.	(937,861)	(524,928)	(3,843,546)	(5,967,926)
Preferred stock dividend and deemed dividend	(14,619)	(1,521,736)	(46,246)	(4,388,790)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (952,480)</u>	<u>\$ (2,046,664)</u>	<u>\$ (3,889,792)</u>	<u>\$ (10,356,716)</u>
NET LOSS PER COMMON SHARE:				
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	<u>319,825,057</u>	<u>265,771,901</u>	<u>299,609,959</u>	<u>245,453,077</u>

See accompanying unaudited notes to the unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

	Common Stock		Additional	Accumulated	Noncontrolling	Total
	# of Shares	Amount	Paid-in	Deficit	Interest	Shareholders'
			Capital			Deficit
Balance, December 31, 2021	282,216,632	\$ 282,217	\$ 53,064,616	\$ (57,515,129)	\$ 189,255	\$ (3,979,041)
Common stock issued for accounts payable	90,859	90	2,084	-	-	2,174
Common stock issued for compensation	500,000	500	13,750	-	-	14,250
Common stock issued for conversion of Series C preferred stock	1,543,151	1,543	10,457	-	-	12,000
Common stock issued in connection with convertible debt	823,529	824	12,139	-	-	12,963
Preferred stock dividends and deemed dividend	-	-	-	(14,005)	-	(14,005)
Accretion of stock-based compensation	-	-	42,702	-	-	42,702
Beneficial conversion charge for issuance of Series B preferred shares for accrued compensation recorded as stock-based compensation	-	-	957,556	-	-	957,556
Net loss	-	-	-	(1,906,399)	(13,020)	(1,919,419)
Balance, March 31, 2022	285,174,171	285,174	54,103,304	(59,435,533)	176,235	(4,870,820)
Common stock issued for professional fees	7,000,000	7,000	95,000	-	-	102,000
Common stock issued for conversion of Series C preferred stock	13,184,548	13,185	88,815	-	-	102,000
Common stock issued in connection with debt	1,750,000	1,750	30,986	-	-	32,736
Preferred stock dividends and deemed dividend	-	-	3,702	(17,622)	-	(13,920)
Accretion of stock-based compensation	-	-	6,618	-	-	6,618
Relative fair value of warrants issued in connection with debt	-	-	325,785	-	-	325,785
Beneficial conversion feature on convertible debt	-	-	469,899	-	-	469,899
Beneficial conversion feature buyback related to debt extinguishment	-	-	(160,993)	-	-	(160,993)
Net loss	-	-	-	(999,286)	(10,066)	(1,009,352)
Balance, June 30, 2022	307,108,719	307,109	54,963,116	(60,452,441)	166,169	(5,016,047)
Common stock issued for compensation	3,000,000	3,000	(3,000)	-	-	-
Common stock issued for professional fees	7,954,545	7,954	83,296	-	-	91,250
Common stock issued in connection with debt	7,671,634	7,672	57,260	-	-	64,932
Preferred stock dividends and deemed dividend	-	-	733	(14,619)	-	(13,886)
Accretion of stock-based compensation	-	-	4,445	-	-	4,445
Beneficial conversion feature adjustment	-	-	(115,684)	-	-	(115,684)
Net loss	-	-	-	(937,861)	(8,529)	(946,390)
Balance, September 30, 2022	325,734,898	\$ 325,735	\$ 54,990,166	\$ (61,404,921)	\$ 157,640	\$ (5,931,380)
	Common Stock		Additional	Accumulated	Noncontrolling	Total
	# of Shares	Amount	Paid-in	Deficit	Interest	Shareholders'
			Capital			Deficit
Balance, December 31, 2020	228,346,974	\$ 228,347	\$ 42,573,272	\$ (45,968,839)	\$ -	\$ (3,167,220)
Common stock issued for professional fees	1,550,000	1,550	112,550	-	-	114,100
Common stock issued for compensation	2,700,000	2,700	(2,700)	-	-	-
Common stock issued for accrued compensation	944,767	945	54,796	-	-	55,741
Common stock issued for cashless warrant exercise	1,008,000	1,008	(1,008)	-	-	-
Preferred stock dividends and deemed dividend	-	-	2,845,238	(2,855,576)	-	(10,338)
Accretion of stock-based compensation	-	-	108,554	-	-	108,554
Accretion of stock-based professional fees	-	-	5,000	-	-	5,000
Beneficial conversion charge for issuance of Series B preferred shares for accrued compensation recorded as stock-based compensation	-	-	3,778,810	-	-	3,778,810
Net loss	-	-	-	(4,863,973)	-	(4,863,973)
Balance, March 31, 2021	234,549,741	234,550	49,474,512	(53,688,388)	-	(3,979,326)

Accretion of stock-based compensation	-	-	51,192	-	-	51,192
Common stock issued for professional fees	2,700,000	2,700	138,300	-	-	141,000
Common stock issued for accounts payable	3,801,224	3,801	114,037	-	-	117,838
Preferred stock dividends and deemed dividend	-	-	-	(11,478)	-	(11,478)
Net loss	-	-	-	(579,025)	-	(579,025)
Balance, June 30, 2021	241,050,965	241,051	49,778,041	(54,278,891)	-	(4,259,799)
Accretion of stock-based compensation	-	-	64,842	-	-	64,842
Common stock issued for professional fees	3,000,000	3,000	88,500	-	-	91,500
Common stock issued for compensation	1,976,500	1,977	22,436	-	-	24,413
Common stock issued for acquisition	28,021,016	28,021	666,900	-	-	694,921
Initial noncontrolling in acquired business	-	-	-	-	36,031	36,031
Preferred stock dividends and deemed dividend	-	-	1,509,523	(1,521,736)	-	(12,213)
Net loss	-	-	-	(524,928)	34,151	(490,777)
Balance, September 30, 2021	274,048,481	\$ 274,049	\$ 52,130,242	\$ (56,325,555)	\$ 70,182	\$ (3,851,082)

See accompanying unaudited notes to the unaudited condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,875,161)	\$ (5,933,775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	68,230	33,878
Amortization of debt discount to interest expense	910,907	-
Stock-based compensation	1,025,571	4,042,926
Stock-based professional fees	228,946	359,829
Bad debt expense	7,716	35,000
Non-cash loss on debt extinguishment	231,395	-
Lease costs	586	(444)
Change in operating assets and liabilities:		
Accounts receivable	(86,571)	(234,445)
Accounts receivable - related party		(1,200)
Inventory	(1,287)	(24,814)
Prepaid expenses and other assets	23,763	(6,647)
Contract assets	82,805	(2,456)
Due from related party	-	(24,179)
Accounts payable	(8,721)	155,241
Accrued expenses	122,074	83,231
Accrued interest payable - related party	6,247	-
Customer deposit	-	(110,000)
Accrued compensation	26,927	317,001
Contract liabilities	53,462	22,179
NET CASH USED IN OPERATING ACTIVITIES	(1,183,111)	(1,288,675)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from acquisition	-	288,902
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	288,902
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of series C preferred stock	-	550,000
Proceeds from note payable - related party	250,000	-
Proceeds from notes payable	641,260	500,000
Repayment of notes payable	(75,480)	(5,297)
NET CASH PROVIDED BY FINANCING ACTIVITIES	815,780	1,044,703
NET (DECREASE) INCREASE IN CASH	(367,331)	44,930
CASH, beginning of period	519,898	323,407
CASH, end of period	\$ 152,567	\$ 368,337
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ 15,287	\$ 2,648
Income taxes	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued as prepaid for services	\$ 193,250	\$ 98,800
Common stock issued for accrued compensation	\$ -	\$ 40,626
Series B preferred stock issued for accrued compensation	\$ 278,654	\$ 295,000
Common stock issued for accounts payable	\$ 2,174	\$ 117,838
Preferred stock dividend accrued	\$ 41,811	\$ 34,029
Deemed dividend related to ratchet provision	\$ 4,435	\$ -
Deemed dividend related to beneficial conversion feature of Series C preferred shares	\$ -	\$ 2,845,238
Increase in debt discount and paid-in capital for shares issued with convertible debt	\$ 110,631	\$ -
Increase in debt discount and paid-in capital for warrants issued with convertible debt	\$ 325,785	\$ -
Conversion of series C preferred stock to common stock	\$ 114,000	\$ -
Increase in right of use and lease liability	\$ 184,375	\$ -

ACQUISITION:		
Assets acquired:		
Cash	\$	- 288,902
Accounts receivable, net	-	40,587
Inventory	-	68,019
Prepaid expenses	-	6,091
Property and equipment	-	140,210
Right of use assets	-	253,433
Total assets acquired	-	797,242
Less: liabilities assumed:		
Accounts payable	-	65,728
Accrued expenses	-	92,914
Notes payable	-	95,013
Customer deposit	-	110,000
Lease liabilities	-	253,433
Noncontrolling interest	-	36,031
Total liabilities assumed	-	653,119
Net liabilities assumed		(144,123)
Fair value of shares for acquisition	-	694,921
Increase in intangible assets – non-cash	\$	- 550,798

See accompanying unaudited notes to the unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(UNAUDITED)

NOTE 1 – NATURE OF ORGANIZATION

Nature of Organization

C-Bond Systems, Inc., together with 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 primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally. Additionally, the Company has expanded its product line to include disinfection products. The Company operates in two divisions: C-Bond Transportation Solutions and Patriot Glass Solutions. C-Bond Transportation Solutions sells a windshield strengthening, water repellent solution called C-Bond nanoShield™ as well as disinfection products. Patriot Glass Solutions sells multi-purpose glass strengthening primer and window film mounting solutions, including C-Bond BRS, a ballistic-resistant film system, and C-Bond Secure, a forced entry system.

On June 30, 2021, the Company entered into a Share Exchange Agreement and Plan of Reorganization (the “Exchange Agreement”) with (i) Mobile Tint LLC, a Texas limited liability company doing business as A1 Glass Coating (“Mobile”), (ii) the sole member of Mobile (the “Mobile Shareholder”), and (iii) Michael Wanke as the Representative of the Mobile Shareholder. Pursuant to the Exchange Agreement, the Company agreed to acquire 80% of Mobile’s units, representing 80% of Mobile’s issued and outstanding capital stock (the “Mobile Shares”). On July 22, 2021, the Company closed the Exchange Agreement and acquired 80% of the Mobile Shares. The Mobile Shares were exchanged for 28,021,016 restricted shares of the Company’s common stock in an amount equal to \$800,000, divided by the average of the closing prices of the Company’s common stock during the 30-day period immediately prior to the closing. Two years after closing, the Company has the option to acquire the remaining 20% of Mobile’s issued and outstanding membership interests in exchange for a number of shares of the Company’s common stock equal to 300% of Mobile’s average EBIT value, divided by the price of the Company’s common stock as defined in the Exchange Agreement (the “Additional Closing”). Mobile provides quality window tint solutions for auto, home, and business owners across Texas, specializing in automotive window tinting, residential window film, and commercial window film that stop harmful UV rays from passing through its window films for reduced glare, comfortable temperatures, and lower energy bills. Mobile also carries products that offer forced-entry protection and films that protect glass from scratches, graffiti, other types of vandalism, and even bullets, including C-Bond BRS and C-Bond Secure products. As part of the transaction, Mobile’s owner-operator, Mr. Wanke, joined the Company as President of its Patriot Glass Solutions division.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The Company’s unaudited condensed consolidated financial statements include the financial statements of its wholly owned subsidiary, C-Bond Systems, LLC, and its 80% owned subsidiary, Mobile since acquiring 80% of Mobile on July 22, 2021. 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 year ended December 31, 2021 of the Company which were included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the “SEC”) on April 15, 2022.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(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 \$3,875,161 and \$5,933,775 for the nine months ended September 30, 2022 and 2021, respectively. The net cash used in operations was \$1,183,111 and \$1,288,675 for the nine months ended September 30, 2022 and 2021, respectively. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$61,404,921, \$5,931,380 and \$3,684,574, respectively, on September 30, 2022. 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 preferred shares, and from the issuance of promissory notes and 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.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP 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 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, 2022 and 2021 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete or slow moving inventory, estimates used in the calculation of progress towards completion on uncompleted jobs, purchase price allocation of acquired businesses, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the estimate of the fair value lease liability and related right of use asset, the valuation of redeemable and mandatorily redeemable preferred stock, the value of beneficial conversion features and deemed dividends, and the fair value of non-cash equity transactions.

Fair Value of Financial Instruments and Fair Value Measurements

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

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's (the "FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company did not identify any assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with Accounting Standards Codification ("ASC") Topic 820.

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents. The Company had no cash equivalents as of September 30, 2022 and December 31, 2021.

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.

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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 one to five 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.

Goodwill and Intangible Assets

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. Any goodwill arising from the Company's acquisition is attributable to the value of the potential expanded market opportunity with new customers. Intangible assets may have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. The Company's amortizable intangible assets are being amortized over a useful life of 5 years.

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 had certain financial instruments that were embedded derivatives. The Company evaluated 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.

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 \$26,733 and \$26,733 on September 30, 2022 and December 31, 2021, respectively. For the nine months ended September 30, 2022 and 2021, warranty costs amounted to \$0.

Beneficial Conversion Feature

Convertible debt includes conversion terms that are considered in the money compared to the market price of the stock on the date of the related agreement. The Company calculates the beneficial conversion feature and records a debt discount with the amount being amortized to interest expense over the term of the note.

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Revenue Recognition

The Company follows ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires certain additional disclosures.

The Company sells its products which include standard warranties primarily to distributors and authorized dealers. Product sales are recognized at a point in time when the product is shipped to the customer and title is transferred and are recorded net of any discounts or allowances. The warranty does not represent a separate performance obligation.

Revenues from contracts for the distribution and installation of window film solutions are recognized over time on the basis of the Company’s estimates of the progress towards completion of contracts using various output or input methods depending on the type of contract terms including (1) the ratio of number of labor hours spent compared to the number of estimated labor hours to complete a job, (2) using the milestone method, or (3) using a units completed method. These methods are used because management considers these to be the best available measure of progress on these contracts. We use the same method for similar types of contracts. The asset, “contract assets” represents revenues recognized in excess of amounts billed. The liability, “contract liabilities,” represents billings in excess of revenues recognized.

Cost of Sales

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

Cost of revenues from fixed-price contracts for the distribution and installation of window film solutions include all direct material, sub-contractor, labor and certain other direct costs, as well as those indirect costs related to contract performance, such as indirect labor and fringe benefits. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to cost and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, claims, change orders, and settlements, are accounted for as changes in estimates in the current period.

Shipping and Handling Costs

Shipping and handling costs incurred for product shipped to customers are included in general and administrative expenses and amounted to \$8,784 and \$11,946 for the nine months ended September 30, 2022 and 2021, respectively. Shipping and handling costs charged to customers are included in sales.

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, 2022 and 2021, research and development costs (recovery) incurred in the development of the Company’s products were \$0 and \$(2,404), respectively, and are included in operating expenses on the accompanying unaudited condensed consolidated statements of operations.

Advertising Costs

The Company may participate 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, 2022 and 2021, advertising costs charged to operations were \$66,124 and \$33,306, 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 shall be deducted from sales.

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Federal and State Income Taxes

The Company accounts for income tax using the liability method prescribed by ASC 740, “Income Taxes”. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of 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, 2022 and December 31, 2021, 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, 2017. 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, 2022 and December 31, 2021.

Stock-Based Compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – “Compensation –Stock Compensation”, which requires recognition in the financial statements of the cost of employee, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under the FASB’s Accounting Standards Update (“ASU”) 2016-09 *Improvements to Employee Share-Based Payment*.

Loss Per Common Share

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

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:

	September 30,	
	2022	2021
Stock options	8,445,698	8,445,698
Warrants	34,000,000	1,000,000
Series B preferred stock	163,834,286	114,598,413
Series C preferred stock	278,412,698	298,412,698
Convertible debt	916,666,667	-
Non-vested, forfeitable common shares	16,970,120	14,270,120
	<u>1,418,329,469</u>	<u>436,726,929</u>

Segment Reporting

During the nine months ended September 30, 2022 and from July 22, 2021 (date of acquisition of Mobile Tint) to September 30, 2021, the Company operated in two reportable business segments which consisted of (1) the manufacture and sale of a windshield strengthening water repellent solution as well as disinfection products, and the sale of multi-purpose glass strengthening primer and window film mounting solutions, including ballistic-resistant film systems and a forced entry system, and (2) the distribution and installation of window film solutions. The Company’s reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations and locations.

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Leases

The Company accounts for leases in accordance with ASC 842. The lease standard requires certain leases to be reported on the condensed consolidated balance sheets as right-of-use assets and lease liabilities. The Company elected the practical expedients permitted under the transition guidance of this standard that retained the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. The Company does not reassess whether any contracts entered into prior to adoption are leases or contain leases.

The Company categorize leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that would allow the Company to substantially utilize or pay for the entire asset over its estimated life. Assets acquired under finance leases are recorded in property and equipment, net. All other leases are categorized as operating leases. The Company does not have any finance leases as of September 30, 2022 and December 31, 2021. The Company's leases generally have terms that range from three to four years for property and equipment and five years for property. The Company elected the accounting policy to include both the lease and non-lease components of our agreements as a single component and account for them as a lease.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on the Company's current borrowing rate. Lease assets are recognized based on the initial present value of the fixed lease payments, reduced by landlord incentives, plus any direct costs from executing the leases. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term.

When the Company has the option to extend the lease term, terminate the lease before the contractual expiration date, or purchase the leased asset, and it is reasonably certain that the Company will exercise the option, the Company considers these options in determining the classification and measurement of the lease. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

Noncontrolling Interest

The Company accounts for noncontrolling interest in accordance with ASC Topic 810-10-45, which requires the Company to present noncontrolling interests as a separate component of total shareholders' deficit on the consolidated balance sheets and the consolidated net loss attributable to its noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations.

Risk and Uncertainties

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company was materially affected by the COVID-19 outbreak to date and the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. The Company saw a material decrease in sales from its international customers as a result of the unprecedented public health crisis from the COVID-19 pandemic and a decrease in domestic sales due to a decrease in business spending on discretionary items. As a result, during 2021 and 2020, the Company's international customers delayed the ordering of products and delayed or defaulted on payment of balances due to the Company. The lack of collection of accounts receivable balances, which the Company believes was attributable to COVID-19, had a material impact on the cash flows of the Company. The Company cannot estimate the duration of the pandemic and the future impact on its business. A severe or prolonged economic downturn could result in a variety of risks to the Company's business, including weakened demand for its products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. Currently, the Company is unable to estimate the impact of this event on its operations.

Recent Accounting Pronouncements

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

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

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NOTE 3 – ACCOUNTS RECEIVABLE

On September 30, 2022 and December 31, 2021, accounts receivable consisted of the following:

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 291,375	\$ 204,804
Less: allowance for doubtful accounts	(35,522)	(31,556)
Accounts receivable, net	<u>\$ 255,853</u>	<u>\$ 173,248</u>

For the nine months ended September 30, 2022 and 2021, bad debt expense amounted to \$7,716 and \$35,000, respectively.

NOTE 4 – INVENTORY

On September 30, 2022 and December 31, 2021, inventory consisted of the following:

	September 30, 2022	December 31, 2021
Raw materials	\$ 2,424	\$ 7,141
Finished goods	81,794	120,790
Inventory	<u>84,218</u>	<u>127,931</u>
Less: allowance for obsolete or slow-moving inventory	-	(45,000)
Inventory, net	<u>\$ 84,218</u>	<u>\$ 82,931</u>

For the nine months ended September 30, 2022 and 2021, the Company did not record any loss for obsolete or slow-moving inventory.

NOTE 5 – PROPERTY AND EQUIPMENT

On September 30, 2022 and December 31, 2021, property and equipment consisted of the following:

	Useful Life	September 30, 2022	December 31, 2021
Machinery and equipment	5 – 7 years	\$ 124,133	\$ 124,133
Furniture and office equipment	3 – 7 years	32,306	32,306
Vehicles	1 – 5 years	63,009	63,009
Leasehold improvements	3 – 5 years	45,296	45,296
		<u>264,744</u>	<u>264,744</u>
Less: accumulated depreciation		(160,074)	(129,722)
Property and equipment, net		<u>\$ 104,670</u>	<u>\$ 135,022</u>

For the nine months ended September 30, 2022 and 2021, depreciation and amortization expense is included in general and administrative expenses and amounted to \$30,352 and \$13,223, respectively.

NOTE 6 – INTANGIBLE ASSETS AND GOODWILL

On September 30, 2022 and December 31, 2021, intangible assets, which were acquired from Mobile in 2021, consisted of the following:

	Useful life	September 30, 2022	December 31, 2021
Customer relations	5 years	\$ 212,516	\$ 212,516
Non-compete	5 years	40,000	40,000
Trade name	-	<u>100,000</u>	<u>100,000</u>
		352,516	352,516
Less: accumulated amortization		(59,973)	(22,095)
Intangible assets, net		<u>\$ 292,543</u>	<u>\$ 330,421</u>

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	<u>Useful life</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Goodwill	-	\$ 350,491	\$ 350,491

For the nine months ended September 30, 2022 and 2021, amortization of intangible assets amounted to \$37,878 and \$20,655, respectively. On September 30, 2022, accumulated amortization amounted to \$50,473 and \$9,500 for the customer relations and non-compete, respectively.

Amortization of intangible assets with identifiable useful lives that is attributable to future periods is as follows:

Twelve months ending September 30:	Amount
2023	\$ 50,503
2024	50,503
2025	50,503
2026	41,034
Total	\$ 192,543

NOTE 7 – CONVERTIBLE NOTE PAYABLE

Mercer Convertible Debt

On October 15, 2021, the Company entered into a Securities Purchase Agreement (the “SPA”) with Mercer Street Global Opportunity Fund, LLC (the “Investor”), pursuant to which the Company issued and sold to Investor a 10% Original Issue Discount Senior Convertible Promissory Note in the principal amount of \$825,000 (the “Initial Note”) and five-year warrants to purchase up to 16,500,000 shares of the Company’s common stock at an exercise price of \$0.05 per share, an amount equal to 50% of the conversion shares to be issued (the “Initial Warrants”). The Company received net proceeds of \$680,000, which is net of original issue discounts of \$75,000, placement fees of \$60,000, and legal fees of \$10,000.

The transactions contemplated under the SPA closed on October 18, 2021. Pursuant to the SPA, the Investor agreed to purchase an additional \$825,000 10% Original Issue Discount Senior Convertible Promissory Note (the “Second Note,” and together with the Initial Note, the “Notes”), and a five-year warrant (the “Second Warrant,” and together with the Initial Warrant, the “Warrants”) to purchase, in the aggregate, shares of the Company’s common stock at an exercise price of \$0.05 per share from the Company in an amount equal to 50% of the conversion shares to be issued upon the same terms as the Initial Note and Initial Warrant (subject to there being no event of default under the Initial Note or other customary closing conditions), within three trading days of a registration statement registering the shares of the Company’s common stock issuable under the Notes (the “Conversion Shares”) and upon exercise of the Warrants (the “Warrant Shares”) being declared effective by the SEC.

The Note matures 12 months after issuance, bears interest at a rate of 4% per annum, and was initially convertible beginning on the six-month anniversary of the original issue date into the Company’s common stock at a fixed conversion price of \$0.025 per share, subject to adjustment for stock splits, stock combinations, dilutive issuances, and similar events, as described in the Note. If the average Closing Price during any 10 consecutive Trading Day period beginning and ending during the 60 Day Effectiveness Period (the “Average Closing Price”) was below the Conversion Price than the conversion price would have been reduced to such Average Closing Price but in no event less than \$0.0175. The “60 Day Effectiveness Period” means the 60 calendar days beginning on the day the Registration Statement filed in connection with the Registration Rights Agreement covering the respective Tranche is first declared effective by the SEC.

The Note may be prepaid at any time for the first 90 days at face value plus accrued interest. From day 91 through day 180, the Note may be prepaid in an amount equal to 110% of the principal amount plus accrued interest. From day 181 through the day immediately preceding the maturity date, the Note may be prepaid in an amount equal to 120% of the principal amount plus accrued interest.

The Note and Warrants contain conversion limitations providing that a holder thereof may not convert the Notes or exercise the Warrants to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice.

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In connection with the SPA, the Company entered into a Registration Rights Agreement dated October 15, 2021 (the “Registration Rights Agreement”), with the Investor pursuant to which it is obligated to file a registration statement with the SEC within 45 days after the date of the agreement to register the resale by the Investor of the conversion shares and warrant shares, and use all commercially reasonable efforts to have the registration statement declared effective by the SEC within 60 days after the registration statement is filed.

Upon the occurrence of an event of default under the Notes, the Investor has the right to be prepaid at 125% of the outstanding principal balance and accrued interest, and interest accrues at 18% per annum. Events of default included, among other things,

- (i) any default in the payment of (A) principal and interest payment under this Note or any other Indebtedness, or (B) Late Fees, liquidated damages and other amounts owing to the Holder of this Note, as and when the same shall become due and payable (whether on a Conversion Date, or the Maturity Date, or by acceleration or otherwise), which default, solely in the case of a default under clause (B) above, is not cured within five Trading Days;
- (ii) the Company or any Subsidiary shall be subject to a Bankruptcy Event;
- (iii) the SEC suspends the Common Stock from trading or the Company’s Common Stock is not listed or quoted for trading on a Trading Market which failure is not cured, if possible to cure, within the earlier to occur of 10 Trading Days after notice of such failure is sent by the Holder or by any other Holder to the Company or the transfer of shares of Common Stock through the Depository Trust Company System is no longer available or is subject to a “chill” by the Depository Trust Company or any successor;
- (iv) the Company shall be a party to any Change of Control Transaction or shall agree to sell or dispose of all or in excess of 50% of its assets in one transaction or a series of related transactions (whether or not such sale would constitute a Change of Control Transaction);
- (v) the Company incurs any Indebtedness other than Permitted Indebtedness;
- (vi) the Company restates any financial statements included in its reports or registration statements filed pursuant to the Securities Act or the Exchange Act for any date or period from two years prior to the Original Issue Date of this Note and until this Note is or the Warrants issued to the Holder are no longer outstanding, if following first public announcement or disclosure that a restatement will occur the VWAP on the next Trading Day is 20% less than the VWAP on the prior Trading Day. For the purposes of this clause the next Trading Day if an announcement is made before 4:00 pm New York, NY time is either the day of the announcement or the following Trading Day. The Company filed a Report on Form 8-K announcing the restatement of its financial statements for the year ended December 31, 2020. Following the first public announcement or disclosure that a restatement occurred, the VWAP on the next Trading Day was not 20% less than the VWAP on the prior Trading Day and accordingly, the default provisions were not triggered.

The Company has also granted the investor a 12-month (or until the Notes are no longer outstanding) right to participate in specified future financings, up to a level of 30%.

In connection with the SPA, on October 18, 2021, the Company issued 668,151 shares of its common stock to the placement agent as fee for the capital raise. The 668,151 shares of common stock issued were recorded as a debt discount of \$14,064 based on the relative fair value method to be amortized over the life of the Note. The 16,500,000 Initial Warrants were valued at \$347,142 using the relative fair value method and recorded as a debt discount to be amortized over the life of the note. The original issue discounts of \$75,000, placement fees of \$60,000, and legal fees of \$10,000, aggregating \$145,000, was recorded as a debt discount to be amortized into interest expense over the twelve-month term of the note. Additionally, the Initial Note was convertible into common shares at an initial conversion price of is \$0.025 which was lower than the fair value of common shares based on the quoted closing price of the Company’s common stock on the measurement date. Since warrants and common shares were issued with the Initial Note, the proceeds were allocated to the instrument based on relative fair value. The Initial Warrants did not contain any features requiring liability treatment and therefore were classified as equity. The value allocated to the Initial Warrants and common shares issued was \$347,142 and \$14,064, respectively, and \$318,794 was allocated to the beneficial conversion feature. Since the intrinsic value of the beneficial conversion feature, warrants and common shares was greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature, warrants and common shares issued was limited to the amount of the proceeds allocated to the convertible instrument. Accordingly, the Company recorded an aggregate non-cash debt discount of \$680,000 with the credit to additional paid in capital. This debt discount was amortized to interest expense over the term of the Convertible Note through the date Exchange Agreement discussed below.

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On April 20, 2022, the Company and the Investor entered into an Exchange Agreement (the “Exchange Agreement”). The original SPA remains in effect. Per the terms of the Exchange Agreement, the Parties agreed to exchange (i) the Initial Note for a new Convertible Promissory Note (the “New Note”) and (ii) the Initial Warrant for a new five-year warrant to purchase, in the aggregate, 33,000,000 shares of the Company’s common stock at an exercise price of \$0.025 per share (the “New Warrant” and together with the New Note, the “New Securities”), according to the terms and conditions of the Exchange Agreement. On April 20, 2022, pursuant to the terms of the Exchange Agreement, the Investor surrendered the Prior Securities in exchange for the New Securities. Other than the surrender of the Prior Securities, no consideration of any kind whatsoever was given by the Investor to the Company in connection with the Exchange Agreement. The terms of the New Securities are the same as the Prior Securities except for the pricing of the shares issuable under the New Note and the shares issuable upon exercise of the New Warrant. The New Securities are composed of the New Note, which is a 10% Original Issue Discount Senior Convertible Promissory Note in the principal amount of \$825,000, and the New Warrant. The New Note matures on October 15, 2022, bears interest at a rate of 4% per annum, and is initially convertible into the Company’s common stock at a fixed conversion price of \$0.0125 per share, subject to adjustment for stock splits, stock combinations, dilutive issuances, and similar events, as described in the New Note. If the average Closing Price during any 10 consecutive Trading Day period beginning and ending during the 60 Day Effectiveness Period (the “Average Closing Price”) is below the Conversion Price then the conversion price will be reduced to such Average Closing Price but in no event less than \$0.00875.

In accordance with ASC 470-50, Debt Modifications and Extinguishments, the Company performed an assessment of whether the Exchange Agreement transaction was deemed to be new debt, a modification of existing debt, or an extinguishment of existing debt. The Company evaluated the April 20, 2022 Exchange Agreement for debt modification and concluded that the debt qualified for debt extinguishment. On April 20, 2022, the Company agreed to reduce the conversion price from \$0.025 per share to \$0.0125 per share, and to cancel the Initial Warrant to purchase 16,500,000 shares of common exercisable at \$0.05 per shares, and to issue a New Warrant to purchase 33,000,000 shares exercisable at \$0.025 per share. All other terms of the convertible note and warrants remain unchanged, and therefore did not change the cash flows of the note. The New Warrants did not contain any features requiring liability treatment and therefore were classified as equity.

The Company determined the transaction was considered a debt extinguishment because of the change in conversion price was substantial. Upon extinguishment, the Company had \$395,313 of unamortized initial debt discount recorded which it wrote off, and the Company recorded a buyback of \$160,993 which represents the reversal of calculated beneficial conversion feature on the initial debt upon settlement, for an aggregate net loss on debt extinguishment of \$234,320. The Company recorded a new debt discount in connection with the New Note which was calculated based on the relative fair value of the New Warrants of \$325,785. Additionally, the New Note is convertible into common shares at an initial conversion price of \$0.0125 which was lower than the fair value of common shares based on the quoted closing price of the Company’s common stock on the measurement date. The value allocated to the New Warrants was \$325,785, and \$354,215 was allocated to the beneficial conversion feature. Since the intrinsic value of the beneficial conversion feature and warrants was greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature and warrants issued was limited to the amount of the proceeds allocated to the convertible instrument. Accordingly, the Company recorded an aggregate non-cash debt discount of \$680,000 with the credit to additional paid in capital. This debt discount will be amortized to interest expense over the remaining term of the Convertible Note.

The Company uses the Binomial Valuation Model to determine the fair value of its stock warrants which requires the Company to make several key judgments including:

- the value of the Company’s common stock;
- the expected life of issued stock warrants;
- the expected volatility of the Company’s stock price;
- the expected dividend yield to be realized over the life of the stock warrants; and
- the risk-free interest rate over the expected life of the stock warrants.

The Company’s computation of the expected life of issued stock warrants was based on the simplified method as the Company does not have adequate exercise experience to determine the expected term. The interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The computation of volatility was based on the historical volatility of the Company’s common stock.

On October 18, 2021 and April 20, 2022 (the Exchange Agreement date), the fair value of the stock warrants were estimated at issuance using the Binomial Valuation Model with the following assumptions:

	2022	2021
Dividend rate	—%	—%
Term (in years)	4 years	5 years
Volatility	246.6% to 329.6%	348.5%
Risk—free interest rate	2.79% to 3.12%	1.16%

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At any time this Note or any amounts accrued and payable thereunder remain outstanding, the Company or any Subsidiary, as applicable, sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues (or announces any sale, grant or any option to purchase or other disposition), any common stock or common stock equivalents entitling any Person to acquire shares of the Company's common stock at an effective price per share that is lower than the conversion price then in effect (such lower price, the "Base Conversion Price" and each such issuance or announcement a "Dilutive Issuance"), then the conversion price shall be immediately reduced to equal the Base Conversion Price. Such adjustment shall be made whenever such common stock or common stock equivalents are issued. On June 23, 2022, the Company issued common stock equivalents with an initial conversion price of \$0.011 per share and accordingly, the conversion price and warrant down-round provisions were triggered. As a result, the conversion price of the New April 2022 Note was reduced to \$0.011 per share and the exercise price of the New April 2022 Warrant was lowered to \$0.011. As a result of the June 23, 2022 down-round provisions, the Company calculated the difference between the warrants fair value on June 23, 2022, the date the down-round feature was triggered using the then current exercise price of \$0.025 and the new exercise price of \$0.011. On June 23, 2022, the Company recorded a deemed dividend of \$3,702 which represents the fair value transferred to the warrant holders from the down round feature being triggered. No additional beneficial conversion feature amount was recorded based on the June 23, 2022 valuation as the ratcheted beneficial conversion feature value was lower than the original amount. Additionally, on September 6, 2022, the Company issued common stock equivalents with an initial conversion price of \$0.009 per share and accordingly, the conversion price and warrant down-round provisions were triggered. As a result, the conversion price of the New April 2022 Note was reduced to \$0.009 per share and the exercise price of the New April 2022 Warrant was lowered to \$0.009. As a result of the September 6, 2022 down-round provisions, the Company calculated the difference between the warrants fair value on September 6, 2022, the date the down-round feature was triggered using the then current exercise price of \$0.011 and the new exercise price of \$0.009. On September 6, 2022, the Company recorded a deemed dividend of \$733 which represents the fair value transferred to the warrant holders from the down round feature being triggered. No additional beneficial conversion feature amount was recorded based on the September 6, 2022 valuation as the ratcheted beneficial conversion feature value was lower than the original amount.

Pursuant to the provisions of ASC 815-40 – *Derivatives and Hedging – Contracts in an Entity's Own Stock*, the convertible note and related warrants issued in connection with the Mercer convertible note was analyzed and it was determined that the terms of the convertible note and warrants contained terms that were not considered derivatives.

For the nine months ended September 30, 2022 and 2021, amortization of debt discounts related to the convertible notes payable amounted to \$852,812 and \$0, respectively, which has been included in interest expense on the accompanying unaudited condensed consolidated statements of operations.

On September 30, 2022 and December 31, 2021, accrued interest payable under the convertible note amounted to \$31,734 and \$7,052, respectively, and is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheets.

On September 30, 2022 and December 31, 2021, convertible note payable consisted of the following:

	September 30, 2022	December 31, 2021
Convertible note payable	\$ 825,000	\$ 825,000
Less: unamortized debt discount	(85,000)	(653,125)
Convertible note payable, net	740,000	171,875
Less: current portion of convertible note payable	(740,000)	(171,875)
Convertible note payable – long-term	\$ -	\$ -

NOTE 8 – NOTES PAYABLE

On September 30, 2022 and December 31, 2021, notes payable consisted of the following:

	September 30, 2022	December 31, 2021
Notes payable	\$ 1,716,051	\$ 978,925
Note payable – PPP note	18,823	48,929
Total notes payable	1,734,874	1,027,854
Less: unamortized debt discount	(193,776)	-
Note payable, net	1,541,098	1,027,854
Less: current portion of notes payable, net of discount	(1,528,084)	(488,414)
Notes payable – long-term	\$ 13,014	\$ 539,440

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Notes Payable

On November 14, 2018, the Company entered into a Revolving Credit Facility Loan and Security Agreement (“Loan Agreement”) and a Secured Promissory Note (the “Note”) with BOCO Investments, LLC (the “Lender”). Subject to and in accordance with the terms and conditions of the Loan Agreement and the Note, the Lender agreed to lend to the Company up to \$400,000 (the “Maximum Loan Amount”) against the issuance and delivery by the Company of the Note for use as working capital and to assist in inventory acquisition. In 2018, the Lender loaned \$400,000 to the Company, the Maximum Loan Amount. The Company should have repaid all principal, interest and other amounts outstanding on or before November 14, 2020. The Company’s obligations under the Loan Agreement and the Note are secured by a first-priority security interest in substantially all the Company’s assets (the “Collateral”). The outstanding principal advanced to Company pursuant to the Loan Agreement initially bore 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 balance plus inventory such that the outstanding principal borrowed by Company under the Loan Agreement and Note is less than or equal to eighty five percent (85%) of accounts receivable plus fifty percent (50%) of inventory, all as measured at the same point in time.

Commencing on January 10, 2019 and on or before the 10th day of each month thereafter, the Company should have paid 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, 2021 and December 31, 2020, 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. The note balance due of \$400,000 has been reflected as a current liability on the accompanying consolidated balance sheets and interest shall accrue at 18% per annum. 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. On September 30, 2022 and December 31, 2021, principal amount due under this Note amounted to \$400,000 and is considered to be in default. On September 30, 2022 and December 31, 2021, accrued interest payable under this Note amounted to \$274,093 and \$220,241, respectively, and is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheets.

On May 10, 2021, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) and a Secured Promissory Note (the “Promissory Note”) in the amount of \$500,000 with a lender. The Promissory Note shall accrue interest at 8% per annum, compounded annually, and all outstanding principal and accrued interest is due and payable of May 10, 2023. The Company’s obligations under the Loan Agreement and the Promissory Note are secured by a second priority security interest in substantially all of the Company’s assets (the “Collateral”). The Loan Agreement and Promissory 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 Promissory Note also provide for certain events of default, including, among other things, payment defaults, breaches of representations and warranties and bankruptcy or insolvency proceedings, the occurrence of which, after any applicable cure period, would permit Lender, among other things, to accelerate payment of all amounts outstanding under the Loan Agreement and the Promissory Note, as applicable, and to exercise its remedies with respect to the Collateral. Upon the occurrence of an Event of Default under the Loan Agreement and Promissory 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. On September 30, 2022 and December 31, 2021, accrued interest payable under this Promissory Note amounted to \$55,781 and \$25,863, respectively, and is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheets. On September 30, 2022 and December 31, 2021, principal amount due under this Promissory Note amounted to \$500,000.

On July 22, 2021, in connection with the acquisition of Mobile Tint, the Company assumed vehicle and equipment loans in the amount of \$95,013. These loans bear interest at rates ranging from 6.79% to 8.24% and are payable monthly through April 2025. On September 30, 2022 and December 31, 2021, notes payable related to these vehicle and equipment loans amounted to \$48,479 and \$78,925, respectively.

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On March 14, 2022, the Company entered into an Original Issue Discount Promissory Note and Security Agreement (the “March 2022 Note”) in the principal amount of \$197,500 with Mercer Street Global Opportunity Fund, LLC (the “Investor”). The March 2022 Note was funded on March 14, 2022 and the Company received net proceeds of \$175,000 which is net of an original issue discount and investor legal fees of \$22,500. The original issue discount was recorded as a debt discount to be amortized over the life of the March 2022 note. The March 2022 Note matures 12 months after issuance and bears interest at a rate of 3% per annum. At any time, the Company may prepay all or any portion of the principal amount of the March 2022 Note and any accrued and unpaid interest without penalty. The March 2022 Note also creates a lien on and grants a priority security interest in all the Company’s assets. In connection with the March 2022 Note, the Company issued 823,529 shares of its common stock to the placement agent as fee for the capital raise. The 823,529 shares of common stock issued were recorded as a debt discount of \$12,963 based on the relative fair value method to be amortized over the life of the March 2022 Note. For the nine months ended September 30, 2022, amortization of debt discount related to the March 2022 Note amounted to \$19,209 which has been included in interest expense on the accompanying unaudited condensed consolidated statements of operations. On September 30, 2022, the principal balance due on the March 2022 Note amounted to \$197,500 and accrued interest payable amounted to \$3,263.

GS Capital Debt

On June 23, 2022, the Company entered into a Securities Purchase Agreement (“Agreement”) with GS Capital Partners, LLC (“GS Capital”), pursuant to which a Promissory Note (the “GS Capital Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on June 24, 2022 (less legal and other administrative fees). The Company received net proceeds of \$148,420. The Company further issued GS Capital a total of 1,750,000 commitment shares (“Commitment Shares”) as additional consideration for the purchase of the Note (See Note 9). Additionally, the GS Capital Note is convertible upon an event of default into common shares at an initial effective conversion price which was lower than the fair value of common shares based on the quoted closing price of the Company’s common stock on the measurement date. Principal and interest payments shall be made in 10 installments of \$21,060 each beginning on the 90th-day anniversary following the issue date and continuing thereafter each 30 days for nine months. The GS Capital Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under this Note at a conversion price of \$0.011, subject to adjustment as defined in the GS Capital Note. The Company did not calculate a beneficial conversion feature since the GS Capital Note is contingently convertible upon default on the GS Capital Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.011 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.004 per share. The GS Capital Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. Events of default include, amongst other items, failure to pay principal or interest, bankruptcy, delisting of the Company’s stock, financial statement restatements, or if the Company effectuates a reverse split. Upon the occurrence of any event of default, the GS Capital Note shall become immediately and automatically due and payable and the Company shall pay to GS Capital, in full satisfaction of its obligations hereunder, an amount equal to: (a) the then outstanding principal amount of this note plus (b) accrued and unpaid interest on the unpaid principal amount of this note to the date of payment (the “mandatory prepayment date”) plus (y) default interest, if any, multiplied by 120%. In September 2022, the Company paid \$14,928 of principal balance. On September 30, 2022, the principal balance due on the GS Capital Note amounted to \$180,072 and accrued interest payable amounted to \$4,258.

On July 26, 2022, the Company closed a Securities Purchase Agreement (“July 2022 Agreement”) with GS Capital, pursuant to which a Promissory Note (“July 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The July 2022 Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on July 28, 2022 (less legal and other administrative fees). The Company received net proceeds of \$158,920. The Company further issued GS Capital a total of 2,600,000 commitment shares (“July 2022 Commitment Shares”) as additional consideration for the purchase of the July 2022 Note. In addition, the Company issued 998,008 of its common stock to the placement agent as fee for the capital raise, respectively. The July Commitment Shares and the placement agent shares were recorded as a debt discount of \$34,606 based on the relative fair value method to be amortized over the life of the Note. Additionally, the July 2022 Note is convertible upon an event of default into common shares at an initial effective conversion price which was lower than the fair value of common shares based on the quoted closing price of the Company’s common stock on the measurement date. Principal and interest payments shall be made in 10 installments of \$21,060 each beginning on the 90th-day anniversary following the issue date and continuing thereafter each 30 days for nine months. The July 2022 Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under the July 2022 Note at a conversion price of \$0.011, subject to adjustment as defined in the Note. The Company did not calculate a beneficial conversion feature since the GS Capital July 2022 Note is contingently convertible upon a default on the July 2022 Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.011 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.004 per share. The July 2022 Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. On September 30, 2022, the principal balance due on the GS Capital July 2022 Note amounted to \$195,000 and accrued interest payable amounted to \$2,864.

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On September 6, 2022, the Company closed a Securities Purchase Agreement (“September 2022 Agreement”) with GS Capital, pursuant to which a Promissory Note (“September 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The September 2022 Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on September 6, 2022 (less legal and other administrative fees). The Company received net proceeds of \$158,920. The Company further issued GS Capital a total of 3,300,000 commitment shares (“September 2022 Commitment Shares”) as additional consideration for the purchase of the September 2022 Note. In addition, the Company issued 773,626 of its common stock to the placement agent as fee for the capital raise, respectively. The September Commitment Shares and the placement agent shares were recorded as a debt discount of \$30,326 based on the relative fair value method to be amortized over the life of the Note. Additionally, the September 2022 Note is convertible into common shares upon an event of default at an initial effective conversion price which was lower than the fair value of common shares based on the quoted closing price of the Company’s common stock on the measurement date. Principal and interest payments shall be made in 9 installments of \$23,400 each beginning on the 120th-day anniversary following the issue date and continuing thereafter each 30 days for eight months. The September 2022 Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under the September 2022 Note at a conversion price of \$0.009, subject to adjustment as defined in the Note. The Company did not calculate a beneficial conversion feature since the GS Capital July 2022 Note is contingently convertible upon a default on the September 2022 Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.009 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.0032 per share. The September 2022 Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. On September 30, 2022, the principal balance due on the GS Capital September 2022 Note amounted to \$195,000 and accrued interest payable amounted to \$1,068.

For the nine months ended September 30, 2022 and 2021, amortization of debt discounts related to notes payable amounted to \$38,885 and \$0, respectively, which has been included in interest expense on the accompanying unaudited condensed consolidated statements of operations.

PPP Loan

On April 28, 2020, the Company entered into a Paycheck Protection Program Promissory Note (the “PPP Note”) with respect to a loan of \$156,200 (the “PPP Loan”) from Comerica Bank. The PPP Loan was obtained pursuant to the Paycheck Protection Program (the “PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES act”) administered by the U.S. Small Business Administration (“SBA”). The PPP Loan matures on April 28, 2022 and bears interest at a rate of 1.00% per annum. The PPP Loan is payable in 18 equal monthly payments of approximately \$8,900 commencing November 1, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Company may apply to have the loan forgiven pursuant to the terms of the PPP if certain criteria are met. The Company applied for forgiveness of its PPP Loan, and on November 4, 2021, the Company was notified that the Small Business Administration forgave \$95,000 of the principal loan amount and \$1,442 of interest. As of November 4, 2021, the remaining principal balance of the loan was \$61,200 and the remaining accrued interest balance was \$935. During the nine months ended September 30, 2022, the Company repaid PPP Loan principal of \$30,107. On September 30, 2022 and December 31, 2021, the principal amount due under the PPP Loan amounted to \$18,823 and \$48,929, respectively. As of September 30, 2022 and December 31, 2021, accrued interest payable amounted to \$122 and \$1,031, respectively.

On September 30, 2022, future annual maturities of notes payable are as follows:

September 30,	Amount
2023	\$ 1,721,860
2024	8,534
2025	4,480
Total notes payable on September 30, 2022	<u>\$ 1,734,874</u>

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NOTE 9 – SHAREHOLDERS’ DEFICIT

Preferred Stock

Series B Preferred Stock

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

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

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

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

In the event of a conversion of any Series B, the Company shall issue to the holder a number of shares of common stock equal to the sum of the Stated Value plus accrued but unpaid dividends multiplied by the number of shares of Series B Preferred Stock being converted divided by the Conversion Price.

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

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

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

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

On December 12, 2019, the Board of Directors of the Company agreed to satisfy \$108,000 of accrued compensation owed to its directors and executive officers (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 108 shares of the Company’s Series B convertible preferred stock in settlement of accrued compensation. On December 21, 2020, the Board of Directors of the Company agreed to satisfy \$318,970 of accrued compensation owed to its directors and executive officers (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 319 shares of the Company’s Series B convertible preferred stock in settlement of accrued compensation.

On January 18, 2021, the Board of Directors of the Company agreed to satisfy \$295,000 of accrued compensation owed to its executive officers and former executive officer (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 295 shares of the Company’s Series B convertible preferred stock in settlement of accrued compensation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded non-cash stock-based compensation of \$3,778,810 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

On January 6, 2022, the Board of Directors of the Company agreed to satisfy \$278,654 of accrued compensation owed to its executive officers (collectively, the “Management”) as of December 31, 2021 and included in accrued compensation on the accompanying unaudited condensed consolidated balance sheet. Management agreed to accept 278 shares of the Company’s Series B convertible preferred stock in settlement of this accrued compensation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded non-cash stock-based compensation of \$957,556 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

158 Series B Preferred Stock vested on May 1, 2021 and 842 shall vest of May 1, 2023. By mutual agreement between the parties, the vesting date of previously granted Series B Preferred stock was extended through May 2023.

During the nine months ended September 30, 2022 and 2021, the Company accrued dividends of \$14,892 and \$10,525, respectively, which was included in Series B convertible preferred stock on the accompanying unaudited condensed consolidated balance sheets.

As of September 30, 2022, the net Series B Preferred Stock balance was \$1,032,156, which includes stated value of \$1,000,623 and accrued dividends payable of \$31,533. As of December 31, 2021, the net Series B Preferred Stock balance was \$738,611, which includes stated value of \$721,970 and accrued dividends payable of \$16,641. The net Series B Preferred Stock balance is included on the accompanying unaudited condensed consolidated balance sheets.

Series C Preferred Stock

On August 20, 2020, the Company filed an Amendment to its Articles of Incorporation to designate a series of preferred stock, the Series C Convertible Preferred Stock (the “Series C”), with the Secretary of State of the State of Colorado. The Certificate of Designations established 100,000 shares of the Series C, par value \$0.10, having such designations, preferences, and rights as determined by the Company’s Board of Directors in its sole discretion, in accordance with the Company’s Articles of Incorporation and Amended and Restated Bylaws. The Certificate of Designations became effective with the State of Colorado upon filing.

The Series C ranks senior with respect to dividends and right of liquidation with the Company’s common stock and junior to all existing and future indebtedness of the Company. The Series C has a stated value per share of \$100, subject to adjustment as provided in the Certificate of Designations (the “Stated Value”), and a dividend rate of 2% per annum of the Stated Value.

The Company has no option to redeem the Series C Preferred Stock. If the Company determines to liquidate, dissolve or wind-up its business and affairs, or effect any Deemed Liquidation Event as defined below, each of which has been approved by the holders of a majority of the shares of Series C Preferred Stock then outstanding, the Company will redeem all of the shares of Series C Preferred Stock outstanding immediately prior to such mandatory redemption event at a price per share of Series C Preferred Stock equal to the aggregate Series C Liquidation Value, which is 150% of the sum of the Stated Value plus accrued and unpaid dividends, for the shares of Series C Preferred Stock being redeemed.

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The Company will deliver ten-day advance written notice prior to the consummation of any mandatory redemption event via email or overnight courier (“Notice of Mandatory Redemption”) to each Holder whose shares are to be redeemed. The Series C is subject to redemption at liquidation Value noted above by the Company. Upon receipt by any Holder of a Notice of Mandatory Redemption, if Holder does not choose to convert, such Holder will promptly submit to the Company such Holder’s Series C Preferred Stock certificates on the Redemption Payment Date. Upon receipt of such Holder’s Series C Preferred Stock certificates, the Company will pay the applicable redemption price to such Holder in cash. A “Deemed Liquidation Event” will mean: (a) a merger or consolidation in which the Company is a constituent party or a subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation, except any such merger or consolidation involving the Company or a subsidiary in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of the surviving or resulting corporation or, if the surviving or resulting corporation is a wholly-owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or (b) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any subsidiary of the Company of all or substantially all the assets of the Company and its subsidiaries taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Company. Since the Company has determined that a deemed liquidation event is not probable, the Series C is stated at the Stated Value plus accrued and unpaid dividends rather than redemption value, which is liquidation value.

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

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

Through April 28, 2021, each share of Series C Preferred Stock was entitled to vote on all matters requiring shareholder vote. Each share of Series C Preferred Stock was entitled to the number of votes per share based on the calculation of the number of conversion shares of Series C Preferred Stock is then convertible. On April 28, 2021, the Company filed an Amended and Restated Certificate of Designations of Preferences, Rights, and Limitations of Series C Convertible Preferred Stock (the “Amended Certificate”). The Amended Certificate changed the voting rights of the Series C Preferred Stock on any matters requiring shareholder approval or any matters on which the common shareholders are permitted to vote. Series C Preferred Stock shall have no right to vote on any matters requiring shareholder approval or any matters on which the common shareholders (or other preferred stock of the Company which may vote with the common shareholders) are permitted to vote. With respect to any voting rights of the Series C Preferred Stock set forth herein, the Series C Preferred Stock shall vote as a class, each share of Series C Preferred Stock shall have one vote on any such matter, and any such approval may be given via a written consent in lieu of a meeting of the Holders of the Series C Preferred Stock. Any reference herein to a determination, decision or election being made by the “Majority Holders” shall mean the determination, decision or election as made by Holders holding a majority of the issued and outstanding shares of Series C Preferred Stock at such time. It also adjusts the conversion feature of the Series C Preferred Stock so that any Holder of Series C Preferred Stock cannot convert any portion of the Series C in excess of that number of Series C Preferred Stock that upon conversion would result in beneficial ownership by the Holder of more than 4.99% of the outstanding shares of common stock of the Company.

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

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

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

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

On August 25, 2021, the Company entered into a subscription agreement with an accredited investor whereby the investor agreed to purchase 3,000 shares of the Company's Series C Convertible Preferred Stock for \$300,000, or \$100.00 per share, the stated value, which was used for working capital purposes. The conversion feature of the Series C Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series C Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded a non-cash deemed dividend of \$1,509,523 related to the beneficial conversion feature arising from the issuance of Series C Preferred Stock. This non-cash deemed dividend increased the Company's net loss attributable to common stockholders and net loss per share.

On December 7, 2021, the Company issued 1,500,000 shares of its common stock upon conversion of 120 shares of Series C Preferred Stock with a stated value of \$12,000.

On January 12, 2022, the Company issued 1,543,151 shares its common stock upon the conversion of 120 shares of Series C preferred with a stated redemption value of \$12,000. The conversion price was based on contractual terms of the related Series C preferred shares.

On April 20, 2022, the Company issued 13,184,548 shares its common stock upon the conversion of 1,020 shares of Series C preferred with a stated redemption value of \$102,000. The conversion price was based on contractual terms of the related Series C preferred shares.

During the nine months ended September 30, 2022 and 2021, the Company accrued dividends of \$26,920 and \$23,504, respectively, which was included in Series C convertible preferred stock on the accompanying unaudited condensed consolidated balance sheets.

As of September 30, 2022, the net Series C Preferred Stock balance was \$1,819,932, which includes stated value of \$1,754,000 and accrued dividends payable of \$65,932. As of December 31, 2021, the net Series C Preferred Stock balance was \$1,907,012, which includes stated liquidation value of \$1,868,000 and accrued dividends payable of \$39,012. The net Series C Preferred Stock balance is included on the accompanying unaudited condensed consolidated balance sheets.

Common Stock

Issuance of Common Stock for Services

Issuance of Common Stock for Professional Fees

2021

On January 6, 2021, the Company issued 100,000 shares of its common stock for business development services rendered. These shares were valued at \$10,000, or \$0.10 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with the issuance of these shares, during the nine months ended September 30, 2021, the Company recorded stock-based professional fees of \$10,000.

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On February 1, 2021, the Company issued an aggregate of 700,000 shares of its common stock for business development, advisory and consulting services rendered and to be rendered. These shares were valued at \$54,600, or \$0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date and will be amortized into stock-based consulting fees over the term of the agreement or vesting period ranging from immediately to one year. In connection with the issuance of these shares, during the nine months ended September 30, 2021, the Company recorded stock-based professional fees of \$41,600 and prepaid expenses of \$13,000 which was amortized into stock-based professional fees over the remaining term of the agreement or vesting period.

On March 8, 2021, the Company issued an aggregate of 750,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at \$49,500, or \$0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, during the nine months ended September 30, 2021, the Company recorded stock-based professional fees of \$49,500.

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

On June 3, 2021, the Company issued 200,000 shares of its common stock for technology services rendered. These shares were valued at \$6,000, or \$0.03 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with the issuance of these shares, the Company recorded stock-based professional fees of \$6,000.

On July 7, 2021, the Company issued 2,500,000 shares of its common stock for investor relations services to be rendered. These shares were valued at \$72,500, or \$0.029 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, the Company recorded stock-based professional fees of \$72,500.

On August 23, 2021, the Company issued 500,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at \$19,000, or \$0.038 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, as of September 30, 2021, the Company recorded stock-based professional fees of \$1,979 and prepaid expenses of \$17,021 which will be amortized into stock-based professional fees over the term of the agreement or vesting period of 1.00 year.

2022

On June 7, 2022, the Company issued an aggregate of 4,000,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at \$48,000, or \$0.012 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement. In connection with the issuance of these shares, during the nine months ended September 30, 2022, the Company recorded stock-based professional fees of \$15,000 and prepaid expenses of \$33,000 which will be amortized into stock-based professional fees over the remaining term of the agreement.

On June 24, 2022, the Company issued an aggregate of 3,000,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at \$54,000, or \$0.018 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement. In connection with the issuance of these shares, during the nine months ended September 30, 2022, the Company recorded stock-based professional fees of \$54,000.

On July 1, 2022, the Company granted a restricted stock award of 2,500,000 common shares of the Company to a consultant of the Company for business development and consulting services rendered, which shares were valued at \$31,250, or \$0.0125 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement. In connection with the issuance of these shares, during the nine months ended September 30, 2022, the Company recorded stock-based professional fees of \$15,625 and prepaid expenses of \$15,625 as of September 30, 2022, which will be amortized into stock-based professional fees over the remaining term of the agreement.

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On July 15, 2022, the Company granted a restricted stock award of 5,454,545 common shares of the Company to a consultant of the Company for government relations services to be rendered, which shares were valued at \$60,000, or \$0.011 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement. In connection with the issuance of these shares, during the nine months ended September 30, 2022, the Company recorded stock-based professional fees of \$25,000 and prepaid expenses of \$35,000 as of September 30, 2022, which will be amortized into stock-based professional fees over the remaining term of the agreement.

During the nine months ended September 30, 2022, the Company recorded stock-based professional fees of \$119,321 in connection with the amortization of prepaid expenses of \$119,321 related to common shares previously issued. During the nine months ended September 30, 2021, the Company recorded stock-based professional fees of \$43,250 in connection with the amortization to prepaid expenses of \$38,250 and accretion of stock-based professional fees of \$5,000 related to common shares previously issued.

Issuance of Common Stock for Stock-Based Compensation

2021

On February 1, 2021, the Company issued 200,000 shares of its common stock to an individual who agreed to act as the Company's national sales manager for services to be rendered. These shares were valued at \$15,600, or \$0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares were to vest on May 1, 2022. On May 17, 2021, this individual resigned, and these shares have been forfeited.

On March 8, 2021, the Company granted restricted stock awards for an aggregate of 2,500,000 common shares of the Company to an employee and an officer of the Company for services to be rendered, which were valued at \$165,000, or \$0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares were to vest on May 1, 2022. On May 17, 2021, this individual resigned, and these shares have been forfeited.

On July 22, 2021, pursuant to the Share Exchange Agreement and Plan of Reorganization (See Note 3), the Company issued 976,500 shares of its common stock to employees of Mobile Tint LLC as a bonus. These shares were valued at \$24,413, or \$0.025 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, the Company recorded stock-based compensation of \$24,413.

On September 17, 2021, the Company granted a restricted stock award for 1,000,000 common shares of the Company to an employee for services to be rendered through May 1, 2022 which were valued at \$30,600, or \$0.031 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares will vest on May 1, 2022. In connection with these shares, the Company shall record stock-based compensation over the vesting period.

2022

On March 24, 2022, the Company granted restricted stock awards of 500,000 vested common shares of the Company to an employee of the Company for services rendered. The awards were valued at \$14,250, or \$0.0285 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

On July 12, 2022, the Company granted a restricted stock award of 1,000,000 common shares of the Company to an employee of the Company. The shares will vest on May 1, 2023. These shares were valued on the date of grant at \$11,000, or \$0.011 per common share based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, the Company shall record stock-based compensation over the vesting period.

On August 12, 2022, the Company granted a restricted stock award of 2,000,000 common shares of the Company to a board member of the Company. The shares will vest on May 1, 2023. These shares were valued on the date of grant at \$24,000 or \$0.012 per common share based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, the Company shall record stock-based compensation over the vesting period.

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During the nine months ended September 30, 2022 and 2021, aggregate accretion of stock-based compensation expense on granted common shares amounted to \$53,764 and \$224,588, respectively. Total unrecognized compensation expense related to these unvested common shares on September 30, 2022 amounted to \$30,556. By mutual agreement between the parties, the vesting date of previously granted shares was extended through May 2023.

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

	Number of Non-Vested Shares	Weighted Average Grant Date Fair Value
Non-vested, December 31, 2021	14,270,120	\$ 0.14
Granted	3,500,000	0.014
Forfeited	-	-
Shares vested	(800,000)	(0.037)
Non-vested, September 30, 2022	<u>16,970,120</u>	<u>\$ 0.119</u>

Issuance of Common Stock for Accrued Compensation

On March 19, 2021, the Company issued 944,767 shares of its common stock pursuant to the terms of a Notice of Separation and General Release Agreement. These shares were valued at \$55,741, or \$0.059 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with the issuance of these shares, the Company reduced accrued compensation by \$40,625 and recorded stock-based compensation of \$15,116.

Issuance of Common Stock Pursuant to Share Exchange Agreement

On July 22, 2021, the Company closed the Exchange Agreement and acquired 80% of the Mobile Member Units (see Note 3). The Mobile Member Units were exchanged for restricted shares of the Company's common stock, in an amount equal to \$800,000, divided by the average of the closing prices of the Company's common stock during the 30-day period immediately prior to the closing as defined in the Exchange Agreement. In connection with the Exchange Agreement, the Company issued 28,021,016 shares of its common stock. These shares were valued at \$694,921, or \$0.0248 based on the quoted closing price of the Company's common stock on the measurement date.

Shares Issued for Accounts Payable

On May 4, 2021, the Company issued 3,801,224 common shares upon conversion of accounts payable of \$117,838, or \$0.031 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

Common Stock Issued in Connection with Notes Payable

In connection with the March 2022 Note, the Company issued 823,529 shares of its common stock to the placement agent as fee for the capital raise. The 823,529 shares of common stock issued were recorded as a debt discount of \$12,963 based on the relative fair value method to be amortized over the life of the Note (See Note 8).

In connection with the June 2022 GS Capital Note, the Company issued 1,750,000 shares of its common stock as a commitment fee. The 1,750,000 shares of common stock issued were recorded as a debt discount of \$32,736 based on the relative fair value method to be amortized over the life of the Note (See Note 8).

In connection with the July 2022 GS Capital Note, on July 28, 2022, the Company issued 2,600,000 shares of its common stock as a commitment fee and the Company issued 998,008 shares of its common stock to the placement agent as fee for the capital raises. The aggregate of 3,598,008 shares of common stock issued were recorded as a debt discount of \$34,606 based on the relative fair value method to be amortized over the life of the July 2022 Note (See Note 8).

In connection with the September 2022 GS Capital Note, on September 6, 2022, the Company issued 3,300,000 shares of its common stock as a commitment fee and the Company issued 773,626 shares of its common stock to the placement agent as fee for the capital raises. The aggregate of 4,073,626 shares of common stock issued were recorded as a debt discount of \$30,326 based on the relative fair value method to be amortized over the life of the September 2022 Note (See Note 8).

Common Stock Issued for Conversion of Series C Preferred Stock

On January 12, 2022, the Company issued 1,543,151 shares its common stock upon the conversion of 120 shares of Series C preferred with a stated redemption value of \$12,000. The conversion price was based on contractual terms of the related Series C preferred shares.

On April 20, 2022, the Company issued 13,184,548 shares its common stock upon the conversion of 1,020 shares of Series C preferred with a stated redemption value of \$102,000. The conversion price was based on contractual terms of the related Series C preferred shares.

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Common stock issued for Accounts Payable

On January 6, 2022, the Company issued 90,859 common shares upon conversion of accounts payable of \$2,174, or \$0.024 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

Common Stock Issued Upon Warrant Exercise

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

Stock Options

For the nine months ended September 30, 2022 and 2021, the Company recorded no compensation expense related to stock options. Total unrecognized compensation expense related to unvested stock options on September 30, 2022 and December 31, 2021 amounted to \$0.

Stock option activities for the nine months ended September 30, 2022 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2021	8,445,698	\$ 0.40		
Exercised	-	-	-	-
Balance Outstanding, September 30, 2022	8,445,698	\$ 0.40	3.69	\$ 0
Exercisable, September 30, 2022	8,445,698	\$ 0.40	3.69	\$ 0

Warrants

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

On October 15, 2021, in connection with a Securities Purchase Agreements with an accredited investor (See Note 7), the Company issued warrants to purchase an aggregate amount up to 16,500,000 shares of the Company's common stock (the "Initial Warrants"). The Initial Warrants were exercisable at any time on or after the date of the issuance and entitled this investor to purchase shares of the Company's common stock for a period of five years from the initial date the Initial Warrants become exercisable. Under the terms of the Initial Warrants, the holder was entitled to exercise the Initial Warrants to purchase up to 16,500,000 shares of the Company's common stock at an initial exercise price of \$0.05, subject to adjustment as detailed in the Warrants. In connection with the issuance of these warrants, on the initial measurement date, the relative fair value of the Initial Warrants of \$347,142 was recorded as a debt discount and an increase in paid-in capital (See Note 7). On April 20, 2022, in connection with an Exchange Agreement, the 16,500,000 Initial Warrants were cancelled and a new warrant to purchase up to 33,000,000 shares of the Company's common stock at an initial exercise price of \$0.025, subject to adjustment as detailed in the Warrants was issued (See Note 7).

On April 20, 2022, in connection with an Exchange Agreement (See Note 7), the Company issued warrants to purchase an aggregate amount up to 33,000,000 shares of the Company's common stock (the "New Warrants"). The New Warrants are exercisable at any time on or after the date of the issuance and entitled this investor to purchase shares of the Company's common stock for a period of five years from the initial date the warrants become exercisable. Under the terms of the New Warrants, the holder is entitled to exercise the Warrants to purchase up to 33,000,000 shares of the Company's common stock at an initial exercise price of \$0.025, subject to adjustment as detailed in the New Warrants. In connection with the issuance of the New Warrants, on the initial measurement date, the relative fair value of the warrants of \$325,785 was recorded as a debt discount and an increase in paid-in capital (See Note 7). On June 23, 2022, the Company issued common stock equivalents with an initial conversion price of \$0.011 per share and accordingly, the conversion price and warrant down-round provisions were triggered. As a result, the conversion price of the New April 2022 Note was reduced to \$0.011 per share and the exercise price of the New April 2022 Warrant was lowered to \$0.011. As a result of the June 23, 2022 down-round provisions, the Company calculated the difference between the warrants fair value on June 23, 2022, the date the down-round feature was triggered using the then current exercise price of \$0.025 and the new exercise price of \$0.011. On June 23, 2022, the Company recorded a deemed dividend of \$3,702 which represents the fair value transferred to the warrant holders from the down round feature being triggered. Additionally, on September 6, 2022, the Company issued common stock equivalents with an initial conversion price of \$0.009 per share and accordingly, the conversion price and warrant down-round provisions were triggered. As a result, the conversion price of the New April 2022 Note was reduced to \$0.009 per share and the exercise price of the New April 2022 Warrant was lowered to \$0.009. As a result of the September 6, 2022 down-round provisions, the Company calculated the difference between the warrants fair value on September 6, 2022, the date the down-round feature was triggered using the then current exercise price of \$0.011 and the new exercise price of \$0.009. On September 6, 2022, the Company recorded a deemed dividend of \$733 which represents the fair value transferred to the warrant holders from the down round feature being triggered. No additional beneficial conversion feature amount was recorded based on the September 6, 2022 valuation as the ratcheted beneficial conversion feature value was lower than the original amount.

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Warrant activities for the nine months ended September 30, 2022 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2021	17,500,000	\$ 0.05	4.67	\$ -
Granted	33,000,000	0.025	-	-
Cancelled	(16,500,000)	0.05	-	-
Balance Outstanding September 30, 2022	34,000,000	\$ 0.011	3.99	\$ -
Exercisable, September 30, 2022	34,000,000	\$ 0.011	3.99	\$ -

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 29,451,070 shares of restricted stock have been issued as of September 30, 2022. All shares underlying grants are expected to be issued from the Company's unissued authorized shares available.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time, the Company may be involved in litigation related to claims arising out of its operations in the normal course of business. As of September 30, 2022, other than discussed below, the Company is not involved in any other pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations, or cash flows.

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On January 20, 2022, we received an Order Directing Examination and Designating Officers to Take Testimony (a “Formal Order”) from the SEC. The Formal Order authorizes that an examination be made to determine whether a stop order should be issued under Section 8(d) of the Securities Act of 1933 with respect to the Company’s Registration Statement on Form S-1, and any supplements and amendments thereto. The Formal Order indicates that the Form S-1 may be deficient in that it may contain untrue statements of material fact or omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading concerning, among other things, the Company’s revenue and financial condition. On April 15, 2022, the Company filed an amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The restatement had the cumulative effect of decreasing the Company’s reported revenue for Fiscal 2020 by \$102,569 and decreasing the Company’s bad debt expense for the same period by \$102,569. There was no effect on Company’s reported net loss for Fiscal 2020 or on the financial condition of the Company on December 31, 2020. The Company received a subpoena from the SEC on April 25, 2022, requesting all documents and communications concerning the review of C-Bond’s revenue recognition practices for fiscal year 2020. The Company has provided the requested information and its Chief Executive Officer provided his testimony regarding this Formal Order in October 2022.

On March 8, 2021, a former officer of the Company resigned. Both parties alleged certain claims against the other, including certain compensation claims, and are in discussion regarding resolution. Neither party has filed litigation. The Company intends to vigorously defend itself against any possible claims and assert any relevant claims against the former executive and believes it will prevail.

In July 2021, a former employee of the Company filed a small claims case for approximately \$16,000 in Harris County, TX, and the Company filed its response in August 2021. There has been no further communication from the Court. The Company intends to vigorously defend itself against the claim made and believes it will prevail. As of September 30, 2022 and December 31, 2021, the Company has accrued compensation of \$18,250 to this former employee, which is included in accrued compensation on the accompanying unaudited condensed consolidated balance sheets.

Employment Agreements

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

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

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

Mr. Silverman’s employment agreement provides that, in the event that his employment is terminated by the Company without “cause” (as defined in his employment agreement), or if Mr. Silverman resigned for “good reasons” (as defined in his new employment agreement), subject to a complete release of claims, he will be entitled to (i) retain all stock options previously granted; and (ii) receive any benefits then owed or accrued along with one year of base salary and any unreimbursed expenses incurred by him. All amounts shall be paid on the termination date. In the event that Mr. Silverman’s employment is terminated by the Company for “cause” (as defined in his employment agreement), or if Mr. Silverman resigned without “good reasons” (as defined in his employment agreement), subject to a complete release of claims, he will be entitled to receive any unpaid base salary and benefits then owed or accrued and any unreimbursed expenses incurred by him. Additionally, if a change of control (as defined in his employment agreement) occurs during the term of this agreement, all unvested stock options will vest in full and if the valuation of the Company in the change of control transaction is greater than \$0.85 per common share, then Mr. Silverman shall be paid a bonus equal to two times his minimum base salary and minimum target bonus. Pursuant to the employment agreement, Mr. Silverman will be subject to a confidentiality covenant, a two-year post-termination non-competition covenant and a two-year post-termination non-solicitation covenant. On June 30, 2020, the Company amended the employment agreement of Mr. Silverman to provide for successive one-year extensions until either the executive or the Board of Directors of the Company gives notice to terminate the employment agreement per its terms. This employment agreement amendment also includes an allowance of up to \$10,000 per year to cover uncovered medical/dental expenses for Mr. Silverman and his family.

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

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On July 21, 2021, the Company entered into the Employment Agreement with Mr. Wanke, the President of Mobile, to serve as the President of C-Bond's Safety Solutions Group. Under the three-year Employment Agreement, Mr. Wanke will receive a base salary of \$240,000 per year, which may be increased from time to time with the approval of the board of directors. In addition, Mr. Wanke may receive an annual bonus as determined by the board of directors. It is understood that although Mr. Wanke's base salary will be paid by Mobile, 50% of the base salary will be allocated to the expenses of Mobile, and the other 50% of the base salary will be allocated to the expenses of the Company. The term of this Agreement (the "Initial Term") shall begin as of July 21, 2021 (the "Effective Date") and shall end on the earlier of (i) the third anniversary of the Effective Date and (ii) the time of the termination of the Executive's employment in accordance with the Employment Agreement. This Initial Term and any Renewal Term (as defined below) shall automatically be extended for one or more additional terms of one (1) year each (each a "Renewal Term" and together with the Initial Term, the "Term"), unless either the Company or Executive provide notice to the other Party of their desire to not so renew the Initial Term or Renewal Term (as applicable) at least thirty (30) days prior to the expiration of the then-current Initial Term or Renewal Term, as applicable. All unvested shares of stock and stock options shall expire upon such termination, if any. The Executive shall be eligible for an annual bonus payment in an amount to be determined by the Board of Directors of the Company (the "Bonus"). The Bonus shall be determined and payable based on the achievement of certain performance objectives of the Company as established by the Board and communicated to and agreed to by the Executive in writing as soon as practicable after commencement of the year in respect of which the Bonus is paid. The Bonus, if earned, is payable in cash and/or restricted stock at the discretion of the Board. It is understood between the Parties that the target bonus for each year shall be up to 50% of the Base Salary.

On December 8, 2021, the Company's board of directors approved a bonus to certain officers in the aggregate amount of \$309,615 which is equal to 50% of their annual compensation. This bonus will be paid 10% in cash (\$30,962) which was paid in December 2021 and 90% in equity amounting \$278,653 which as of December 31, 2021 had been accrued and as of December 31, 2021, was included in accrued compensation on the accompanying unaudited consolidated balance sheet. On January 6, 2022, the Board of Directors of the Company agreed to satisfy \$278,653 of the bonus owed to its executive officers (collectively, the "Management"). Management agreed to accept 278 shares of the Company's Series B convertible preferred stock in settlement of this accrued compensation.

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, 2022.

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

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

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

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

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

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NOTE 11 – CONCENTRATIONS

Concentrations Of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable and cash deposits. The Company places its cash in banks at levels that, at times, may exceed federally insured limits. On September 30, 2022, the Company did not have any cash in excess of FDIC limits of \$250,000. The Company has not experienced any losses in such accounts through September 30, 2022.

Geographic Concentrations of Sales

During the nine months ended September 30, 2022 and 2021, all sales were in the United States.

Customer Concentrations

For the nine months ended September 30, 2022, one customer accounted for 10% of total sales. For the nine months ended September 30, 2021, three customers accounted for approximately 47.4% of total sales (12.6%, 11.3%, and 23.5%, respectively). On September 30, 2022, three customers accounted for 41.1% (10.3%, 19.3% and 11.5%, respectively) of the total accounts receivable balance.

Vendor concentrations

Generally, the Company purchases substantially all of its inventory from five 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 – SEGMENT REPORTING

During the nine months ended September 30, 2022 and from July 22, 2021 (date of acquisition of Mobile Tint) to September 30, 2021, the Company operated in two reportable business segments - (1) the manufacture and sale of a windshield strengthening water repellent solution as well as a disinfection product, and the sale of multi-purpose glass strengthening primer and window film mounting solutions, including ballistic-resistant film systems and a forced entry system (the "C-Bond Segment"), and (2) the distribution and installation of window film solutions (the "Mobile Tint Segment"). The Company's reportable segments were strategic business units that offered different products. They were managed separately based on the fundamental differences in their operations and locations.

Information with respect to these reportable business segments for the three and nine months ended September 30, 2022 and 2021 was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
C-Bond	\$ 113,280	\$ 80,878	\$ 291,254	\$ 370,198
Mobile Tint	460,369	593,640	1,333,471	593,640
	<u>573,649</u>	<u>674,518</u>	<u>1,624,725</u>	<u>963,838</u>
Depreciation and amortization:				
C-Bond	1,948	2,472	6,380	7,417
Mobile Tint	20,616	26,461	61,850	26,461
	<u>22,564</u>	<u>28,933</u>	<u>68,230</u>	<u>33,878</u>
Interest expense:				
C-Bond	-	-	-	1,372
Mobile Tint	4,581	1,253	13,237	1,253
Other (a)	440,985	28,647	1,044,447	70,824
	<u>445,566</u>	<u>29,900</u>	<u>1,057,684</u>	<u>73,449</u>
Net (loss):				
C-Bond	(260,986)	(325,016)	(789,601)	(1,304,798)
Mobile Tint	(42,648)	170,753	(158,076)	170,753
Other (a)	(642,756)	(336,514)	(2,927,484)	(4,799,730)
	<u>\$ (946,390)</u>	<u>\$ (490,777)</u>	<u>\$ (3,875,161)</u>	<u>\$ (5,933,775)</u>

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	September 30, 2022	December 31, 2021
Identifiable long-lived tangible assets on September 30, 2022 and December 31, 2021 by segment		
C-Bond	\$ 2,414	\$ 8,794
Mobile Tint	102,256	126,228
	<u>\$ 104,670</u>	<u>\$ 135,022</u>

(a) The Company does not allocate any general and administrative expense of its holding company activities to its reportable segments, because these activities are managed at the corporate level.

NOTE 13 – REVENUE RECOGNITION

In connection with the Company's C-Bond segment, the revenue that the Company recognizes arises from purchase requests the Company receives from its customers. The Company's performance obligations under purchase orders or by a verbal order correspond to each shipment of product that the Company makes to its customer under the purchase order or verbal order. As a result, each purchase order or verbal 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. In connection with the Company's C-Bond segment, when the Company receives a purchase order or verbal 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 or verbal 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.

In connection with the Company's Mobile Tint segment, the revenue that the Company recognizes arises from purchase requests the Company receives from its customers. The Company's performance obligations under purchase order or a signed proposal correspond to each job for the distribution and installation of window film solutions. As a result, each purchase order or signed proposal generally may contain more than one performance obligation based on the specific job. 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 when the job or a specific portion of the job is completed. Once this occurs, the Company has satisfied its performance obligation and the Company recognizes revenue. Revenues from contracts for the distribution and installation of window film solutions are recognized over time on the basis of the Company's estimates of the progress towards completion of contracts using various output of input methods including (1) the ratio of number of labor hours spent compared to the number of estimated labor hours to complete a job, (2) using the milestone method, or (3) using a units completed method. These methods are used because management considers these methods to be the best available measure of progress on these contracts.

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, labor costs, and freight. In the Company's C-Bond 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, 2022 and 2021. Any sales tax, value added tax, and other tax the Company collects concurrently with its revenue-producing activities are excluded from revenue.

Revenue Disaggregation

The Company tracks its revenue by product. The following table summarizes our revenue by product for the nine months ended September 30, 2022 and 2021:

	For the Nine Months Ended September 30,	
	2022	2021
C-Bond Secure multi-purpose and BRS ballistic resistant glass protection systems	\$ 45,756	\$ 184,845
C-Bond Nanoshield solution sales	265,106	159,017
Disinfection products	10,880	7,130
C-Bond installation and other services	40	12,143
Window tint installation and sales recognized over time	1,299,419	593,640
Freight and delivery	3,524	7,063
Total	<u>\$ 1,624,725</u>	<u>\$ 963,838</u>

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

In October 2019, the Company entered into an 18-month lease agreement for the lease of office and warehouse space under a non-cancelable operating lease through May 31, 2021. From the lease commencement date of December 1, 2019 until November 30, 2020, monthly rent shall be \$4,444 and from December 1, 2020 to May 31, 2021, monthly rent shall be \$4,577 per month. On May 12, 2021 and effective June 1, 2021, the Company entered into an amendment to the lease which extended the lease for one year until May 31, 2022 at a monthly base rent of \$5,283. On May 4, 2022 and effective June 1, 2022, the Company entered into an amendment to the lease which extended the lease for three years until May 31, 2025 at a monthly base rent as follows:

Rental Period	Amount per Month
June 1, 2022 – May 31, 2023	\$ 5,441
June 1, 2023 – May 31, 2024	\$ 5,604
June 1, 2024 – May 31, 2025	\$ 5,772

In connection with the Exchange Agreement, the Company was named as guarantor (“Guarantor”) of a Commercial Lease Agreement dated July 21, 2021, by and between landlord MDW Management, LLC, a company owned by Mr. Wanke and his wife and tenant Mobile Tint, LLC d/b/a A-1 Glass (the “Lease”). The term of the Lease is 60 months, at a minimum monthly rent of \$5,600 (not including tax), with two five-year options for the tenant to renew. The Company’s obligation as Guarantor of the Lease will terminate upon the occurrence of earlier of the following: (i) the date of Guarantor’s acquisition of 100% of the ownership interests of Mobile; (ii) the date that Guarantor beneficially owns less than an eighty percent (80%) ownership interest in Mobile; or (iii) two (2) years from and after the effective date of the guaranty.

In September 2021, the Company entered into a 48-month lease agreement for the lease of office equipment under a non-cancelable operating lease through September 2025. The monthly base rent is \$365 per month.

In February 2022, the Company entered into a 36-month lease agreement for the lease of a vehicle under a non-cancelable operating lease through January 2025. The monthly base rent is \$788 per month.

In adopting ASC Topic 842, Leases (Topic 842) on January 1, 2019, the Company had elected the ‘package of practical expedients’, which permitted it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs (see Note 2). In addition, the Company elected not to apply ASC Topic 842 to arrangements with lease terms of 12 month or less. Upon signing of new leases for property and equipment, the Company analyzed the new leases and determined it is required to record a lease liability and a right of use asset on its consolidated balance sheets, at fair value.

During the nine months ended September 30, 2022 and 2021, in connection with its property operating leases, the Company recorded rent expense of \$127,700 and \$79,429, respectively, which is expensed during the period and included in operating expenses on the accompanying unaudited condensed consolidated statements of operations.

The significant assumption used to determine the present value of the lease liabilities in February 2022, September 2021 and July 2021 was discount rates ranging from 4% and 12% which was based on the Company’s estimated average incremental borrowing rate.

On September 30, 2022 and December 31, 2021, right-of-use asset (“ROU”) is summarized as follows:

	September 30, 2022	December 31, 2021
Office leases and office equipment right of use assets	\$ 480,293	\$ 269,590
Less: accumulated amortization	(76,742)	(18,418)
Balance of ROU assets	<u>\$ 403,551</u>	<u>\$ 251,172</u>

On September 30, 2022 and December 31, 2021, operating lease liabilities related to the ROU assets are summarized as follows:

	September 30, 2022	December 31, 2021
Lease liabilities related to office leases right of use assets	\$ 404,211	\$ 251,246
Less: current portion of lease liabilities	(114,770)	(44,927)
Lease liabilities – long-term	<u>\$ 289,441</u>	<u>\$ 206,319</u>

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(UNAUDITED)

On September 30, 2022, future minimum base lease payments due under non-cancelable operating leases are as follows:

Twelve months ended September 30,	Amount
2023	\$ 146,977
2024	148,955
2025	120,908
2026	56,000
Total minimum non-cancelable operating lease payments	472,840
Less: discount to fair value	(68,629)
Total lease liability on September 30, 2022	\$ 404,211

NOTE 15 – RELATED PARTY TRANSACTIONS

Due From Related Party

In December 2021, the Company advanced \$3,750 to a company partially owned by officers of the Company. The advance is non-interest bearing, payable on demand, and as of December 31, 2021 is reflected as due from related party on the accompanying condensed consolidated balance sheets. In June 2022, this advance was deemed uncollectible and the balance was written off to bad debt expense.

Note Payable - Related Party

On May 2, 2022, the Company entered into a Promissory Note (the “May 2022 Note”) in the principal amount of \$250,000 with the Company’s chief executive officer. The May 2022 Note was funded in May 2022 and the Company received net proceeds of \$250,000. The May 2022 Note bears interest at a rate of 6% per annum and all outstanding principal and accrued and unpaid interest is due on May 2, 2024. At any time, the Company may prepay all or any portion of the principal amount of the May 2022 Note and any accrued and unpaid interest without penalty. For the nine months ended September 30, 2022, interest expense – related party amounted to \$6,247. On September 30, 2022, principal amount due and accrued interest payable - related party amounted to \$250,000 and \$6,247, respectively.

NOTE 16 – SUBSEQUENT EVENTS

On October 3, 2022, the Company issued 3,000,000 shares of its common stock for investor relations services to be rendered. These shares were valued at \$24,300, or \$0.0081 per common share, based on the quoted closing price of the Company’s common stock on the measurement date. In connection with these shares, the Company shall record stock-based professional fees of \$24,300 over the contract term of six months.

On November 8, 2022, the Company entered into a Promissory Note (the “November 2022 Note”) with a private investor (the “Private Investor”) in the principal amount of \$200,000 and received net proceeds of \$200,000. The November 2022 Note bears interest at a rate of 8% per annum and all outstanding principal and accrued and unpaid interest is due on November 8, 2024. At any time, the Company may prepay all or any portion of the principal amount of the November 2022 Note and any accrued and unpaid interest without penalty. As security for payment of the principal and interest on the November 2022 Note, the Company and the Private Investor previously entered into that certain Loan and Security Agreement dated May 10, 2021, which is incorporated into the November 2022 Note.

On November 9, 2022, the Company closed a Securities Purchase Agreement dated November 4, 2022, with 1800 DIAGONAL LENDING LLC, a Virginia limited liability company, (“Diagonal”), pursuant to which a Promissory Note (“Diagonal Note”) dated November 4, 2022, was made to Diagonal in the aggregate principal amount of \$104,250. The Note was funded on November 9, 2022 in the amount of \$100,000. The Diagonal Note bears interest at a rate of 12% per annum (22% upon the occurrence of an event of a default) and all outstanding principal and accrued and unpaid interest is due on May 4, 2024.

The Company has the right to prepay the Diagonal Note (principal and accrued interest) at any time during the first six months the note is outstanding at the rate of 115% during the first 30 days after issuance, 120% during the 31st to 60th day after issuance, and 125% during the 61st to the 180th day after issuance. The Diagonal Note may not be prepaid after the 180th day following the issuance date, unless Diagonal agrees to such repayment and such terms. Diagonal may in its option, at any time beginning 180 days after the date of the note, convert the outstanding principal and interest on the Diagonal Note into shares of our common stock at a conversion price per share equal to 65% of the average of the three lowest closing bid prices of our common stock during the 10 trading days prior to the date of conversion. At no time may the Diagonal Note be converted into shares of our common stock if such conversion would result in Diagonal and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

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

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Forward-Looking Statements" elsewhere in this Report on Form 10-Q. Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in our industry. These forward-looking statements are not a guarantee 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 15, 2022, 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. We are engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality, and sustainability of brittle material systems. Our present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally. We operate in two divisions: C-Bond Transportation Solutions and Patriot Glass Solutions. C-Bond Transportation Solutions sells a windshield strengthening, water repellent solution called C-Bond nanoShield™ as well as disinfection products. Patriot Glass Solutions sells multi-purpose glass strengthening primer and window film mounting solutions, including C-Bond BRS, a ballistic-resistant film system, and C-Bond Secure, a forced entry system.

To date, we have filed, licensed and/or acquired a total of 23 individual patents and patent applications spanning core and strategic nano-technology applications and processes. Our intellectual property portfolio was recently valued at \$33.7 million by a leading, independent, global intellectual property valuation firm. The IP valuation firm's review covered the valuation of our intangible assets including our developed technology, trade name, customer relationships, and assembled workforce, and the Company's determination of the fair value or other amounts of any assets and liabilities including current assets, real property, personal property, and current liabilities. Our developed technology includes C-Bond nanoShield, C-Bond Secure, and C-Bond BRS. The valuation firm also reviewed historical and projected financial information for the Company giving consideration to general economic and industry trends.

On May 20, 2020, we entered into a two-year Distributor Agreement with an entity where we were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets for use in certain markets. In February 2022, we and the entity amended the Distributor Agreement to include the sale of Vimoba Tablets in those same markets and extended the term of the Distributor Agreement for another year. MB-10 Disinfectant Tablets are the most convenient way yet to deliver the benefits of chlorine dioxide to hygiene or biosafety programs. MB-10 disinfectant tablets have one of the broadest, most complete EPA registration labels on the market. It is a safe, easy, and effective way to disinfect a vehicle's interior using an EPA registered disinfectant (Reg No.70060-19-46269) included on List N for use against human coronavirus SARS-CoV-2. It is proven effective against emerging viral pathogens, including enveloped and large and small non-enveloped viruses. MB-10 Tablets provide fast-acting virus and bacteria protection that is safe for all vehicle surfaces including LED screens and electronics without leaving a residue or odor. Vimoba Tablets are 100% non-corrosive, chlorine dioxide producing tablets that maintain the exact same efficacy, EPA Label claims, dilution rates and contact times as MB-10 Tablets, while including a buffering agent that makes the Vimoba solution completely non-corrosive on stainless steel – even after prolonged use or exposure – and even when the solution dries on the surface. We were appointed as a distributor to exclusively sell MB-10 Disinfectant Tablets and Vimoba Tablets for use in the following markets:

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

On June 30, 2021, we entered into a Share Exchange Agreement and Plan of Reorganization (the “Exchange Agreement”) with (i) Mobile Tint LLC, a Texas limited liability company doing business as A1 Glass Coating (“Mobile”), (ii) the sole member of Mobile (the “Mobile Member”), and (iii) Michael Wanke as the Representative of the Mobile Member. Pursuant to the Exchange Agreement, we agreed to acquire 80% of Mobile’s member units, representing 80% of Mobile’s issued and outstanding capital stock (the “Mobile Member Units”). On July 22, 2021, we closed the Exchange Agreement and acquired 80% of the Mobile Shares. The Mobile Member Units were exchanged for restricted shares of the Company’s common stock, in an amount equal to \$800,000, divided by the average of the closing prices of the Company’s common stock during the 30-day period immediately prior to the closing as defined in the Exchange Agreement. In connection with the Exchange Agreement, we issued 28,021,016 shares of its common stock. Two years after closing, we have the option to acquire the remaining 20% of Mobile’s issued and outstanding membership interests in exchange for a number of shares of the Company’s common stock equal to 300% of Mobile’s average EBIT value, divided by the price of the Company’s common stock as defined in the Exchange Agreement (the “Additional Closing”). Mobile provides quality window tint solutions for auto, home, and business owners across Texas, specializing in automotive window tinting, residential window film, and commercial window film that stop harmful UV rays from passing through its window films for reduced glare, comfortable temperatures, and lower energy bills. Mobile also carry products that offer forced-entry protection and films that protect glass from scratches, graffiti, other types of vandalism, and even bullets, including our C-Bond BRS and C-Bond Secure products. As part of the transaction, Mobile’s owner-operator, Michael Wanke, joined the Company as President of its Safety Patriot Glass Solutions Group. Mobile has been in business for more than 30 years and produced annual revenue of approximately \$2 million in both 2019 and 2020. As part of the transaction, Mobile’s owner-operator, Michael Wanke, has agreed to join us as President of our Patriot Glass Solutions group.

Our recent acquisition of Mobile will be the springboard to provide glass security solutions across the United States. We recently launched Patriot Glass Solutions to protect personal and business property across the United States using C-Bond’s proprietary glass strengthening technology to protects property from looting, rioting, break-ins, and gunfire. With our recent acquisition of Mobile, we are re-branding our Safety Solutions Group as “Patriot Glass Solutions.” Patriot Glass Solutions’ primary products include C-Bond BRS, a ballistic-resistant film system; and C-Bond Secure, a multi-purpose glass strengthening primer and window film mounting solution that deters forced entry.

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

Operating Overview

We are a nanotechnology company and sole owner, developer, and manufacturer of the patented C-Bond technology. We are engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality, and sustainability of brittle material systems. Our present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally. We operate in two divisions: C-Bond Transportation Solutions and Patriot Glass Solutions. C-Bond Transportation Solutions, which sells a windshield strengthening, water repellent solution called C-Bond nanoShield™ as well as disinfection products, and Patriot Glass Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions, including C-Bond BRS, a ballistic-resistant film systems, and C-Bond Secure, a forced entry system. The C-Bond technology enables ordinary glass to dissipate energy by permeating the glass surface and detecting microscopic flaws and defects that are randomly distributed all over the glass surface. C-Bond’s unique qualities then work to locate and repair the identified surface imperfections that weaken the glass composite structure and ultimately act as failure initiators. The C-Bond formula is engineered to maintain original glass design integrity while increasing the mechanical performance properties of the glass unit. As a result of the COVID-19 pandemic we created partnerships to distribute disinfection related products, which we began to sell in the second quarter of 2020. The Company currently sells MB-10 Tablets® and Vimoba® Tablets.

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

Additionally, through the acquisition of 80% of Mobile Tint, LLC, we now provide quality window tint solutions for auto, home, and business owners across Texas, specializing in automotive window tinting, residential window film, and commercial window film that stop harmful UV rays from passing through its window films for reduced glare, comfortable temperatures, and lower energy bills. Mobile also carries products that offer forced-entry protection and films that protect glass from scratches, graffiti, other types of vandalism, and even bullets, including our C-Bond BRS and C-Bond Secure products.

Going Concern

The 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 \$3,875,161 and \$5,933,775 for the nine months ended September 30, 2022 and 2021, respectively, which included stock-based compensation of \$1,025,571 and \$4,042,926 for the nine months ended September 30, 2022 and 2021, respectively. The net cash used in operations was \$1,183,111 and \$1,288,675 for the nine months ended September 30, 2022 and 2021, respectively. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$61,404,921, \$5,931,380 and \$3,684,574, respectively, on September 30, 2022. 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, preferred shares and from the issuance of convertible and other 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.

COVID-19

The COVID-19 pandemic has created significant volatility in the global economy. Global trade conditions and consumer trends that have originated during the pandemic continue to persist and may have a long-lasting adverse impact on us and our industry. For example, the pandemic has resulted in government authorities implementing numerous measures to try to contain the COVID-19 virus, such as travel bans and restrictions, quarantines, stay-at-home or shelter-in-place orders and business shutdowns. While these measures may be relaxed or revised in some areas, there is no guarantee these measures will not be reinstated or resumed due to additional variants of COVID-19 or the inability or ineffectiveness of public health measures to limit the further spread of COVID-19. These measures may adversely impact our employees and operations and the operations of our customers, suppliers, vendors and business partners. These measures by government authorities, or the risks that the measures may be reinstated or resumed, may remain in place for a significant period of time and may adversely affect building plans, sales and marketing activities, business and results of operations. As a result, our customers may delay the ordering of products, and delayed entering into contracts for the delivery and installation of window film, and had delayed or defaulted on payment of balances due to the Company. In 2020 and 2021, the lack of collection of accounts receivable balances, which the Company believes was attributable to COVID-19, had a material impact on the cash flows of the Company. We cannot estimate the duration of the pandemic and the future impact on our business. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for its products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. Currently, we are unable to estimate the impact of this event on our operations.

Critical Accounting Policies

The following discussion and analysis of our consolidated financial condition and consolidated results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our 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, estimated used in the calculation of percentage of completion on uncompleted jobs, purchase price allocation of acquired businesses, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the estimate of the fair value of the right of use asset and lease liability, the valuation of redeemable and mandatorily redeemable preferred stock, the fair value of derivative liabilities, the value of beneficial conversion features, and the fair value of non-cash equity transactions. 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 condensed consolidated financial statements.

Segment reporting

During the nine months ended September 30, 2022 and from July 22, 2021 (date of acquisition of Mobile Tint) to September 30, 2021, we operated in two reportable business segments - (1) the manufacture and sale of a windshield strengthening water repellent solution as well as a disinfection product, and the sale of multi-purpose glass strengthening primer and window film mounting solutions, including ballistic-resistant film systems and a forced entry system, and (2) the sale and installation of window film solutions. The Company's reportable segments were strategic business units that offered different products. They were managed separately based on the fundamental differences in their operations and locations.

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, is 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

We follow the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires certain additional disclosures.

We sell our products which include standard warranties primarily to distributors and authorized dealers. Product sales are recognized at a point in time when the product is shipped to the customer and title is transferred and are recorded net of any discounts or allowances. The warranty does not represent a separate performance obligation.

Revenues from contracts for the distribution and installation of window film solutions are recognized over time on the basis of the Company's estimates of the progress towards completion of contracts using various output or input methods depending on the type of contract terms including (1) the ratio of number of labor hours spent compared to the number of estimated labor hours to complete a job, (2) using the milestone method, or (3) using a units completed method. These methods are used because management considers these to be the best available measure of progress on these contracts. We use the same method for similar types of contracts. The asset, "contract assets" represents revenues recognized in excess of amounts billed. The liability, "contract liabilities," represents billings in excess of revenues recognized.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 - "*Compensation - Stock Compensation*", which requires recognition in the financial statements of the cost of employee, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under the FASB's Accounting Standards Update ("ASU") 2016-09 *Improvements to Employee Share-Based Payment*.

See Note 2 to our unaudited condensed 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 condensed consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended December 31, 2021 and 2020 as filed in our annual report on Form 10-K with the SEC on April 15, 2022. The results discussed below are for the three and nine months ended September 30, 2022 and 2021.

Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2022 and 2021

Sales

For the three months ended September 30, 2022, sales amounted to \$573,649 as compared to \$674,518 for the three months ended September 30, 2021, a decrease of \$100,869, or 15.0%. The decrease was primarily attributable to a decrease in sales from window tint installation and other services of \$129,360, a decrease in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution of \$36,467, and a decrease in freight and delivery revenue of \$2,267, offset by an increase in C-Bond nanoShield solution sales of \$67,225.

For the nine months ended September 30, 2022, sales amounted to \$1,624,725 as compared to \$963,838 for the nine months ended September 30, 2021, an increase of \$660,887, or 68.6%. The increase was primarily attributable to the acquisition of 80% of Mobile on July 22, 2021 which generated sales of \$1,299,419 for the nine months ended September 30, 2022 as compared to \$593,640 for the period from acquisition (July 22, 2021) to September 30, 2021, an increase in C-Bond nanoShield solution sales of \$106,089, and an increase in disinfectant product of \$3,750, offset by a decrease in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution of \$139,089, a decrease in freight and delivery revenue of \$3,539, and a decrease in sale of installation and other services of \$12,103.

Cost of Goods Sold

In connection with our C-Bond Solutions segment, cost of goods sold is comprised primarily of cost of raw materials and finished inventory sold, packaging costs, and warranty costs. In connection with our Mobile segment, cost of goods sold is comprised primarily of cost of raw materials such as film, labor, subcontractor costs, equipment rental, and supplies.

For the three months ended September 30, 2022, cost of sales amounted to \$246,346 as compared to \$248,607 for the three months ended September 30, 2021, a decrease of \$2,261, or 0.9%. The decrease in cost of sales was primarily attributable to an overall decrease in sales as discussed above.

For the nine months ended September 30, 2022, cost of sales amounted to \$705,680 as compared to \$304,158 for the nine months ended September 30, 2021, an increase of \$401,522, or 132.0%. The increase in cost of sales was primarily attributable to the acquisition of 80% of Mobile on July 22, 2021 which generated cost of sales of \$661,807 for the nine months ended September 30, 2022 as compared to \$229,060 for the period from acquisition (July 22, 2021) to September 30, 2021, an increase of \$432,747. This increase was offset by a decrease in cost of sales of C-Bond nanoShield solution, C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution and disinfectant products of \$31,225.

Gross Profit

For the three months ended September 30, 2022, gross profit amounted to \$327,303, or 57.1% of sales, as compared to \$425,911, or 63.1% of sales, for the three months ended September 30, 2021, a decrease of \$98,608, or 23.1%. This decrease in gross profits is primarily attributable to a decrease in sales from window tint installation and other services and a decrease in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution. Generally, we recognize a higher gross profit percentage on the sale of C-bond nanoShield and C-bond ballistic resistant glass protections systems than we do on the sale of disinfection products and from Mobile Tint installations and services.

For the nine months ended September 30, 2022, gross profit amounted to \$919,045, or 56.6% of sales, as compared to \$659,680, or 68.4% of sales, for the nine months ended September 30, 2021, an increase of \$259,365, or 39.3%. This increase in gross profits is primarily attributable to the acquisition of 80% of Mobile Tint, LLC on July 22, 2021, which generated gross profit of \$617,285, or 46.3% for the nine months ended September 30, 2022 as compared to gross profit of \$355,405, or 59.9% for the period from acquisition (July 22, 2021) to September 30, 2021, an increase of \$261,880. The increase in gross profit was offset by a decrease in gross profits of \$2,515 related to an increase in sales of C-Bond nanoShield solution which were offset by a decrease in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution products. Generally, we recognize a higher gross profit percentage on the sale of C-bond nanoShield and C-bond ballistic resistant glass protections systems than we do on the sale of disinfection products.

Operating Expenses

For the three months ended September 30, 2022, operating expenses amounted to \$828,127 as compared to \$886,788 for the three months ended September 30, 2021, a decrease of \$58,661, or 6.6%. For the nine months ended September 30, 2022, operating expenses amounted to \$3,505,127 as compared to \$6,587,784 for the nine months ended September 30, 2021, a decrease of \$3,082,657, or 46.8%. For the three and nine months ended September 30, 2022 and 2021, operating expenses consisted of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2022	2021	2022	2021
Compensation and related benefits, including stock-based compensation charges	\$ 412,642	\$ 464,230	\$ 2,253,374	\$ 5,395,161
Research and development	-	-	-	(2,404)
Professional fees	217,123	260,447	663,387	777,393
General and administrative expenses	198,362	162,111	588,366	417,634
Total	<u>\$ 828,127</u>	<u>\$ 886,788</u>	<u>\$ 3,505,127</u>	<u>\$ 6,587,784</u>

Compensation and related benefits

For the three months ended September 30, 2022, compensation and related benefits decreased by \$51,588, or 11.1%, as compared to the three months ended September 30, 2021. This decrease was primarily due to a decrease in stock-based compensation of \$84,809 and a decrease in compensation and related benefits of \$20,668 to C-Bond employees during the three months ended September 30, 2022, offset by an increase in compensation and related benefits of \$53,889 from the acquisition of Mobile Tint.

For the nine months ended September 30, 2022, compensation and related benefits decreased by \$3,141,787, or 58.2%, as compared to the nine months ended September 30, 2021. This decrease was primarily due to a decrease in stock-based compensation of \$3,017,355, and a decrease in compensation and related benefits to C-Bond employees of \$475,946 primarily attributable to a decrease in bonuses, offset by an increase in compensation and related benefits of \$351,514 from the acquisition of Mobile Tint.

On January 6, 2022, the Board of Directors of the Company agreed to satisfy \$278,654 of accrued compensation owed to its executive officers (collectively, the “Management”) as of December 31, 2021 and included in accrued compensation on the accompanying condensed consolidated balance sheet. Management agreed to accept 278 shares of the Company’s Series B convertible preferred stock in settlement of this accrued compensation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded non-cash stock-based compensation of \$957,556 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

On January 18, 2021, the Board of Directors of the Company agreed to satisfy \$295,000 of accrued compensation owed to its executive officers and former executive officer (collectively, the “Management”) through a Liability Reduction Plan (the “Plan”). Under this Plan, Management agreed to accept 295 shares of the Company’s Series B convertible preferred stock in settlement of accrued compensation. The conversion feature of the Series B Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series B Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded non-cash stock-based compensation of \$3,778,810 related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

Research and development

Research and development expenses consist primarily of materials used and allocated overhead expenses. During the three and nine months ended September 30, 2022, we did not incur any research and development fees. During the three and nine months ended September 30, 2021, we recorded a research and development expense (recovery) of \$0 and \$(2,404), respectively.

Professional fees

For the three months ended September 30, 2022, professional fees decreased by \$43,324, or 16.6%, as compared to the three months ended September 30, 2021. This decrease was primarily related to a decrease in legal fees of \$4,060, a decrease in accounting fees of \$6,128, a decrease in consulting fees of \$30,594, and a decrease in other professional fees of \$2,542.

For the nine months ended September 30, 2022, professional fees decreased by \$114,006, or 14.7%, as compared to the nine months ended September 30, 2021. This decrease was primarily related to a decrease in legal fees of \$41,761, a decrease in consulting fee of \$180,212, and a decrease in other professional fees of \$2,346, offset by an increase in accounting fees of \$110,313.

General and administrative

For the three months ended September 30, 2022, general and administrative expenses increased by \$36,251, or 22.4%, as compared to the three months ended September 30, 2021. This increase was primarily attributable to an increase in rent expense of \$14,989 and an increase in other general and administrative expenses of \$21,262 due to the acquisition of 80% of Mobile Tint.

For the nine months ended September 30, 2022, general and administrative expenses increased by \$170,732, or 40.9%, as compared to the nine months ended September 30, 2021. This increase was primarily attributable to an increase in depreciation and amortization expense of \$34,351, an increase in rent expense of \$48,271, an increase in advertising expense of \$32,818, and an increase in other selling, general and administrative expenses of \$85,738, offset by a decrease in bad debt expense of \$27,284 and a decrease in shipping and handling expense of \$3,162.

Loss from Operations

For the three months ended September 30, 2022, loss from operations increased by \$39,947, or 8.7%, as compared to the three months ended September 30, 2021. For the nine months ended September 30, 2022, loss from operations decreased by \$3,342,022, or 56.4%, as compared to the nine months ended September 30, 2021 resulting from changes discussed above.

Other Expenses, net

For the three months ended September 30, 2022, other expense, net amounted to \$445,566 as compared to \$29,900 for the three months ended September 30, 2021, a negative change of \$415,666, or 1,390.2%. This change was due to an increase in interest expense of \$415,666 related to an increase in the amortization of debt discount and an increase in interest-bearing debt.

For the nine months ended September 30, 2022, other expense, net amounted to \$1,289,079 as compared to \$5,671 for the nine months ended September 30, 2021, an increase of \$1,283,408. This increase was due to an increase in interest expense of \$984,235 related to an increase in the amortization of debt discount and an increase in interest-bearing debt, an increase in loss on debt extinguishment of \$231,395 related to the modification of the Mercer debt, and a decrease in other income of \$67,778.

Net Loss

Due to factors discussed above, for the three months ended September 30, 2022 and 2021, net loss amounted to \$946,390 and \$490,777, respectively. For the three months ended September 30, 2022, net loss attributable to common shareholders, which included dividends accrued on Series B and C preferred stock and a deemed dividend related to price protection provisions in our convertible debt instruments of \$14,619, and the deduction of net loss attributable to noncontrolling interests of \$8,529, amounted to \$952,480, or \$(0.00) per basic and diluted common share. For the three months ended September 30, 2021, net loss attributable to common shareholders, which included a deemed dividend related to price protection, beneficial conversion features on preferred stock, and the dividends accrued on Series B and C preferred stock of \$1,521,736 and the deduction of net income attributable to noncontrolling interests of \$34,151 amounted to \$2,046,664, or \$(0.01) per basic and diluted common share.

For the nine months ended September 30, 2022 and 2021, net loss amounted to \$3,875,161 and \$5,933,775, respectively. For the nine months ended September 30, 2022 and 2021, net loss attributable to common shareholders, which included a deemed dividend related to price protection, beneficial conversion features on preferred stock, and the dividends accrued on Series B and C preferred stock of \$46,246 and \$4,388,790, and the deduction of net loss (income) attributable to noncontrolling interests of \$31,615 and \$(34,151), amounted to \$3,889,792, or \$(0.01) per basic and diluted common share, and \$10,356,716, or \$(0.04) per basic and diluted common share, respectively.

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 \$152,567 and \$519,898 as of September 30, 2022 and December 31, 2021, respectively.

Our primary uses of cash have been for compensation and related benefits, fees paid to third parties for professional services, 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 preferred 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 needed for business growth;
- The cost of being a public company;
- Marketing expense for building brand;
- Capital requirements for production capacity.
- Working capital requirements to support acquired companies.

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

On August 25, 2021, we entered into a subscription agreement with an accredited investor whereby the investor agreed to purchase 3,000 shares of the Company's Series C Convertible Preferred Stock for \$300,000, or \$100.00 per share, the stated value, which was used for working capital purposes. The conversion feature of the Series C Preferred Stock at the time of issuance was determined to be beneficial on the commitment date. Because the Series C Preferred Stock was perpetual with no stated maturity date, and the conversions could occur any time from the date of issuance, the Company immediately recorded a non-cash deemed dividend of \$1,509,523 related to the beneficial conversion feature arising from the issuance of Series C Preferred Stock. This non-cash deemed dividend increased the Company's net loss attributable to common stockholders and net loss per share.

On October 15, 2021, we entered into a Securities Purchase Agreement (the "SPA") with Mercer Street Global Opportunity Fund, LLC (the "Investor"), pursuant to which the Company received \$750,000 (less \$10,000 of Investor's fees) in exchange for the issuance of a 10% Original Issue Discount Senior Convertible Promissory Note (the "Initial Note") in the principal amount of \$825,000, and a five-year warrant (the "Initial Warrant") to purchase, in the aggregate, shares of the Company's common stock at an exercise price of \$0.05 per share in an amount equal to 50% of the conversion shares to be issued. The transactions contemplated under the SPA closed on October 18, 2021. Pursuant to the SPA, the Investor has agreed to purchase an additional \$825,000 10% Original Issue Discount Senior Convertible Promissory Note (the "Second Note," and together with the Initial Note, the "Notes"), and a five-year warrant (the "Second Warrant," and together with the Initial Warrant, the "Warrants") to purchase, in the aggregate, shares of the Company's common stock at an exercise price of \$0.05 per share from the Company in an amount equal to 50% of the conversion shares to be issued upon the same terms as the Initial Note and Initial Warrant (subject to there being no event of default under the Initial Note or other customary closing conditions), within three trading days of a registration statement registering the shares of the Company's common stock issuable under the Notes (the "Conversion Shares") and upon exercise of the Warrants (the "Warrant Shares") being declared effective by the SEC. The Notes mature 12 months after issuance, bear interest at a rate of 4% per annum, and are initially convertible into the Company's common stock at a fixed conversion price of \$0.025 per share, subject to adjustment for stock splits, stock combinations, dilutive issuances, and similar events, as described in the Notes. On April 20, 2022, the Company and Mercer Street Global Opportunity Fund, LLC (the "Investor") entered into an Exchange Agreement (the "Exchange Agreement") that amended a 10% Original Issue Discount Senior Convertible Promissory Note (See Note 7). The original SPA remains in effect. Per the terms of the Exchange Agreement, the Parties agreed to exchange (i) the Initial Note for a new Convertible Promissory Note (the "New Note") and (ii) the Initial Warrant for a new five-year warrant to purchase, in the aggregate, 33,000,000 shares of the Company's common stock at an exercise price of \$0.025 per share (the "New Warrant" and together with the New Note, the "New Securities"), according to the terms and conditions of the Exchange Agreement. On April 20, 2022, pursuant to the terms of the Exchange Agreement, the Investor surrendered the Prior Securities in exchange for the New Securities. Other than the surrender of the Prior Securities, no consideration of any kind whatsoever was given by the Investor to the Company in connection with the Exchange Agreement. The terms of the New Securities are the same as the Prior Securities except for the pricing of the shares issuable under the New Note and the shares issuable upon exercise of the New Warrant. The New Securities are composed of the New Note, which is a 10% Original Issue Discount Senior Convertible Promissory Note in the principal amount of \$825,000, and the New Warrant. The New Note matures on October 15, 2022, bears interest at a rate of 4% per annum, and is initially convertible into the Company's common stock at a fixed conversion price of \$0.0125 per share, subject to adjustment for stock splits, stock combinations, dilutive issuances, and similar events, as described in the New Note. The Notes may be prepaid at any time for the first 90 days at face value plus accrued interest. From day 91 through day 180, the Notes may be prepaid in an amount equal to 110% of the principal amount plus accrued interest. From day 181 through the day immediately preceding the maturity date, the Notes may be prepaid in an amount equal to 120% of the principal amount plus accrued interest. The Notes and Warrants contain conversion limitations providing that a holder thereof may not convert the Notes or exercise the Warrants to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company's common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. In connection with the SPA, the Company entered into a Registration Rights Agreement dated October 15, 2021 (the "Registration Rights Agreement"), with the Investor pursuant to which it is obligated to file a registration statement with the SEC within 45 days after the date of the agreement to register the resale by the Investor of the conversion shares and warrant shares, and use all commercially reasonable efforts to have the registration statement declared effective by the SEC within 60 days after the registration statement is filed. Upon the occurrence of an event of default under the Notes, the Investor has the right to be prepaid at 125% of the outstanding principal balance and accrued interest, and interest accrues at 18% per annum. The Company has also granted the Investor a 12-month (or until the Notes are no longer outstanding) right to participate in specified future financings, up to a level of 30%.

On March 14, 2022, the Company entered into an Original Issue Discount Promissory Note and Security Agreement (the “March 2022 Note”) in the principal amount of \$197,500 with Mercer Street Global Opportunity Fund, LLC (the “Investor”). The March 2022 Note was funded on March 14, 2022 and the Company received net proceeds of \$175,000 which is net of an Original Issue Discount and investor legal fees of \$22,500. The March 2022 Note matures 12 months after issuance and bears interest at a rate of 3% per annum. At any time, the Company may prepay all or any portion of the principal amount of the March 2022 Note and any accrued and unpaid interest without penalty. The March 2022 Note also creates a lien on and grants a priority security interest in all of the Company’s assets.

On May 2, 2022, the Company entered into a Promissory Note (the “May 2022 Note”) in the principal amount of \$250,000 with the Company’s chief executive officer. The May 2022 Note was funded in May 2022 and the Company received net proceeds of \$250,000. The May 2022 Note bears interest at a rate of 6% per annum and all outstanding principal and accrued and unpaid interest is due on May 2, 2024. At any time, the Company may prepay all or any portion of the principal amount of the May 2022 Note and any accrued and unpaid interest without penalty.

On June 23, 2022, the Company entered into entered into a Securities Purchase Agreement (“Agreement”) with GS Capital Partners, LLC (“GS Capital”), pursuant to which a Promissory Note (the “GS Capital Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on June 24, 2022 (less legal and other administrative fees). The Company received net proceeds of \$148,420. The Company further issued GS Capital a total of 1,750,000 commitment shares (“Commitment Shares”) as additional consideration for the purchase of the Note (See Note 9). Principal and interest payments shall be made in 10 installments of \$21,060 each beginning on the 90th-day anniversary following the issue date and continuing thereafter each 30 days for nine months. The GS Capital Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under this Note at a conversion price of \$0.011, subject to adjustment as defined in the GS Capital Note. The Company did not calculate a beneficial conversion feature since the GS Capital Note is contingently convertible upon default on the GS Capital Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.011 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.004 per share. The GS Capital Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. Events of default include, amongst other items, failure to pay principal or interest, bankruptcy, delisting of the Company’s stock, financial statement restatements, or if the Company effectuates a reverse split. Upon the occurrence of any event of default, the GS Capital Note shall become immediately and automatically due and payable and the Company shall pay to GS Capital, in full satisfaction of its obligations hereunder, an amount equal to: (a) the then outstanding principal amount of this note plus (b) accrued and unpaid interest on the unpaid principal amount of this note to the date of payment (the “mandatory prepayment date”) plus (y) default interest, if any, multiplied by 120%. In September 2022, the Company paid \$14,928 of principal balance. On September 30, 2022, the principal balance due on the GS Capital Note amounted to \$180,072 and accrued interest payable amounted to \$4,258.

On July 26, 2022, the Company closed a Securities Purchase Agreement (“July 2022 Agreement”) with GS Capital, pursuant to which a Promissory Note (“July 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The July 2022 Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on July 28, 2022 (less legal and other administrative fees). The Company received net proceeds of \$158,920. The Company further issued GS Capital a total of 2,600,000 commitment shares (“July 2022 Commitment Shares”) as additional consideration for the purchase of the July 2022 Note. In addition, the Company issued 998,008 of its common stock to the placement agent as fee for the capital raise, respectively. The July Commitment Shares and the placement agent shares were recorded as a debt discount of \$34,606 based on the relative fair value method to be amortized over the life of the Note. Principal and interest payments shall be made in 10 installments of \$21,060 each beginning on the 90th-day anniversary following the issue date and continuing thereafter each 30 days for nine months. The July 2022 Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under the July 2022 Note at a conversion price of \$0.011, subject to adjustment as defined in the Note. The Company did not calculate a beneficial conversion feature since the GS Capital July 2022 Note is contingently convertible upon a default on the July 2022 Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.011 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.004 per share. The July 2022 Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice. On September 30, 2022, the principal balance due on the GS Capital July 2022 Note amounted to \$195,000 and accrued interest payable amounted to \$2,864.

On September 6, 2022, the Company closed a Securities Purchase Agreement (“September 2022 Agreement”) with GS Capital, pursuant to which a Promissory Note (“September 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The September 2022 Note was purchased for \$176,000, reflecting an original issuance discount of \$19,000, and was funded on September 6, 2022 (less legal and other administrative fees). The Company received net proceeds of \$158,920. The Company further issued GS Capital a total of 3,300,000 commitment shares (“September 2022 Commitment Shares”) as additional consideration for the purchase of the September 2022 Note. In addition, the Company issued 773,626 of its common stock to the placement agent as fee for the capital raise, respectively. The September Commitment Shares and the placement agent shares were recorded as a debt discount of \$30,326 based on the relative fair value method to be amortized over the life of the Note. Principal and interest payments shall be made in 9 installments of \$23,400 each beginning on the 120th-day anniversary following the issue date and continuing thereafter each 30 days for eight months. The September 2022 Note matures 12 months after issuance and bears interest at a rate of 8% per annum. GS Capital shall have the right at any time following an Event of Default to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under the September 2022 Note at a conversion price of \$0.009, subject to adjustment as defined in the Note. The Company did not calculate a beneficial conversion feature since the GS Capital July 2022 Note is contingently convertible upon a default on the September 2022 Note. As of September 30, 2022, the Company is not in default on this note. In the event that following the Issue Date the closing trading price of the Company’s common stock is then being traded is below \$0.009 per share for more than ten consecutive trading days, then the conversion price shall be equal to \$0.0032 per share. The September 2022 Note contains conversion limitations providing that a holder thereof may not convert the Note to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such conversion or exercise. A holder may increase or decrease its beneficial ownership limitation upon notice to the Company provided that in no event such limitation exceeds 9.99%, and that any increase shall not be effective until the 61st day after such notice.

On November 8, 2022, the Company entered into a Promissory Note (the “November 2022 Note”) with a private investor (the “Private Investor”) in the principal amount of \$200,000 and received net proceeds of \$200,000. The November 2022 Note bears interest at a rate of 8% per annum and all outstanding principal and accrued and unpaid interest is due on November 8, 2024. At any time, the Company may prepay all or any portion of the principal amount of the November 2022 Note and any accrued and unpaid interest without penalty. As security for payment of the principal and interest on the November 2022 Note, the Company and the Private Investor previously entered into that certain Loan and Security Agreement dated May 10, 2021, which is incorporated into the November 2022 Note.

On November 9, 2022, the Company closed a Securities Purchase Agreement dated November 4, 2022, with 1800 DIAGONAL LENDING LLC, a Virginia limited liability company, (“Diagonal”), pursuant to which a Promissory Note (“Diagonal Note”) dated November 4, 2022, was made to Diagonal in the aggregate principal amount of \$104,250. The Note was funded on November 9, 2022 in the amount of \$100,000. The Diagonal Note bears interest at a rate of 12% per annum (22% upon the occurrence of an event of a default) and all outstanding principal and accrued and unpaid interest is due on May 4, 2024. The Company has the right to prepay the Diagonal Note (principal and accrued interest) at any time during the first six months the note is outstanding at the rate of 115% during the first 30 days after issuance, 120% during the 31st to 60th day after issuance, and 125% during the 61st to the 180th day after issuance. The Diagonal Note may not be prepaid after the 180th day following the issuance date, unless Diagonal agrees to such repayment and such terms. Diagonal may in its option, at any time beginning 180 days after the date of the note, convert the outstanding principal and interest on the Diagonal Note into shares of our common stock at a conversion price per share equal to 65% of the average of the three lowest closing bid prices of our common stock during the 10 trading days prior to the date of conversion. At no time may the Diagonal Note be converted into shares of our common stock if such conversion would result in Diagonal and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

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, 2022 and 2021

The following table shows a summary of our cash flows for the nine months ended September 30, 2022 and 2021.

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (1,183,111)	\$ (1,288,675)
Net cash provided by investing activities	-	288,902
Net cash provided by financing activities	815,780	1,044,703
Net (decrease) increase in cash	(367,331)	44,930
Cash - beginning of the period	519,898	323,407
Cash - end of the period	\$ 152,567	\$ 368,337

Net Cash Used in Operating Activities:

Net cash flow used in operating activities was \$1,183,111 for the nine months ended September 30, 2022 as compared to net cash flow used in operating activities of \$1,288,675 for the nine months ended September 30, 2021, a decrease of \$105,564.

Net cash flow used in operating activities for the nine months ended September 30, 2022 primarily reflected a net loss of \$3,875,161, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of \$68,230, stock-based compensation expense of \$1,025,571, stock-based professional fees of \$228,946, amortization of debt discount of \$910,907, and a non-cash loss on debt extinguishment of \$231,395, and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of \$86,571, an increase in inventory of \$1,287, a decrease in prepaid expenses of \$23,763, a decrease in contract assets of \$82,805, an increase in accrued expenses of \$122,074, an increase in accrued interest – related party of \$6,247, an increase in accrued compensation of \$26,927, an increase in contract liabilities of \$53,462, and a decrease in accounts payable of \$8,721.

Net cash flow used in operating activities for the nine months ended September 30, 2021 primarily reflected a net loss of \$5,933,775, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of \$33,878, stock-based compensation expense of \$4,042,926, stock-based professional fees of \$359,829, and bad debt expense of \$35,000 and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of \$234,445, an increase in inventory of \$24,814, an increase in accounts payable of \$155,241, an increase in accrued expenses of \$83,231, an increase in accrued compensation of \$317,001, and a decrease in customer deposits of \$110,000.

Net Cash Provided by Investing Activities:

Net cash provided by investing activities was \$0 for the nine months ended September 30, 2022 as compared to \$288,902 for the nine months ended September 30, 2021. During the nine months ended September 30, 2021, we received cash from acquisition of \$288,902.

Net Cash Provided by Financing Activities:

Net cash provided by financing activities was \$815,780 for the nine months ended September 30, 2022 as compared to \$1,044,703 for the nine months ended September 30, 2021.

During the nine months ended September 30, 2022, we received net proceeds from notes payable of \$641,260 and received proceeds from a related party note payable of \$250,000. These proceeds were offset by the repayment of notes payable of \$75,480.

During the nine months ended September 30, 2021, we received net proceeds from the sale of Series C preferred stock of \$550,000 and net proceeds from a loan of \$500,000. These proceeds were offset by the repayment of notes payable of \$5,297.

Funding Requirements

We expect the primary use of capital to continue to be salaries, legal, accounting 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 current cash and cash equivalents will not be sufficient to meet anticipated cash requirements. 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, 2022, we determined that there was substantial doubt about our ability to maintain operations as a going concern. Our 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 and preferred shares, from the issuance of notes payable, and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If we are unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. Our consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the company be unable to continue as a going concern.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially because of a number of factors. We have based this estimate on assumptions that may prove to be wrong and could utilize our available capital resources sooner than we currently expect. Our capital requirements are difficult to forecast. Please see the section titled “Risk Factors” in our Annual Report on Form 10-K as filed with the SEC on April 15, 2022 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 and debt financings. 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, 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, 2022, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	5 + years
Contractual obligations:					
Notes payable	\$ 1,734,874	\$ 1,721,860	\$ 13,014	\$ -	\$ -
Note payable – related party	250,000	-	250,000	-	-
Convertible note payable	825,000	825,000	-	-	-
Interest on notes payable	373,442	373,442	-	-	-
Operating lease gross base rent	472,840	146,977	269,863	56,000	-
Total	\$ 3,656,156	\$ 3,067,279	\$ 532,877	\$ 56,000	\$ -

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, 2022, 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, 2021, 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 control 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, (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel and (3) a lack of review on the recording of revenue transactions and accounts receivable collectability. We developed and implemented system and control procedure manuals and recently implemented controls and procedures in connection with the review of employee expense reports.

With regard to item (3) above, as remedial action and to assure that this does not occur again, the Company has put into place the following:

1. No relatives can work for the Company in a position whereby one family member directly reports to another.
2. The implementation of new purchase order, invoice, shipment, and return documents that must be signed and accepted by a C-Bond employee (in some cases two C-Bond employees) and delivered to and accepted by the Controller. Any discrepancies must be immediately reported to the Chief Financial Officer and President and/or CEO.
3. All shipments leaving the warehouse must be approved by VP of Operations and/or President.

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, 2022 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

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

Except as set forth below, 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.

On January 20, 2022, we received an Order Directing Examination and Designating Officers to Take Testimony (a "Formal Order") from the SEC. The Formal Order authorizes that an examination be made to determine whether a stop order should be issued under Section 8(d) of the Securities Act of 1933 with respect to the Company's Registration Statement on Form S-1, and any supplements and amendments thereto. The Formal Order indicates that the Form S-1 may be deficient in that it may contain untrue statements of material fact or omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading concerning, among other things, the Company's revenue and financial condition. On April 15, 2022, the Company filed an amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The restatement had the cumulative effect of decreasing the Company's reported revenue for Fiscal 2020 by \$102,569 and decreasing the Company's bad debt expense for the same period by \$102,569. There was no effect on Company's reported net loss for Fiscal 2020 or on the financial condition of the Company at December 31, 2020. The Company received a subpoena from the SEC on April 25, 2022, requesting all documents and communications concerning the review of C-Bond's revenue recognition practices for fiscal year 2020. The Company has provided the requested information and its Chief Executive Officer provided his testimony regarding this Formal Order in October 2022.

On March 8, 2021, a former officer of the Company resigned. Both parties alleged certain claims against the other, including certain compensation claims, and are in discussion regarding resolution. Neither party has filed litigation. The Company intends to vigorously defend itself against any possible claims and assert any relevant claims against the former executive and believes it will prevail.

In July 2021, a former employee of the Company filed a small claims case for approximately \$16,000 in Harris County, TX, and the Company filed its response on August 2021. There has been no further communication from the Court. The Company intends to vigorously defend itself against the claim made and believes it will prevail. As of September 30, 2022 and December 31, 2021, the Company has accrued compensation of \$18,250 to this former employee which is included in accrued compensation on the accompanying consolidated balance sheet.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

1. On July 1, 2022, we granted a restricted stock award of 2,500,000 common shares of the Company to a consultant of the Company for business development and consulting services rendered, which shares were valued at \$31,250, or \$0.0125 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement.
2. On July 15, 2022, we granted a restricted stock award of 5,454,545 common shares of the Company to a consultant of the Company for government relations services to be rendered, which shares were valued at \$60,000, or \$0.011 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement.
3. On July 12, 2022, we granted a restricted stock award of 1,000,000 common shares of the Company to an employee of the Company. The shares will vest on May 1, 2023. These shares were valued on the date of grant at \$11,000, or \$0.011 per common share based on the quoted closing price of the Company's common stock on the measurement date.

4. On August 12, 2022, we granted a restricted stock award of 2,000,000 common shares of the Company to a board member of the Company. The shares will vest on May 1, 2023. These shares were valued on the date of grant at \$24,000 or \$0.012 per common share based on the quoted closing price of the Company's common stock on the measurement date.
5. In connection with the July 2022 GS Capital Note, on July 28, 2022, we issued 2,600,000 shares of our common stock as a commitment fee and we issued 998,008 shares of our common stock to the placement agent as fee for the capital raises. The aggregate of 3,598,008 shares of common stock issued were recorded as a debt discount of \$34,606 based on the relative fair value method to be amortized over the life of the July 2022 Note.
6. In connection with the September 2022 GS Capital Note, on September 6, 2022, we issued 3,300,000 shares of our common stock as a commitment fee and we issued 773,626 shares of our common stock to the placement agent as fee for the capital raises. The aggregate of 4,073,626 shares of common stock issued were recorded as a debt discount of \$30,326 based on the relative fair value method to be amortized over the life of the September 2022 Note.

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

Since June 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, 2022 and as of the date of this report, we are in default on monthly interest payments of \$274,093.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 8, 2022, the Company entered into a Promissory Note (the "November 2022 Note") with a private investor (the "Private Investor") in the principal amount of \$200,000 and received net proceeds of \$200,000. The November 2022 Note bears interest at a rate of 8% per annum and all outstanding principal and accrued and unpaid interest is due on November 8, 2024. At any time, the Company may prepay all or any portion of the principal amount of the November 2022 Note and any accrued and unpaid interest without penalty. As security for payment of the principal and interest on the November 2022 Note, the Company and the Private Investor previously entered into that certain Loan and Security Agreement dated May 10, 2021, which is incorporated into the November 2022 Note.

On November 9, 2022, the Company closed a Securities Purchase Agreement dated November 4, 2022, with 1800 DIAGONAL LENDING LLC, a Virginia limited liability company, ("Diagonal"), pursuant to which a Promissory Note ("Diagonal Note") dated November 4, 2022, was made to Diagonal in the aggregate principal amount of \$104,250. The Note was funded on November 9, 2022 in the amount of \$100,000. The Diagonal Note bears interest at a rate of 12% per annum (22% upon the occurrence of an event of a default) and all outstanding principal and accrued and unpaid interest is due on May 4, 2024.

The Company has the right to prepay the Diagonal Note (principal and accrued interest) at any time during the first six months the note is outstanding at the rate of 115% during the first 30 days after issuance, 120% during the 31st to 60th day after issuance, and 125% during the 61st to the 180th day after issuance. The Diagonal Note may not be prepaid after the 180th day following the issuance date, unless Diagonal agrees to such repayment and such terms. Diagonal may in its option, at any time beginning 180 days after the date of the note, convert the outstanding principal and interest on the Diagonal Note into shares of our common stock at a conversion price per share equal to 65% of the average of the three lowest closing bid prices of our common stock during the 10 trading days prior to the date of conversion. At no time may the Diagonal Note be converted into shares of our common stock if such conversion would result in Diagonal and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
4.1	<u>Original Issue Discount Promissory Note and Security Agreement dated March 14, 2022, between C-Bond Systems, Inc. and Mercer Street Global Opportunity Fund, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 18, 2022).</u>
4.2	<u>Original Issue Discount Senior Convertible Promissory Note, dated April 20, 2022, between C-Bond Systems, Inc. and Mercer Street Global Opportunity Fund, LLC (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on April 22, 2022).</u>
4.3	<u>Common Stock Purchase Warrant dated April 20, 2022, between C-Bond Systems, Inc. and Mercer Street Global Opportunity Fund, LLC (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the SEC on April 22, 2022).</u>
4.4	<u>Promissory Note, dated June 23, 2022, issued by C-Bond Systems, Inc. in favor of GS Capital Partners, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2022).</u>
4.5	<u>Promissory Note, dated July 26, 2022, issued by C-Bond Systems, Inc. in favor of GS Capital Partners, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on August 3, 2022).</u>
4.6	<u>Promissory Note, dated September 6, 2022, issued by C-Bond Systems, Inc. in favor of GS Capital Partners, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on September 9, 2022).</u>
4.7*	<u>Promissory Note, dated November 8, 2022, issued by C-Bond Systems, Inc. in favor of Jeff Badders.</u>
4.8*	<u>Senior Convertible Promissory Note, dated November 4, 2022, between C-Bond Systems, Inc. and 1800 Diagonal Lending LLC.</u>
10.1	<u>Exchange Agreement, dated April 20, 2022, between C-Bond Systems, Inc. and Mercer Street Global Opportunity Fund, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 22, 2022).</u>
10.2	<u>Securities Purchase Agreement, dated June 23, 2022, between C-Bond Systems, Inc. and GS Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2022).</u>
10.3	<u>Securities Purchase Agreement, dated July 26, 2022, between C-Bond Systems, Inc. and GS Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 3, 2022).</u>
10.4	<u>Securities Purchase Agreement, dated September 6, 2022, between C-Bond Systems, Inc. and GS Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 9, 2022).</u>
10.5*	<u>Securities Purchase Agreement, dated November 4, 2022, between C-Bond Systems, Inc. and 1800 Diagonal LLC.</u>
31.1*	<u>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.</u>
31.2*	<u>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.</u>
32.1**	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

C-BOND SYSTEMS, INC.

Dated: November 14, 2022

By: /s/ Scott R. Silverman
Scott R. Silverman
Chief Executive Officer and
Chief Financial Officer
(principal executive officer, principal financial officer and
principal accounting officer)

SECURED PROMISSORY NOTE
FUNDING \$200,000

November 8, 2022
Houston, TX

SECURED PROMISSORY NOTE

FOR VALUE RECEIVED, the undersigned, C-BOND SYSTEMS, INC., a Colorado corporation ("**Borrower**"), promises to pay to [], of [] (the "**Lender**," which term will include any transferee of this Secured Promissory Note (the "**Note**"), the principal amount of Two Hundred Thousand U.S. Dollars (\$200,000.00), together with interest (as provided in Section 2 below).

1. **Security.** As security for payment of the of the Obligations (as defined below), Borrower and Lender have previously entered into that certain Loan and Security Agreement dated May 10, 2021 (the "**Security Agreement**") which is incorporated herein by reference. The Security Agreement, this Note and any other instruments, documents and agreements executed or delivered in connection herewith are collectively referred to as the "**Loan Documents**").

2. **Interest Rate.** Interest shall accrue and be payable on the outstanding principal amount of this Note at the rate of eight percent (8%) per annum, compounded annually. Interest will accrue from day to day and will be calculated on the basis of a year of three hundred and sixty five (365) days and on the basis of the actual number of days elapsed.

3. **Maturity; Payments.** All outstanding principal and accrued interest under this Note shall be due and payable on November 8, 2024 (the "**Maturity Date**") if not sooner pre-paid by Borrower or accelerated in accordance with the terms hereof. Borrower shall make a balloon payment, including all outstanding principal and accrued but unpaid interest, on the Maturity Date. If any payment of principal or interest shall be due on a Saturday, Sunday or any other day on which banking institutions in the State of Texas are required or permitted to be closed, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest under this Note. Any payment of the principal and interest on this Note and any other payments which Borrower becomes obligated to pay to Lender pursuant to the Loan Documents (collectively, the "**Obligations**") shall be made in lawful money of the United States of America in immediately available funds, without deduction, setoff or counterclaim, to such account as Lender shall from time to time designate in writing to Borrower.

4. **Prepayments.** Borrower may at its sole discretion prepay this Note, in whole or in part, at any time without premium or penalty. Any such prepayment shall be applied (a) first, to any costs or charges incurred by Lender with respect to which it is entitled to reimbursement pursuant to this Agreement or any other Loan Document, (b) second, to accrued but unpaid interest on the outstanding principal amount of this Note and (c) finally, to the unpaid principal amount of the Note.

5. **Expenses.** Borrower agrees to pay on demand (a) all expenses (including, without limitation, legal fees and disbursements) incurred by Lender in connection with the negotiation and preparation of this Note and the other Loan Documents and (b) all expenses incurred by Borrower in collecting and enforcing this Note and any guarantee or collateral securing this Note, including, without limitation, expenses and fees of legal counsel, court costs and the cost of appellate proceedings, in each case as set forth in further detail in the Security Agreement.

6. **Events of Default**. The occurrence of any Event of Default (as that term is defined in the Security Agreement) shall also constitute an Event of Default under this Note.

7. **Rights and Remedies Upon Default**. Upon the occurrence or existence of any Event of Default under this Note, Lender may in its discretion exercise the rights and remedies set forth in the Security Agreement with respect to the occurrence of an Event of Default thereunder, which rights and remedies are cumulative, may be exercised at any time and from time to time, concurrently or in any order, and are not exclusive of any other rights and remedies available by agreement, by law, at equity or otherwise.

8. **Restrictions on Borrower**. Until payment in full of the Obligations, Borrower shall not, without Lender's prior written consent:

(a) lend money, give credit or make advances to any person, firm, joint venture, partnership, corporation or other entity, including, without limitation, officers, directors, employees, subsidiaries and affiliates of Borrower, except loans, credits or advances made in the ordinary course of business in connection with Borrower's sales to third party customers; or

(b) assume, guarantee, endorse, contingently agree to purchase or otherwise become liable upon the obligation of any person, firm, joint venture, partnership, corporation or other entity, except by the endorsement of negotiable instruments for deposit or collection.

9. **Waiver of Presentment**. Borrower unconditionally waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this Note.

10. **Waivers**. No failure by Lender to exercise, or delay by Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof or of any other right or remedy and no single or partial exercise of any right or remedy shall preclude any other or further exercise thereof or of any other right or remedy. Lender may not waive any of its rights under this Note except by an instrument in writing signed by it.

11. **Severability**. If any provision of this Note shall be judicially determined to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

12. **Governing Law**. This Note shall be governed by and construed under the laws of the State of Texas, as applied to agreements among Texas residents made and to be performed entirely within the State of Texas, without giving effect to conflicts of laws principles that would result in the application of any law other than Texas law.

13. **Jurisdiction and Venue**. In respect of any action or proceeding arising out of or related to any Loan Document, each of the parties hereto consents to the exclusive jurisdiction and venue of any federal or state court located within the State of Texas and County of Dallas, waives personal service of any and all process upon such party, consents that all such service and process may be made by first class registered or certified mail, postage prepaid, return receipt requested, directed to such party at the notice address specified for such party in the Security Agreement, agrees that service so made shall be deemed to be completed upon actual receipt thereof, and waives any objection to jurisdiction or venue of, and waives any motion to transfer venue from, any of the aforesaid courts.

14. **Waiver of Jury Trial**. The parties hereto waive all right to trial by jury in any action or proceeding to enforce or defend any rights under this Note or any other Loan Document.

15. **Further Assurances**. In addition to the obligations recited herein and contemplated to be performed, executed, and/or delivered by Borrower, Borrower agrees to perform, execute, and/or deliver or cause to be performed, executed, and/or delivered any and all such further acts, instruments, deeds, and assurances, at Borrower's sole cost and expense, as may be reasonably required by Lender to consummate all transactions contemplated by the Loan Documents.

16. **Amendments**. This Note may not be amended without the written approval of Lender and Borrower.

17. **Counterparts**. This Note may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Executed copies of the signature pages of this Note sent by facsimile or transmitted electronically in .pdf or any similar format shall be treated as originals, fully binding and with full legal force and effect, and the parties waive any rights they may have to object to such treatment.

18. **Headings**. The section headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

19. **Successors and Assigns; Assignment**. This Note shall be binding on and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Borrower may not assign, grant, pledge, sell or otherwise transfer all or any part of its rights or obligations under this Note without the prior written consent of Lender, which may be withheld in Lender's sole discretion.

[Signature pages follow]

Dated on the date first set forth above.

Borrower:

C-BOND SYSTEMS, INC., a Colorado corporation

By: _____

Print Name: Scott R. Silverman

Its: Chief Executive Officer

ACKNOWLEDGED AND AGREED:

SIGNATURE PAGE TO
SECURED PROMISSORY NOTE

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT.

Principal Amount: \$104,250.00
Purchase Price: \$104,250.00

Issue Date: November 4, 2022

CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, C-BOND SYSTEMS, INC., a Colorado corporation (hereinafter called the “Borrower”), hereby promises to pay to the order of **1800 DIAGONAL LENDING LLC**, a Virginia limited liability company, or registered assigns (the “Holder”) the sum of \$104,250.00 together with any interest as set forth herein, on May 4, 2024 (the “Maturity Date”), and to pay interest on the unpaid principal balance hereof at the rate of twelve percent (12%)(the “Interest Rate”) per annum from the date hereof (the “Issue Date”) until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. This Note may not be prepaid in whole or in part except as otherwise explicitly set forth herein. Any amount of principal or interest on this Note which is not paid when due shall bear interest at the rate of twenty two percent (22%) per annum from the due date thereof until the same is paid (“Default Interest”). Interest shall be computed on the basis of a 365 day year and the actual number of days elapsed. Interest shall commence accruing on the Issue Date but shall not be payable until the Note becomes payable (whether at Maturity Date or upon acceleration or by prepayment). All payments due hereunder (to the extent not converted into common stock, \$0.001 par value per share (the “Common Stock”) in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in that certain Securities Purchase Agreement dated the date hereof, pursuant to which this Note was originally issued (the “Purchase Agreement”).

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower and will not impose personal liability upon the holder thereof.

The following terms shall apply to this Note:

ARTICLE I. CONVERSION RIGHTS

1.1 Conversion Right. The Holder shall have the right from time to time, and at any time during the period beginning on the date which is one hundred eighty (180) days following the Issue Date and ending on the full payment to the Holder of all amounts outstanding pursuant to this Note (the “Conversion Period”), each in respect of the remaining outstanding amount of this Note to convert all or any part of the outstanding and unpaid amount of this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date at the conversion price (the “Conversion Price”) determined as provided herein (a “Conversion”); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. The beneficial ownership limitations on conversion as set forth in the section may NOT be waived by the Holder. The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the “Notice of Conversion”), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 6:00 p.m., New York, New York time on such conversion date (the “Conversion Date”); however, if the Notice of Conversion is sent after 6:00pm, New York, New York time the Conversion Date shall be the next business day. The term “Conversion Amount” means, with respect to any conversion of this Note, the sum of (1) the principal amount of this Note to be converted in such conversion plus (2) at the Holder’s option, accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date, plus (3) at the Holder’s option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) at the Holder’s option, any amounts owed to the Holder pursuant to Sections 1.4 hereof.

1.2 Conversion Price. During the Conversion Period, the Conversion Price means, as of the date of conversion, the Variable Conversion Price (as defined herein and subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower’s securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The “Variable Conversion Price” shall mean 65% multiplied by the Market Price (as defined herein) (representing a discount rate of 35%). “Market Price” means the average of the three (3) lowest Trading Prices (as defined below) for the Common Stock during the ten (10) 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 OTCQB, OTCQX, Pink Sheets electronic quotation system or applicable trading market (the “OTC”) as reported by a reliable reporting service (“Reporting Service”) designated by the Holder (i.e. Bloomberg) or, if the OTC is not the principal trading market for such security, the closing bid price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no closing bid price of such security is available in any of the foregoing manners, the average of the closing bid prices of any market makers for such security that are listed in the “pink sheets”. If the Trading Price cannot be calculated for such security on such date in the manner provided above, the Trading Price shall be the fair market value as mutually determined by the Borrower and the holders of a majority in interest of the Notes being converted for which the calculation of the Trading Price is required in order to determine the Conversion Price of such Notes. “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.

1.3 Authorized Shares. The Borrower covenants that during the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note issued pursuant to the Purchase Agreement. The Borrower is required at all times to have authorized and reserved five times the number of shares that would be issuable upon full conversion of the Note (assuming that the 4.99% limitation set forth in Section 1.1 is not in effect)(based on the respective Conversion Price of the Note (as defined in Section 1.2) in effect from time to time, initially 94,343,891)(the "Reserved Amount"). The Reserved Amount shall be increased (or decreased with the written consent of the Holder) from time to time in accordance with the Borrower's obligations hereunder. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Note. The Borrower (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Note, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note.

If, at any time the Borrower does not maintain the Reserved Amount it will be considered an Event of Default under Section 3.2 of the Note.

1.4 Method of Conversion.

(a) Mechanics of Conversion. As set forth in Section 1.1 hereof, from time to time, and at any time during the period that the Note is outstanding, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 6:00 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower (upon payment in full of any amounts owed hereunder).

(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion.

(c) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon such conversion within three (3) business days after such receipt (the “Deadline”) (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof and the Purchase Agreement. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations hereunder, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower’s obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion.

(d) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company (“DTC”) Fast Automated Securities Transfer (“FAST”) program, upon request of the Holder and its compliance with the provisions set forth herein, the Borrower shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder’s Prime Broker with DTC through its Deposit Withdrawal Agent Commission (“DWAC”) system.

(e) Failure to Deliver Common Stock Prior to Deadline. Without in any way limiting the Holder’s right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline due to action and/or inaction of the Borrower, the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock (the “Fail to Deliver Fee”); provided; however that the Fail to Deliver Fee shall not be due if the failure is a result of a third party (i.e., transfer agent; and not the result of any failure to pay such transfer agent) despite the best efforts of the Borrower to effect delivery of such Common Stock. Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 1.4(e) are justified.

1.5 Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless: (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration (such as Rule 144 or a successor rule) (“Rule 144”); or (iii) such shares are transferred to an “affiliate” (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an Accredited Investor (as defined in the Purchase Agreement).

Any restrictive legend on certificates representing shares of Common Stock issuable upon conversion of this Note shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if the Borrower or its transfer agent shall have received an opinion of counsel from Holder's counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that (i) a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be accepted by the Company so that the sale or transfer is effected; or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act; or otherwise may be sold pursuant to an exemption from registration. In the event that the Company does not reasonably accept the opinion of counsel provided by the Holder with respect to the transfer of Securities pursuant to an exemption from registration (such as Rule 144), at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

1.6 Effect of Certain Events.

(a) Effect of Merger, Consolidation, Etc. At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III). "Person" shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Note is issued and outstanding and prior to conversion of all of the Note, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives, to the extent practicable, ten (10) days prior written notice (but in any event at least five (5) days prior written notice) of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Note. The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower’s shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a “Distribution”), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

1.7 Prepayment. Notwithstanding anything to the contrary contained in this Note, at any time during the periods set forth on the table immediately following this paragraph (the “Prepayment Periods”) or as otherwise agreed to between the Borrower and the Holder, the Borrower shall have the right, exercisable on not more than three (3) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full, in accordance with this Section 1.7. Any notice of prepayment hereunder (an “Optional Prepayment Notice”) shall be delivered to the Holder of the Note at its registered addresses and shall state: (1) that the Borrower is exercising its right to prepay the Note, and (2) the date of prepayment which shall be not more than three (3) Trading Days from the date of the Optional Prepayment Notice. On the date fixed for prepayment (the “Optional Prepayment Date”), the Borrower shall make payment of the Optional Prepayment Amount (as defined below) to Holder, or upon the direction of the Holder as specified by the Holder in a writing to the Borrower (which shall direction to be sent to Borrower by the Holder at least one (1) business day prior to the Optional Prepayment Date). If the Borrower exercises its right to prepay the Note, the Borrower shall make payment to the Holder of an amount in cash equal to the percentage (“Prepayment Percentage”) as set forth in the table immediately following this paragraph opposite the applicable Prepayment Period, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the Optional Prepayment Date plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and (x) plus (z) any amounts owed to the Holder pursuant to Section 1.4 hereof (the “Optional Prepayment Amount”).

Prepayment Period	Prepayment Percentage
1. The period beginning on the Issue Date and ending on the date which is thirty (30) days following the Issue Date.	115%
2. The period beginning on the date which is thirty-one (31) days from the Issue Date and ending sixty (60) days following the Issue Date.	120%
3. The period beginning on the date which is sixty-one (61) days from the Issue Date and ending one hundred eighty (180) days following the Issue Date.	125%

After the expiration of the Prepayment Periods set forth above, the Borrower may submit an Optional Prepayment Notice to the Holder. Upon receipt by the Holder of the Optional Prepayment Notice post Prepayment Periods, the prepayment shall be subject to the Holder’s and the Borrower’s agreement with respect to the applicable Prepayment Percentage.

Notwithstanding anything contained herein to the contrary, the Holder's conversion rights herein shall not be affected in any way until the Note is fully paid (funds received by the Holder) pursuant to an Optional Prepayment Notice.

ARTICLE II. CERTAIN COVENANTS

2.1 Sale of Assets. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur:

3.1 Failure to Pay Principal and Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity or upon acceleration and such breach continues for a period of five (5) days after written notice from the Holder.

3.2 Conversion and the Shares. The Borrower fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, the Borrower directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, or fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion. It is an obligation of the Borrower to remain current in its obligations to its transfer agent. It shall be an event of default of this Note, if a conversion of this Note is delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent. If at the option of the Holder, the Holder advances any funds to the Borrower's transfer agent in order to process a conversion, such advanced funds shall be paid by the Borrower to the Holder within forty-eight (48) hours of a demand from the Holder.

3.3 Breach of Covenants. The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents including but not limited to the Purchase Agreement and such breach continues for a period of twenty (20) days after written notice thereof to the Borrower from the Holder.

3.4 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.5 Receiver or Trustee. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed.

3.6 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower.

3.7 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on at least one of the OTC (which specifically includes the quotation platforms maintained by the OTC Markets Group) or an equivalent replacement exchange, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, or the American Stock Exchange.

3.8 Failure to Comply with the Exchange Act. The Borrower shall fail to comply with the reporting requirements of the Exchange Act; and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act (the filing of a Form 15 with the SEC is an immediate Event of Default).

3.9 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

3.10 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

3.11 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC at any time after 180 days after the Issuance Date for any date or period until this Note is no longer outstanding, if the result of such restatement would, by comparison to the un-restated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.12 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

3.13 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any covenant or other term or condition contained in any of the Other Agreements, after the passage of all applicable notice and cure or grace periods, shall, at the option of the Holder, be considered a default under this Note and the Other Agreements, in which event the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the Other Agreements by reason of a default under said Other Agreement or hereunder. "Other Agreements" means, collectively, all agreements and instruments between, among or by: (1) the Borrower, and, or for the benefit of, (2) the Holder and any affiliate of the Holder, including, without limitation, promissory notes; provided, however, the term "Other Agreements" shall not include the related or companion documents to this Note. Each of the loan transactions will be cross-defaulted with each other loan transaction and with all other existing and future debt of Borrower to the Holder.

Upon the occurrence and during the continuation of any Event of Default specified in Section 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due at the Maturity Date), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the Default Amount (as defined herein). UPON THE OCCURRENCE AND DURING THE CONTINUATION OF ANY EVENT OF DEFAULT SPECIFIED IN SECTION 3.2, THE NOTE SHALL BECOME IMMEDIATELY DUE AND PAYABLE AND THE BORROWER SHALL PAY TO THE HOLDER, IN FULL SATISFACTION OF ITS OBLIGATIONS HEREUNDER, AN AMOUNT EQUAL TO: (Y) THE DEFAULT AMOUNT (AS DEFINED HEREIN); MULTIPLIED BY (Z) TWO (2). Upon the occurrence and during the continuation of any Event of Default specified in Sections 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due on this Note upon a Trading Market Prepayment Event pursuant to Section 1.7 or upon acceleration), 3.3, 3.4, 3.7, 3.8, 3.10, 3.11, 3.12, 3.13, and/or 3.14 exercisable through the delivery of written notice to the Borrower by such Holders (the "Default Notice"), and upon the occurrence of an Event of Default specified the remaining sections of Articles III (other than failure to pay the principal hereof or interest thereon at the Maturity Date specified in Section 3.1 hereof), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to 150% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and/or (x) plus (z) any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof (the then outstanding principal amount of this Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity.

If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

ARTICLE IV. MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, facsimile or email, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

C-BOND SYSTEMS, INC.
6035 South Loop East
Houston, Texas 77033
Attn: Scott Silverman, Chief Executive Officer
Fax:
Email: ssilverman@cbondsistemas.com

If to the Holder:

1800 DIAGONAL LENDING LLC
1800 Diagonal Road, Suite 623
Alexandria VA 22314
Attn: Curt Kramer, President
Email: ckramer@sixthstreetlending.com

4.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Notes issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Each transferee of this Note must be an "accredited investor" (as defined in Rule 501(a) of the Securities and Exchange Commission). Notwithstanding anything in this Note to the contrary, this Note may be pledged as collateral in connection with a bona fide margin account or other lending arrangement; and may be assigned by the Holder without the consent of the Borrower.

4.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the Circuit Court of Fairfax County, Virginia or in the Alexandria Division of the United States District Court for the Eastern District of Virginia. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any objection or defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Borrower and Holder waive trial by jury. The Holder shall be entitled to recover from the Borrower its reasonable attorney's fees and costs incurred in connection with or related to any Event of Default by the Company, as defined in Article III hereof. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof or any agreement delivered in connection herewith. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Note, any agreement or any other document delivered in connection with this Note by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

4.7 Purchase Agreement. By its acceptance of this Note, each party agrees to be bound by the applicable terms of the Purchase Agreement.

4.8 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this 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 WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer this on November 4, 2022

C-BOND SYSTEMS, INC.

By:

Scott Silverman
Chief Executive Officer

EXHIBIT A -- NOTICE OF CONVERSION

The undersigned hereby elects to convert \$_____ principal amount of the Note (defined below) into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of C-BOND SYSTEMS, INC., a Colorado corporation (the "Borrower") according to the conditions of the convertible note of the Borrower dated as of November 4, 2022 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any.

Box Checked as to applicable instructions:

- ☐ The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal Agent At Custodian ("DWAC Transfer").

Name of DTC Prime Broker:
Account Number:

- ☐ The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

Date of conversion: _____
Applicable Conversion Price: \$ _____
Number of shares of common stock to be issued _____
pursuant to conversion of the Notes: _____
Amount of Principal Balance due remaining _____
under the Note after this conversion: _____

1800 DIAGONAL LENDING LLC

By: _____
Name: Curt Kramer
Title: President
Date: _____

SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of November 4, 2022, by and between **C-BOND SYSTEMS, INC.**, a Colorado corporation, with its address at 6035 South Loop East, Houston, Texas 77033 (the “Company”), and **1800 DIAGONAL LENDING LLC**, a Virginia limited liability company, with its address at 1800 Diagonal Road, Suite 623, Alexandria VA 22314 (the “Buyer”).

WHEREAS:

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”); and

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement a convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of \$104,250.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note.

NOW THEREFORE, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On the Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the “Purchase Price”) by wire transfer of immediately available funds to the Company, in accordance with the Company’s written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer’s name on the signature pages hereto, and
(ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note pursuant to this Agreement (the “Closing Date”) shall be 12:00 noon, Eastern Standard Time on or about November 4, 2022, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the “Closing”) shall occur on the Closing Date at such location as may be agreed to by the parties.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note (such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer.

e. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act; or may be sold pursuant to an applicable exemption from registration, the Conversion Shares may bear a restrictive legend in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR (2) THE ISSUER OF SUCH SECURITIES RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE REASONABLY ACCEPTABLE TO THE ISSUER'S TRANSFER AGENT, THAT SUCH SECURITIES MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS."

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to an exemption from registration without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

f. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its Subsidiaries (as defined below), if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. "Subsidiaries" means any corporation or other organization, whether incorporated or unincorporated, in which the Company owns, directly or indirectly, any equity or other ownership interest.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Capitalization. As of the date hereof, the authorized common stock of the Company consists of 4,998,000,000 authorized shares of Common Stock, \$0.001 par value per share, of which 328,734,898 shares are issued and outstanding. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and non-assessable. .

d. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). The businesses of the Company and its Subsidiaries, if any, are not being conducted, and shall not be conducted so long as the Buyer owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith.

f. SEC Documents; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”) (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein, being hereinafter referred to herein as the “SEC Documents”). Upon written request the Company will deliver to the Buyer true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates or if amended, as of the dates of the amendments, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof). As of their respective dates or if amended, as of the dates of the amendments, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). The Company is subject to the reporting requirements of the 1934 Act.

g. Absence of Certain Changes. Since June 30, 2022, except as set forth in the SEC Documents, there has been no material adverse change and no material adverse development in the assets, liabilities, business, properties, operations, financial condition, results of operations, prospects or 1934 Act reporting status of the Company or any of its Subsidiaries.

h. Absence of Litigation. Except as set forth in the SEC Documents, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company or any of its Subsidiaries, or their officers or directors in their capacity as such, that could have a Material Adverse Effect. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

i. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company’s securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

j. No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby.

k. No Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an “investment company” required to be registered under the Investment Company Act of 1940 (an “Investment Company”). The Company is not controlled by an Investment Company.

l. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under Section 3.4 of the Note.

4. COVENANTS.

a. Best Efforts. The Company shall use its best efforts to satisfy timely each of the conditions described in Section 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to timely make any filings required by federal and state laws as a result of the closing of the transactions contemplated by this Agreement.

c. Use of Proceeds. The Company shall use the proceeds for general working capital purposes.

d. Expenses. At the Closing, the Company’s obligation with respect to the transactions contemplated by this Agreement is to reimburse Buyer’s expenses shall be \$4,250.00 for Buyer’s legal fees and due diligence fee.

e. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company’s assets, except with the prior written consent of the Buyer.

f. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under Section 3.4 of the Note.

g. Failure to Comply with the 1934 Act/Negative Designation Removal. So long as the Note is outstanding, the Company shall comply with the 1934 Act; the Company shall continue to be subject to the reporting requirements of the 1934 Act; and, if OTCMarkets.com designates the Company as “Caveat Emptor” or “Shell Risk” (collectively, “Negative Designation”), the Company shall immediately cause OTCMarkets.com to remove such designation. Any Negative Designation shall in any case be removed from OTCMarkets within five (5) days or such failure shall be an Event of Default pursuant to the Note.

h. Trading Activities. Neither the Buyer nor its affiliates has an open short position in the common stock of the Company and the Buyer agrees that it shall not, and that it will cause its affiliates not to, engage in any short sales of or hedging transactions with respect to the common stock of the Company.

i. Right of First Refusal. Unless it shall have first delivered to the Buyer, at least forty eight (48) hours prior to the closing of such Future Offering (as defined herein), written notice describing the proposed Future Offering (“ROFR Notice”), including the terms and conditions thereof, identity of the proposed purchaser and proposed definitive documentation to be entered into in connection therewith, and providing the Buyer an option during the forty eight (48) hour period following delivery of such notice to purchase the securities being offered in the Future Offering on the same terms as contemplated by such Future Offering (the limitations referred to in this sentence and the preceding sentence are collectively referred to as the “Right of First Refusal”), the Company will not conduct any equity (or debt with an equity component) financing in an amount less than \$150,000 (“Future Offering(s)”) during the period beginning on the Closing Date and ending nine (9) months following the Closing Date. In the event the terms and conditions of a proposed Future Offering are amended in any respect after delivery of the notice to the Buyer concerning the proposed Future Offering, the Company shall deliver a new notice to the Buyer describing the amended terms and conditions of the proposed Future Offering and the Buyer thereafter shall have an option during the forty eight (48) hour period following delivery of such new notice to purchase its pro rata share of the securities being offered on the same terms as contemplated by such proposed Future Offering, as amended. Notwithstanding anything contained herein to the contrary, any subsequent offer by an investor, or an affiliate of such investor, identified on an ROFR Notice is subject to this Section 4(i) and the Right of First Refusal.

j. The Buyer is Not a “Dealer”. The Buyer and the Company hereby acknowledge and agree that the Buyer has not: (i) acted as an underwriter; (ii) acted as a market maker or specialist; (iii) acted as “de facto” market maker; or (iv) conducted any other professional market activities such as providing investment advice, extending credit and lending securities in connection; and thus that the Buyer is not a “Dealer” as such term is defined in the 1934 Act.

5. Transfer Agent Instructions. The Company shall issue irrevocable instructions to its transfer agent to issue certificates, registered in the name of the Buyer or its nominee, for the Conversion Shares in such amounts as specified from time to time by the Buyer to the Company upon conversion of the Note in accordance with the terms thereof (the “Irrevocable Transfer Agent Instructions”). In the event that the Company proposes to replace its transfer agent, the Company shall provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to this Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount as such term is defined in the Note) signed by the successor transfer agent to Company and the Company. Prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to an exemption from registration, all such certificates shall bear the restrictive legend specified in Section 2(e) of this Agreement. The Company warrants that: (i) no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5, will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent not to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing)(electronically or in certificated form) any certificate for Conversion Shares to be issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; and (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Conversion Shares issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and/or this Agreement. If the Buyer provides the Company and the Company’s transfer agent, at the cost of the Buyer, with an opinion of counsel in form, substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the 1933 Act, the Company shall permit the transfer, and, in the case of the Conversion Shares, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

6. Conditions to the Company’s Obligation to Sell. The obligation of the Company hereunder to issue and sell the Note to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions thereto, provided that these conditions are for the Company’s sole benefit and may be waived by the Company at any time in its sole discretion:

a. The Buyer shall have executed this Agreement and delivered the same to the Company.

b. The Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.

c. The representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.

d. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. Conditions to The Buyer's Obligation to Purchase. The obligation of the Buyer hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

a. The Company shall have executed this Agreement and delivered the same to the Buyer.

b. The Company shall have delivered to the Buyer the duly executed Note (in such denominations as the Buyer shall request) in accordance with Section 1(b) above.

c. The Irrevocable Transfer Agent Instructions, in form and substance satisfactory to the Buyer, shall have been delivered to and acknowledged in writing by the Company's Transfer Agent.

d. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Buyer including, but not limited to certificates with respect to the Board of Directors' resolutions relating to the transactions contemplated hereby.

e. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

f. No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the 1934 Act reporting status of the Company or the failure of the Company to be timely in its 1934 Act reporting obligations.

8. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the Circuit Court of Fairfax County, Virginia or in the Alexandria Division of the United States District Court for the Eastern District of Virginia. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any objection or defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The Buyer shall be entitled to recover from the Company its reasonable attorney's fees and costs incurred in connection with or related to any Event of Default by the Company, as defined in Article III of the Note. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement, the Note or any related document or agreement by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, email or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be as set forth in the heading of this Agreement with a copy by fax only to (which copy shall not constitute notice) to Naidich Wurman LLP, 111 Great Neck Road, Suite 214, Great Neck, NY 11021, Attn: Allison Naidich, facsimile: 516-466-3555, e-mail: allison@nwlaw.com. Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company.

h. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

i. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

k. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

C-BOND SYSTEMS, INC.

By: _____
Scott Silverman
Chief Executive Officer

1800 DIAGONAL LENDING LLC

By: _____
Curt Kramer
President

AGGREGATE SUBSCRIPTION AMOUNT:

Aggregate Principal Amount of Note:	\$	104,250.00
Aggregate Purchase Price:	\$	104,250.00

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 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, 2022

/s/ Scott R. Silverman

Scott R. Silverman

Chief Executive Officer (principal executive officer)

Certifications

I, Scott R. Silverman, certify that:

6. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 of C-Bond Systems, Inc.;
7. 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;
8. 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;
9. 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:
 - e. 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;
 - f. 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;
 - g. 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
 - h. 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
10. 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):
 - c. 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
 - d. 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, 2022

/s/ Scott R. Silverman

Scott R. Silverman

Chief Financial Officer (principal financial officer)

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

In connection with the quarterly report of C-Bond Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, as amended, I, Scott R. Silverman, Chief Executive Officer and Chief Financial Officer, certify to the best of my knowledge:

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

Date: November 14, 2022

/s/ Scott R. Silverman

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