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, 2021**

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

For the transition period from _____ to _____

Commission File No. **0-53029**

C-BOND SYSTEMS, INC.

(Exact name of Registrant as Specified in its Charter)

Colorado	**26-1315585**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
6035 South Loop East Houston, Texas	**77033**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

Large accelerated filer	☐			Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒	Emerging growth company	☐

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

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

There were 237,049,741 shares of the registrant's common stock, par value $0.001 per share, issued and outstanding as of May 17, 2021.

C-BOND SYSTEMS, INC.

FORM 10-Q

March 31, 2021

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

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

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash	$ 160,674	$ 323,407
Accounts receivable, net	67,056	79,697
Inventory	77,452	77,200
Prepaid expenses and other current assets	75,644	50,723
Due from related party	12,352	5,526
Total Current Assets	393,178	536,553
OTHER ASSETS:		
Property and equipment, net	16,211	18,683
Right of use asset, net	8,841	21,772
Security deposit	7,132	7,132
Total Other Assets	32,184	47,587
TOTAL ASSETS	$ 425,362	$ 584,140
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Note payable, current portion	$ 547,424	$ 521,138
Accounts payable	922,348	794,905
Accrued expenses	204,134	186,765
Accrued compensation	392,172	425,797
Lease liability	9,019	22,216
Total Current Liabilities	2,075,097	1,950,821
LONG-TERM LIABILITIES:		
Note payable, net of current portion	8,776	35,062
Total Long-term Liabilities	8,776	35,062

Total Liabilities	2,083,873	1,985,883
Commitments and Contingencies (See Note 9)		
Series B convertible preferred stock: $0.10 par value, 100,000 shares designated; 722 and 427 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively ($727,732 redemption and liquidation value at March 31, 2021)	727,732	429,446
Series C convertible preferred stock: $0.10 par value, 100,000 shares designated; 15,800 and 13,300 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively ($2,389,625 liquidation value at March 31, 2021)	1,593,083	1,336,031
SHAREHOLDERS' DEFICIT:		
Preferred stock: $0.10 par value, 2,000,000 shares authorized; 100,000 Series B and 100,000 Series C designated	-	-
Common stock: $0.001 par value, 4,998,000,000 shares authorized; 234,549,741 and 228,346,974 issued and outstanding at March 31, 2021 and December 31, 2020, respectively	234,550	228,347
Additional paid-in capital	49,474,512	42,573,272
Accumulated deficit	(53,688,388)	(45,968,839)
Total Shareholders' Deficit	(3,979,326)	(3,167,220)
Total Liabilities and Shareholders' Deficit	$ 425,362	$ 584,140

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020
SALES	$ 155,650	$ 60,826
COST OF SALES (excluding depreciation expense)	31,384	15,495
GROSS PROFIT	124,266	45,331
OPERATING EXPENSES:		
Compensation and related benefits (including stock-based compensation of $3,902,480 and $361,380 for the three months ended March 31, 2021 and 2020, respectively)	4,575,113	689,370
Research and development	842	2,390
Professional fees	224,753	136,541
General and administrative expenses	169,156	105,195
Total Operating Expenses	4,969,864	933,496
LOSS FROM OPERATIONS	(4,845,598)	(888,165)
OTHER INCOME (EXPENSES):		
Derivative expense	-	(378,920)
Interest expense	(18,375)	(241,203)
Total Other Income (Expenses)	(18,375)	(620,123)
NET LOSS	(4,863,973)	(1,508,288)
Preferred stock dividend and deemed dividend	(2,855,576)	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (7,719,549)	$ (1,508,288)
NET LOSS PER COMMON SHARE:		
Basic and diluted	$ (0.03)	$ (0.01)
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:		
Basic and diluted	230,906,432	117,854,602

See accompanying notes to the unaudited condensed consolidated financial statements.

C-BOND SYSTEMS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Three Months Ended March 31, 2021 and 2020
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Shareholders'
	# of Shares	Amount	Capital	Deficit	Deficit
Balance, December 31, 2020	228,346,974	$ 228,347	$ 42,573,272	$ (45,968,839)	$ (3,167,220)
Common shares issued for stock-based compensation	2,700,000	2,700	(2,700)	-	-
Beneficial conversion charge for issuance of Series B preferred shares for accrued compensation recorded as stock-based compensation	-	-	3,778,810	-	3,778,810
Common shares issued for accrued compensation	944,767	945	54,796	-	55,741
Accretion of stock-based compensation	-	-	108,554	-	108,554
Accretion of stock-based professional fees	-	-	5,000	-	5,000
Common shares issued for professional fees	1,550,000	1,550	112,550	-	114,100
Common shares issued for cashless warrant exercise	1,008,000	1,008	(1,008)	-	-
Preferred stock dividends and deemed dividend	-	-	2,845,238	(2,855,576)	(10,338)
Net loss	-	-	-	(4,863,973)	(4,863,973)
Balance, March 31, 2021	234,549,741	$ 234,550	$ 49,474,512	$ (53,688,388)	$ (3,979,326)

	Common Stock		Additional Paid-in	Accumulated	Total Shareholders'
	# of Shares	Amount	Capital	Deficit	Deficit
Balance, December 31, 2019	116,749,633	$ 116,750	$ 37,266,328	$ (40,000,015)	$ (2,616,937)
Shares issued for conversion of accounts payable	151,456	151	5,907	-	6,058
Common shares issued for cash	7,000,000	7,000	273,000	-	280,000
Common shares issued for conversion of accrued interest	475,000	475	12,245	-	12,720
Common shares issued for services	1,250,000	1,250	48,750	-	50,000
Issuance of warrants in connection with convertible debt	-	-	8,676	-	8,676
Accretion of stock-based compensation	-	-	170,072	-	170,072
Accretion of stock option expense	-	-	191,308	-	191,308
Net loss	-	-	-	(1,508,288)	(1,508,288)
Balance, March 31, 2020	125,626,089	$ 125,626	$ 37,976,286	$ (41,508,303)	$ (3,406,391)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,863,973)	$ (1,508,288)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	2,472	4,723
Amortization of debt discount to interest expense	-	148,917
Accretion of preferred shares stated value to interest expense	-	27,967
Stock-based compensation	3,902,480	361,380
Stock-based professional fees	90,317	15,000
Bad debt expense	35,000	-
Interest expense related to put premium on convertible debt	-	33,325
Derivative expense	-	378,920
Lease costs	(266)	134
Change in operating assets and liabilities:		
Accounts receivable	(22,359)	116,008
Inventory	(252)	359
Prepaid expenses and other assets	3,862	(1,515)
Due from related party	(6,826)	-
Accounts payable	127,443	31,113
Accrued expenses	17,368	29,609
Accrued compensation	302,001	61,076
NET CASH USED IN OPERATING ACTIVITIES	(412,733)	(301,272)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	-	280,000
Proceeds from sale of series A preferred stock	-	80,000
Proceeds from sale of series C preferred stock	250,000	-
Proceeds from note payable	-	50,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	250,000	410,000
NET INCREASE (DECREASE) IN CASH	(162,733)	108,728
CASH, beginning of period	323,407	77,211
CASH, end of period	$ 160,674	$ 185,939
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ -	$ 2,384
Income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued as prepaid for services	$ 79,800	$ 50,000
Common stock issued for accrued interest	$ -	$ 12,720
Common stock issued for accrued compensation	$ 40,626	$ -
Series B preferred stock issued for accrued compensation	$ 295,000	$ -
Common stock issued for accounts payable	$ -	$ 6,058
Preferred stock dividend accrued	$ 10,338	$ -
Deemed dividend related to beneficial conversion feature of Series C preferred shares	$ 2,845,238	$ -
Increase in debt discount and derivative liability	$ -	$ 41,324
Increase in debt discount and paid-in capital for warrants	$ -	$ 8,676

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

C-Bond Systems, Inc. and its subsidiary (the "Company") is a materials development company and sole owner, developer and manufacturer of the patented C-Bond technology. The Company is engaged in the implementation of proprietary nanotechnology applications and processes to enhance properties of strength, functionality and sustainability of brittle material systems. The Company's present primary focus is in the multi-billion-dollar glass and window film industry with target markets in the United States and internationally. Additionally, the Company has expanded its product line to include disinfection products. The Company operates in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellent solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions, ballistic-resistant film systems and disinfection products.

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

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

Basis of Presentation and Principles of Consolidation

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

Management acknowledges its responsibility for the preparation of the accompanying unaudited condensed consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its financial position and the results of its operations for the periods presented. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (the "U.S. GAAP") for interim financial information and with the instructions Article 8-03 of Regulation S-X. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP has been condensed or omitted from these statements pursuant to such accounting principles and, accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to the consolidated financial statements for the years ended December 31, 2020 of the Company which were included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 14, 2021.

Going Concern

These unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying unaudited condensed consolidated financial statements, the Company had a net loss of $4,863,973 for the three months ended March 31, 2021. The net cash used in operations was $412,733 for the three months ended March 31, 2021. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of $53,688,388, $3,979,326 and $1,681,919, respectively, at March 31, 2021. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. Although the Company has historically raised capital from sales of common shares, preferred shares and from the issuance of convertible and other promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates during the three months ended March 31, 2021 and year ended December 31, 2020 estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete or slow moving inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the estimate of the fair value of the right of use asset and lease liability, the valuation of redeemable and mandatorily redeemable preferred stock, the fair value of derivative liabilities, the value of beneficial conversion features, and the fair value of non-cash equity transactions.

Fair Value of Financial Instruments and Fair Value Measurements

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's (the "FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Disclosures about the fair value of financial instruments are based on pertinent information available to the Company on March 31, 2021. Accordingly, the estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

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

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

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

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

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents. The Company has no cash equivalents as of March 31, 2021 and December 31, 2020.

Accounts Receivable

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

Inventory

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

Property and Equipment

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

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

Revenue Recognition

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

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

Cost of Sales

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

Shipping and Handling Costs

Shipping and handling costs incurred for product shipped to customers are included in general and administrative expenses and amounted to $5,138 and $8,792 for the three months ended March 31, 2021 and 2020, respectively. Shipping and handling costs charged to customers are included in sales.

Research and Development

Research and development costs incurred in the development of the Company's products are expensed as incurred and includes costs such as labor, materials, and other allocated costs incurred. For the three months ended March 31, 2021 and 2020, research and development costs incurred in the development of the Company's products were $842 and $2,390, respectively, and are included in operating expenses on the accompanying unaudited condensed consolidated statements of operations.

Warranty Liability

The Company provides limited warranties on its products for product defects for periods ranging from 12 months to the life of the product. Warranty costs may include the cost of product replacement, refunds, labor costs and other costs. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product warranty claim rates and expected costs to repair or to replace the products under warranty. The Company currently establishes warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior 12 months' sales activities. If actual return rates and/or repair and replacement costs differ significantly from the Company's estimates, adjustments to recognize additional cost of sales may be required in future periods. Historically the warranty accrual and the expense amounts have been immaterial. The warranty liability is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheets and amounted $26,733 and $26,833 on March 31, 2021 and December 31, 2020, respectively. For the three months ended March 31, 2021 and 2020, warranty expense amounted to $0, for both period and is included in cost of sales on the accompanying unaudited condensed consolidated statements of operations. For the three months ended March 31, 2021 and 2020, a roll forward of warranty liability is as follows:

	For the Three Months Ended March 31,	
	2021	2020
Balance at beginning of period	$ 26,833	$ 26,933
Change in estimated warranty liability	-	-
Warranty expenses incurred	(100)	(100)
Balance at end of period	$ 26,733	$ 26,833

Advertising Costs

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. For the three months ended March 31, 2021 and 2020, advertising costs charged to operations were $12,458 and $9,030, respectively and are included in general and administrative expenses on the accompanying unaudited condensed consolidated statements of operations. These advertising expenses do not include cooperative advertising and sales incentives which have been deducted from sales.

Federal and State Income Taxes

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

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of Accounting Standards Codification (ASC) 740*"Income Taxes*". Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of March 31, 2021 and December 31, 2020, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years that remain subject to examination are the years ending on and after December 31, 2016. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of March 31, 2021 and December 31, 2020.

Stock-Based Compensation

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

Loss Per Common Share

ASC 260 "Earnings Per Share", requires dual presentation of basic and diluted earnings per common share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilutive securities and non-vested forfeitable shares. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the entity. Basic net loss per common share is computed by dividing net loss available to members by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares, common share equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive common shares consist of stock options and non-vested forfeitable shares (using the treasury stock method) and shares issuable upon conversion of 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,	
	2021	2020
Convertible notes	-	20,322,917
Stock options	8,445,698	8,445,698
Warrants	1,000,000	2,194,375
Series B preferred stock	114,598,413	8,111,111
Series C preferred stock	250,793,651	3,600,000
Non-vested, forfeitable common shares	21,028,553	17,475,299
	395,866,315	60,149,400

Leases

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

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

Segment Reporting

During the three months ended March 31, 2021 and 2020, the Company operated in one business segment.

Risk Factors

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is monitoring this closely. The Company has been materially affected by the COVID-19 outbreak to date and the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. The Company has seen a material decrease in sales from its international customers as a result of the unprecedented public health crisis from the COVID-19 pandemic and a decrease in domestic sales due to a decrease in business spending on discretionary items. As a result, the Company's international customers have delayed the ordering of products and have delayed payment of balances due to the Company. As of March 31, 2021 and December 31, 2020, the Company recognized an allowance for losses on accounts receivable in an amount of $237,480 and $202,480, respectively, which is primarily based on the Company's assessment of specific identifiable overdue customer accounts located in India and the Philippines. The lack of collection of these accounts receivable balances, which the Company believes was attributable to COVID-19, had a material impact on the cash flows of the Company. The Company cannot estimate the duration of the pandemic and the future impact on its business. A severe or prolonged economic downturn could result in a variety of risks to the Company's business, including weakened demand for its products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. At this time, the Company is unable to estimate the impact of this event on its operations.

Recent Accounting Pronouncements

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

At March 31, 2021 and December 31, 2020, accounts receivable consisted of the following:

	March 31, 2021	December 31, 2020
Accounts receivable	$ 304,536	$ 282,177
Less: allowance for doubtful accounts	(237,480)	(202,480)
Accounts receivable, net	$ 67,056	$ 79,697

For the three months ended March 21, 2021 and 2020, bad debt expense amounted to $35,000 and $0, respectively.

NOTE 4 – INVENTORY

At March 31, 2021 and December 31, 2020, inventory consisted of the following:

	March 31, 2021	December 31, 2020
Raw materials	$ 1,522	$ 24,477
Finished goods	75,930	52,723
Inventory	$ 77,452	$ 77,200

NOTE 5 – PROPERTY AND EQUIPMENT

At March 31, 2021 and December 31, 2020, property and equipment consisted of the following:

	Useful Life	March 31, 2021	December 31, 2020
Machinery and equipment	5 - 7 years	$ 50,722	$ 50,722
Furniture and office equipment	3 - 7 years	30,245	30,245
Vehicles	5 years	55,941	55,941
Leasehold improvements	3 years	16,701	16,701
		153,609	153,609
Less: accumulated depreciation		(137,398)	(134,926)
Property and equipment, net		$ 16,211	$ 18,683

For the three months ended March 21, 2021 and 2020, depreciation and amortization expense is included in general and administrative expenses and amounted to $2,472 and $4,723, respectively.

NOTE 6 – NOTES PAYABLE

At March 31, 2021 and December 31, 2020, notes payable consisted of the following:

	March 31, 2021	December 31, 2020
Note payable	400,000	400,000
Note payable - PPP note	156,200	156,200
Total notes payable	556,200	556,200
Less: current portion of notes payable	(547,424)	(521,138)
Notes payable – long-term	$ 8,776	$ 35,062

Notes Payable

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

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

In the event that the Company's accounts receivable balance plus inventory balance is less than paid principal balance of the Note as of December 31, 2018, the Company shall have 45 days (through and until February 15, 2019) to cure such violation and an 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 l0th day of each month thereafter, the Company shall pay Lender all interest accrued on outstanding principal under the Loan Agreement and Notes as of the end of the month then concluded. Upon the occurrence of any Event of Default and at any time thereafter, Lender may, at its option, declare any and all obligations immediately due and payable without demand or notice. As of September 30, 2020 and December 31, 2019, the Company did not meet the Minimum Asset Amount covenant as defined in the Loan Agreement, failed to timely pay interest payments due, and has violated other default provisions. Accordingly, the note balance due of $400,000 has been reflected as a current liability on the accompanying consolidated balance sheet 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.

For the three months ended March 31, 2021 and 2020, interest expense related to this Note amounted to $17,753 and $17,951, respectively.

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. As of March 31, 2021, the accrued interest amounted to $1,446. For the three months ended March 31, 2021, interest expense related to this Note amounted to $385.

NOTE 7 – SHAREHOLDERS' DEFICIT

Preferred Stock

Series B Preferred Stock

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

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

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

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

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

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

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

The Series B Preferred Stock vested on May 1, 2021.

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

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

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

During the three months ended March 31, 2021, the Company accrued a dividend payable of $3,286 which was included in preferred stock dividends on the accompanying condensed consolidated statement of shareholders’ deficit.

As of March 31, 2021, the net Series B Preferred Stock balance was $727,732 which includes stated liquidation value of $721,970 and accrued dividends payable of $5,762. As of December 31, 2020, the net Series B Preferred Stock balance was $429,446 which includes stated liquidation value of $426,970 and accrued dividends payable of $2,476.

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.

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

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

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

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

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

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.

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

During the three months ended March 31, 2021, the Company accrued a dividend payable of $7,052 which was included in preferred stock dividends on the accompanying condensed consolidated statement of shareholders' deficit. As of March 31, 2021, the net Series C Preferred Stock balance was $1,593,083 which includes stated liquidation value of $1,580,000 and accrued dividends payable of $13,083. As of December 31, 2020, the net Series C Preferred Stock balance was $1,336,031 which includes stated value of $1,330,000 and accrued dividends payable of $6,031.

Common Stock

Sale of Common Stock

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

Issuance of Common Shares for Services

Issuance of common shares for professional fees

On February 20, 2020 and effective March 1, 2020, the Company entered into a six-month consulting agreement with an entity for investor relations services. In connection with this consulting agreement, the Company issued 1,250,000 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at $50,000, or $0.04 per common share, based on contemporaneous common share sales by the Company. In connection with this consulting agreement, as of March 31, 2020, the Company recorded stock-based professional fees of $8,334 and prepaid expenses of $41,666 which will be amortized over the remaining term of the agreement.

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

On February 1, 2021, the Company issued an aggregate of 700,000 shares of its common stock for business development, advisory and consulting services rendered and to be rendered. These shares were valued at $54,600, or $0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, the Company recorded stock-based professional fees of $16,900 and prepaid expenses of $37,700 which will be amortized into stock-based professional fees over the term of the agreement or vesting period.

On March 8, 2021, the Company issued an aggregate of 750,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at $49,500, or $0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date, and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, the Company recorded stock-based professional fees of $20,167 and prepaid expenses of $29,333 which will be amortized into stock-based professional fees over the term of the agreement or vesting period.

During the three months ended March 31, 2021, the Company recorded stock-based professional fees of $43,250 in connection with the amortization to prepaid expenses of $38,250 and accretion of stock-based professional fees of $5,000 related to common shares previously issued.

Issuance of common shares for stock-based compensation

On February 1, 2021, the Company issued 200,000 shares of its common stock to an individual who will act as the Company's national sales manager for services to be rendered. These shares were valued at $15,600, or $0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares will vest on May 1, 2022. In connection with the issuance of these shares, the Company will record stock-based compensation of $15,600 over the vesting period.

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

During the three months ended March 31, 2021 and 2020, aggregate accretion of stock-based compensation expense on granted non-vested shares amounted to $108,554 and $170,072, respectively. Total unrecognized compensation expense related to these unvested common shares on March 31, 2021 amounted to $177,696 which will be amortized over the remaining vesting period.

Issuance of Common Shares for Accrued Compensation

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

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, 2020	23,826,926	$ 0.16
Granted	5,194,767	0.07
Shares vested	(7,993,140)	(0.12)
Non-vested, March 31, 2021	21,028,553	$ 0.16

Shares Issued for Accounts Payable

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

Common Stock Issued for Debt Conversion

During March 2020, the Company issued 475,000 common shares upon conversion of accrued interest of $12,220 and fees of $500. The conversion price was based on contractual terms of the related debt.

Common Stock Issued Upon Warrant Exercise

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

Stock Options

For the three months ended March 31, 2021 ad 2020, the Company recorded $0 and $191,308 of compensation expense related to stock options, respectively. Total unrecognized compensation expense related to unvested stock options at March 31, 2021 amounted to $0. The weighted average period over which stock-based compensation expense related to these options will be recognized is approximately one month.

Stock option activities for the three months ended March 31, 2021 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2020	8,445,698	$ 0.40	5.10	$ 48,000
Granted	-	-	-	-
Forfeited	-	-	-	-
Balance Outstanding, March 31, 2021	8,445,698	$ 0.40	4.92	$ 17,400
Exercisable, March 31, 2021	8,445,698	$ 0.40	4.92	$ 17,400

Warrants

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

Warrant activities for the three months ended March 31, 2021 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2020	2,050,000	$ 0.05	3.66	$ 137,000
Exercised	(1,050,000)	0.01	-	-
Cancelled	-	-	-	-
Balance Outstanding March 31, 2021	1,000,000	$ 0.09	3.31	$ 1,800
Exercisable, March 31, 2021	1,000,000	$ 0.09	3.31	$ 1,800

2018 Long-Term Incentive Plan

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

- options to acquire the Company's common stock, both incentive stock options that are intended to satisfy the requirements of Section 422 of the Internal Revenue Code and nonqualified stock options which are not intended to satisfy such requirements. The exercise price of options granted under our 2018 Plan must at least be equal to the fair market value of the Company's common stock on the date of grant and the term of an option may not exceed ten years, except that with respect to an incentive stock option granted to any employee who owns more than 10% of the voting power of all classes of the Company's outstanding stock as of the grant date the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date.

- stock appreciation rights, or SARs, which allow the recipient to receive the appreciation in the fair market value of the Company's common stock between the date of grant and the exercise date. The amount payable under the stock appreciation right may be paid in cash or with shares of the Company's common stock, or a combination thereof, as determined by the Administrator.

- restricted stock awards, which are awards of the Company's shares of common stock that vest in accordance with terms and conditions established by the Administrator.

- restricted stock units, which are awards that are based on the value of the Company's common stock and may be paid in cash or in shares of the Company's common stock.

- other types of stock-based or stock-related awards not otherwise described by the terms and provision of the 2018 Plan, including the grant or offer for sale of unrestricted shares of the Company's common stock, and which may involve the transfer of actual shares of the Company's common stock or payment in cash or otherwise of amounts based on the value of shares of the Company's common stock and may be designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

- other cash-based awards to eligible persons in such amounts and upon such terms as the Administrator shall determine.

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

The aggregate number of shares of common stock and number of shares of the Company's common stock that may be subject to incentive stock options granted under the 2018 Plan is 50,000,000 shares, of which 11,445,698 shares have been issued or granted under incentive stock options and 25,951,070 shares of restricted stock have been issued as of March 31, 2021. All shares underlying grants are expected to be issued from the Company's unissued authorized shares available.

NOTE 8 – 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, 2021, 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.

Employment Agreements

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

- An annual base salary of $300,000, with a 10% increase on each anniversary date contingent upon achieving certain performance objectives as set by the Board. Until the Company raises $1,000,000 in debt or equity financing after entering into this agreement, Mr. Silverman will receive ½ of the base salary on a monthly basis with the other ½ being deferred. Upon the financing being raised, Mr. Silverman will receive the deferred portion of his compensation and his base salary will be paid in full moving forward.

- After the first $500,000 of equity investments is raised by the Company, after entering into this employment agreement, Mr. Silverman will receive a capital raise success bonus of 5% of all equity capital raised from investors/lenders introduced by him to the Company.

- Annual cash performance bonus opportunity as determined by the Board.

- An option to acquire 3,000,000 common shares of the Company, with a strike price of $0.31 per unit. These options will vest pro rata on a monthly basis for the term of the employment agreement. On each anniversary, Mr. Silverman will be eligible to be granted a minimum of 500,000 stock options of the Company at a strike price of $0.85 per common unit contingent upon the achievement of certain performance objectives.

- Certain other employee benefits and perquisites, including reimbursement of necessary and reasonable travel and participation in retirement and welfare benefits.

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

Mr. Silverman's employment agreement provides that, in the event that his employment is terminated by the Company without "cause" (as defined in his employment agreement), or if Mr. Silverman resigned for "good reasons" (as defined in his new employment agreement), subject to a complete release of claims, he will be entitled to (i) retain all stock options previously granted; and (ii) receive any benefits then owed or accrued along with one year of base salary and any unreimbursed expenses incurred by him. All amounts shall be paid on the termination date. In the event that Mr. Silverman's employment is terminated by the Company for "cause" (as defined in his employment agreement), or if Mr. Silverman resigned without "good reasons" (as defined in his employment agreement), subject to a complete release of claims, he will be entitled to receive any unpaid base salary and benefits then owed or accrued and any unreimbursed expenses incurred by him. Additionally, if a change of control (as defined in his employment agreement) occurs during the term of this agreement, all unvested stock options will vest in full and if the valuation of the Company in the change of control transaction is greater than $0.85 per common share, then Mr. Silverman shall be paid a bonus equal to two times his minimum base salary and minimum target bonus. Pursuant to the employment agreement, Mr. Silverman will be subject to a confidentiality covenant, a two-year post-termination non-competition covenant and a two-year post-termination non-solicitation covenant. 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 shall be initially deferred and was recorded as an accrued liability on the bonus approval date.

Licensing agreement

Pursuant to an agreement dated April 8, 2016, between the Company and Rice University, Rice University has granted a non-exclusive license to the Company, in nanotube-based surface treatment for strengthening glass and related materials under Rice's intellectual property rights, to use, make, distribute, offer and sell the licensed products specified in the agreement. In consideration for which, the Company had to pay a one-time non-refundable license fee of $10,000 and royalty payments of 5% of net sales of the licensed products during the term of the agreement and a sell-off period of 180 days from termination, In addition, the Company is required to pay for the maintenance of the patents, This agreement will continue until the expiration of the last to expire of the licensed property rights, unless terminated earlier in accordance with the terms of the agreement. There have been no royalty payments paid or due through March 31, 2021.

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.

NOTE 9 – CONCENTRATIONS

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable and cash deposits.

The Company places its cash in banks at levels that, at times, may exceed federally insured limits. There were no balances in excess of FDIC insured levels as of March 31, 2021 and December 31, 2020. The Company has not experienced any losses in such accounts through March 31, 2021.

Geographic Concentrations of Sales

For the three months ended March 31, 2021 and 2020, all sales were in the United States.

Customer Concentrations

For the three months ended March 31, 2021, four customers accounted for approximately 64.9% of total sales (10.0%, 12.9%, 14.3% and 27.7%, respectively). For the three months ended March 31, 2020, five customers accounted for approximately 78.4% of total sales (17.4%, 12.8%, 13.7%, 12.3% and 22.2%, respectively). A reduction in sales from or loss of such customers would have a material adverse effect on the Company's consolidated results of operations and financial condition.

Vendor Concentrations

Generally, the Company purchases substantially all of its inventory from three 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 10 – REVENUE RECOGNITION

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

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

Transaction Price

The Company agrees with its customers on the selling price of each transaction. This transaction price is generally based on the product, market conditions, including supply and demand balances and freight. In the Company's contracts with customers, the Company allocates the entire transaction price to the sale of product to the customer, which is the basis for the determination of the relative standalone selling price allocated to each performance obligation. Returns of the Company's product by its customers are permitted only when the product is not to specification and were not material for the nine months ended September 30, 2020 and 2019. Any sales tax, value added tax, and other tax the Company collects concurrently with its revenue-producing activities are excluded from revenue.

Revenue Disaggregation

The Company tracks its revenue by product. The following table summarizes our revenue by product for the three months ended March 31, 2021 and 2020:

	For the Three Months Ended March 31,	
	2021	2020
C-Bond Secure multi-purpose and BRS ballistic resistant glass protection systems	$ 84,308	$ 43,274
C-Bond Nanoshield solution sales	61,384	14,061
Disinfection products	6,700	-
Freight and delivery	3,258	3,491
Total	$ 155,650	$ 60,826

NOTE 11 – OPERATING LEASE RIGHT-OF-USE ("ROU") ASSETS AND OPERATING LEASE LIABILITIES

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

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

During the three months ended March 31, 2021 and 2020, in connection with its operating leases, the Company recorded rent expense of $26,537 and $26,168, respectively, which includes rent on a short-term lease for a corporate apartment and is expensed during the period and included in operating expenses on the accompanying condensed consolidated statements of operations.

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

On March 31, 2021 and December 31, 2020, right-of-use asset ("ROU") is summarized as follows:

	March 31, 2021	December 31, 2020
Office leases right of use assets	$ 74,296	$ 74,296
Less: accumulated amortization	(65,455)	(52,524)
Balance of ROU assets	$ 8,841	$ 21,772

On March 31, 2021 and December 31, 2020, operating lease liabilities related to the ROU assets are summarized as follows:

	March 31, 2021	December 31, 2020
Lease liabilities related to office leases right of use assets	$ 9,019	$ 22,216
Less: current portion of lease liabilities	(9,019)	(22,216)
Lease liabilities – long-term	$ -	$ -

On March 31, 2021, future minimum base lease payments due under non-cancelable operating leases are as follows:

	Amount
2021	$ 9,155
Total minimum non-cancelable operating lease payments	9,155
Less: discount to fair value	(136)
Total lease liability at March 31, 2021	$ 9,019

NOTE 12 – RELATED PARTY TRANSACTIONS

Due from Related Party

On March 31, 2021 and December 31, 2020, the Company has an amount due from the Company's chief executive officer of $12,352 and $5,526, respectively, related to the overpayment of accrued compensation. The balance due is included in due from related party on the accompanying condensed consolidated balance sheets.

NOTE 13 – SUBSEQUENT EVENTS

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

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 changes the voting rights of the Series C Convertible Preferred Stock ("Series C") on any matters requiring shareholder approval or any matters on which the common shareholders are permitted to vote. It also adjusts the conversion feature of the Series C so that any Holder of Series C cannot convert any portion of the Series C in excess of that number of Series C 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.

On May 10, 2021, the Company entered into a Loan and Security Agreement (the "Loan Agreement") and a Secured Promissory Note (the "Note") in the amount of $500,000 with a lender, who is a beneficial owner of the Company. The 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 Note are secured by a second priority security interest in substantially all of the Company's assets (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.

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

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Forward-Looking Statements" elsewhere in this Report on Form 10-Q. Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in our industry. These forward-looking statements are not a guarantee of future performance. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, which include, but are not limited to: the risk that we continue to sustain prolonged losses and never achieve profitability, our ability to continue as a going concern, and risks related to protection and maintenance of our intellectual property. You should review the disclosure under the heading "Risk Factors" in our Annual Report on Form 10-K as filed on April 14, 2021, for a discussion of important factors and risks that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

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

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

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

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

- Automotive, Trucking, RV, rental agencies (auto and truck), service vehicles (taxi, Uber, Lyft), mass transit (train, buses), golf carts, aviation, train, marine (potential future growth)

- School facilities and buses
- Dealerships
- Global Distribution
- Service Providers
- Transportation Detailing.

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

Operating Overview

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

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

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

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

Going Concern

These unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying unaudited condensed consolidated financial statements, the Company had a net loss of $4,863,973 for the three months ended March 31, 2021. The net cash used in operations was $412,733 for the three months ended March 31, 2021. Additionally, the Company had an accumulated deficit, shareholders' deficit, and working capital deficit of $53,688,388, $3,979,326 and $1,681,919, respectively, on March 31, 2021. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. Although the Company has historically raised capital from sales of common shares, preferred shares and from the issuance of convertible and other promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is monitoring this closely. We have been materially affected by the COVID-19 outbreak to date and the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. We have seen a material decrease in sales from our international customers as a result of the unprecedented public health crisis from the COVID-19 pandemic and a decrease in domestic sales due to a decrease in business spending on discretionary items. As a result, our international customers have delayed the ordering of products and have delayed payment of balances due to the Company. As of March 31, 2021 and December 31, 2020, we recognized an allowance for losses on accounts receivable in an amount of $237,480 and $202,480, respectively, which is primarily based on our assessment of specific identifiable overdue customer accounts located in India and the Philippines. The lack of collection of these accounts receivable balances, which we believe was attributable to COVID-19, had a material impact on the cash flows of the Company. We cannot estimate the duration of the pandemic and the future impact on our business. A severe or prolonged economic downturn could result in a variety of risks to the Company's business, including weakened demand for its products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. At this time, we are unable to estimate the impact of this event on our operations.

Critical Accounting Policies and Estimates

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

Accounts Receivable

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

Inventory

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

Revenue Recognition

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

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

Stock-Based Compensation

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

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

Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the three months ended March 31, 2021 and 2020, which are included elsewhere in this quarterly report on Form 10-Q. The results discussed below are for the three months ended March 31, 2021 and 2020.

Results of Operations for the Three Months Ended March 31, 2021 and 2020:

Sales

For the three months ended March 31, 2021, sales amounted to $155,650 as compared to $60,826 for the three months ended March 31, 2020, an increase of $94,824, or 155.9%. The increase was primarily attributable to an increase in C-Bond Nanoshield solution sales of $47,274, an increase in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution of $41,034, and an increase in sale of disinfectant product of $6,700 offset by a decrease in freight and delivery revenue of $233. The increase in sales of C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution was primarily due to an increase in both domestic sales resulting from the gradual reopening of economies from COVID-19 restrictions.

Cost of Goods Sold

Cost of goods sold is comprised primarily of cost of raw materials and finished inventory sold, packaging costs, and warranty costs.

For the three months ended March 31, 2021, cost of sales amounted to $31,384 as compared to $15,495 for the three months ended March 31, 2020, an increase of $15,889, or 102.5%. The increase in cost of sales was primarily due to an increase in sales of C-Bond Nanoshield solution, C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution and disinfectant products.

Gross Profit

For the three months ended March 31, 2021, gross profit amounted to $124,266, or 79.8% of sales, as compared to $45,331, or 74.5% of sales, for the three months ended March 31, 2020, an increase of $78,935, or 174.1%. This increase in gross profits is primarily the result of an increase in the sales of C-Bond Nanoshield solution, C-Bond ballistic resistant glass protection systems and C-Bond Secure window film application solution and disinfectant products.

Operating Expenses

For the three months ended March 31, 2021, operating expenses amounted to $4,969,864 as compared to $933,496 for the three months ended March 31, 2021, an increase of $4,036,368, or 432.4%.

For the three months ended March 31, 2021 and 2020, operating expenses consisted of the following:

	Three Months Ended March 31,	
	2021	**2020**
Compensation and related benefits, including stock-based compensation charges	$ 4,575,113	$ 689,370
Research and development	842	2,390
Professional fees	224,753	136,541
General and administrative expenses	169,156	105,195
Total	$ 4,969,864	$ 933,496

Compensation and Related Benefits

- For the three months ended March 31, 2021, compensation and related benefits increased by $3,885,743, or 563.7%, as compared to the three months ended March 31, 2020. This increase was primarily due to an increase in stock-based compensation of $3,541,100 and an increase in compensation to executive officers and employees during the three months ended March 31, 2021 of $344,643. During the three months ended March 31, 2021 and 2020, stock-based compensation related to the accretion of stock-option expense amounted to $0 and $191,308, respectively, and other stock-based compensation amounted to $3,902,480 and $170,072, respectively, an aggregate increase of $3,541,100.

Research and Development

Research and development expenses consist primarily of contracted development services, third party testing laboratories, materials used and allocated overhead expenses.

- For the three months ended March 31, 2021, research and development expense decreased by $1,548, or 64.8%, as compared to the three months ended March 31, 2020. The decrease in research and development expense is primarily related to a decrease in use of contracted development services due a lack of working capital and business impacted by the COVID-19 global pandemic.

We believe continued investment is important to attaining our strategic objectives and expect research and development expenses to increase in the foreseeable future, if working capital is available.

Professional Fees

- For the three months ended March 31, 2021, professional fees increased by $88,212, or 64.6%, as compared to the three months ended March 31, 2020. This increase primarily related to an increase in legal fees of $24,484, an increase in consulting fee of $38,184, an increase in investor relations fees of $29,949, offset by a decrease in and other professional fees of $4,405.

General and Administrative

General and administrative expenses consist primarily of rent, insurance, depreciation expense, sale and marketing, delivery and freight, travel and entertainment, and other office expenses.

- For the three months ended March 31, 2021, general and administrative expenses increased by $63,961, or 60.8%, as compared to the three months ended March 31, 2020. This increase was attributable to increase in bad debt expense of $35,000 an increase in travel, and an increase in advertising and marketing expenses.

We expect our general and administrative expenses to increase due to the anticipated growth of our business and as the economy emerges from the pandemic.

Loss from Operations

For the three months ended March 31, 2021, loss from operations increased by $3,957,433, or 445.6%, as compared to the three months ended March 31, 2020 resulting from changes discussed above.

Other Expenses, net

For the three months ended March 31, 2021, other expenses, net amounted to $18,375 as compared $620,123 for the three months ended March 31, 2020, a decrease of $601,748, or 97.0%. This change was due to a decrease in derivative expense of $378,920 attributable to the recording of derivative liabilities related to convertible debt during the 2020 period, and a decrease in interest expense of $222,828 related to a decrease in the amortization of debt discount and a decrease in interest-bearing debt.

Net Loss

Due to factors discussed above, for the three months ended March 31, 2021 and 2020, net loss amounted to $4,863,973 and $1,508,288, respectively. For the three months ended March 31, 2021 and 2020, net loss attributable to common shareholders, which included a deemed dividend related to price protection, beneficial conversion features on preferred stock, and the dividends accrued on Series B and C preferred stock of $2,855,576 and $0, amounted to $7,719,549, or $(0.03) per basic and diluted common share, and $1,508,288, or $(0.01) per basic and diluted common share, respectively.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of $160,674 and $323,407 as of March 31, 2021 and December 31, 2020, respectively.

Our primary uses of cash have been for salaries, fees paid to third parties for professional services, research and development expense, and general and administrative expenses. We have received funds from the sales of products and from various financing activities such as from the sale of our common shares, 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 as the business grows, and
- The cost of being a public company;
- Marketing expense for building brand;
- Capital requirements for production capacity.

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

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

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, 2021 and 2020:

The following table shows a summary of our cash flows for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	**2020**
Net cash used in operating activities	$ (412,733)	$ (301,272)
Net cash provided by financing activities	$ 250,000	$ 410,000
Net (decrease) increase in cash	$ (162,733)	$ 108,728
Cash - beginning of the period	$ 323,407	$ 77,211
Cash - end of the period	$ 160,674	$ 185,939

Net Cash Provided by Operating Activities:

Net cash flow used in operating activities was $412,733 for the three months ended March 31, 2021 as compared to net cash flow used in operating activities of $301,272 for the three months ended March 31, 2020, an increase of $111,461.

Net cash flow used in operating activities for the three months ended March 31, 2021 primarily reflected a net loss of $4,863,973, which was then adjusted for the add-back (deduction) of non-cash items primarily consisting of depreciation and amortization of $2,472, stock-based compensation expense of $3,902,479, stock-based professional fees of $90,317, and bad debt expense of $35,000 and changes in operating assets and liabilities consisting primarily of an increase in accounts receivable of $22,359, an increase in inventory of $252, an increase in accounts payable of $127,443, an increase in accrued expenses of $17,368, an increase in accrued compensation of $302,001, an increase in prepaid expense and other assets of $3,862 and an increase in due from related party of $6,826.

Net cash flow used in operating activities for the three months ended March 31, 2020 primarily reflected a net loss of $1,508,288, which was then adjusted for the add-back of non-cash items primarily consisting of depreciation and amortization of $4,723, stock-based compensation expense of $361,380, stock-based professional fees of $15,000, non-cash interest expense related to a put premium on convertible debt and preferred stock of $33,325, derivative expense of $378,920, and the amortization of debt discount to interest expense of $148,917, and changes in operating assets and liabilities consisting primarily of a decrease in accounts receivable of $116,008, an increase in accounts payable of $31,113, an increase in accrued expenses of $29,609, and an increase in accrued compensation of $61,076.

Net Cash Provided by Financing Activities:

Net cash provided by financing activities was $250,000 for the three months ended March 31, 2021 as compared to $410,000 for the three months ended March 31, 2020.

During the three months ended March 31, 2021, we received net proceeds from the sale of Series C preferred stock of $250,000.

During the three months ended March 31, 2020, we received net proceeds from the sale of common stock of $280,000, proceeds from the sale of Series A preferred shares of $80,000 and proceeds from convertible notes payable of $50,000.

Funding Requirements

We expect the primary use of capital to continue to be salaries, third party outside research and testing services, product and research supplies, legal and regulatory expenses and general overhead costs including sales and marketing. Additional uses of capital will include additional headcount, tools and equipment, capacity expansion and operational control software. We believe the estimated net proceeds from the merger with current cash and cash equivalents will not be sufficient to meet anticipated cash requirements not including potential product sales. Additional capital will be required to further research new product verticals and enhancements to current product offerings based on customer requirements.

As of March 31, 2021, we determined that there was substantial doubt about our ability to maintain operations as a going concern. Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Management cannot provide assurance that we will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. We will seek to raise capital through additional debt and/or equity financings to fund operations in the future. Although we have historically raised capital from sales of common shares and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If we are unable to raise additional capital or secure additional lending in the near future, management expects that the company will need to curtail its operations. Our unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the company be unable to continue as a going concern.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors. We have based this estimate on assumptions that may prove to be wrong and could utilize our available capital resources sooner than we currently expect. Our capital requirements are difficult to forecast. Please see the section titled “Risk Factors” in our Annual Report on Form 10-K as filed with the SEC on April 14, 2021 for additional risks associated with our capital requirements.

Until such time as we generate substantial product revenue to offset operational expenses, we expect to finance our cash needs through a combination of public and private equity offerings, debt financing, collaborative research and licensing agreements. We may be unable to raise capital or enter into such other arrangements when needed or on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

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

The following tables summarize our contractual obligations as of March 31, 2021, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Payments Due by Period				
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**5 + years**
Notes payable	$ 556,200	$ 547,424	$ 8,776	$ -	$ -
Interest on notes payable	167,700	167,700	-	-	-
Operating lease gross base rent	9,019	9,019	-	-	-
Total	$ 732,919	$ 724,143	$ 8,776	$ -	$ -

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, 2021, 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, 2020, our management concluded that our internal control over financial reporting was not effective as of that date because of a material weakness in our internal controls over financial reporting. The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses in our internal control over financial reporting: (1) the lack of multiples levels of management review on complex business, accounting and financial reporting issues, (2) a lack of adequate segregation of duties as a result of our limited financial resources to support hiring of personnel. (3) a lack of review on the recording of revenue transactions and accounts receivable collectibility, and (4) a lack of management review of employee expense reports. We developed and implemented system and control procedure manuals and plan on developing and implementing additional controls and procedures in the future. Until such time as we expand our staff to include additional accounting and executive personnel, it is likely we will continue to report material weaknesses in our internal control over financial reporting.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is monitoring this closely. We have been materially affected by the COVID-19 outbreak to date and the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. We have seen a material decrease in sales from our international customers as a result of the unprecedented public health crisis from the COVID-19 pandemic and a decrease in domestic sales due to a decrease in business spending on discretionary items. As a result, our international customers have delayed the ordering of products and have delayed payment of balances due to the Company. As of March 31, 2021 and December 31, 2020, we recognized an allowance for losses on accounts receivable in an amount of $237,480 and $202,480, respectively, which is primarily based on our assessment of specific identifiable overdue customer accounts located in India and the Philippines. The lack of collection of these accounts receivable balances, which we believe was attributable to COVID-19, had a material impact on the cash flows of the Company. We cannot estimate the duration of the pandemic and the future impact on our business. A severe or prolonged economic downturn could result in a variety of risks to the Company's business, including weakened demand for its products and a decreased ability to raise additional capital when needed on acceptable terms, if at all. At this time, we are unable to estimate the impact of this event on our operations.

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

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

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

3. On January 18, 2021, the Board of Directors of the Company agreed to satisfy $295,000 of accrued compensation owed to its executive officers (collectively, the "Management") through a Liability Reduction Plan (the "Plan"). Under this Plan, Management agreed to accept 295 shares of the Company's Series B convertible preferred stock in settlement of accrued compensation.

4. On February 1, 2021, we issued an aggregate of 700,000 shares of its common stock for business development, advisory and consulting services rendered and to be rendered. These shares were valued at $54,600, or $0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, we recorded stock-based professional fees of $16,900 and prepaid expenses of $37,700 which will be amortized into stock-based professional fees over the term of the agreement or vesting period.

5. On February 1, 2021, we issued 200,000 shares of its common stock to an individual who will act as the Company's national sales manager for services to be rendered. These shares were valued at $15,600, or $0.078 per common share, based on the quoted closing price of the Company's common stock on the measurement date. These shares will vest on May 1, 2022. In connection with the issuance of these shares, we will record stock-based compensation of $15,600 over the vesting period.

6. On February 24, 2021, the Company entered into a subscription agreement with an accredited investor whereby the investor agreed to purchase 2,500 shares of the Company's Series C Convertible Preferred Stock for $250,000, or $100.00 per share, the stated value, which were used from working capital purposes. The conversion feature of the Series C Preferred Stock at the time of issuance was determined to be beneficial on the commitment date.

7. On March 8, 2021, the Company issued an aggregate of 750,000 shares of its common stock for business development and consulting services rendered and to be rendered. These shares were valued at $49,500, or $0.066 per common share, based on the quoted closing price of the Company's common stock on the measurement date. and will be amortized into stock-based consulting fees over the term of the agreement or vesting period. In connection with the issuance of these shares, the Company recorded stock-based professional fees of $20,167 and prepaid expenses of $29,333 which will be amortized into stock-based professional fees over the term of the agreement or vesting period.

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

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of 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, 2021 and as of the date of this report, we are in default on monthly interest payments of $165,995.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Certificate of Designations, Preferences, Rights and Limitations of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 25, 2020, File No.: 000-53029).
3.2	Certificate of Elimination of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on August 25, 2020, File No.: 000-53029).
3.3	Amended and Restated Certificate of Designations of Preferences, Rights, and Limitations of Series C Convertible Preferred Stock, dated April 28, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 4, 2021)
4.1*	Form of Secured Promissory Note, dated May 10, 2021, with the Lender
10.1	Revolving Credit Facility Loan and Security Agreement dated November 14, 2018, between C-Bond Systems, Inc. and BOCO Investments, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 20, 2018, File. No. 000-53029).
10.2	Note dated April 28, 2020, between Comerica Bank and C-Bond Systems, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 4, 2020, File. No. 000-53029)
10.3	Form of Subscription Agreement dated February 24, 2021, between C-Bond Systems, Inc., and Investor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 26, 2021, File. No. 000-53029).
10.4*	Form of Loan and Security Agreement, dated May 10, 2021, between C-Bond Systems, Inc. and the Lender
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*	XBRL INSTANCE DOCUMENT
101.SCH*	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL*	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF*	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB*	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE*	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

* Filed herewith.

SIGNATURES

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

C-BOND SYSTEMS, INC.

Dated: May 14, 2021

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

SECURED PROMISSORY NOTE **May 10, 2021**
FUNDING $500,000 **Houston, TX**

FORM OF SECURED PROMISSORY NOTE

FOR VALUE RECEIVED, the undersigned, **C-Bond Systems, Inc.,** a Colorado corporation ("***Borrower***"), promises to pay t o[ ], of [ ] (the "***Lender***," which term will include any transferee of this Secured Promissory Note (the "***Note***")), the principal amount of Five Hundred Thousand U.S. Dollars ($500,000.00), together with interest (as provided in Section 2 below).

1. **Security**. As security for payment of the of the Obligations (as defined below), Borrower and Lender have entered into that certain Loan and Security Agreement of even date herewith (the "***Security Agreement***"). The Security Agreement, this Note and any other instruments, documents and agreements executed or delivered in connection herewith are collectively referred to as the "***Loan Documents***").

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

3. **Maturity; Payments**. All outstanding principal and accrued interest under this Note shall be due and payable on May 10, 2023 (the"***Maturity Date***") if not sooner pre-paid by Borrower or accelerated in accordance with the terms hereof. Borrower shall make a balloon payment, including all outstanding principal and accrued but unpaid interest, on the Maturity Date. If any payment of principal or interest shall be due on a Saturday, Sunday or any other day on which banking institutions in the State of Texas are required or permitted to be closed, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest under this Note. Any payment of the principal and interest on this Note and any other payments which Borrower becomes obligated to pay to Lender pursuant to the Loan Documents (collectively, the "***Obligations***") shall be made in lawful money of the United States of America in immediately available funds, without deduction, setoff or counterclaim, to such account as Lender shall from time to time designate in writing to Borrower.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Signature pages follow]

Dated on the date first set forth above.

Borrower:

C-BOND SYSTEMS, INC., a Colorado corporation

By: ______________________________

Print Name: Scott R. Silverman

Its: Chief Executive Officer

ACKNOWLEDGED AND AGREED:

____

Signature Page to
Secured Promissory Note

FORM OF LOAN AND SECURITY AGREEMENT

This Loan and Security Agreement (this "***Agreement***"), dated as of May 10, 2021 (the "***Effective Date***"), is entered into by and between C-Bond Systems, Inc., a Colorado corporation having its principal place of business, as of the Effective Date, at 6035 South Loop East, Houston, Texas 77033 ("***Borrower***"), and [ ] of [ ] ("***Lender***").

RECITALS:

WHEREAS, Lender has agreed to provide to Borrower a secured loan in the principal amount of Five Hundred Thousand Dollars ($500,000.00) (the "***Loan***") on the terms and conditions set forth hereinafter.

NOW, THEREFORE, in consideration of the foregoing premises, the covenants and agreements hereinafter set forth, and other good and valuable consideration, the sufficiency of which is hereby acknowledged by Borrower and Lender, the parties hereto agree as follows:

I. **LOAN; PAYMENTS.**

1.1. **Loan**. Subject to the terms and conditions of this Agreement, Lender hereby agrees to lend to Borrower, and Borrower hereby agrees to borrow from Lender, the Loan in the principal amount of $500,000.00 against the issuance and delivery by Borrower of the Secured Promissory Note in the form attached hereto as Exhibit A and incorporated herein (the "***Note***"). The proceeds of the Loan shall be used by Borrower for general working capital purposes.

1.2. **Other Loan Terms**. All costs, fees or other amounts (other than interest) chargeable to Borrower by Lender under this Agreement, the Note or any other instruments, documents or agreements executed or delivered in connection herewith (collectively, the "***Loan Documents***") shall be added to the outstanding principal amount of the Note on the date such sums are incurred or on the date they become due and owing from Borrower, whichever is later. Upon the occurrence of an Event of Default (as defined herein), all amounts then outstanding on the Note (including principal and interest) shall bear interest at the rate of eighteen percent (18%) per annum, compounded annually until the Event of Default is cured.

II. **COLLATERAL AND SECURITY INTEREST**

2.1. **Grant of Security Interest.** As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, Borrower hereby grants to and creates in favor of Lender a lien and continuing security interest in all of Borrower's right, title and interest in, to and under the following, wherever located and whether now owned or at any time hereafter acquired by Borrower or in which Borrower now has or at any time in the future may acquire any right, title or interest (collectively, the "***Collateral***"): (i) all fixtures and personal property of every kind and nature including without limitation all accounts, chattel paper, commercial tort claims, deposit accounts, documents, equipment, fixtures, general intangibles, goods, instruments (including promissory notes), intellectual property (including, without limitation, patents, patent applications, copyrights, trademarks and trade secrets), inventory, investment property, leases, letter-of-credit rights and letters-of-credit, money, software, supporting obligations, identified claims, contract rights, payment intangibles, license rights, distribution rights, and rights to sue for infringement of general intangible or intellectual property rights, (ii) all books and records pertaining to any of the foregoing, (iii) all proceeds and products of any of the foregoing and all insurance of the foregoing and proceeds thereof, and (iv) accessions and additions to, and substitutions and replacements of, any and all of the foregoing. The term "***Obligations***" means all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Borrower to Lender of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money) now existing or hereafter arising under or pursuant to the terms of the Loan Documents, including, without limitation, all principal, interest, fees, charges, expenses, attorneys' fees and costs chargeable to and payable by Borrower hereunder or thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

All capitalized terms used in this Section 2.1 which are defined in the Uniform Commercial Code of the State of Texas as in effect from time to time (the "***UCC***") shall have the same meanings herein as such terms are defined in the UCC. The parties hereto agree that this Agreement constitutes a security agreement under the UCC.

2.2. **Filing Authorization.** Immediately upon execution and delivery of this Agreement, Lender may take all steps necessary to perfect and evidence the perfection of the security interest granted herein. Borrower authorizes Lender to file in any relevant jurisdiction one or more UCC-1 financing statements or continuation statements, and amendments thereto, relative to any part of the Collateral without the signature of Borrower where permitted by applicable law. In addition, Borrower authorizes Lender to file with the United States Patent and Trademark Office (and any successor office and any similar office in any state of the United States or in any other country) this Agreement or an appropriate patent assignment or other documents for the purpose of perfecting, confirming, continuing, enforcing and protecting the security interest granted by the Grantor hereunder, without the signature of Borrower where permitted by law.

2.3. **Perfection and Priority.** Upon the filing of a UCC-1 financing statement in the appropriate filing office, the security interest granted pursuant to this Agreement shall constitute a valid perfected security interest in all of the Collateral in favor of Lender as collateral security for the Obligations to the extent that a security interest in the Collateral can be perfected by such filing. The security interest granted herein shall be senior to all other security interests granted by Borrower subsequent to the Effective Date and all security interests granted by Borrower prior to the Effective Date except for the security interest granted pursuant to that certain Revolving Credit Facility Loan and Security Agreement, dated November 14, 2018, between Borrower and BOCO Investments, LLC (the "***Prior Loan Agreement***") and except for Permitted Liens for which priority is accorded under applicable law. As used in this Agreement, "***Permitted Liens***" means (i) any pledge, lien, mortgage, hypothecation, security interest, charge, option, or other encumbrance whatsoever (collectively, "***Liens***") in favor of Lender or in favor of the lender under the Prior Loan Agreement, (ii) statutory Liens created by operation of applicable law, including liens of landlords, carriers, warehousemen, mechanics, materialmen or suppliers securing obligations that are not overdue or that are being contested in good faith by appropriate proceedings, (iii) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security and other like laws and in connection with leases or trade contracts, (iv) Liens arising in the ordinary course of business and securing obligations that are not overdue or that are being contested in good faith by appropriate proceedings, and (v) Liens for taxes and government charges or levies not yet due and payable or that are being contested in good faith by appropriate proceedings by Borrower, *provided* that adequate reserves with respect thereto are maintained on the books of Borrower in accordance with GAAP.

2.4. **Lender Appointed Attorney-in-Fact.** Borrower hereby irrevocably appoints Lender as Borrower's attorney-in-fact, with full authority in the name, place, and stead of Borrower, effective upon the occurrence and during the continuance of an Event of Default, to take any action and to execute any document which Lender may deem, in its discretion, necessary or advisable to enable Lender to protect its interests in the Collateral and to exercise and enforce its rights and remedies under this Section 2 or

Section 5.2.

2.5. **Exculpation of Liability.** Nothing herein contained shall be construed to constitute Lender as Borrower's agent for any purpose whatsoever, nor shall Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral regardless of the cause thereof.

III. **REPRESENTATIONS AND WARRANTIES**. Borrower represents and warrants as follows:

3.1. **Organization.** Borrower is a corporation duly formed and validly existing under the laws of the jurisdiction of its formation. Borrower has the requisite corporate power to own, lease and operate its properties and assets and to carry on its business as now conducted and as proposed to be conducted. Borrower is duly qualified and is authorized to do business and is in good standing as a foreign corporation in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so would not have a material adverse effect on Borrower or its business.

3.2. **Authority.** Borrower has the requisite corporate power and authority to enter into each of the Loan Documents to which it is, or will be, a party and to consummate the transactions contemplated hereby and thereby, all of which have been duly authorized by all necessary corporate action of Borrower. Assuming the due authorization, execution and delivery of the Loan Documents by Lender, such Loan Documents that Borrower is a party to constitute (or when executed and delivered by Borrower will constitute) legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equitable principles (regardless of whether such enforceability is considered in equity or at law).

3.3. **Consents; Approvals.** All authorizations, consents, approvals, registrations, exemptions, and licenses with or from any government, agency, regulatory, judicial or administrative body or entity (a "***Governmental Authority***") or any third party which are necessary for the execution and delivery of the Loan Documents to which Borrower is a party, and the performance thereby of its obligations thereunder, have been obtained and are in full force and effect.

3.4. **No Conflicts.** Neither the entering into this Agreement or any other Loan Document to which it is a party, nor the compliance with any of their respective terms by Borrower, conflicts with, violates or results in a breach of any of the terms, conditions or provisions of, or constitutes a default or event of default (however described) or requires any consent under, any indenture, mortgage, agreement or other material instrument or arrangement to which Borrower is a party or by which it is bound, or violates any judgment, decree, award, order, or any statute, rule, or regulation applicable to it.

3.5. **No Proceedings**. There is no action, claim, suit, proceeding or investigation pending or, to the knowledge of Borrower, threatened against Borrower before any court or arbitrator or before or by any Governmental Authority that questions the validity of this Agreement or the other Loan Documents or which questions the right of Borrower to enter into any of such agreements or to consummate the transactions contemplated hereby or thereby, or which would reasonably be expected to result, either individually or in the aggregate, in any material adverse change in the business, assets, liabilities, operations or condition of Borrower, financially or otherwise, or any change in the current equity ownership of Borrower, nor is Borrower aware that there is any basis for any of the foregoing. The foregoing includes, without limitation, actions pending or, to the knowledge of Borrower, threatened (or any basis therefor known by Borrower) involving the prior employment of any of Borrower's employees, their use in connection with Borrower's business of any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. Borrower is not a party to, or to its knowledge subject to, the provisions of any order, writ, injunction, judgment or decree of any arbitrator, court of other Governmental Authority. There is no action, suit, proceeding or investigation by Borrower currently pending or which Borrower intends to initiate.

3.6. **Title to Assets**. Except as disclosed in Borrower's filings with the Securities and Exchange Commission and publicly available on the EDGAR system ("***SEC filings***"), Borrower has good and marketable title to, or valid leasehold interests in, its properties and assets, in each case free and clear of any Liens other than Permitted Liens. Borrower is the sole legal and beneficial owner of its right, title, and interest in and to the Collateral, free and clear of any Liens other than Permitted Liens.

3.7. **Solvency.** Borrower (a) is capable of paying its debts as they come due and is able to pay and has not admitted an inability to pay its debts as they come due, (b) is not bankrupt, and (c) has not taken action, and no such action has been taken by a third party, for the winding up, dissolution, or liquidation or similar judicial proceeding or for the appointment of a liquidator, custodian, receiver, or other similar officer for Borrower or any of its material property or assets.

3.8. **Taxes.** Borrower has filed all federal, state, and local tax returns required to be filed, including all income, franchise, employment, property, and sales tax returns, and has paid all of its liabilities for taxes, assessments, governmental charges, and other levies that are due and payable. Borrower has no knowledge of any pending investigation of Borrower by any taxing authority or of any pending but unassessed tax liability of Borrower.

3.9. **Compliance with Laws; Permits.** Borrower is not in violation of any law, rule, regulation, order, or decree of any Governmental Authority, court, or arbitrator which violation could materially and adversely affect the business, assets, liabilities, operations or condition of Borrower, financially or otherwise. Borrower has all franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted the lack of which could materially and adversely affect the business, assets, liabilities, operations or condition of Borrower, financially or otherwise.

3.10. **Financial Statements**. Except as disclosed in the SEC filings, Borrower has no material liabilities, contingent or otherwise, other than (a) liabilities incurred in the ordinary course of business and (b) obligations under contracts and commitments incurred in the ordinary course of business, which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of Borrower.

3.11. **Intellectual Property**. Schedule 1 attached hereto contains a true, complete, and current listing of all patents, trademarks, copyrights, and other intellectual property rights (including all registrations and applications therefor) owned by Borrower or its subsidiaries as of the Effective Date that are registered with any Governmental Authority.

IV. **COVENANTS**.

4.1. **Affirmative Covenants.** Until payment in full of the Obligations, unless otherwise agreed to in writing by Lender, Borrower shall:

(a) (i) maintain its existence and qualify and remain qualified to conduct business as currently conducted; and (ii) maintain all approvals necessary for the Loan Documents to which it is a party and the transactions contemplated therein;

(b) provide for all maintenance, repairs and replacements to the Collateral in accordance with standard maintenance and repair procedures and upon request will promptly make available to Lender copies of all repairs, maintenance and test reports;

(c) comply in all material respects with all applicable laws, rules, regulations, orders or decrees of any Governmental Authority, court or arbitrator;

(d) take all action reasonably necessary to permit Lender's or its designated representatives the right (i) to visit the premises of Borrower and its facilities during normal working hours and on working days and to inspect the corporate, financial and operating records, and make abstracts therefrom, and (ii) to discuss Borrower's affairs, finances and accounts with its officers and independent public accountants at mutually convenient times and dates;

(e) promptly notify Lender in writing if Borrower has, or believes it may have, a Commercial Tort Claim, which notice shall include a summary description of such claim;

(f) appear in and defend any action or proceeding which may affect its title to Lender's interest in the Collateral;

(g) maintain proper books of record and account in which full, true, and correct entries in conformity with generally accepted accounting principles ("***GAAP***") shall be made of all dealings and transactions in relation to Borrower's business and activities;

(h) pay and discharge when due all taxes, assessments and charges assessed upon Borrower or the Collateral, unless and only to the extent that (i) such taxes shall be contested in good faith and by appropriate proceedings by Borrower, and (ii) reserves (which are adequate under GAAP) are maintained by Borrower with respect thereto;

(i) timely file and pay all maintenance fees for patents and renewal fees for trademarks and promptly notify Lender in writing of any infringement litigation in connection with any of the intellectual property;

(j) promptly notify Lender in writing of all newly acquired or created intellectual property (including, without limitation, any patent applications submitted, and any patents granted, after the Effective Date), and submit to Lender a supplement to Schedule 1 to reflect such additional rights (provided that Borrower's failure to do so shall not impair Lender's security interest therein and provided further that such notice to be considered timely if given on the same Business Day (as defined herein) the patent application in question is submitted or that Borrower receives notice that the patent in question is granted);

(k) promptly notify Lender of the occurrence of any of the following (i) an Event of Default, (ii) any event of which Borrower is or becomes aware that, upon the giving of notice or lapse of time, or both, would constitute an Event of Default under any of the Loan Documents, (iii) the commencement of any litigation or proceedings against, or, to the knowledge of Borrower, threatened against, Borrower, and (iv) any other development in the business or affairs of Borrower if the effect thereof is reasonably expected to have a material adverse effect on Borrower or its business or assets or the ability of Borrower to perform its obligations under any Loan Document to which Borrower is a party;

(l) at its own expense at all times keep all insurable Collateral insured against loss by damage, fire, theft and other extended coverage and, at the request of Lender, cause Lender to be named as an additional insured on all insurance policies insuring any of the Collateral against risk of loss or non-payment and deliver to Lender certificates of insurance naming Lender as an additional insured;

(m) upon Lender's request, furnish Lender with quarterly profit and loss statements and balance sheets for Borrower and its consolidated subsidiaries within forty-five (45) days after the end of the applicable quarter and annual profit and loss statements and balance sheets for Borrower and its consolidated subsidiaries, reviewed by Borrower's independent public accountants, within ninety (90) days after the end of Borrower's fiscal year;

(n) promptly provide to Lender such additional business, financial, corporate affairs, and other information as Lender may from time to time reasonably request; and

(o) execute and deliver to Lender, upon request, such documents and do such acts and things as Lender may from time to time reasonably request to provide for, perfect, or protect Lender's Lien on the Collateral and otherwise to carry out the purposes, terms, or conditions of the Loan Documents.

4.2. **Negative Covenants**. Until payment in full of the Obligations, unless otherwise agreed to in writing by Lender, Borrower will not:

(a) consummate any (i) merger, consolidation or business combination of Borrower with or into any other Person in which Borrower is not the survivor, (ii) transaction in which more than 50% of the voting power of Borrower is disposed of or transferred, or (iii) sale, transfer, lease or exchange of all or substantially all of its assets;

(b) liquidate or dissolve;

(c) (i) change its name as it appears in official filings in the state of its organization, (ii) change its chief executive office, principal place of business, or mailing address, (iii) change the type of entity that it is, (iv) change its organization identification number, if any, issued by its state of organization, or (v) change its state of organization;

(d) make any material change to the scope or nature of its business as conducted on the date hereof;

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

(f) assume, guarantee, endorse, contingently agree to purchase or otherwise become liable upon the obligation of any Person, except by the endorsement of negotiable instruments for deposit or collection;

(g) grant any Liens other than Permitted Liens;

(h) sell, transfer, lease, assign, exchange or dispose of any Collateral, except sales of Inventory in the ordinary course of business; or

(i) issue any equity interests or rights to purchase equity interests in Borrower (other than pursuant to an approved employee equity plan).

V. **EVENTS OF DEFAULT; REMEDIES.**

5.1. **Events of Default.** The occurrence of any one or more of the following events shall constitute an "***Event of Default***":

(a) Borrower shall have failed to pay to Lender the entire principal amount of and accrued interest on the Loan when due, whether at stated maturity, by acceleration, or otherwise;

(b) Borrower shall have failed to pay to Lender, when due, any other amounts that have become payable to Lender under this Agreement or the other Loan Documents and such failure continues uncured for five (5) days after the delivery of written notice thereof from Lender which identifies, with reasonable specificity, the nature of those amounts and the provisions of this Agreement which impose on Borrower the obligation to pay or reimburse Lender therefor;

(c) Borrower shall have defaulted or failed to comply with the due observance or performance of any of its other obligations contained in this Agreement or in any of the other Loan Documents;

(d) Any representation or warranty of Borrower made in this Agreement or any other Loan Document shall be found to have been incorrect, false or misleading in any material respect as of the date it was made;

(e) Borrower shall have defaulted under or failed to make any payment when due, whether at stated maturity, by acceleration, or otherwise, under any outstanding indebtedness for borrowed money (other than the Loan) of Borrower and any such failure shall have continued beyond any applicable grace period or any other event shall have occurred permitting the acceleration of such indebtedness;

(f) A judgment has been entered against Borrower which exceeds Ten Thousand Dollars ($10,000), and any such judgment remains unpaid, unstayed, undischarged, unbonded, or undismissed for a period of ten (10) days from the date of entry thereof;

(g) Any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against the Collateral, and such judgment writ, or similar process shall not be released, stayed, vacated or other dismissed within ten (10) days after issue or levy;

(h) This Agreement or any other of the Loan Documents (or any component thereof relating to payment obligations, enforcement rights, or other material rights or other material obligations) is or shall have been held, by a court of competent jurisdiction to be invalid, illegal, or unenforceable, and such holding has not been reversed or stayed within a period of ten (10) days thereafter;

(i) Borrower shall (i) apply for, consent to, or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy or receivership laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent (including by entry of any order for relief in any involuntary bankruptcy or insolvency proceeding commenced against it), (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(j) Any provision of any Loan Document shall, for any reason, cease to be valid and binding on Borrower, or Borrower shall so claim in writing to Lender, or Borrower challenges the validity of or its liability under any Loan Document;

(k) Any cessation of operations by Borrower;

(l) Borrower's failure to maintain any material intellectual property rights, personal, real property or other assets which are necessary to conduct its business (whether now or in the future);

(m) Lender in good faith believes itself insecure; or

(n) Borrower otherwise takes any action which threatens Lender's security for the Loan or threatens Borrower's ability to repay the same.

5.2. **Rights and Remedies.** When an Event of Default occurs and for so long as such Event of Default is continuing, Lender may in its discretion do any one or more of the following from time to time: (a) declare any Obligations immediately due and payable, whereupon they shall be due and payable without diligence presentment, demand, protest, or notice of any kind, all of which are hereby waived by Borrower to the fullest extent permitted by applicable law (but if an Event of Default described in Section 5.1(i) of this Agreement occurs, all Obligations are automatically and immediately due and payable without any action by Lender) and (b) exercise any other rights and remedies available to Lender under the Loan Documents or at law or equity, including the rights and remedies of a secured party under the UCC (including but not limited to directing account debtors to make payment directly to Lender, settling, compromising or adjusting any of the Collateral (the same to be binding on Borrower), commencing, prosecuting and defending, as the case may be, any proceeding to collect or protect any or all of the Collateral, or any other proceeding with respect to any of the Collateral and selling any of the Collateral at private or public sale on such terms as Lender deems appropriate.) Upon request of Lender, Borrower will immediately deliver and endorse or cause to be delivered and endorsed, to Lender or in accordance with Lender's instruction, any of the Collateral. Any proceeds of any disposition of all or any part of the Collateral may be applied by Lender toward payment of such of the Obligations, and in such order of application, as Lender may from time to time elect. The remedies set forth herein shall be cumulative and not alternative and, upon the occurrence of an Event of Default, Lender may pursue any and all remedies available to it under the Loan Documents, at law, in equity or otherwise.

5.3. **Setoff.** At any time during an Event of Default, Lender is authorized, to the fullest extent permitted by applicable law, to set off and apply any and all deposits at any time held and other obligations at any time owing by Lender to or for the credit of the account of Borrower against the Obligations, whether or not Lender shall have made any demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured. The rights of Lender under this Section are in addition to other rights and remedies (including other rights of offset) that Lender may have.

5.4. **Waiver; Deficiency.** To the extent permitted by applicable law, Borrower waives and agrees not to assert any rights or privileges which it may acquire under Section 9-626 of the UCC. Borrower shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations, in full and the fees and disbursements of any attorneys employed by Lender to collect such deficiency.

VI. **MISCELLANEOUS**.

6.1. **Governing Law.** This Agreement and the other Loan Documents, and all matters arising hereunder or thereunder or related hereto or thereto, shall be governed by and construed under the laws of the State of Texas, as applied to agreements among Texas residents made and to be performed entirely within the State of Texas, without giving effect to conflicts of laws principles that would result in the application of any law other than Texas law.

6.2. **Jurisdiction and Venue.** In respect of any action or proceeding arising out of or related to any Loan Document, each of the parties hereto consents to the jurisdiction and venue of any federal or state court located within the State of Texas and County of Dallas, waives personal service of any and all process upon such party, consents that all such service and process may be made by first class registered or certified mail, postage prepaid, return receipt requested, directed to such party at the address specified pursuant to Section 6.8, agrees that service so made shall be deemed to be completed upon actual receipt thereof, and waives any objection to jurisdiction or venue of, and waives any motion to transfer venue from, any of the aforesaid courts.

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

6.4. **Entire Understanding.** This Agreement and the other Loan Documents contain the sole and entire agreement between Lender and Borrower superseding all prior discussions, negotiations, representations and agreements relating thereto, and, except as hereinafter provided, shall not be modified or amended, nor shall any requirement set forth herein be waived, except by a written instrument signed by duly authorized officers or employees of Lender and Borrower. Prior course of dealing, trade usage, and/or oral agreements, to the extent they would modify, add to, or detract from the provisions hereof, shall not be binding on Lender, and Borrower hereby expressly waives them.

6.5. **Survival.** All representations, warranties, covenants, and agreements contained herein shall survive until all Obligations are indefeasibly paid and performed in full.

6.6. **Expenses.** Borrower agrees to pay immediately upon demand (a) all fees (including without limitation, legal fees and expenses), costs, and other expenses of Lender incurred in connection with collection of the Obligations, the maintenance or preservation of the security interest in the Collateral, the sale, disposition, or other realization on the Collateral, or the enforcement of Lender's rights hereunder or under any other Loan Document, (b) all transfer, stamp, documentary, or other similar taxes, assessments, or charges levied by any Governmental Authority in respect of this Agreement or any of the other Loan Documents, (c) all costs, expenses, assessments, and other charges incurred in connection with any filing, registration, recording, or perfection of any Lien contemplated by this Agreement or any other Loan Document, and (d) all fees (including without limitation, legal fees and expenses), costs, and other expenses of Lender incurred in connection with the prosecution or defense of any action in any way related to this Agreement or any other Loan Document, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any insolvency proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Lender or any other Person) relating to Borrower or any other Person.

6.7. **Transaction Fees and Expenses**. Borrower shall pay on the Effective Date, the reasonable legal and due diligence fees and expenses of counsel to Lender. If the amount of such costs and fees is not yet known as of the Effective Date (i.e., if Lender has not yet received a final bill for the same), such costs and fees shall be payable upon demand in the same fashion set forth in Section 6.6.

6.8. **Notice.** All notices, requests, demands and other communications permitted or required in the Loan Documents shall be in writing and shall be (a) personally delivered, (b) sent by first class United States mail, (c) sent by overnight courier of national reputation with delivery confirmation, or (d) sent as electronic mail, in each delivered or sent to the party to whom notice is being given to the business address or email address set forth below or, as to each party, at such other business address or email address as it may hereafter designate in writing to the other party pursuant to the terms of this Section 6.8. All such notices, requests, demands and other communications shall be deemed communicated or given on (i) the date received if personally delivered, (ii) five (5) Business Days after deposit in the mail if delivered by mail, (iii) the date delivered if delivered by overnight courier with delivery confirmation, or (iv) the date of transmission if sent by electronic mail, except that notices or requests delivered to Lender via electronic mail shall not be effective until actually received and read by Lender. All notices, requests, demands and other communications shall be addressed and given to Lender and Borrower as set forth below:

If to Lender:

[ ]

If to Borrower:

C-Bond Systems, Inc.
6035 South Loop East
Houston, TX 77033
Attention: Scott R. Silverman
Email: ssilverman@cbondsystems.com

6.9. **Deadlines**. In the event that any deadline or date on which any action must be taken herein falls on a Saturday, Sunday or any other day on which banking institutions in the State of Texas are required or permitted to be closed (a "***Business Day***"), such deadline or date on which action must be taken is extended to the next Business Day.

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

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

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

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

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

6.15. **No Third-Party Beneficiary.** This Agreement does not and will not confer any rights or remedies upon any Person other than Lender and Borrower.

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

6.17. **No Usury.** This Agreement and all other Loan Documents are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration or otherwise, shall the amount paid or agreed to be paid to Lender for the Loan exceed the maximum amount permissible under applicable law. If from any circumstance whatsoever fulfillment of any provision hereof, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then, *ipso facto*, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstance Lender shall ever receive interest, or anything which might be deemed interest under applicable law, which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal amount owing on account of the Loan and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal of the Loan, such excess shall be refunded to Borrower. All sums paid or agreed to be paid to Lender for the Loan shall, to the extent permitted by applicable law, be deemed to be amortized, prorated, allocated, and spread throughout the full term of such Indebtedness until payment in full so that the actual rate of interest on account of such indebtedness is uniform throughout the term thereof. The terms and provisions of this paragraph shall control and supersede every other provision of this Agreement and the other Loan Documents.

6.18. **Cumulative Rights and Remedies.** All agreements, warranties, guaranties and other undertakings of Borrower under the Loan Documents are cumulative and not in derogation of each other. The rights and remedies of Lender under the Loan Documents are cumulative, may be exercised at any time and from time to time, concurrently or in any order, and are not exclusive of any other rights or remedies available by agreement, by law, at equity or otherwise. All such rights and remedies shall continue in full force and effect until payment in full of all Obligations.

[Signature page follows]

Each of the parties has signed this Agreement as of the day and year first above written.

C-BOND SYSTEMS, INC., as Borrower

By: ______________________________

Name: Scott R. Silverman
Title: Chief Executive Officer

, as Lender

Signature Page to
Loan and Security Agreement

Schedule 1

Intellectual Property Portfolio

[See attached]

Exhibit A

Form of Secured Promissory Note

[See attached]

Exhibit 31.1

Certifications

I, Scott R. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the year ended March 31, 2021 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 14, 2021

/s/ Scott R. Silverman

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

Exhibit 31.2

Certifications

I, Scott R. Silverman, certify that:

6. I have reviewed this quarterly report on Form 10-Q for the year ended March 31, 2021 of C-Bond Systems, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 14, 2021

/s/ Scott R. Silverman

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

Exhibit 32.1

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, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), and pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, as amended, I, Scott R. Silverman, Chief Executive Officer and Chairman of the Board of the Company 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 14, 2021

/s/ Scott R. Silverman

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