

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 **March 31, 2023**

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 504,976,437 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of May 12, 2023.

C-BOND SYSTEMS, INC.
FORM 10-Q
MARCH 31, 2023

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2023 <u>(Unaudited)</u>	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash	\$ 82,984	\$ 97,091
Accounts receivable, net	198,688	269,442
Inventory	59,346	77,446
Prepaid expenses and other current assets	88,850	71,171
Contract assets	-	279
Total Current Assets	<u>429,868</u>	<u>515,429</u>
OTHER ASSETS:		
Property and equipment, net	88,082	96,306
Right of use asset, net	346,693	375,412
Intangible asset, net	267,292	279,918
Goodwill	350,491	350,491
Security deposit	7,775	6,482
Total Other Assets	<u>1,060,333</u>	<u>1,108,609</u>
TOTAL ASSETS	<u>\$ 1,490,201</u>	<u>\$ 1,624,038</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Convertible notes payable, net of discount - current portion	\$ 1,194,818	\$ 1,031,250
Notes payable, net of discount - current portion	1,592,207	1,576,438
Accounts payable	828,458	779,765
Accrued expenses	859,517	736,393
Accrued interest payable - related party	12,493	10,027
Accrued compensation	402,949	590,632
Contract liabilities	9,382	22,637
Lease liability, current portion	120,640	117,671
Total Current Liabilities	<u>5,020,464</u>	<u>4,864,813</u>
LONG-TERM LIABILITIES:		
Convertible notes payable, net of current portion	168,500	251,263
Notes payable, net of current portion and discount	207,222	208,804
Note payable - related party	250,000	250,000
Lease liability, net of current portion	227,702	258,895
Total Long-term Liabilities	<u>853,424</u>	<u>968,962</u>
Total Liabilities	<u>5,873,888</u>	<u>5,833,775</u>
Commitments and Contingencies (See Note 10)		
Series B convertible preferred stock: \$0.10 par value, 100,000 shares designated; 1,144 and 1,000 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively (\$1,186,719 redemption and liquidation value at March 31, 2023)	<u>1,186,719</u>	<u>1,037,201</u>
Series C convertible preferred stock: \$0.10 par value, 100,000 shares designated; 16,276 and 17,290 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively (\$2,565,750 redemption and liquidation value at March 31, 2023)	<u>1,710,500</u>	<u>1,803,731</u>
SHAREHOLDERS' DEFICIT:		
Preferred stock: \$0.10 par value, 2,000,000 shares authorized; 100,000 Series B and 100,000 Series C designated; none issued and outstanding	-	-
Common stock: \$0.001 par value, 4,998,000,000 shares authorized; 447,704,272 and 350,270,172 issued and outstanding at March 31, 2023 and December 31, 2022, respectively	447,704	350,270
Additional paid-in capital	55,550,606	55,141,503
Accumulated deficit	(63,413,236)	(62,693,184)
Total C-Bond Systems, Inc. shareholders' deficit	<u>(7,414,926)</u>	<u>(7,201,411)</u>
Noncontrolling Interest	<u>134,020</u>	<u>150,742</u>

Total Shareholders' Deficit	<u>(7,280,906)</u>	<u>(7,050,669)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,490,201</u>	<u>\$ 1,624,038</u>

See accompanying unaudited notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended	
	March 31,	
	2023	2022
SALES:	\$ 515,220	\$ 510,709
COST OF SALES (excluding depreciation expense)	<u>245,360</u>	<u>249,630</u>
GROSS PROFIT	<u>269,860</u>	<u>261,079</u>
OPERATING EXPENSES:		
Compensation and related benefits (including stock-based compensation of \$12,137 and \$1,014,508 for the three months ended March 31, 2023, and 2022, respectively)	426,872	1,416,018
Professional fees	187,690	314,212
General and administrative expenses	<u>178,900</u>	<u>204,613</u>
Total Operating Expenses	<u>793,462</u>	<u>1,934,843</u>
LOSS FROM OPERATIONS	<u>(523,602)</u>	<u>(1,673,764)</u>
OTHER INCOME (EXPENSES):		
Gain on debt extinguishment	-	2,925
Interest expense	(195,786)	(248,580)
Interest expense - related party	<u>(3,699)</u>	<u>-</u>
Total Other Expenses, net	<u>(199,485)</u>	<u>(245,655)</u>
NET LOSS	(723,087)	(1,919,419)
Net loss of subsidiary attributable to noncontrolling interest	16,722	13,020
Preferred stock dividend	<u>(13,687)</u>	<u>(14,005)</u>
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (720,052)</u>	<u>\$ (1,920,404)</u>
NET LOSS PER COMMON SHARE:		
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	<u>424,991,656</u>	<u>283,833,276</u>

See accompanying unaudited notes to the unaudited consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>	<u>Total Shareholders' Deficit</u>
	<u># of Shares</u>	<u>Amount</u>				
Balance, December 31, 2022	350,270,172	\$ 350,270	\$ 55,141,503	\$ (62,693,184)	\$ 150,742	\$ (7,050,669)
Common stock issued for cash and accrued compensation	54,545,455	54,545	245,455	-	-	300,000
Common stock issued for professional fees	6,666,667	6,667	33,333	-	-	40,000
Common stock issued for accrued compensation	9,636,364	9,636	43,364	-	-	53,000
Common stock issued for conversion of Series C preferred stock	26,585,614	26,586	74,814	-	-	101,400
Preferred stock dividends	-	-	-	(13,687)	-	(13,687)
Accretion of stock-based compensation	-	-	12,137	-	-	12,137
Net loss	-	-	-	(706,365)	(16,722)	(723,087)
Balance, March 31, 2023	<u>447,704,272</u>	<u>\$ 447,704</u>	<u>\$ 55,550,606</u>	<u>\$ (63,413,236)</u>	<u>\$ 134,020</u>	<u>\$ (7,280,906)</u>
	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>	<u>Total Shareholders' Deficit</u>
	<u># of Shares</u>	<u>Amount</u>				
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 debt	823,529	824	12,139	-	-	12,963
Preferred stock dividends	-	-	-	(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	<u>285,174,171</u>	<u>\$ 285,174</u>	<u>\$ 54,103,304</u>	<u>\$ (59,435,533)</u>	<u>\$ 176,235</u>	<u>\$ (4,870,820)</u>

See accompanying unaudited notes to the unaudited consolidated financial statements.

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

For the Three Months Ended
March 31,

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (723,087)	\$ (1,919,419)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	20,850	22,910
Amortization of debt discount to interest expense	63,916	207,727
Interest expense for put premium on convertible notes	29,212	-
Stock-based compensation	12,137	1,014,508
Stock-based professional fees	40,667	111,800
Non-cash gain on debt extinguishment and inducement expense	-	(2,925)
Lease costs	495	(723)
Change in operating assets and liabilities:		
Accounts receivable	70,754	(134,598)
Inventory	18,100	19,853
Prepaid expenses and other assets	(19,639)	325
Contract assets	279	80,265
Accounts payable	48,693	23,816
Accrued expenses	123,124	25,482
Accrued interest - related party	2,466	-
Accrued compensation	34,317	11,583
Contract liabilities	(13,255)	35,627
NET CASH USED IN OPERATING ACTIVITIES	<u>(290,971)</u>	<u>(503,769)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	275,000	-
Proceeds from note payable	-	175,000
Repayment of notes payable	(48,136)	(21,019)
Proceeds from convertible notes payable	50,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>276,864</u>	<u>153,981</u>
NET DECREASE IN CASH	<u>(14,107)</u>	<u>(349,788)</u>
CASH, beginning of period	<u>97,091</u>	<u>519,898</u>
CASH, end of period	<u>\$ 82,984</u>	<u>\$ 170,110</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	<u>\$ 33,795</u>	<u>\$ 4,754</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued as prepaid services	<u>\$ 40,000</u>	<u>\$ -</u>
Common stock issued for accrued compensation	<u>\$ 78,000</u>	<u>\$ -</u>
Series B preferred stock issued for accrued compensation	<u>\$ 144,000</u>	<u>\$ 278,654</u>
Preferred stock series B and C dividends accrued	<u>\$ 13,687</u>	<u>\$ 14,005</u>
Increase in debt discount and paid-in capital for shares issued with convertible debt	<u>\$ -</u>	<u>\$ 12,963</u>
Conversion of series C preferred stock to common stock	<u>\$ 101,400</u>	<u>\$ 12,000</u>
Common stock issued for accounts payable	<u>\$ -</u>	<u>\$ 2,174</u>

See accompanying unaudited notes to the unaudited consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(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.

On May 8, 2023, the Company entered into an Asset Purchase Agreement with a third-party entity (the “Buyer”), whereby the Company sold its C-Bond nanoShield product line to the Buyer for cash of \$4,000,000. Accordingly, the Company assigned, transferred and delivered to the Buyer, free and clear of all liens, all of the Assets. The “Assets” shall be comprised of certain intangible assets, intellectual property, work In process, furniture, fixtures, equipment, inventory and other physical assets of the Company’s C-Bond nanoShield division. Following the Closing, the Parties shall reasonably cooperate to complete a transaction wherein the Company shall assign to Buyer, and Buyer shall take assignment from the Company, the lease for the premises located at 6035 South Loop East, Houston, Texas 77033 (the “Lease”) pursuant to a lease assignment and assumption agreement as to be reasonably agreed to by the parties and the lessor pursuant to the Lease. (See Note 16).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The Company’s unaudited 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, 2022 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 March 31, 2023.

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(UNAUDITED)

Going Concern

These unaudited 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 consolidated financial statements, the Company had a net loss of \$723,087 and \$1,919,419 for the three months ended March 31, 2023 and 2022, respectively. Net cash used in operations was \$290,971 and \$503,769 for the three months ended March 31, 2023 and 2022, respectively. Additionally, as of March 31, 2023, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$63,413,236, \$7,280,906 and \$4,590,596, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. 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 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 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates during the three months ended March 31, 2023 and 2022 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, 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, the valuation allowances for deferred tax assets, 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 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 March 31, 2023 and December 31, 2022.

Accounts Receivable

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

Inventory

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

C-BOND SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(UNAUDITED)

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 seven 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 consolidated balance sheets and amounted to \$26,648 on March 31, 2023 and December 31, 2022. During the three months ended March 31, 2023 and 2022, warranty costs were de minimis.

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 \$3,624 and \$3,121 for the three months ended March 31, 2023 and 2022, 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. During the three months ended March 31, 2023 and 2022, research and development costs incurred in the development of the Company’s products were \$0.

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 three months ended March 31, 2023 and 2022, advertising costs charged to operations were \$4,155 and \$41,818, respectively and are included in general and administrative expenses on the accompanying unaudited 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 March 31, 2023 and December 31, 2022, 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 expenses. However, no such interest and penalties were recorded as of March 31, 2023 and December 31, 2022.

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:

	March 31,	
	2023	2022
Stock options	8,445,698	8,445,698
Warrants	34,000,000	17,500,000
Series B preferred stock	324,240,164	158,829,048
Series C preferred stock	406,900,000	294,603,175
Convertible debt	1,206,660,749	33,000,000
Non-vested, forfeitable common shares	16,970,120	14,270,120
	<u>1,997,216,731</u>	<u>526,648,041</u>

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Segment Reporting

During the three months ended March 31, 2023 and 2022, 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.

Leases

The Company accounts for leases in accordance with ASC 842. The lease standard requires certain leases to be reported on the 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 categorizes 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'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.

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.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changes how entities will measure credit losses for most financial assets, including accounts receivable. ASU No. 2016-13 will replace today's "incurred loss" approach with an "expected loss" model, under which companies will recognize allowances based on expected rather than incurred losses. On November 15, 2019, the FASB delayed the effective date of Topic 326 for certain small public companies and other private companies until fiscal years beginning after December 15, 2022 for SEC filers that are eligible to be smaller reporting companies under the SEC's definition, as well as private companies and not-for-profit entities. The adoption of Topic 326 did not have a material impact on the Company's unaudited consolidated financial statements.

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In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The guidance was issued as improvements to ASU No. 2016-13 described above. The vintage disclosure changes require an entity to disclose current-period gross write-offs by year of origination for financing receivables. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The amendments should be applied prospectively. Early adoption of the amendments is permitted, including adoption in an interim period. The adoption of ASU No. 2022-02 on January 1, 2023 did not have a material impact on the Company's unaudited consolidated financial statements.

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

NOTE 3 – ACCOUNTS RECEIVABLE

On March 31, 2023 and December 31, 2022, accounts receivable consisted of the following:

	March 31, 2023	December 31, 2022
Accounts receivable	\$ 234,210	\$ 304,964
Less: allowance for doubtful accounts	(35,522)	(35,522)
Accounts receivable, net	<u>\$ 198,688</u>	<u>\$ 269,442</u>

For the three months ended March 31, 2023 and 2022, bad debt expense amounted to \$0.

NOTE 4 – INVENTORY

On March 31, 2023 and December 31, 2022, inventory consisted of the following:

	March 31, 2023	December 31, 2022
Raw materials	\$ 111	\$ 1,501
Finished goods	59,235	75,945
Inventory	<u>59,346</u>	<u>77,446</u>
Less: allowance for obsolete or slow-moving inventory	-	-
Inventory, net	<u>\$ 59,346</u>	<u>\$ 77,446</u>

During the three months ended March 31, 2023 and 2022, the Company did not record any allowance for slow moving inventory.

NOTE 5 – PROPERTY AND EQUIPMENT

On March 31, 2023 and December 31, 2022, property and equipment consisted of the following:

	Useful Life	March 31, 2023	December 31, 2022
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	62,195	62,195
Leasehold improvements	3 – 5 years	45,296	45,296
		<u>263,930</u>	<u>263,930</u>
Less: accumulated depreciation		(175,848)	(167,624)
Property and equipment, net		<u>\$ 88,082</u>	<u>\$ 96,306</u>

For the three months ended March 31, 2023 and 2022, depreciation expense is included in general and administrative expenses and amounted to \$8,224 and \$10,284, respectively.

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NOTE 6 – INTANGIBLE ASSETS AND GOODWILL

On March 31, 2023 and December 31, 2022, intangible assets, which were acquired from Mobile in 2021, consisted of the following:

	<u>Useful life</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Customer relations	5 years	\$ 212,516	\$ 212,516
Non-compete	5 years	40,000	40,000
Trade name	-	100,000	100,000
		<u>352,516</u>	<u>352,516</u>
Less: accumulated amortization		(85,224)	(72,598)
Intangible assets, net		<u>\$ 267,292</u>	<u>\$ 279,918</u>
	<u>Useful life</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Goodwill	-	\$ 350,491	\$ 350,491

For the three months ended March 31, 2023 and 2022, amortization expense of intangible assets amounted to \$12,626 and \$12,626, respectively. On March 31, 2023, accumulated amortization amounted to \$71,724 and \$13,500 for the customer relations and non-compete, respectively. On December 31, 2022, accumulated amortization amounted to \$61,098 and \$11,500 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 March 31:	Amount
2024	\$ 50,503
2025	50,503
2026	50,503
2027	15,783
Total	<u>\$ 167,292</u>

NOTE 7 – CONVERTIBLE NOTES 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 initial exercise price of \$0.05 per share, an amount equal to 50% of the conversion shares that were 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.

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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 initial 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. To date, the Investor did not purchase the Second Note.

The Initial Note matured 12 months after issuance, bore interest at a rate of 4% per annum through the date of default, 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 Initial Note.

The Initial 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 Initial 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.

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.

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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 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 matured on October 15, 2022, bore interest at a rate of 4% per annum through the date of default, and was 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 than the conversion price will be reduced to such Average Closing Price but in no event less than \$0.00875.

On October 15, 2022, the due date of the New Note, the New Note defaulted due to non-payment. Accordingly, the Company added a default penalty of \$206,250, or 25%, to the principal balance and recorded interest expense of \$206,250, and interest shall accrue at 18% per annum. Accordingly, as of March 31, 2023 and December 31, 2022, the principal balance of the Initial note was \$1,031,250.

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 was 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.

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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 April 20, 2022 (the Exchange Agreement date) along with various re-pricings as outlined below, the fair value of the stock warrants were estimated at issuance using the Binomial Valuation Model with the following assumptions:

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

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.

1800 Diagonal Lending Convertible Debt

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 (the "November 2022 Diagonal Note") dated November 4, 2022, was made to Diagonal in the aggregate principal amount of \$104,250 and the Company received net proceeds of \$100,000 which was net of fees of \$4,250. The November 2022 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 are due on May 4, 2024. Subsequent to March 31, 2023, the November 2022 Diagonal Note was repaid (See Note 16).

On December 27, 2022, the Company closed a Securities Purchase Agreement dated December 27, 2022, with 1800 Diagonal pursuant to which a Promissory Note ("December 2022 Diagonal Note") dated December 27, 2022, was made to Diagonal in the aggregate principal amount of \$64,250 and the Company received net proceeds of \$60,000 which was net of fees of \$4,250. The December 2022 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 are due on June 27, 2024. Subsequent to March 31, 2023, the December 2022 Diagonal Note was repaid (See Note 16).

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On March 17, 2023, the Company closed a Securities Purchase Agreement dated November 4, 2022, with Diagonal pursuant to which a Promissory Note (the "March 2023 Diagonal Note") dated March 17, 2023, was made to Diagonal in the aggregate principal amount of \$54,250 and the Company received net proceeds of \$50,000 which was net of fees of \$4,250. The March 2023 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 are due on March 17, 2024. Subsequent to March 31, 2023, the March 2023 Diagonal Note was repaid (See Note 16).

The Company had the right to prepay the November 2022, December 2022 and March 2023 Diagonal Notes (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 November 2022, December 2022 and March 2023 Diagonal Notes 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 Diagonal Note, convert the outstanding principal and interest on the November 2022, December 2022 and March 2023 Diagonal Notes 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 November 2022, December 2022 and March 2023 Diagonal Notes 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.

The Company has accounted for the November 2022 and December 2022 Diagonal Notes as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$90,731 with a charge to interest expense. The Company has accounted for the March 2023 Diagonal Note as stock settled debt under ASC 480 and recorded an aggregate debt premium of \$29,212 with a charge to interest expense.

For the three months ended March 31, 2023 and 2022, amortization of debt discounts related to the convertible notes payable amounted to \$1,593 and \$206,250, respectively, which has been included in interest expense on the accompanying unaudited consolidated statements of operations.

On March 31, 2023 and December 31, 2022, accrued interest payable under the convertible notes discussed above amounted to \$134,162 and \$83,138, respectively, and is included in accrued expenses on the accompanying unaudited consolidated balance sheets.

On March 31, 2023 and December 31, 2022, convertible notes payable consisted of the following:

	March 31, 2023	December 31, 2022
Convertible notes payable	\$ 1,254,000	\$ 1,199,750
Add: put premium	119,943	90,731
Less: unamortized debt discount	<u>(10,625)</u>	<u>(7,968)</u>
Convertible notes payable, net	1,363,318	1,282,513
Less: current portion of convertible notes payable	<u>(1,194,818)</u>	<u>(1,031,250)</u>
Convertible notes payable – long-term	<u>\$ 168,500</u>	<u>\$ 251,263</u>

NOTE 8 – NOTES PAYABLE

On March 31, 2023 and December 31, 2022, notes payable consisted of the following:

	March 31, 2023	December 31, 2022
Notes payable	\$ 1,851,244	\$ 1,899,380
Note payable – PPP note	18,823	18,823
Total notes payable	<u>1,870,067</u>	<u>1,918,203</u>
Less: unamortized debt discount	<u>(70,638)</u>	<u>(132,961)</u>
Notes payable, net	1,799,429	1,785,242
Less: current portion of notes payable, net of discount	<u>(1,592,207)</u>	<u>(1,576,438)</u>
Notes payable – long-term	<u>\$ 207,222</u>	<u>\$ 208,804</u>

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Notes Payable

BOCO Investment Note

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 balances plus inventory such that the outstanding principal borrowed by Company under the Loan Agreement and Note is less than or equal to eighty five percent (85%) of accounts receivable plus fifty percent (50%) of inventory, all as measured at the same point in time.

Commencing on January 10, 2019 and on or before the 10th day of each month thereafter, the Company 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 March 31, 2023 and December 31, 2022, 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 March 31, 2023 and December 31, 2022, principal amount due under this Note amounted to \$400,000 and is considered to be in default. On March 31, 2023 and December 31, 2022, accrued interest payable under this Note amounted to \$309,995 and \$292,241, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets. In May 2023, the Company and the Lender entered into a Debt Exchange and Release Agreement whereby the Company agreed to pay to the Lender the sum of \$200,000, and issue the Lender 22,000,000 shares of Common Stock of the Company in exchange for forgiveness of the Loan Agreement and Note, which were deemed paid in full (see Note 16).

Mercer Street Global Opportunity Fund Notes

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 a 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. On March 31, 2023, the principal balance due on the March 2022 Note amounted to \$197,500 and accrued interest payable amounted to \$6,217. On December 31, 2022, the principal balance due on the March 2022 Note amounted to \$197,500 and accrued interest payable amounted to \$4,756. In May 2023, the March 2022 Note was paid in full (See Note 16).

On November 22, 2022, the Company entered into a Promissory Note and Security Agreement (the “November 2022 Note”) in the principal amount of \$65,000 with Mercer Street Global Opportunity Fund, LLC (the “Investor”). The November 2022 Note was funded on November 22, 2022 and the Company received net proceeds of \$62,500 which is net of investor legal fees of \$2,500. The legal fees were recorded as a debt discount to be amortized over the life of the November 2022 note. The November 2022 Note matures on August 22, 2023 and bears interest at a rate of 8% per annum. 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. The November 2022 Note also creates a lien on and grants a priority security interest in all the Company’s assets. On March 31, 2023, the principal balance due on the November 2022 Note amounted to \$65,000 and accrued interest payable amounted to \$1,495. On December 31, 2022, the principal balance due on the November 2022 Note amounted to \$65,000 and accrued interest payable amounted to \$214. In May 2023, the November 2022 Note was paid in full (See Note 16).

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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 June 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The GS Capital June 2022 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 December 31, 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%. On December 15, 2022, the Company and GS Capital entered into a letter agreement to extend the due date of the GS Capital June 2022 note by 60 days. Specifically, the maturity date of the GS Capital June 2022 note was extended to August 23, 2023 and the next payment due date was extended to February 28, 2023. Through December 31, 2022, the Company paid \$53,512 of principal balance and during the three months ended March 31, 2023, paid principal balance of \$19,592. On March 31, 2023, the principal balance due on the GS Capital Note amounted to \$121,896 and accrued interest payable amounted to \$10,150. On December 31, 2022, the principal balance due on the GS Capital Note amounted to \$141,488 and accrued interest payable amounted to \$7,471. In May 2023, the GS Capital June 2022 Note was paid in full (See Note 16).

On July 26, 2022, the Company closed a Securities Purchase Agreement (“July 2022 Agreement”) with GS Capital, pursuant to which a Promissory Note (“GS Capital July 2022 Note”) was made to GS Capital in the aggregate principal amount of \$195,000. The GS Capital 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 GS Capital 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 GS Capital 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 GS Capital 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 December 31, 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 December 15, 2022, the Company and GS Capital entered into a letter agreement to extend the due date of the GS Capital July 2022 note by 60 days. Specifically, the maturity date of the GS Capital July 2022 note was extended to September 26, 2023 and the next payment due date was extended to February 28, 2023. Through December 31, 2022, the Company paid \$34,120 of principal balance and during the three months ended March 31, 2023, paid principal balance of \$19,391. On March 31, 2023, the principal balance due on the GS Capital July 2022 Note amounted to \$141,489 and accrued interest payable amounted to \$9,504. On December 31, 2022, the principal balance due on the GS Capital July 2022 Note amounted to \$160,880 and accrued interest payable amounted to \$6,441. In May 2023, the GS Capital July 2022 Note was paid in full (See Note 16).

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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 December 31, 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 December 15, 2022, the Company and GS Capital entered into a letter agreement to extend the due date of the GS Capital September 2022 note by 60 days. Specifically, the maturity date of the GS Capital September 2022 note was extended to November 6, 2023 and the next payment due date was extended to March 6, 2023. On March 31, 2023, the principal balance due on the GS Capital September 2022 Note amounted to \$195,000 and accrued interest payable amounted to \$8,847. On December 31, 2022, the principal balance due on the GS Capital September 2022 Note amounted to \$195,000 and accrued interest payable amounted to \$5,001. In May 2023, the GS Capital September Note was paid in full (See Note 16).

In connection with the Letter Agreement dated December 15, 2022, in order to induce GS Capital to extend the due dates of the GS Capital Notes, the Company issued 15,000,000 shares of the Company’s common stock. These shares were valued at \$112,500, or \$0.0075 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 year ended December 31, 2022, the Company recorded an inducement expense of \$112,500 which was included in loss on debt extinguishment.

As of March 31, 2023, GS Capital did not send any notice of default on the GS Capital June 2022 Note, the GS Capital July 2022 Note, or the September 2022 Note, and in May 2023, the GS Capital June 2022 Note, the GS Capital July 2022 Note, and the September 2022 Note were paid in full without any default penalty (see Note 16).

Other Notes Payable

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 March 31, 2023 and December 31, 2022, accrued interest payable under this Promissory Note amounted to \$75,726 and \$65,863, respectively, and is included in accrued expenses on the accompanying unaudited consolidated balance sheets. On March 31, 2023 and December 31, 2022, the principal amount due under this Promissory Note amounted to \$500,000. In May 2023, the Promissory Note was paid in full (See Note 16).

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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 March 31, 2023 and December 31, 2022, notes payable related to these vehicle and equipment loans amounted to \$30,360 and \$39,513, respectively.

On November 8, 2022, the Company entered into a Promissory Note (the “November 2022 Note”) with a lender 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 lender Investor previously entered into that certain Loan and Security Agreement dated May 10, 2021, which is incorporated into the November 2022 Note. On March 31, 2023 and December 31, 2022, accrued interest payable under this Promissory Note amounted to \$6,312 and \$2,367, respectively, and is included in accrued expenses on the accompanying unaudited consolidated balance sheets. On March 31, 2023 and December 31, 2022, the principal amount due under this Promissory Note amounted to \$200,000. Subsequent to March 31, 2023, the November 2022 Note was paid in full (See Note 16).

For the three months ended March 31, 2023 and 2022, amortization of debt discounts related to notes payable amounted to \$62,323 and \$1,477, respectively, which has been included in interest expense on the accompanying unaudited 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 year ended December 31, 2022, the Company repaid PPP Loan principal of \$30,107. On March 31, 2023 and December 31, 2022, the principal amount due under the PPP Loan amounted to \$18,823. As of March 31, 2023 and December 31, 2022, accrued interest payable amounted to \$217 and \$170, respectively.

On March 31, 2023, future annual maturities of notes payable are as follows:

March 31,	Amount
2024	\$ 1,662,845
2025	207,222
Total notes payable on March 31, 2023	<u>\$ 1,870,067</u>

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.

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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 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 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 on May 1, 2024. By mutual agreement between the parties, the vesting date of previously granted Series B Preferred stock was extended through May 2024.

On January 17, 2023, the Board of Directors of the Company agreed to satisfy \$144,000 of accrued compensation owed to its executive officers (collectively, the "Management") which, as of December 31, 2022 was included in accrued compensation on the accompanying unaudited consolidated balance sheet. Management agreed to accept 144 shares of the Company's Series B convertible preferred stock in settlement of this accrued compensation. The beneficial conversion feature of the Series B Preferred Stock at the time of issuance was determined to be de minimis on the commitment date.

During the three months ended March 31, 2023 and 2022, the Company accrued dividends of \$5,518 and \$4,858, respectively, which was included in Series B convertible preferred stock on the accompanying unaudited consolidated balance sheets.

As of March 31, 2023, the net Series B Preferred Stock balance was \$1,186,719, which includes stated value of \$1,144,623 and accrued dividends payable of \$42,096. As of December 31, 2022, the net Series B Preferred Stock balance was \$1,037,201, which includes stated value of \$1,000,624 and accrued dividends payable of \$36,577. The net Series B Preferred Stock balance is included on the accompanying unaudited 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.

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

On January 12, 2022, the Company issued 1,543,151 shares of 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.

During the three months ended March 31, 2023, the Company issued 26,585,614 shares of its common stock upon the conversion of 1,014 shares of Series C preferred with a stated redemption value of \$101,400. The conversion price was based on contractual terms of the related Series C preferred shares.

During the three months ended March 31, 2023 and 2022, the Company accrued dividends of \$8,169 and \$9,147, respectively, which was included in Series C convertible preferred stock on the accompanying unaudited consolidated balance sheets.

As of March 31, 2023, the net Series C Preferred Stock balance was \$1,710,500, which includes stated liquidation value of \$1,627,600 and accrued dividends payable of \$82,900. As of December 31, 2022, the net Series C Preferred Stock balance was \$1,803,731, which includes stated value of \$1,729,000 and accrued dividends payable of \$74,731. The net Series C Preferred Stock balance is included on the accompanying unaudited consolidated balance sheets.

Common Stock

Common Stock Issued for Cash and Accrued Compensation

On January 17, 2023, the Company entered into a Subscription Agreement with its Chairman and Chief Executive Officer, Scott R. Silverman (the "Subscription Agreement"), whereby Mr. Silverman purchased 54,545,455 shares (the "Subscription Shares") of the Company's common stock for \$300,000, or \$0.0055 per share, based on the quoted closing price of the Company's common stock on the measurement date (the "Consideration"). The Consideration consisted of a cash payment of \$275,000 the conversion of \$25,000 of accrued compensation owed to Mr. Silverman.

On January 17, 2023, Barry Edelstein, a member of the Company's Board of Directors, elected to convert \$53,000 of accrued compensation into 9,636,364 shares of unregistered common stock of the Company. The shares were valued at \$53,000, or \$0.0055, based on the quoted closing price of the Company's common stock on the measurement date.

Issuance of Common Stock for Services

Issuance of Common Stock for Professional Fees

On February 6, 2023, the Company issued 6,666,667 shares of its common stock for public relations services to be rendered. These shares were valued at \$40,000, or \$0.006 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 \$11,667 and prepaid expense of \$28,333, which will be amortized into professional fees over the term of the agreement.

During the three months ended March 31, 2023 and 2022, the Company recorded stock-based professional fees of \$29,000 and \$111,800 in connection with the amortization to prepaid expenses related to common shares previously issued, respectively.

Issuance of Common Stock for Stock-Based Compensation

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.

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During the three months ended March 31, 2023 and 2022, aggregate accretion of stock-based compensation expense on granted common shares amounted to \$12,137 and \$42,702, respectively. Total unrecognized compensation expense related to these unvested common shares on March 31, 2023 amounted to \$4,046. 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, 2022	16,970,120	\$ 0.119
Granted	-	-
Shares vested	-	-
Non-vested, March 31, 2023	<u>16,970,120</u>	<u>\$ 0.119</u>

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 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.

Common Stock Issued for Conversion of Series C Preferred Stock

On January 12, 2022, the Company issued 1,543,151 shares of 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.

During the three months ended March 31, 2023, the Company issued 26,585,614 shares of its common stock upon the conversion of 1,014 shares of Series C preferred with a stated redemption value of \$101,400. The conversion price was based on contractual terms of the related Series C preferred shares.

Stock Options

For the three months ended March 31, 2023 and 2022, the Company recorded no compensation expense related to stock options. Total unrecognized compensation expense related to unvested stock options on March 31, 2023 amounted to \$0.

Stock option activities for the three months ended March 31, 2023 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2022	8,445,698	\$ 0.40	3.43	-
Exercised	-	-	-	-
Balance Outstanding, March 31, 2023	<u>8,445,698</u>	<u>\$ 0.40</u>	<u>3.18</u>	<u>\$ -</u>
Exercisable, March 31, 2023	<u>8,445,698</u>	<u>\$ 0.40</u>	<u>3.18</u>	<u>\$ -</u>

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Warrants

Warrant activities for the three months ended March 31, 2023 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2022	34,000,000	\$ 0.011	3.73	\$ -
Granted	-	-	-	-
Balance Outstanding March 31, 2023	34,000,000	\$ 0.011	3.48	\$ -
Exercisable, March 31, 2023	34,000,000	\$ 0.011	3.48	\$ -

2018 Long-Term Incentive Plan

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

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

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

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The aggregate number of shares of common stock and number of shares of the Company's common stock that may be subject to incentive stock options granted under the 2018 Plan is 50,000,000 shares, of which 11,445,698 shares have been issued or granted under incentive stock options and 29,451,070 shares of restricted stock have been issued as of March 31, 2023. 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 March 31, 2023, 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.

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. 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 March 31, 2023 and December 31, 2022, the Company has accrued compensation of \$18,250 to this former employee, which is included in accrued compensation on the accompanying unaudited 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.

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- 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.

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.

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On December 7, 2022, the Company's board of directors approved a bonus to certain officers in the aggregate amount of \$160,000. This bonus will be paid 10% in cash (\$16,000) which was paid in December 2022 and 90% in equity amounting to \$144,000 which as of December 31, 2022 had been accrued and as of December 31, 2022, was included in accrued compensation on the accompanying consolidated balance sheet. On January 17, 2023, the Board of Directors of the Company agreed to satisfy \$144,000 of the bonus owed to its executive officers (collectively, the "Management"). Management agreed to accept 144 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 March 31, 2023.

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 March 31, 2023, 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 March 31, 2023.

Geographic Concentrations of Sales

During the three months ended March 31, 2023 and 2022, all sales were in the United States.

Customer Concentrations

For the three months ended March 31, 2023, two customers accounted for approximately 36.0% of total sales (25.8% and 10.2%, respectively). For the three months ended March 31, 2022, three customers accounted for approximately 40.2% of total sales (14.6%, 15.1%, and 10.5%, respectively). On March 31, 2023, one customer accounted for 66.9% of the total accounts receivable balance. On December 31, 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 three months ended March 31, 2023 and 2022, 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.

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Information with respect to these reportable business segments for the three months ended March 31, 2023 and 2022 was as follows:

	For the Three Months Ended March 31,	
	2023	2022
Revenues:		
C-Bond	\$ 93,206	\$ 99,169
Mobile Tint	422,014	411,540
	<u>515,220</u>	<u>510,709</u>
Depreciation and amortization:		
C-Bond	437	2,294
Mobile Tint	20,413	20,616
	<u>20,850</u>	<u>22,910</u>
Interest expense:		
C-Bond	-	-
Mobile Tint	5,143	3,714
Other (a)	194,342	244,866
	<u>199,485</u>	<u>248,580</u>
Net (loss):		
C-Bond	(275,376)	(285,722)
Mobile Tint	(83,612)	(65,102)
Other (a)	(364,099)	(1,568,595)
	<u>\$ (723,087)</u>	<u>\$ (1,919,419)</u>
	March 31,	December 31,
	2023	2022
Identifiable long-lived tangible assets on March 31, 2023 and December 31, 2022 by segment:		
C-Bond	\$ 1,247	\$ 1,684
Mobile Tint	86,835	94,622
	<u>\$ 88,082</u>	<u>\$ 96,306</u>

(a) The Company does not allocate any general and administrative or financing expenses 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.

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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 three months ended March 31, 2023 and 2022. 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 three months ended March 31, 2023 and 2022:

	For the Three Months Ended March 31,	
	2023	2022
C-Bond Secure multi-purpose and BRS ballistic resistant glass protection systems	\$ 5,795	\$ 8,028
C-Bond nanoShield solution sales (See Note 16)	85,588	78,978
Disinfection products	-	10,880
Window tint installation and sales recognized over time	422,014	411,540
Freight and delivery	1,823	1,283
Total	\$ 515,220	\$ 510,709

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

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In connection with the 2021 Exchange Agreement between in the Company and Mobile Tint, 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 months 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 three months ended March 31, 2023 and 2022, in connection with its property operating leases, the Company recorded rent expense of \$40,845 and \$46,527, respectively, which is expensed during the period and included in general and administrative expenses on the accompanying unaudited consolidated statements of operations.

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

On March 31, 2023 and December 31, 2022, right-of-use asset (“ROU”) is summarized as follows:

	March 31, 2023	December 31, 2022
Office leases and office equipment right of use assets	\$ 480,293	\$ 480,293
Less: accumulated amortization	(133,600)	(104,881)
Balance of ROU assets	<u>\$ 346,693</u>	<u>\$ 375,412</u>

On March 31, 2023 and December 31, 2022, operating lease liabilities related to the ROU assets are summarized as follows:

	March 31, 2023	December 31, 2022
Lease liabilities related to office leases right of use assets	\$ 348,342	\$ 376,566
Less: current portion of lease liabilities	(120,640)	(117,671)
Lease liabilities – long-term	<u>\$ 227,702</u>	<u>\$ 258,895</u>

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On March 31, 2023, future minimum base lease payments due under non-cancelable operating leases are as follows:

Twelve months ended March 31,	Amount
2024	\$ 147,956
2025	148,388
2026	80,934
2027	22,400
Total minimum non-cancelable operating lease payments	399,678
Less: discount to fair value	(51,336)
Total lease liability on March 31, 2023	\$ 348,342

NOTE 15 – RELATED PARTY TRANSACTIONS

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 three months ended March 31, 2023, interest expense – related party amounted to \$3,699. On March 31, 2023, principal amount due and accrued interest payable - related party amounted to \$250,000 and \$13,726, respectively. On December 31, 2022, principal amount due and accrued interest payable - related party amounted to \$250,000 and \$10,027, respectively.

NOTE 16 – SUBSEQUENT EVENTS

Common Stock Issued for Conversion of Convertible Debt

On April 12, 2023, the Company issued 6,718,125 shares of its common stock upon the conversion of principal of \$19,500, accrued interest of \$1,248, and fees of \$750.

On April 26, 2023, the Company issued 6,736,825 shares of its common stock upon the conversion of principal of \$19,500, accrued interest of \$1,308, and fees of \$750.

On May 4, 2023, the Company issued 7,916,531 shares of its common stock upon the conversion of principal of \$23,000, accrued interest of \$1,583, and fees of \$750.

Common Stock Issued for Conversion of Series C Preferred Stock

On April 3, 2023, the Company issued 4,630,488 shares of its common stock upon the conversion of 176 shares of Series C preferred with a stated redemption value of \$17,600. The conversion price was based on contractual terms of the related Series C preferred shares.

On May 9, 2023, the Company issued 4,270,196 shares of its common stock upon the conversion of 150 shares of Series C preferred with a stated redemption value of \$15,000. The conversion price was based on contractual terms of the related Series C preferred shares.

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Secured Promissory Note

On April 4, 2023, the Company entered into a Secured Promissory Note (the “Note”) in the amount of \$175,000 with a private investor (the “Lender”) and received net proceeds of \$175,000 on April 6, 2023. The Note accrues interest at 8% per annum, compounded annually, and all outstanding principal and accrued interest is due and payable of April 4, 2025. At any time, the Company may prepay all or any portion of the principal amount of the Note and any accrued and unpaid interest without penalty. As security for payment of the principal and interest on the Note, the Company and the Lender previously entered into that certain Loan and Security Agreement dated May 10, 2021 (the “Loan Agreement”), which is incorporated into the Note. 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 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. 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 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. This Note was repaid (See below).

Sale of Product Line

On May 8, 2023, the Company entered into an Asset Purchase Agreement (the “APA”) with Apex Protect GPS, LLC (the “Buyer”), a Texas limited liability company, whereby the Company agreed to sell its C-Bond nanoShield™ business, including intangible assets, intellectual property, work in process, furniture, fixtures, equipment, inventory and other physical assets of the Company’s C-Bond nanoShield division (the “Assets”) to the Buyer for a purchase price of \$4,000,000 in cash (the “Transaction”). The Transaction closed on May 8, 2023.

The Assets were sold and transferred to buyer by means of (i) with respect to the physical assets, a Bill of Sale”; and (ii) with respect to intangible assets or intellectual property, a Patent and Trademark Assignment Agreement, a Patent and Know-How License Agreement², and a Patent License-Back Agreement.

The APA contains customary representations, warranties, and covenants by each party including, among other things, that no bankruptcy or similar insolvency proceeding under state or federal law has been filed, or is currently being contemplated, with respect to the Company; that the Company has provided the Seller a true and accurate list of each of the following items of Intellectual Property which comprises a part of the Assets, including, among other things, patents and trademarks (the “Sold Intellectual Property”); and that the Company has good, valid, and legal title to, and is the sole and exclusive owner of all rights, title and interest in and to, the Sold Intellectual Property, free and clear of all liens.

Under the terms of the APA, the Parties entered into a Patent and Trademark Assignment Agreement, whereby the Company conveyed, transferred, and assigned to Buyer, among other assets, the C-Bond nanoShield trademark (the “Trademark”) and U.S. Patent No. 11,155,491 B2 (the “C-Bond nanoShield Patent”), and the Company agreed to execute and deliver an assignment of the Trademark and C-Bond nanoShield Patent, for recording with governmental authorities including, but not limited to, the U.S. Patent and Trademark Office.

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The Parties also entered into a Patent and Know-How License Agreement whereby the Company granted to the Buyer a non-transferable, non-sub-licensable, exclusive right and license to four patents owned by the Company and licensed know-how to make, have made, use, offer to sell, sell and import glass and other products and components used in or in relation to the manufacture and operation of civilian, agricultural or military vehicles and equipment (the "Licensed Product") in the United States and its legal territories.

Lastly, the Parties entered into a Patent License-Back Agreement whereby the Buyer agreed to grant to the Company a perpetual, non-exclusive, worldwide, royalty-free, non-transferable, non-sublicensable license to the C-Bond nanoShield Patent, for all uses and applications except for any that involve, market to, sell to, do business with, provide related goods or services to, or are consumed by any uses and applications of the patented technology within the civilian or military automotive, vehicle and/or transportation industry. The Patent License-Back Agreement also stipulates that all improvements made by either Party to the technology covered by the C-Bond nanoShield Patent shall be owned by the Buyer. In the event that the Company desires to utilize such improvements to the C-Bond nanoShield Patent made by either Party, the Parties hereby agree that they will negotiate in good faith a separate license agreement having pricing and other terms and conditions that are mutually acceptable to both Parties.

Following the Closing, the Parties shall reasonably cooperate to complete a transaction wherein the Company shall assign to Buyer, and Buyer shall take assignment from the Company, the lease for the premises located at 6035 South Loop East, Houston, Texas 77033 (the "Lease") pursuant to a lease assignment and assumption agreement as to be reasonably agreed to by the Parties and the lessor pursuant to the Lease.

In connection with the APA, the Company received net proceeds of \$1,989,755, after the repayment and settlement of notes payable and convertible notes payable as follows:

- 1) The Company repaid and settled the BOCO Investments, LLC Note (See Note 8) with a principal balance of \$400,000 and accrued interest payable of \$ 310,192 for a cash payment of \$200,000 and the issuance of 22,000,000 shares of the Company's common stock.
- 2) The Company repaid GS Capital Partners, LLC \$419,260 for notes dated June 23, 2022, July 26, 2022, and September 6, 2022 (collectively, the "GS Notes"), and GS Capital Partners, LLC deemed the GS Notes paid in full.
- 3) The Company repaid Mercer Street Global Opportunity Fund, LLC ("Mercer") \$271,825 for notes dated March 14, 2022 and November 22, 2022 (collectively, the "Secured Mercer Notes").
- 4) The Company repaid Jeff Badders \$875,000 for notes dated May 5, 2021, November 8, 2022, and April 4, 2023.
- 5) The Company repaid 1800 Diagonal Lending, LLC \$288,035 for notes dated November 4, 2022, December 27, 2022, and March 17, 2023 (collectively, the "1800 Diagonal Notes"), and 1800 Diagonal Lending, LLC deemed the 1800 Diagonal Notes paid in full.

Common Shares Issued for Professional Services

On April 3, 2023, the Company issued 5,000,000 shares of its common stock for investor relations services to be rendered. These shares were valued at \$22,500, or \$0.0045 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 \$22,500, which will be amortized into professional fees over the term of the agreement.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes and other financial information included in this Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Cautionary Note Regarding Our Forward-Looking Statements" elsewhere in this Report. You should review the disclosure under the heading "Risk Factors" in this Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a nanotechnology company and sole owner, developer, and manufacturer of the patented C-Bond technology. 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.

We expect that 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.

On May 8, 2023, the Company entered into an Asset Purchase Agreement (the “APA”) with Apex Protect GPS, LLC (the “Buyer”), a Texas limited liability company, whereby the Company agreed to sell its C-Bond nanoShield™ business, including intangible assets, intellectual property, work in process, furniture, fixtures, equipment, inventory and other physical assets of the Company’s C-Bond nanoShield division (the “Assets”) to the Buyer for a purchase price of \$4,000,000 in cash (the “Transaction”). The Transaction closed on May 8, 2023.

The Assets were sold and transferred to buyer by means of (i) with respect to the physical assets, a Bill of Sale”; and (ii) with respect to intangible assets or intellectual property, a Patent and Trademark Assignment Agreement in the form attached hereto as Exhibit 10.1, a Patent and Know-How License Agreement in the form attached hereto as Exhibit 10.2, and a Patent License-Back Agreement in the form attached hereto as Exhibit 10.3.

The APA contains customary representations, warranties, and covenants by each party including, among other things, that no bankruptcy or similar insolvency proceeding under state or federal law has been filed, or is currently being contemplated, with respect to the Company; that the Company has provided the Seller a true and accurate list of each of the following items of Intellectual Property which comprises a part of the Assets, including, among other things, patents and trademarks (the “Sold Intellectual Property”); and that the Company has good, valid, and legal title to, and is the sole and exclusive owner of all rights, title and interest in and to, the Sold Intellectual Property, free and clear of all liens.

Under the terms of the APA, the Parties entered into a Patent and Trademark Assignment Agreement, whereby the Company conveyed, transferred, and assigned to Buyer, among other assets, the C-Bond nanoShield trademark (the “Trademark”) and U.S. Patent No. 11,155,491 B2 (the “C-Bond nanoShield Patent”), and the Company agreed to execute and deliver an assignment of the Trademark and C-Bond nanoShield Patent, for recording with governmental authorities including, but not limited to, the U.S. Patent and Trademark Office.

The Parties also entered into a Patent and Know-How License Agreement whereby the Company granted to the Buyer a non-transferable, non-sub-licensable, exclusive right and license to four patents owned by the Company and licensed know-how to make, have made, use, offer to sell, sell and import glass and other products and components used in or in relation to the manufacture and operation of civilian, agricultural or military vehicles and equipment (the “Licensed Product”) in the United States and its legal territories.

Lastly, the Parties entered into a Patent License-Back Agreement whereby the Buyer agreed to grant to the Company a perpetual, non-exclusive, worldwide, royalty-free, non-transferable, non-sublicensable license to the C-Bond nanoShield Patent, for all uses and applications except for any that involve, market to, sell to, do business with, provide related goods or services to, or are consumed by any uses and applications of the patented technology within the civilian or military automotive, vehicle and/or transportation industry. The Patent License-Back Agreement also stipulates that all improvements made by either Party to the technology covered by the C-Bond nanoShield Patent shall be owned by the Buyer. In the event that the Company desires to utilize such improvements to the C-Bond nanoShield Patent made by either Party, the Parties hereby agree that they will negotiate in good faith a separate license agreement having pricing and other terms and conditions that are mutually acceptable to both Parties.

Following the Closing, the Parties shall reasonably cooperate to complete a transaction wherein the Company shall assign to Buyer, and Buyer shall take assignment from the Company, the lease for the premises located at 6035 South Loop East, Houston, Texas 77033 (the "Lease") pursuant to a lease assignment and assumption agreement as to be reasonably agreed to by the Parties and the lessor pursuant to the Lease.

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 accompanying unaudited 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 consolidated financial statements, the Company had a net loss of \$723,087 and \$1,919,419 for the three months ended March 31, 2023 and 2022, respectively. The net cash used in operations was \$290,971 and \$503,769 for the three months ended March 31, 2023 and 2022, respectively. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of \$63,413,236, \$7,280,906 and \$4,590,596, respectively, on March 31, 2023. 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 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.

Critical Accounting Policies

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

Segment reporting

During the three months ended March 31, 2023 and 2022, 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 (the "C-Bond Segment"), and (2) the distribution and installation of window film solutions (the "Mobile Segment"). Our 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 Accounting Standards Update ("ASU") 2016-09 *Improvements to Employee Share-Based Payment*.

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

Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements for the three months ended March 31, 2023 and 2022, which are included elsewhere in this quarterly report on Form 10-Q. The results discussed below are for the three months ended March 31, 2023 and 2022.

Comparison of Results of Operations for the Three Months ended March 31, 2023 and 2022

Sales

For the three months ended March 31, 2023, sales amounted to \$515,220 as compared to \$510,709 for the three months ended March 31, 2022, an increase of \$4,511, or 0.9%. In May 2023, we sold our C-Bond Nanoshield solutions product line and accordingly, which accounting for \$85,588 and \$78,978 of total sales for the three months ended March 31, 2023 and 2022, respectively.

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 March 31, 2023, cost of sales amounted to \$245,360 as compared to \$249,630 for the three months ended March 31, 2022, a decrease of \$4,270, or 1.7%. 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 Mobile.

Gross Profit

For the three months ended March 31, 2023, gross profit amounted to \$269,860, or 52.4% of sales, as compared to \$261,079, or 51.1% of sales, for the three months ended March 31, 2022, an increase of \$8,781, or 3.4%. 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.

Operating Expenses

For the three months ended March 31, 2023, operating expenses amounted to \$793,462 as compared to \$1,934,843 for the three months ended March 31, 2022, a decrease of \$1,141,381, or 59.0%. For the years ended March 31, 2023 and 2022, operating expenses consisted of the following:

	Three Months Ended March 31,	
	2023	2022
Compensation and related benefits, including stock-based compensation charges of \$12,137 and \$1,014,508 for the three months ended March 31, 2023, and 2022, respectively	\$ 426,872	\$ 1,416,018
Professional fees	187,690	314,212
General and administrative expenses	178,900	204,613
Total	\$ 793,462	\$ 1,934,843

Compensation and related benefits

For the three months ended March 31, 2023, compensation and related benefits decreased by \$989,146, or 69.9%, as compared to the three months ended March 31, 2022. This decrease was primarily due to a decrease in stock-based compensation of \$1,002,371, offset by an increase in compensation and related benefits of \$13,225.

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.

Professional fees

For the three months ended March 31, 2023, professional fees decreased by \$126,522, or 40.3%, as compared to the three months ended March 31, 2022. This decrease was primarily related to a decrease in legal fees of \$22,203, a decrease in consulting fee of \$55,299, a decrease in investor relations fees of \$3,708, and a decrease in accounting fees of \$46,237, offset by an increase in other professional fees of \$995.

General and administrative

For the three months ended March 31, 2023, general and administrative expenses decreased by \$25,713, or 12.6%, as compared to the three months ended March 31, 2022. This decrease was primarily attributable to a decrease in sales and marketing expenses.

Loss from Operations

For the three months ended March 31, 2023, loss from operations decreased by \$1,150,162, or 68.7%, as compared to the three months ended March 31, 2022.

Other Income (Expenses), net

For the three months ended March 31, 2023, other expenses, net amounted to \$199,485 as compared to \$245,655 for the three months ended March 31, 2022, a decrease of \$46,170, or 18.8%. This change was primarily due to a decrease in interest expense of \$49,095 related to a decrease in the amortization of debt discount of \$143,811 offset by an increase in overall interest expense due to an increase in interest-bearing debt.

Net Loss

Due to factors discussed above, for the three months ended March 31, 2023 and 2022, net loss amounted to \$723,087 and \$1,919,419, respectively. For the three months ended March 31, 2023, net loss attributable to common shareholders, which included dividends accrued on Series B and C preferred stock of \$13,687 and the deduction of net loss attributable to noncontrolling interests of \$16,722, amounted to \$72,052, or \$(0.00) per basic and diluted common share. For the three months ended March 31, 2022, net loss attributable to common shareholders, which included dividends accrued on Series B and C preferred stock of \$14,005 and the deduction of net loss attributable to noncontrolling interests of \$13,020, amounted to \$1,920,404, or \$(0.01) per basic and diluted common share.

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 \$82,984 and \$97,091 as of March 31, 2023 and December 31, 2022, 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 our common shares, 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.

As discussed elsewhere, on May 8, 2023, the Company entered into an Asset Purchase Agreement (the “APA”) with Apex Protect GPS, LLC (the “Buyer”), a Texas limited liability company, whereby the Company agreed to sell its C-Bond nanoShield™ business, including intangible assets, intellectual property, work in process, furniture, fixtures, equipment, inventory and other physical assets of the Company’s C-Bond nanoShield division (the “Assets”) to the Buyer for a purchase price of \$4,000,000 in cash (the “Transaction”). The Transaction closed on May 8, 2023.

In connection with the APA, we received net proceeds of \$1,989,755, after the repayment and settlement of notes payable and convertible notes payable as follows:

- 1) The Company repaid and settled the BOCO Investments, LLC Note (See Note 8) with a principal balance of \$400,000 and accrued interest payable of \$ 310,192 for a cash payment of \$200,000 and the issuance of 22,000,000 shares of the Company's common stock.
- 2) The Company repaid GS Capital Partners, LLC \$419,260 for notes dated June 23, 2022, July 26, 2022, and September 6, 2022 (collectively, the "GS Notes"), and GS Capital Partners, LLC deemed the GS Notes paid in full.
- 3) The Company repaid Mercer Street Global Opportunity Fund, LLC ("Mercer") \$271,825 for notes dated March 14, 2022 and November 22, 2022 (collectively, the "Secured Mercer Notes").
- 4) The Company repaid Jeff Badders \$875,000 for notes dated May 5, 2021, November 8, 2022, and April 4, 2023.
- 5) The Company repaid 1800 Diagonal Lending, LLC \$288,035 for notes dated November 4, 2022, December 27, 2022, and March 17, 2023 (collectively, the "1800 Diagonal Notes"), and 1800 Diagonal Lending, LLC deemed the 1800 Diagonal Notes paid in full.

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 Three Months Ended March 31, 2023 and 2022

The following table shows a summary of our cash flows for the three months ended March 31, 2023 and 2022.

	Three Months Ended March 31,	
	2023	2022
Net cash used in operating activities	\$ (290,971)	\$ (503,769)
Net cash provided by financing activities	\$ 276,864	\$ 153,981
Net decrease in cash	\$ (14,107)	\$ (349,788)
Cash - beginning of the period	\$ 97,091	\$ 519,898
Cash - end of the period	\$ 82,984	\$ 170,110

Net Cash Used in Operating Activities:

Net cash flow used in operating activities was \$290,971 for the three months ended March 31, 2023 as compared to net cash flow used in operating activities of \$503,769 for the three months ended March 31, 2022, a decrease of \$212,798.

Net cash flow used in operating activities for the three months ended March 31, 2023 primarily reflected a net loss of \$723,087, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of \$20,850, stock-based compensation expense of \$12,137, stock-based professional fees of \$40,667, amortization of debt discount of \$63,916, and non-cash interest expense for put premiums of \$29,212, and changes in operating assets and liabilities consisting primarily of a decrease in accounts receivable of \$70,754, a decrease in inventory of \$18,100, an increase in prepaid expenses of \$19,639, an increase in accounts payable of \$48,693, an increase in accrued expenses of \$123,124, a decrease in contract liabilities of \$13,255, an increase in accrued compensation of \$34,317, and an increase in accrued interest – related party of \$2,466.

Net cash flow used in operating activities for the three months ended March 31, 2022 primarily reflected a net loss of \$1,919,419, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of \$22,910, stock-based compensation expense of \$1,014,508, stock-based professional fees of \$111,800, amortization of debt discount of \$207,727, and a non-cash gain on debt extinguishment of \$(2,925), and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of \$134,598, a decrease in inventory of \$19,853, a decrease in prepaid expenses of \$325, a decrease in contract assets of \$80,265, an increase in accounts payable of \$23,816, an increase in accrued expenses of \$25,482, an increase in accrued compensation of \$11,583, and an increase in contract liabilities of \$35,627.

Net Cash Provided by Financing Activities:

Net cash provided by financing activities was \$276,864 for the three months ended March 31, 2023 as compared to \$153,981 for the three months ended March 31, 2022.

During the three months ended March 31, 2023, we received net proceeds from the sale of our common stock to our chief executive officer of \$275,000 and we received net proceeds from convertible notes payable of \$50,000. These proceeds were offset by the repayment of notes payable of \$48,136.

During the three months ended March 31, 2022, we received net proceeds from a loan of \$175,000. These proceeds were offset by the repayment of notes payable of \$21,019.

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 March 31, 2023, we determined that there was substantial doubt about our ability to maintain operations as a going concern. Our unaudited 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 unaudited 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 this Annual Report on Form 10-K 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 March 31, 2023, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

Contractual obligations:	Payments Due by Period				
	Total	Less than 1 year	1-2 years	3-5 years	5 + years
Notes payable	\$ 1,870,068	\$ 1,662,846	\$ 207,222	\$ -	\$ -
Note payable – related party	250,000	-	250,000	-	-
Convertible note payable	1,254,000	1,085,500	168,500	-	-
Interest on notes payable	575,809	575,809	-	-	-
Operating lease gross base rent	399,678	147,956	229,322	22,400	-
Total	\$ 4,349,555	\$ 3,472,111	\$ 855,044	\$ 22,400	\$ -

As disclosed elsewhere, subsequent to March 31, 2023, in connection with net proceeds received from the sale of our C-Bond nanoshield product line, we repaid or settled substantially all our notes payable and a portion of our convertible notes payable. 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 March 31, 2023, 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, 2022, 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, and (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel.

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 March 31, 2023 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. The Company and the former officer alleged certain claims against each other, including certain compensation claims. Neither party has initiated 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 any claim made and believes it will prevail.

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, 2022.

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

1. On January 17, 2023, the Company entered into a Subscription Agreement with its Chairman and Chief Executive Officer, Scott R. Silverman (the "Subscription Agreement"), whereby Mr. Silverman purchased 54,545,455 shares (the "Subscription Shares") of the Company's common stock for \$300,000, or \$0.0055 per share, based on the quoted closing price of the Company's common stock on the measurement date (the "Consideration"). The Consideration consisted of a cash payment of \$275,000 the conversion of \$25,000 of accrued compensation owed to Mr. Silverman.
2. On January 17, 2023, Barry Edelstein, a member of the Company's Board of Directors, elected to convert \$53,000 of accrued compensation into 9,636,364 shares of unregistered common stock of the Company. The shares were valued at \$53,000, or \$0.0055, based on the quoted closing price of the Company's common stock on the measurement date.
3. On February 6, 2023, the Company issued 6,666,667 shares of its common stock for investor relations services to be rendered. These shares were valued at \$40,000, or \$0.006 per common share, based on the quoted closing price of the Company's common stock on the measurement date.

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 March 31, 2023, we are in default on monthly interest payments of \$309,995. Subsequent to March 31, 2023, we settled this Note in full for a cash payment of \$200,000 and the issuance of 22,000,000 shares of our common stock.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer 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.
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.

Dated: May 15, 2023

C-BOND SYSTEMS, INC.

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)

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2023 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: May 15, 2023

/s/ Scott R. Silverman

Scott R. Silverman

Chief Executive Officer (principal executive officer)

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2023 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: May 15, 2023

/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 March 31, 2023, 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: May 15, 2023

/s/ Scott R. Silverman

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