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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2015

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**COMMISSION FILE NO. 1-11602**

**PEN INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**47-1598792**

(I.R.S. Employer  
Identification No.)

**431 Fairway Drive, Suite 200  
Deerfield Beach, FL**

(Address of principal executive offices)

**33441**

(Zip Code)

**(844) 736-6266**

**(Registrant's telephone number, including area code)**

Former name or former address, if changed since last report: **Not applicable.**

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 4, 2015, the registrant had 243,962,531 shares of Class A common stock, par value \$.0001 per share, 251,064,939 shares of Class B common stock, par value \$.0001 per share, and 42,273,470 shares of Class Z common stock, par value \$.0001 per share, issued and outstanding.

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PEN INC.

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## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain forward-looking statements that we believe are within the meaning of the federal securities laws. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding our strategy, future operations, future expectations or future estimates, financial position and objectives of management. Those statements in this Form 10-Q containing the words “believes,” “anticipates,” “plans,” “expects” and similar expressions constitute forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to our operations, results of operations, competitive factors, shifts in market demand and other risks and uncertainties.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and actual results may differ from those indicated by the forward-looking statements included in this Form 10-Q. In light of the significant uncertainties inherent in the forward-looking statements included in this Form 10-Q, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**PEN INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 173,733	\$ 464,735
Accounts receivable, net	1,295,092	1,032,995
Accounts receivable - related party	11,045	38,246
Inventory	1,372,683	1,557,100
Prepaid expenses and other current assets	<u>246,976</u>	<u>200,079</u>
<b>Total Current Assets</b>	<u>3,099,529</u>	<u>3,293,155</u>
<b>OTHER ASSETS:</b>		
Property, plant and equipment, net	830,417	850,847
Intangible assets, net	226,516	239,338
Other assets	<u>40,090</u>	<u>41,841</u>
<b>Total Other Assets</b>	<u>1,097,023</u>	<u>1,132,026</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,196,552</u>	<u>\$ 4,425,181</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Bank revolving line of credit	\$ 627,282	\$ 773,344
Current portion of note payable	27,543	-
Convertible notes payable, net	-	13,333
Accounts payable	1,343,246	1,426,465
Accrued expenses	819,123	964,587
Deferred revenue	<u>30,053</u>	<u>28,790</u>
<b>Total Current Liabilities</b>	<u>2,847,247</u>	<u>3,206,519</u>
<b>LONG-TERM LIABILITIES:</b>		
Note payable, net of current portion	<u>137,715</u>	<u>-</u>
<b>Total Long-term Liabilities</b>	<u>137,715</u>	<u>-</u>
<b>Total Liabilities</b>	<u>2,984,962</u>	<u>3,206,519</u>
Commitments and Contingencies (See Note 13)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.0001 par value, 20,000,000 shares authorized; No shares issued and outstanding	-	-
Class A common stock: \$.0001 par value, 1,300,000,000 shares authorized; 237,042,916 and 234,744,655 issued and outstanding at March 31, 2015 and December 31, 2014, respectively	23,704	23,474
Class B common stock: \$.0001 par value, 400,000,000 shares authorized; 251,017,063 and 251,017,063 issued and outstanding at March 31, 2015 and December 31, 2014, respectively	25,102	25,102
Class Z common stock: \$.0001 par value, 100,000,000 shares authorized; 47,273,470 and 47,273,470 issued and outstanding at March 31, 2015 and December 31, 2014, respectively	4,727	4,727
Additional paid-in capital	4,818,368	4,640,278
Accumulated deficit	<u>(3,660,311)</u>	<u>(3,474,919)</u>
<b>Total Stockholders' Equity</b>	<u>1,211,590</u>	<u>1,218,662</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 4,196,552</u>	<u>\$ 4,425,181</u>

See accompanying condensed notes to unaudited consolidated financial statements.

**PEN INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(Unaudited)	(Unaudited)
<b>REVENUES:</b>		
Products (including related party sales of \$44,827 and \$82,685 for the three months ended March 31, 2015 and 2014, respectively)	\$ 2,437,314	\$ 2,771,411
Research and development services	630,427	-
<b>Total Revenues</b>	<b>3,067,741</b>	<b>2,771,411</b>
<b>COST OF REVENUES:</b>		
Products	1,406,719	1,450,141
Research and development services	508,384	-
<b>Total Cost of Revenues</b>	<b>1,915,103</b>	<b>1,450,141</b>
<b>GROSS PROFIT</b>	<b>1,152,638</b>	<b>1,321,270</b>
<b>OPERATING EXPENSES:</b>		
Selling and marketing expenses	82,209	73,517
Salaries, wages and contract labor	587,830	433,352
Research and development	195,202	150,735
Professional fees	180,552	171,472
General and administrative expenses	266,395	166,505
<b>Total Operating Expenses</b>	<b>1,312,188</b>	<b>995,581</b>
<b>(LOSS) INCOME FROM OPERATIONS</b>	<b>(159,550)</b>	<b>325,689</b>
<b>OTHER INCOME (EXPENSES):</b>		
Interest income	-	-
Interest expenses	(27,729)	(7,333)
Other income, net	6,831	13
<b>Total Other Income/(Expense)</b>	<b>(20,898)</b>	<b>(7,320)</b>
<b>(Loss) Income before income taxes</b>	<b>(180,448)</b>	<b>318,369</b>
<b>Income tax benefit (expense)</b>	<b>(4,944)</b>	<b>(47,608)</b>
<b>NET (LOSS) INCOME</b>	<b>(185,392)</b>	<b>270,761</b>
Net income attributable to former non-controlling interest	-	(39,306)
<b>NET (LOSS) INCOME ATTRIBUTABLE TO PEN INC.</b>	<b>\$ (185,392)</b>	<b>\$ 231,455</b>
<b>NET (LOSS) INCOME PER COMMON SHARE:</b>		
Basic	\$ (0.00)	\$ 0.00
Diluted	\$ (0.00)	\$ 0.00
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>		
Basic	534,216,610	325,641,762
Diluted	534,216,610	325,641,762

See accompanying condensed notes to unaudited consolidated financial statements.

**PEN INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended	
	March 31,	
	2015	2014
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (185,392)	\$ 270,761
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Change in inventory obsolescence reserve	(6,650)	63,729
Bad debt expense	-	-
Depreciation and amortization expense	63,563	42,183
Amortization of deferred lease incentives	(3,208)	(3,208)
Change in value of stock appreciation rights	-	-
Change in value of equity credits	-	-
Stock-based compensation	41,310	-
Change in operating assets and liabilities:		
Accounts receivable	(262,097)	(103,507)
Accounts receivable related party	27,201	(18,293)
Inventory	191,067	33,474
Prepaid expenses and other assets	(45,146)	(24,126)
Accounts payable	(83,219)	(377,222)
Accrued expenses	(18,579)	10,918
Income taxes payable	-	47,608
Deferred revenue	1,263	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(279,887)</b>	<b>(57,683)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash acquired in acquisition	-	-
Purchases of property and equipment	(30,311)	(2,514)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(30,311)</b>	<b>(2,514)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank line of credit	2,067,500	200,000
Repayment of bank lines of credit	(2,213,562)	-
Proceeds from bank loan	165,258	-
Repayment of bank loans	-	(10,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>19,196</b>	<b>190,000</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(291,002)</b>	<b>129,803</b>
CASH, beginning of year	464,735	100,367
CASH, end of period	\$ 173,733	\$ 230,170
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest		
Interest	\$ 27,655	\$ 4,798
Income taxes	\$ 4,944	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Common stock issued for convertible notes and accrued interest	\$ 13,725	\$ -
Common stock issued for accrued expenses	\$ 123,285	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

**PEN INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2015**  
**(UNAUDITED)**

**NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION**

**Organization**

PEN Inc. (“we”, “us”, “our”, “PEN” or the “Company”), a Delaware company, develops and sells a portfolio of nano-layer coatings, nano-based cleaners, and nano-composite products based on its proprietary technology and performs nanotechnology research and development focused on generating revenues through performing research services.

Through our wholly-owned subsidiary, Nanofilm, Ltd., we develop, manufacture and sell products based on technology which permits the fabrication of oriented, ultra-thin films of organic or polymeric crystals, and also produces a line of personal lens cleaners and accessories. These products are marketed internationally primarily to customers in the eyeglass industry.

Through our wholly-owned subsidiary, Applied Nanotech, Inc., we primarily conduct research and development services for governmental and private customers.

On August 27, 2014 (the “Effective Date”), Applied Nanotech Holdings, Inc., a Texas corporation (“Applied Nanotech”), together with its wholly-owned direct subsidiaries, PEN and NanoMerger Sub Inc., a Delaware corporation (“Merger Sub”), completed a combination (the “Combination”) with NanoHolding Inc. (“Nano”). The Combination included three parts: (i) a redomestication of Applied Nanotech from Texas to Delaware by way of Applied Nanotech’s merger into PEN, (ii) a subsequent merger of Nano into Merger Sub, with Merger Sub (n/k/a Nanofilm Holdings Inc.) the surviving entity, and (iii) a subsequent exchange of 100% of Carl Zeiss, Inc.’s interest in Nanofilm Ltd., Nano’s wholly-owned subsidiary (“Nanofilm”), for stock in PEN. Nanofilm is a company formed under the laws of the Ohio on June 14, 1995 as a limited liability company.

Immediately prior to the effective date, outstanding convertible notes of Applied Nanotech were converted into common stock, for which an aggregate of 32,379,288 shares of PEN Class A common stock were issued, and 11,164,620 shares of PEN Class A common stock were issued to directors of the Company in payment of accrued fees. PEN also issued 1,500,000 shares of Class A common stock in satisfaction of a note held by the former CFO of the Company. Accordingly, immediately prior the Effective Date, the Company had 203,363,059 PEN Class A shares outstanding.

On the Effective Date, the merger was accounted for as a reverse merger and recapitalization of Nano (See Note 3). On the Effective Date, the pre-merger shares of Nano were exchanged for an aggregate of 27,670,187 shares of Class A common stock of PEN and 250,698,105 shares of Class B common stock of PEN. Additionally, the Class Z member interests of Nanofilm (the non-controlling interests) were exchanged for 47,273,470 Class Z shares of PEN. The effect of these exchanges is reflected retroactively in the accompanying consolidated financial statements for all periods presented.

On December 17, 2014, the Company formed a new wholly-owned subsidiary, PEN Technology LLC, a Florida limited liability company and on December 19, 2014, Nanofilm Holdings Inc. was merged into PEN.

**Basis of Presentation**

The Company’s consolidated financial statements include the financial statements of its wholly-owned subsidiaries, Applied Nanotech, Inc., EZ Diagnostix, Inc. (inactive), PEN Technology LLC, and Nanofilm, Ltd. On December 19, 2014, EZ Diagnostix was merged into Applied Nanotech, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements for the three months ended March 31, 2015 and 2014 have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations, and cash flows as of March 31, 2015 and 2014, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments.

The Company’s historical results of operations include an allocation of the net income of Nanofilm, Ltd. to the 14.5% non-controlling interest of Nanofilm, Ltd. up to the effective date of the merger when the holder of that non-controlling interest exchanged its membership interest for shares of PEN Inc. resulting in Nanofilm, Ltd. becoming a wholly-owned subsidiary of the Company.

**PEN INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2015**  
**(UNAUDITED)**

**NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION (continued)**

**Basis of Presentation (continued)**

Certain information and note disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2014 and footnotes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on April 10, 2015.

The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

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

*Use of estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the three months ended March 31, 2015 and 2014 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the fair value of assets acquired and liabilities assumed in the merger, estimates of current and deferred income taxes and deferred tax valuation allowances, the fair value of non-cash equity transactions, and the fair value of equity incentives.

*Fair value of financial instruments and fair value measurements*

The Company adopted the guidance of Accounting Standards Codification (“ASC”) 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value 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 quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, loans and lines of credit, accounts payable, accrued expenses, and other payables approximate their fair market value based on the short-term maturity of these instruments.

The Company analyzes all financial and non-financial instruments with features of both liabilities and equity under the FASB’s accounting standard for such instruments. Under this standard, financial and non-financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company accounts for three instruments at fair value using level 3 valuation.

Description	At March 31, 2015			At December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 2
Intangible assets	-	-	\$ 226,516	-	-	\$ 239,338
Stock Appreciation Rights Plan A	-	-	\$ 46,146	-	-	\$ 46,146
Equity Credits Issued	-	-	\$ 25,178	-	-	\$ 25,178



**PEN INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2015**  
**(UNAUDITED)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair value of financial instruments and fair value measurements (continued)*

A rollforward of the level 3 valuation of these three financial instruments is as follows:

	Intangible Assets	Stock Appreciation Rights Plan A	Equity Credits Issued
Balance at December 31, 2014	\$ 239,338	\$ 46,146	\$ 25,178
Amortization of intangible assets	(12,822)	-	-
Change in fair value included in net loss	-	-	-
Balance at March 31, 2015	<u>\$ 226,516</u>	<u>\$ 46,146</u>	<u>\$ 25,178</u>

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

*Cash and cash equivalents*

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

*Accounts receivable*

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

*Inventory*

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

*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.

*Intangible assets*

Intangible assets, consisting of patents, patent pending technologies and other technologies being amortized on a straight-line method over the estimated useful life of 5 years.

*Impairment of long-lived assets*

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset’s estimated fair value and its book value. The Company did not record any impairment charge for the three months ended March 31, 2015 and 2014.

**PEN INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2015**  
**(UNAUDITED)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue recognition

Pursuant to the guidance of ASC Topic 605, the Company recognizes sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the purchase price is fixed or determinable and collectability is reasonably assured.

Types of Revenue:

- Net product sales by our subsidiary Nanofilm.
- Reimbursements under agreements to perform research and development for government agencies and others by our subsidiary, Applied Nanotech. We do not perform research contracts that are contingent upon successful results. Larger projects are sometimes broken down in phases to allow the customer to determine at the end of each phase if they wish to move to the next phase. The agreements with federal government agencies generally provide that, upon completion of a technology development program, the funding agency is granted a royalty-free license to use any technology developed during the course of the program for its own purposes, but not any preexisting technology that we use in connection with the program. We retain all other rights to use, develop, and commercialize the technology. Agreements with nongovernmental entities generally allow the entity the first opportunity to license the technology from us upon completion of the project.
- Product sales and other miscellaneous revenues from our subsidiary, Applied Nanotech such as the sale of conductive inks and thermal management materials.

Revenue Recognition Criteria:

- Net product sales by our subsidiary Nano, are recognized when the product is shipped to the customer and title is transferred.
- Revenue from research and development government contracts is recognized when it is earned pursuant to the terms of the contract. These projects are usually billed monthly based on costs, hours, or some other measure of activity during the month and revenue is recognized as services are provided. If there is substantive acceptance terms then revenue will not be recognized until acceptance occurs. The recognition of revenue may not correspond with the billings allowable under the contract. To the extent that billings exceed revenue earned, a portion of the revenue is deferred until such time as it is earned.
- Revenue from research and development non-governmental contracts is recognized when it is earned pursuant to the terms of the contract. Each contract is unique and tailored to the needs of the customer and goals of the project. Some contracts may call for a monthly payment for a fixed period of time. Other contracts may be for a fixed dollar amount with an unspecified time period, although there is frequently a targeted completion date. These contracts generally involve some sort of up-front payment. Some contracts may call for the delivery of samples, or may call for the transfer of equipment or other items developed during the project to the customer. These projects are usually billed monthly based on costs, hours, or some other measure of activity during the month and revenue is recognized as services are provided. If there is substantive acceptance terms then revenue will not be recognized until acceptance occurs.
- Revenue from other product sales is recognized at the time the product shipped. The Company's subsidiary Applied Nanotech's primary business is research and development and the licensing of its technology, not the sale of products. Product sales are generally insignificant in number, and are generally limited to the sale of conductive inks, thermal management materials, samples, proofs of concepts, prototypes, or other items resulting from its research.
- Other miscellaneous revenue is recognized as deemed appropriate given the facts of the situation and is generally not material.

Sales incentives and consideration paid to customers

The Company accounts for certain promotional costs such as sales incentives and cooperative advertising as a reduction of sales. For the three months ended March 31, 2015 and 2014, the Company recorded approximately \$55,468 and \$30,498, respectively, as a reduction of sales related to these costs.

Cost of sales

Cost of sales includes inventory costs, materials and supplies costs, internal labor and related benefits, subcontractor costs, depreciation, overhead and shipping and handling costs incurred.

**PEN INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2015**  
**(UNAUDITED)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Shipping and handling costs

Shipping and handling costs incurred relating to the purchase of inventory are included in inventory which is charged to cost of sales as product are sold. Shipping and handling costs charged to customers are included in sales. For the three months ended March 31, 2015 and 2014, shipping and handling costs incurred for product shipped to customers are included in cost of sales and amounted to \$51,638 and \$52,985, respectively.

Research and development

Research and development costs incurred in the development of the Company's products and under other Company sponsored research and development projects are expensed as incurred. Costs such as direct labor, direct costs, and other allocated costs incurred to perform research and development service pursuant to government and private research projects are included in cost of sales. For the three months ended March 31, 2015 and 2014, research and development costs incurred in the development of the Company's products were \$195,202 and \$150,735, respectively, and are included in operating expenses on the accompanying consolidated statements of operations.

Advertising costs

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. For the three months ended March 31, 2015 and 2014, advertising costs charged to operations were \$17,550 and \$38,331, respectively and are included in sales and marketing on the consolidated accompanying 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.

Prior to the February 24, 2014, the Company's subsidiary, Nanofilm, operated as a limited liability company and passed all income and loss to each member based on their proportionate interest in Nanofilm. After February 24, 2014, the date on which Nanofilm reorganized by creating a corporation parent, NanoHolding Inc., approximately 85.5% of the net income (loss) of Nanofilm, was passed through to the majority member, NanoHolding Inc. After the effective date of the merger, 100% of the net income (loss) of Nanofilm is passed through to the Company.

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, 2015 and December 31, 2014, 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, 2010. 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, 2015.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the service period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income (loss) per share of common stock

ASC 260 “Earnings Per Share”, requires dual presentation of basic and diluted earnings per 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 dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As of March 31, 2015 and December 31, 2014, 6,800,000 contingently common shares issuable based on certain market conditions (see Note 8) are not included in the potential dilutive shares in calculating the diluted EPS. Additionally, potentially dilutive common shares consist of common stock options (using the treasury stock method). These common stock equivalents may be dilutive in the future. Potentially dilutive common shares were excluded from the computation of diluted shares outstanding as they would have an anti-dilutive impact on the Company’s net losses and consisted of the following:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Total stock options	4,297,931	4,357,528

Additionally, there are an unknown quantity of common stock equivalents that result from a potential conversion of equity credits and stock appreciation rights (See Notes 10, 11 and 13).

Net loss per share for each class of common stock is as follows:

	<b>Three Months ended March 31, 2015</b>	<b>Three Months ended March 31, 2014</b>
<b>Net (loss) income per common shares outstanding:</b>		
Class A common stock	\$ (0.00)	\$ 0.00
Class B common stock	\$ (0.00)	\$ 0.00
Class Z common stock	\$ (0.00)	\$ 0.00
<b>Weighted average shares outstanding:</b>		
Class A common stock	234,744,655	27,670,187
Class B common stock	251,017,063	250,698,105
Class Z common stock	47,273,470	47,273,470
Total weighted average shares outstanding	534,216,610	325,641,762

Segment reporting

The Company uses “the management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. The Company’s chief operating decision maker is the Chairman and chief executive officer (“CEO”) of the Company, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company classified the reportable operating segments into (i) the development, manufacture and sale of personal lens cleaners and accessories and ultra-thin films of organic or polymeric crystals (the “Product Segment”) and (ii) the performance of nanotechnology research and development services for government and private entities and any related sales of related products.

Reclassification

Certain reclassifications have been made in prior year’s consolidated financial statements to conform to the current year’s financial presentation. The reclassifications are primarily within operating expenses to reflect research and development as a separate line item.

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**NOTE 3 – ACQUISITION**

Effective August 27, 2014, pursuant to the reverse merger and recapitalization as discussed in Note 1, the Company and Nano merged. Both Nano and Applied Nanotech were interested in the Combination because of the opportunity to commercialize new products enabled by nanotechnology. The fact that Applied Nanotech was public will facilitate access to growth capital. The strong intellectual property portfolio of Applied Nanotech, combined with the experience of the Nano team, is to be the platform for the Company to expand its product offerings and commercialize the acquired technologies.

On the Effective Date, the merger was accounted for as a reverse merger and recapitalization of Nano using the acquisition method in accordance with ASC 805-10 and related subsections since the shareholders of Nano and its subsidiary, the legal acquiree, owned 61.6% of the aggregate outstanding common shares of PEN immediately following the completion of the merger, had its current officers assume all corporate and day-to-day management offices of PEN, including chief executive officer and chief financial officer, and board members of Nano control a majority of the board after the Combination. Accordingly, Nano was deemed to be the accounting acquirer in the transaction and, consequently, the transaction is treated as a reverse merger with Nano as the acquiring company. Accordingly, the assets and liabilities and the historical operations that will be reflected in the PEN consolidated financial statements after the Effective Date are those of Nano and Subsidiary and are recorded at the historical cost basis of Nano. Applied Nanotech's assets and liabilities are recorded at their fair values as of the effective date and the results of operations of Applied Nanotech are consolidated with results of operations of Nano starting on the Effective Date.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Applied Nanotech had occurred as of the beginning of the following period:

	Three Months Ended March 31, 2014
Net Revenues	\$ 3,653,843
Net Loss	\$ (170,719)
Net Loss per Share	\$ (0.00)

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented and is not intended to be a projection of future results.

**NOTE 4 – BANK LOANS AND LINES OF REVOLVING CREDIT FACILITY**

In April 2014, Nanofilm entered into a \$1,500,000 revolving credit line agreement (the "Revolving Note") with Mackinac Commercial Credit, LLC (the "Lender"). The unpaid principal balance of this Revolving Note is payable on demand, is secured by all of Nanofilm's assets, and bears interest computed at a rate of interest (the "Effective Rate") which is equal to 7.0% above the LIBOR Rate, as defined, payable monthly. Nanofilm will pay to Lender a late charge of 5.0% of any monthly payment not received by Lender within 10 calendar days after its due date. The Company may, at any time or from time to time upon three business days' written notice to Lender, prepay the Note in whole provided that (i) if Borrower prepays the Revolving Note in full and terminates the Revolving Note, or (ii) Lender terminates the Revolving Note after default, then Borrower will pay a termination premium equal to 2.0% of the maximum loan amount.

Without the Lender's consent, so long as the obligation remains outstanding, in addition to other covenants as defined in the Revolving Note, Nanofilm shall not a) merge or consolidate with any other company, except for the Combination and shall not suffer a change of control; b) make an capital expenditures, as defined, materially affecting the business; c) declare or pay cash dividends upon any of its stock, or distribute any of its property, make any loans, make investments, redeem, retire or acquire any of its stock, d) become liable for the indebtedness of anyone else, as defined, and e) incur indebtedness, other than trade payables.

At March 31, 2015, the Company had \$627,282 in borrowings outstanding under the Revolving Note with \$872,718 available for borrowing under such note. The weighted average interest rate during the period was approximately 6.8%.

In May 2015, the Revolving Note was amended (See Note 14).

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**NOTE 5 – NOTE PAYABLE**

On February 10, 2015, Nanofilm entered into a promissory note (the “Equipment Note”) with KeyBank, N.A. (the “Bank”) to borrow up to \$373,000. The Company may obtain one or more advances not to exceed \$373,000. The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At March 31, 2015, the principal amount due under the Equipment Note amounted to \$165,258.

**NOTE 6 – CONVERTIBLE NOTES PAYABLE**

On February 7, 2015, the Company issued 208,681 shares of Class A common stock upon the automatic conversion in accordance with its terms of \$10,000 of principal amount of convertible promissory notes, and accrued interest of \$392 (see note 8) Upon conversion, the Company reclassified \$3,333 of the conversion premium to additional paid-in capital.

At March 31, 2015 and December 31, 2014, aggregate convertible notes payable consisted of the following:

	March 31, 2015	December 31, 2014
Convertible notes payable	\$ -	\$ 10,000
Put premium	-	3,333
<b>Total</b>	<b>\$ -</b>	<b>\$ 13,333</b>

**NOTE 7 – RELATED PARTY TRANSACTIONS**

Sales to related party

During the three months ended March 31, 2015 and 2014, the Company engaged in certain sales transactions with a company which is a shareholder and related to a director of the Company. These transactions were conducted during the normal course of the Company’s business on terms consistent with similar transactions with unrelated parties. Sales to the related party totaled \$44,827 and \$82,685 for the three months ended March 31, 2015 and 2014, respectively. Accounts receivable from the related party totaled \$11,045 and \$38,246 at March 31, 2015 and December 31, 2014, respectively.

Other

A board member is a principal in an investment advisory firm which the Company paid approximately \$36,000 and \$67,000 in fees and expenses during the three months ended March 31, 2015 and 2014.

**NOTE 8 – STOCKHOLDERS’ EQUITY**

**Description of Preferred and Common Stock**

The Company is authorized to issue up to a total of 1,820,000,000 shares of capital stock, consisting of 20,000,000 shares of Preferred Stock, par value \$0.0001 per share (“preferred stock”), 1,300,000,000 shares of Class A Common Stock, par value \$0.0001 per share (“Class A common stock”), 400,000,000 shares of Class B Common Stock, par value \$0.0001 per share (“Class B common stock”), and 100,000,000 shares of Class Z Common Stock, par value \$0.0001 per share (“Class Z common stock”).

Preferred Stock

The preferred stock may be issued in one or more series. The Company’s board of directors are authorized to issue the shares of preferred stock in such series and to fix from time to time before issuance thereof the number of shares to be included in any such series and the designation, powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof, of such series.

Common Stock – General

The rights of each share of Class A common stock, each share of Class B common stock and each share of Class Z common stock are the same with respect to dividends, distributions and rights upon liquidation.

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**NOTE 8 – STOCKHOLDERS' EQUITY (continued)**

Class A Common Stock

Holders of the Class A common stock are entitled to one vote per share in the election of directors and other matters submitted to a vote of the stockholders.

Class B Common Stock

Conversion Rights. Shares of Class B common stock can be converted, one-for-one, into shares of Class A common stock at any time at the option of the holder. Shares of Class B common stock will automatically be converted into shares of Class A common stock if the shares of Class B common stock are not owned by the Company's chief executive officer, his spouse, or their descendants and their spouses, or by entities or trusts wholly-owned by them.

Voting Rights. Holders of PEN Class B common stock are entitled to 100 votes per share in the election of directors and other matters submitted to a vote of the stockholders.

Class Z Common Stock

Conversion Rights. Shares of Class Z common stock can be converted, one-for-one, into shares of Class A common stock at any time at the option of the holder. Shares of Class Z common stock will automatically be converted into shares of Class A common stock if the shares of Class Z common stock are not owned by Zeiss or an entity wholly owned by the ultimate parent of Zeiss. In addition, if Zeiss and other permitted holders of shares of Class Z common stock sell or convert more than one-half of the shares of Class Z common stock that are received in the Combination, all shares of Class Z common stock will automatically convert into Class A common stock.

Voting Rights. Holders of PEN Class Z common stock do not vote in the election of directors or otherwise, but they do have the right to designate a director to the PEN Board, have anti-dilution rights described below and have consent rights with respect to certain amendments to PEN's certificate of incorporation.

Other Rights. The Class Z common stock has anti-dilutive rights that, subject to limited exceptions, permit holders of Class Z common stock to purchase additional shares or equity rights issued by PEN (on the same terms as made available to third parties by PEN) to maintain their economic ownership percentage. The holders of Class Z common stock are also entitled to receive a copy of any notice sent to the holders of Class A common stock or Class B common stock, as and when the notice is sent to such holders.

**Issuances of Common Stock**

*Common stock issued in connection with a Stock Grant Agreement*

In connection with a Stock Grant Agreement with the former chief financial officer of Applied Nanotech dated in March 2014, the Company issued 889,580 shares on January 31, 2015 and 1,200,000 shares of Class A common stock in February 2015 for an aggregate of 2,089,580 shares of Class A common stock in satisfaction of amounts due of \$123,285 pursuant to the Stock Grant Agreement. These shares were valued on the date of grant at \$0.059 per share based on the quoted trading price for a total value of \$123,285. In connection with these shares, during the year ended December 31, 2014, the Company recorded compensation expense of \$123,285 and at December 31, 2014, included \$123,285 in accrued expenses on the accompanying consolidated balance sheet.

*Common stock issued for convertible debt and interest*

On February 7, 2015, the Company issued 208,681 shares of Class A common stock upon the automatic conversion in accordance with its terms of \$10,000 of principal amount of convertible promissory notes, and accrued interest on that note of \$392. Upon conversion, the Company reclassified \$3,333 of the conversion premium to additional paid-in capital (see note 6).

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**NOTE 8 – STOCKHOLDERS' EQUITY (continued)**

**Stock Options**

Stock options outstanding are to purchase Class A common stock, Stock option activities for the three months ended March 31, 2015 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2014	4,357,528	\$ 0.50	-	\$ -
Exercised	-	-	-	-
Forfeited	(59,597)	(0.88)	-	-
Balance Outstanding March 31, 2015	<u>4,297,931</u>	<u>\$ 0.49</u>	<u>4.91</u>	<u>\$ -</u>
Exercisable, March 31, 2015	<u>4,297,931</u>	<u>\$ 0.49</u>	<u>4.91</u>	<u>\$ -</u>

**Contingently issuable Class A common shares**

On August 27, 2014, the Company entered into a Restricted Stock Agreement with Dr. Zvi Yaniv, the former Chief Operating Officer and President, of Applied Nanotech, and a current employee of the Company granting Dr. Yaniv 6,800,000 shares of Class A common stock, subject to forfeiture. All these shares become vested and not subject to forfeiture on the earlier of a change of control of us, Dr. Yaniv's death, or if more than 180 days after closing, the average trading price of the shares during a measurement period of ten consecutive trading days reaches certain price thresholds. At a \$0.10 price, one million of the shares vest, with additional tranches of one million shares vesting if the price reaches \$0.15, \$0.20, \$0.25 and \$0.30. The last 1.8 million shares vest at a \$0.35 price threshold. Any shares that have not vested five years after the Effective Date will be forfeited. We also entered into a Piggyback Registration Rights Agreement that will allow Dr. Yaniv, subject to other customary terms and conditions, to register shares that are no longer subject to forfeiture if we are registering our shares. Pursuant to ASC 718-10 and related subsections, these shares were valued on the date of grant of August 27, 2014 at \$0.0729 per shares for a total value of \$495,720. The Company estimates the fair value of the awards with market conditions using a Binomial simulation, which utilizes several assumptions including the risk-free interest rate, the volatility of the Company's stock and the exercise behavior of award recipients. The grant-date fair value of \$495,720 of the awards will be recognized over the requisite service period of 3 years, which represents the derived service period for the stock grant as determined by the Binomial simulation. For the three months ended March 31, 2015, in connection with the amortization of the fair value of this stock grant, the Company recorded stock-based compensation of \$41,310.

**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 and investments in cash equivalent instruments.

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, 2015 and December 31, 2014. The Company has not experienced any losses in such accounts through March 31, 2015.



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**NOTE 9 – CONCENTRATIONS (continued)**

Customer concentrations

Customer concentrations for the three months ended March 31, 2015 and 2014 are as follows:

	Sales	
	For the three months ended March 31,	
	2015	2014
Customer A	33%	20%
Customer B	0%	29%
Customer C	8%	14%
Total	<u>41%</u>	<u>63%</u>

	Accounts Receivable	
	As of March 31,	As of December 31,
	2015	2014
Customer A	22%	31%
Customer C	12%	10%
Total	<u>34%</u>	<u>41%</u>

A reduction in sales from or loss of such customers would have a material adverse effect on our consolidated results of operations and financial condition.

Geographic concentrations of sales

For the three months ended March 31, 2015 and 2014, total sales in the United States represent 70% and 89% of total sales, respectively. No other geographical area accounting for more than 10% of total sales during the three months ended March 31, 2015 and 2014.

Vendor concentrations

For the three months ended March 31, 2015, the Company purchased 44% of its inventory from two suppliers (29% and 15%, respectively). For the three months ended March 31, 2014, the Company purchased 38% of its inventory from two suppliers (26% and 12%, respectively).

**NOTE 10 – EQUITY CREDITS**

During 1997, Nanofilm established *The Equity Credit Incentive Program*. This program enabled select employees the opportunity to purchase equity credits that increase in value based upon an increase in Nanofilm's revenue over a base year of 1996. Eligible credits can be redeemed after two years at the equity credit value for that year. Under certain circumstances, the equity credits are convertible into Nano equity on a one-for-one basis.

The maximum number of credits available for issuance is 385,000. During the three months ended March 31, 2015, no equity credits were forfeited and no units were redeemed. As of March 31, 2015, 77,700 equity credits were issued and outstanding with an approximate value of \$0.3240 per credit and, as of December 31, 2014, 77,700 equity credits were issued and outstanding with an approximate value of \$0.3240 per credit. At March 31, 2015 and December 31, 2014, \$25,178 and \$25,178 respectively, was accrued, and included in accrued expenses, representing the redemption value associated with the equity credits outstanding at each period end.

Under the terms of the Plan, when the Company completes a registered offering of its common stock, the equity credit participants will have the option to convert the equity credits into Class A common shares of the Company, or in the case of our President, into shares of Class B common stock.

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**NOTE 11 – STOCK APPRECIATION PLAN**

From June 1, 1988, until December 31, 1997, when the plan was terminated, Nanofilm had in place a Stock Appreciation Rights Plan A (the “Plan”), intended to provide employees, directors, members of a technical advisory board and certain independent contractors selected by the Board with equity-like participation in the growth of Nanofilm. The maximum number of stock appreciation rights that could be granted by the Board was 1,000,000.

There were 235,782 fully vested stock appreciation rights (“SARS”) outstanding under the terms of the Plan at March 31, 2015 and December 31, 2014. The SARS unit value is based on the book value of the Company as of the last fiscal year end multiplied by a SARS multiplier stipulated in the SARS plan. However, in the event of an initial public offering (“IPO”) of Nano, the SARS are redeemable based on a value equal to offering price of the stock in an IPO times the total outstanding shares of the Company just subsequent to the completion of the IPO, multiplied by the SARS multiplier. The SARS multiplier is to be adjusted, as the Board determines, to reflect changes in the capitalization of Nanofilm. Generally, the SARS are redeemable in cash, at their then fair value as computed pursuant to the Plan, in the event of termination of employment or business relationship, death, permanent and total disability, or sale of Nano (as defined).. Upon an IPO, SARS are to be redeemed by applying 70% of the redemption value to purchase common shares, with the remaining 30% being distributed in cash to the participant.

The August 2014 Combination does not qualify as an IPO under the Plan; however, a future underwritten registered offering may qualify.

The accrued redemption value associated with the stock appreciation rights amounted to \$46,146 and \$46,146, at March 31, 2015 and December 31, 2014, respectively. If the Company completes an IPO, the value of SARS calculated based on the IPO formula may cause a material increase in the value of the liability

**NOTE 12 – SEGMENT REPORTING**

The Company’s principal operating segments coincide with the types of products to be sold. The products from which revenues are derived are consistent with the reporting structure of the Company’s internal organization. The Company’s two reportable segments for the three months ended March 31, 2014 were i) the Product Segment and ii) the Research and Development Segment. For the 2014 period, the Company only operated in the Product Segment. The Company’s chief operating decision-maker has been identified as the Chairman and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon the Company’s management organization structure as of March 31, 2015 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed. There are no inter-segment revenue transactions and, therefore, revenues are only to external customers. As the Company primarily generates its revenues from customers in the United States, no geographical segments are presented.

Segment operating profit is determined based upon internal performance measures used by the chief operating decision-maker. The Company derives the segment results from its internal management reporting system. The accounting policies the Company uses to derive reportable segment results are the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including net revenues, gross profit and operating income (loss). Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. The Company manages certain operating expenses separately at the corporate level and does not allocate such expenses to the segments. Segment income from operations excludes interest income/expense and other income or expenses and income taxes according to how a particular reportable segment’s management is measured. Management does not consider impairment charges, and unallocated costs in measuring the performance of the reportable segments.

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**NOTE 12 – SEGMENT REPORTING (continued)**

Segment information available with respect to these reportable business segments for the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended March 31,	
	2015	2014
<b>Revenues:</b>		
Product segment	\$ 2,437,314	\$ 2,771,411
Research and development segment	630,427	-
<b>Total segment and consolidated revenues</b>	<b>3,067,741</b>	<b>2,771,411</b>
<b>Gross profit:</b>		
Product segment	1,030,595	1,321,270
Research and development segment	122,043	-
<b>Total segment and consolidated gross profit</b>	<b>1,152,638</b>	<b>1,321,270</b>
<b>Income (loss) from operations</b>		
Product segment	\$ 258,268	\$ 325,689
Research and development segment	(65,965)	-
<b>Total segment income (loss)</b>	<b>192,303</b>	<b>325,689</b>
Unallocated costs	(351,853)	-
<b>Total consolidated (loss) income from operations</b>	<b>\$ (159,550)</b>	<b>\$ 325,689</b>
<b>Depreciation and amortization:</b>		
Product segment	\$ 37,857	\$ 42,183
Research and development segment	12,884	-
<b>Total segment depreciation and amortization</b>	<b>50,741</b>	<b>42,183</b>
Unallocated depreciation	12,822	-
<b>Total consolidated depreciation and amortization</b>	<b>63,563</b>	<b>42,183</b>
<b>Capital additions:</b>		
Product segment	\$ 30,311	\$ 2,514
Research and development segment	-	-
<b>Total segment capital additions</b>	<b>30,311</b>	<b>2,514</b>
Unallocated capital additions	-	-
<b>Total consolidated capital additions</b>	<b>\$ 30,311</b>	<b>\$ 2,514</b>
	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Segment tangible assets:</b>		
Product segment	\$ 743,105	\$ 750,651
Research and development segment	87,312	100,196
<b>Total consolidated tangible assets</b>	<b>\$ 830,417</b>	<b>\$ 850,847</b>

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**Equity Credits**

Equity credits may become convertible into an unknown amount of capital stock of the Company to be determined by the Company's board of directors (See Note 10).

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**NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)**

**Stock Appreciation Rights**

If the Company completes an IPO, the value of stock appreciation rights calculated based on the IPO formula may cause a material increase in the value of the liability (See Note 11).

**Placement Agency Agreement**

On March 4, 2015, the Company entered into a, 18-month placement agency agreement with INTL FCStone Securities Inc. (“INTL”) to assist the Company in exploring a capital raise. Under the terms of the engagement, the Company will pay them \$50,000 within 6 weeks of the date we entered the agreement. Their fee if a transaction closes is a minimum of \$250,000 (inclusive of the \$50,000 of which \$45,000 was already paid). If the Company is paid money in connection with a transaction that fails to close, the Company will owe INTL 30% of that payment (net of any expenses the Company incurs).

**NOTE 14 – SUBSEQUENT EVENTS**

On May 1, 2015 the Company’s wholly-owned subsidiary Nanofilm, Ltd. entered into an amendment to the Loan and Security Agreement with the Lender (see Note 4) to extend the outside maturity date to April 4, 2016 and to permit advances against an expanded borrowing base. The borrowing base was increased by \$450,000 through October 31, 2015, with this amount reducing by \$7,500 monthly thereafter. In addition, the Company guaranteed Nanofilm’s obligations to the Lender.

On May 4, 2015, the Company issued an aggregate of 119,615 shares of Class A common stock and 47,876 shares of Class B common stock to the Company’s directors as partial payment for their service on the Company’s board. These shares are valued were valued on the date of grant of May 4, 2015 at \$0.0418 per share based on the quoted price of the stock for a total value of \$7,000.

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

The following is management's discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying unaudited consolidated financial statements. PEN is the result of a business combination (the "Combination"), that closed at the end of August, 2014 (and reported in an 8-K filed on September 2, 2014).

### OVERVIEW

PEN's business is the marketing and sale of products enabled by nanotechnology. We develop and sell products based on our portfolio of intellectual property. Our current products are a portfolio of nano-layer coatings, nano-based cleaners, printable inks and pastes, gas detectors and thermal management materials.

PEN applies knowledge derived from our ongoing nanotechnology research and development to control and manipulate materials at the molecular level to solve everyday problems for customers in the optical, transportation, military, sports, and safety industries. New products under development are also targeted for sale to consumers and to other industries. Our primary commercial products center on our customized eye care glass cleaning and de-fogging products, precision mold release treatments, stay-clean surface treatments for ceramic surfaces, and scuff-resistant treatments for commercial dinnerware. We also sell: printable inks and pastes; thermal management materials; and, on a custom order basis, gas detectors and sensors. These products are marketed globally. We are also engaged in research and development under contract with the government and others with the goal of developing new and improved products using our proprietary technology.

Our principal operating segments coincide with our different business activities and types of products sold. This is consistent with our internal reporting structure. Our two reportable segments for the three months ended March 31, 2015 were (i) the Product Segment and (ii) the Research and Development Segment. For the three months ended March 31, 2014 the Company only operated in the Product Segment.

#### Product segment

Revenue is based on the successful development of specialty products using proprietary intellectual property to deliver unique performance attributes at the surface of a wide variety of substrates. Our products are sold in liquid form enabling application by a number of common commercial techniques and in some instances also as wet and dry towelettes. Our goal continues to be to create segment leading brands through sales of high quality consumer products, and by developing and producing customized formulas for sale to strategic, industrial partners to be incorporated into their customer's products. We manufacture our formulations internally to protect our technology and maintain the highest quality for the products that we and our commercial partners bring to the marketplace.

Our main products are:

- Liquid and towelette formulations packaged in many formats for retail sale to consumers for eyeglass and sunglass lens cleaning and protection.
- Anti-fogging liquid and towelette formulations packaged for retail sale to consumers for safety glasses, protective eye wear including face shields, and sporting goggles.
- Anti-fogging towelettes for sale to the military for safety, anti-fogging and conditioning of lenses, masks, head gear and other applications such as head's up displays,
- Mar resistant and stain resistant coatings for high end vitreous china tableware used for heavy duty, usage situations such as restaurants, cruise ships, casinos.
- Clear protective coatings used on display panels and touch screens to make it easy to remove fingerprints. Applications include automotive and hand held devices.
- Protective and water repelling coatings on interior glass – decorated glass panels, shower doors to make it easy to clean and prevent scale and grime encrustation.
- Coatings for ceramic insulators used in transit and underground subways systems to prevent caking of metal dust and greases on surfaces to reduce maintenance and current leakage losses.

New products under development include products targeted to our current customer base in the optical, transportation, military, sports, and safety industries.

Separate from our historical business, we are also focused on creating products enabled by nanotechnology that tackle and solve big, global problems in growing markets. We have three primary areas of new product focus:

1. Health: Treating or printing of surfaces at the nano-scale to promote health, fight the spread of disease, and assist in the arms race against super bugs;
2. Safety: “Smelling” at the nano-scale level to identify hazardous condition, alert those in danger, and initiate steps to prevent catastrophe; and
3. Sustainability: Creating nano-scale devices and formulas using the minimal amounts of safe, natural ingredients and manufacturing methods, and avoiding using harsh chemicals and pesticides, whenever possible.

The first new product is expected to be part of a family of cleaning products that clean and fortify surfaces at the nanoscale-level. We expect to be selling the first product from this work in the next several months. The patent-pending product is a spray cleaner that penetrates and fortifies the surface. This fortifier and protector can clean and protect many surfaces, both natural and man-made. After application, the product continues to fortify and protect, creating a healthy surface.

Our product is made with safe ingredients and does not use harsh chemicals or disinfectants. We start with a natural mineral that is milled and engineered into a smaller shape and size. Then, the milled mineral is mixed with a proprietary cleaner solution to create our product. The mineral chosen is stable in air and water. No governmental approvals are required for sale of this product. The product:

- Rids surface of dust, dirt and debris;
- Leaves a healthy surface;
- Is safe to use;
- Will continue to work for as long as it is on the surface (until cleaned or washed away);
- Is fast acting;
- Is non-corrosive;
- Is easy to apply;
- Is non-flammable;
- Is friendly to the environment;
- Is odor-free; and
- Is stain-free.

#### Research and development segment

We are a global leader in nanotechnology research and development and this segment focuses on generating revenues through performing research services. Our nanotechnology research is aimed at solving problems at the molecular level - working with the basic properties of matter to create new and improved materials and technologies. We do both research and development, including proof of concepts and prototypes, for our own products and research and development under contract for government and private entities. In our work on products for ourselves we focus on using only the submicron size particles, not smaller nanoparticles that are subject to much greater government regulation. Our work generally falls under one of three technology platforms:

- Nanosensor technology;
- Nanoelectronics; and
- Submicron particle formulations for health and safety products.

Our research and development efforts are currently focused in these and emerging areas.

## RECENT DEVELOPMENTS

We are the surviving holding company from a business combination that closed on August 27, 2014 (the “Effective Date”). On that day, Applied Nanotech Holdings, Inc., a Texas corporation (“Applied Nanotech”), together with its wholly-owned direct subsidiaries, PEN and NanoMerger Sub Inc., a Delaware corporation (“Merger Sub”), completed a combination (the “Combination”) with NanoHolding Inc. (“Nano”). That transaction, that we call the “Combination” included three parts: (i) a redomestication of Applied Nanotech from Texas to Delaware by way of Applied Nanotech’s merger into PEN, (ii) a subsequent merger of Nano into Merger Sub, with Merger Sub (n/k/a Nanofilm Holding Inc.) the surviving entity, and (iii) a subsequent exchange of 100% of Carl Zeiss, Inc.’s interest in Nanofilm Ltd., Nano’s wholly-owned subsidiary (“Nanofilm”), for stock in PEN. Nanofilm is a company formed under the laws of the Ohio on June 14, 1995 as a limited liability company.

In the first step of the Combination, outstanding convertible notes of Applied Nanotech were converted into common stock, for which an aggregate of 32,379,288 shares of PEN Class A common stock were issued, and 11,164,620 shares of PEN Class A common stock were issued to directors of the Company in payment of accrued fees. PEN also issued 1,500,000 shares of Class A common stock in satisfaction of a note held by the former CFO of the Company. Accordingly, immediately prior the Effective Date, the Company had 203,363,059 PEN Class A shares outstanding. In the second step of the Combination, the pre-merger shares of Nanoholdings, Inc. were exchanged for an aggregate of 27,670,187 shares of Class A common stock of PEN and 250,698,105 shares of Class B common stock of PEN. In the third step, the Class Z member interests of Nanofilm (the non-controlling interests) were exchanged for 47,273,470 Class Z shares of PEN. The effect of these exchanges is reflected retroactively in the accompanying consolidated financial statements for all periods presented.

On the Effective Date, the Combination was accounted for as a reverse merger and recapitalization of Nano since the shareholders of Nano and its subsidiary, the legal acquiree, owned 61.6% of the aggregate outstanding common shares of PEN immediately following the completion of the merger, had its current officers assume all corporate and day-to-day management offices of PEN, including chief executive officer and chief financial officer, and board members designated by Nano are a majority of the board after the Combination. Accordingly, Nano was deemed to be the accounting acquirer in the transaction and, consequently, the transaction is treated as a reverse merger with Nano as the acquiring company. Accordingly, the assets and liabilities and the historical operations that will be reflected in the PEN consolidated financial statements after the Effective Date are those of Nano and Subsidiary and are recorded at the historical cost basis of Nano. Applied Nanotech’s assets and liabilities are recorded at their fair values as of the effective date and the results of operations of Applied Nanotech are consolidated with results of operations of Nano starting on the Effective Date.

On December 17, 2014, we formed a new wholly-owned subsidiary, PEN Technology LLC, a Florida limited liability company and on December 19, 2014, Nanofilm Holdings Inc. was merged into PEN.

Currently, the research and development activities of our newly formed subsidiary, PEN Technology, LLC are included in our research and development segment.

## RECENT ACCOUNTING PRONOUNCEMENTS

There are no recent accounting pronouncements that we have not implemented that are expected to have a material impact on our consolidated unaudited financial statements.

## RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements that are included elsewhere in this report. The results discussed below are for the three months ended March 31, 2015 and 2014.

Substantially all of our results of operations relate to our Product segment since the results of operations related to our research and development segment are only included in our results of operations for the three months ended March 31, 2015.

The acquired research and development segment has a history of net losses and negative cash flow from operations. Since the Combination, we have made efforts to cut costs and achieved positive or break-even cash flow from operations in that segment by the end of 2014.

### Comparison of Results of Operations for the Three Months ended March 31, 2015 and 2014

#### Revenues:

For the three months ended March 31, 2015 and 2014, revenues consisted of the following:

	Three Months ended March 31,	
	2015	2014
Sales:		
Product segment	\$ 2,437,314	\$ 2,771,411
Research and development segment	630,427	-
Total segment and consolidated sales	<u>\$ 3,067,741</u>	<u>\$ 2,771,411</u>

For the three months ended March 31, 2015, sales from the Product segment decreased by \$334,097 or 12.1% as compared to the three months ended March 31, 2014 which was primarily attributable to several factors. In 2013, we experienced delays in the production of anti-fog cloths which resulted in higher than normal sales in the first half of 2014. Due to the overstocking of the anti-fog cloths at a major customer in the first half of 2014, we experienced reduced sales in the 2015 period.

For the three months ended March 31, 2015, revenues from our research and development segment amounted to \$630,427. We did not recognize revenues for this segment until after August 27, 2014 (the date of Combination).

#### Cost of revenues.

Cost of revenues includes inventory costs, materials and supplies costs, internal labor and related benefits, subcontractor costs, depreciation, overhead and shipping and handling costs incurred including research and development costs related to government and private research contracts in our Research and Development segment.

For the three months ended March 31, 2015, cost of revenues amounted to \$1,915,103 as compared to \$1,450,141 for the three months ended March 31, 2014, an increase of \$464,962 or 32.1% and consisted of the following:

	Three Months ended March 31,	
	2015	2014
Cost of revenues:		
Product segment	\$ 1,406,719	\$ 1,450,141
Research and development segment	508,384	-
Total segment and consolidated cost of revenues	<u>\$ 1,915,103</u>	<u>\$ 1,450,141</u>



**Gross profit and gross margin.**

For the three months ended March 31, 2015, gross profit amounted to \$1,152,638 as compared to \$1,321,270 for the three months ended March 31, 2014, a decrease of \$168,632 or 12.8%. For the three months ended March 31, 2015 and 2014, gross margins were 37.6% and 47.7%, respectively.

Gross profit and gross margin by segment is as follows:

	Three Months ended March 31,			
	2015	%	2014	%
Gross profit:				
Product segment *	\$ 1,030,595	42.3%	\$ 1,321,270	47.7%
Research and development segment *	122,043	19.4%	-	-
Total gross profit	<u>\$ 1,152,638</u>	<u>37.6%</u>	<u>\$ 1,321,270</u>	<u>47.7%</u>

\* Gross margin % based on respective segments revenues.

For the three months ended March 31, 2015, the decrease in gross margins from the Product segment as compared to the comparable 2014 period was primarily attributable to higher sales of our higher margin anti-fog and protective coating products in the 2014 period as compared to 2015 period as discussed in revenues above.

**Operating expenses:**

For the three months ended March 31, 2015, operating expenses amounted to \$1,312,188 as compared to \$995,581 for the three months ended March 31, 2014, an increase of \$316,607 or 31.8%. For the three months ended March 31, 2015 and 2014, operating expenses consisted of the following:

	Three Months ended March 31,	
	2015	2014
Selling and marketing expenses	\$ 82,209	\$ 73,517
Salaries, wages and contract labor	587,830	433,352
Research and development	195,202	150,735
Professional fees	180,552	171,472
General and administrative expenses	266,395	166,505
Total	<u>\$ 1,312,188</u>	<u>\$ 995,581</u>

- For the three months ended March 31, 2015, sales and marketing expenses increased by \$8,692 or 11.8% as compared to the three months ended March 31, 2014. The increase was attributable to an increase in commission of approximately \$12,800 due to increase incentives to sales agents offset by a decrease in other sales and marketing expenses of \$4,100.
- For the three months ended March 31, 2015, salaries, wages and contract services increased by \$154,478, or 35.6%, as compared to the three months ended March 31, 2014. These increases were primarily attributable to an increase in salaries of approximately \$38,000 related to the acquisition of Applied Nanotech, an increase in stock-based compensation of approximately \$41,300 associated with our contract with Dr. Yaniv and increases in executive, marketing and other administrative salaries and related benefits in our product segment of approximately \$75,178 relating to market development activities, the hiring of internal legal counsel and the increase in executive salaries and bonuses. We expect that salaries, wages and contract services will increase primarily due to continued emphasis on planned market development programs for the balance of 2015.

- For the three months ended March 31, 2015, research and development costs increased by \$44,467 or 29.5%, as compared to the three months ended March 31, 2014. The increase during the period was attributable to research and development costs incurred in connection with related to our new cleaning product of approximately \$58,700 offset by a decrease of approximately \$14,200 from cost cutting measures related to our lens cleaning and conditioning product line.
- For the three months ended March 31, 2015, professional fees increased modestly by \$9,080 or 5.3%, as compared to the three months ended March 31, 2014.
- For the three months ended March 31, 2015, general and administrative expenses increased by \$99,890 or 60.0% as compared to the three months ended March 31, 2014. The increase was primarily attributable to inclusion of the costs and expenses of the research and development segment since the Effective Date of approximately \$30,300, an increase in amortization of intangible assets acquired in the acquisition of \$12,800, and an increase in other general and administrative expenses of \$56,800 related to post combination activities.

***Income (loss) from operations.***

As a result of the factors described above, for the three months ended March 31, 2015, loss from operations amounted to \$(159,550) as compared to income from operations of \$325,489 for the three months ended March 31, 2014, a change of \$(485,239) or (149.0)%.

***Other income (expense).***

Other income (expense) includes interest expense and other income. For the three months ended March 31, 2015, total other expenses amounted to \$20,898 as compared to other expenses \$7,320, an increase of \$13,578 or 185.5%. This increase was attributable to an increase in interest expense of approximately \$20,396 attributable to the increase in borrowing under the line of credit and additional unused line of credit fees offset in an increase in other income of \$6,818.

***Income taxes***

For the three months ended March 31, 2015, income tax expense amounted to \$4,944 as compared to \$47,608 for the three months ended March 31, 2014. Beginning at the end of February 2014, Nano became subject to federal and state corporate income taxes and the expense for the three months ended March 31, 2014 represents the period from the end of February 2014 date through March 31, 2014.

***Net (loss) income and net (loss) income attributable to PEN Inc***

As a result of the foregoing, for the three months ended March 31, 2015, net loss amounted to \$(185,392) as compared to net income of \$231,455 for the three months ended March 31, 2014, a change of \$(416,847) or 180.1%.

Our historical results of operations include an allocation of the net income of Nanofilm, Ltd. to the 14.5% non-controlling interest of Nanofilm, Ltd. up to the effective date of the Combination when the holder of that non-controlling interest exchanged its membership interest for shares of PEN Inc. resulting in Nanofilm, Ltd. becoming a wholly-owned subsidiary of the Company. For the three months ended March 31, 2015 and 2014, net (income) loss attributable to former non-controlling interest amounted to \$0 and \$(39,306), respectively.

For the three months ended March 31, 2015 and 2014, net loss attributable to PEN Inc. amounted to \$(185,392) or \$(0.00) per common share (basic and diluted), and \$231,455 or \$0.00 per common share (basic and diluted), 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 working capital of \$252,282 and \$173,733 of cash as of March 31, 2015 and working capital of \$86,636 and \$464,735 of cash as of December 31, 2014.

The following table sets forth a summary of changes in our working capital from December 31, 2014 to March 31, 2015:

	March 31, 2015	December 31, 2014	December 31, 2014 to March 31, 2015	
			Change	Percentage Change
<b>Working capital:</b>				
Total current assets	\$ 3,099,529	\$ 3,293,155	\$ (193,626)	(5.9)%
Total current liabilities	2,847,247	3,206,519	(359,272)	(11.2)%
Working capital:	<u>\$ 252,282</u>	<u>\$ 86,636</u>	<u>\$ 165,646</u>	<u>191.2%</u>

The increase in working capital was primarily attributable to the reduction of convertible notes payable and accrued interest of \$13,725 and the reduction of accrued expenses of \$123,285 by the issuance of our common stock.

Net cash flow used by operating activities was \$279,887 for the three months ended March 31, 2015 as compared to net cash used in operating activities of \$57,683 for the three months ended March 31, 2014, an increase of \$222,204.

- Net cash flow used in operating activities for the three months ended March 31, 2015 primarily reflected a net loss of \$185,392 and the add-back of non-cash items consisting of depreciation and amortization of \$63,563, stock-based compensation expense of \$41,310, and other non-cash items of \$(9,858), and changes in operating assets and liabilities primarily consisting of an increase in accounts receivable (third party and related party) of \$234,896 due to timing of collections, an increase in prepaid expenses and other current assets of \$45,146, and a decrease in accounts payable of \$83,219 offset by a decrease in inventory of \$191,067.
- Net cash flow used in operating activities for the three months ended March 31, 2014 was primarily attributable to changes in operating assets and liabilities such as an increase in accounts receivable of \$103,507 and a decrease in accounts payable of \$377,222 offset by net income of \$270,761 adjusted for the add back of non-cash items such as a change in inventory obsolescence reserve of \$63,729 and depreciation and amortization expense of \$42,183.

We expect our cash used in operating activities to increase due to the following:

- the development new products,
- an increase in professional staff and services including increased costs of being a public company and additions to sales personnel,
- an increase in legal and other fees incurred in connection with our patents and technologies, and
- an increase in advertising, public relations and sales promotions for existing and new brands as we expand within existing markets or enter new markets.

Net cash flow used in investing activities reflects the purchase of property and equipment of \$30,311 and \$2,514 for the three months ended March 31, 2015 and 2014, respectively. The increase was attributable to the purchase of additional packaging equipment in the 2015 period.

Net cash provided by financing activities was \$19,196 for the three months ended March 31, 2015 as compared to \$190,000 in the same period in 2014. During the three months ended March 31, 2015, we received proceeds from a bank note of \$165,258 and proceeds from a bank line of credit of \$2,067,500 offset by the repayment of bank line of credit of \$2,213,562. During the 2014 period, we received proceeds from a bank line of credit of \$200,000 offset by the repayment of bank loans of \$10,000.

### ***Future Liquidity and Capital Needs.***

Our principal future uses of cash are for working capital requirements, including research and development and marketing expenses, legal and other fees incurred in connection with our patents and technologies, capital expenditures and reduction of accrued liabilities. Application of funds among these uses will depend on numerous factors including our sales and other revenues, the extent of our research and development activities and our ability to control costs, including the integration of Nano and Applied Nanotech. We have historically financed our working capital needs primarily through internally generated funds, and bank loans. We collect cash from our customers based on our sales to them and their respective payment terms. We plan to seek additional equity financing in the public market to fund growth of our operations.

### ***Revolving Credit Note***

In April 2014, our subsidiary, Nanofilm entered into a \$1,500,000 revolving credit line agreement (the "Revolving Note") with Mackinac Commercial Credit, LLC (the "Lender"). The unpaid principal balance of this Revolving Note is payable on demand, is secured by all of Nanofilm's assets, and bears interest computed at a rate of interest (the "Effective Rate") which is equal to 7.0% above the LIBOR Rate, as defined, payable monthly. Nanofilm will pay a late charge of 5.0% of any monthly payment not received by Lender within 10 calendar days after the due date. The Company, at any time or from time to time upon three business days' written notice to Lender, prepay the Revolving Note in full. If Borrower prepays the Revolving Note in full and terminates the Revolving Note aft, or if Lender terminates the Revolving Note after default, then, in addition to all other amounts due to Lender and/or paid by the Company, the Company must pay a termination premium equal to 2.0% of the maximum loan amount. Nanofilm used \$988,000 of proceeds of the Revolving Note to payoff certain other indebtedness to its then Lender.

Without the Lender's consent, so long as the obligation remains outstanding, in addition to other covenants as defined in the Revolving Note, Nanofilm shall not a) merge or consolidate with any other company, except for the Combination and shall not suffer a change of control; b) make an capital expenditures, as defined, materially affecting the business; c) declare of pay cash dividends upon any of its stock, or distribute any of its property, make any loans, make investments, redeem, retire or acquire any of its stock, d) become liable for the indebtedness of anyone else, as defined, and e) incur indebtedness, other than trade payables.

At March 31, 2015, we had \$627,282 in borrowings outstanding under the Revolving Note with \$872,718 available for borrowing under such note. The weighted average interest rate during the period was approximately 6.8%.

On May 1, 2015 our wholly-owned subsidiary Nanofilm, Ltd. entered into an amendment to the Loan and Security Agreement with the Lender to extend the outside maturity date to April 4, 2016 and to permit advances against an expanded borrowing base. The borrowing base was increased by \$450,000 through October 31, 2015, with this amount reducing by \$7,500 monthly thereafter. In addition, we guaranteed Nanofilm's obligations to the Lender.

### ***Equipment Financing***

On February 10, 2015, Nanofilm entered into a \$373,000 promissory note (the "Equipment Note") with KeyBank, N.A. (the "Bank"). The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At March 31, 2015, the principal amount due under the Equipment Note amounted to \$165,258.

### ***Off-balance Sheet Arrangements***

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated unaudited financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**ITEM 3. Quantitative and Qualitative disclosures about market risk**

Not applicable to smaller reporting companies.

**ITEM 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). Based upon this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms relating to the Company, including, our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

***Changes in Internal Control***

There were no changes identified in connection with our internal control over financial reporting during the three months ended March 31, 2015 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**

Nothing to report.

**ITEM 1A. RISK FACTORS**

Not required of smaller reporting companies

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

On May 4, 2015 we issued in partial payment of fees due to our directors for service on our board an aggregate of 119,615 shares of our Class A common stock and 47,876 shares of our Class B common stock. This issuance was exempt from registration under the Securities Act of 1933, as amended, in reliance on Sections 4(a)(2) and 3(a)(9).

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

<u>Exhibit No.</u>	<u>Description</u>
1.1*	First Amendment to Loan and Security Agreement dated as of May 1, 2015 but effective as of April 4, 2015, between Nanofilm, Ltd., and Mackinac Commercial Credit, LLC
1.2*	Corporate Guaranty effective as of April 4, 2015, by PEN Inc. to and with Mackinac Commercial Credit, LLC
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1*	Section 1350 Certificate of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
*	Filed herewith.

**SIGNATURES**

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

PEN Inc.  
(Registrant)

Date: May 12, 2015

/s/ Scott Rickert  
Scott Rickert, Ph.D.  
President and Chief Executive Officer

Date: May 12, 2015

/s/ Adam Wasserman  
Adam Wasserman  
Chief Financial Officer

**FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT**

**THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT** (“Amendment”) is entered into as of May 1, 2015, but effective as of April 4, 2015 (“Effective Date”), between NANOFILM, LTD., an Ohio limited liability company (“Borrower”) and MACKINAC COMMERCIAL CREDIT, LLC, a Michigan limited liability company (together with its successors and assigns, the “Lender”).

**RECITALS**

A. Lender and Borrower entered into a Loan and Security Agreement dated April 4, 2014 (as amended, the “Loan Agreement”). All capitalized terms not defined herein shall have the same meanings ascribed to such terms in the Loan Agreement.

B. Lender and Borrower have agreed to modify the terms and conditions of the Loan Agreement and Borrower and Lender wish to set forth their agreement regarding the foregoing in this Amendment.

**NOW, THEREFORE**, in consideration of the mutual covenants, conditions, and provisions as hereinafter set forth, the parties hereto agree as follows:

**1. Maturity Date.** The definition of “Maturity Date” as set forth in Paragraph 2(e) of the Term Sheet to the Loan Agreement and the Revolving Credit Loan Note is hereby amended to the earlier of demand or **April 4, 2016**.

**2. Equipment Borrowing Base.** Section 2.A of the Revolving Credit Loan Rider #1 is hereby amended and restated in its entirety to read as follows:

**Advances.** Subject to the terms of the Agreement, Lender may, in its sole discretion and upon Borrower’s request, make Advances to Borrower in an amount (hereinafter referred to as the “Gross Availability”) which is the lesser of (i) the **Maximum Loan Amount** as set forth on the Term Sheet or (ii) an amount equal to the sum of (x) the applicable **Percentage Advance Rate** as set forth on the Term Sheet times the face amount (less maximum discounts, credits and allowances which may be taken by or granted to Receivable Debtors in connection therewith) of Eligible Receivables; plus (y) the lesser of (1) the Inventory Cap as set forth on the Term Sheet, or (2) the sum of (A) the applicable Percentage Advance Rate as set forth on the Term Sheet times the value of Borrower’s Eligible Raw Materials (less freight and container costs) calculated at the lower of cost or market value, plus (B) the applicable Percentage Advance Rate as set forth on the Term Sheet times the value of Borrower’s Eligible Finished Goods (less freight and container costs) calculated at the lower of cost or market value; plus (z) the Borrowing Base; which Advances Borrower may borrow, repay and reborrow during the term of the Agreement. All Advances and amounts payable pursuant to this Rider shall constitute part of the Obligations.

For purposes of this Section 2.A, the term “Borrowing Base” means \$450,000 for the period commencing May 1, 2015 and ending November 1, 2015, reducing by \$7,500 as of December 1, 2015, and on the same date of each calendar month thereafter.



**3. Corporate Guaranty.** Simultaneously with this Amendment, the Borrower shall cause PEN Inc., a Delaware corporation, to execute and deliver a Corporate Guaranty to Lender constituting its unconditional, unlimited guaranty of the Obligations, in form and substance satisfactory to the Lender (the "Corporate Guaranty"). In connection therewith, the following amendments shall be made to the Loan Agreement:

(a) The definition of "Guarantor" in Section 1(o) of the Loan Agreement shall be amended and restated to read as follows:

"Guarantor" means the Individual Guarantor and the Corporate Guarantor.

(b) The following definitions shall be added to Section 1 of the Loan Agreement in appropriate alphabetical sequence:

"Corporate Guarantor" means PEN.

"Individual Guarantor" means Scott E. Rickert, an individual.

(c) Sections 8(a)(vi)b. and 8(a)(viii) shall each be amended to replace the term "Guarantor" with "Individual Guarantor".

**4. Conditions to Effectiveness.** The effectiveness of this Amendment shall be subject to satisfaction of the following conditions:

(a) Amendment Documents. Borrower shall have executed and delivered, or cause to be executed and delivered to Lender, this Amendment (including the acknowledgement and agreement to the amendments contained herein of the Individual Guarantor), the Corporate Guaranty, and all other documents and instruments required by Lender in connection with this Amendment.

(b) Lender Expenses. Borrower shall have paid to Lender all of Lender's legal fees and expenses incurred in connection with the preparation, negotiation and closing of this Amendment.

**5. Effect of Amendment.** Except for the amendments set forth in this Amendment, the Loan Agreement and all other Loan Documents shall remain unchanged and in full force and effect. Nothing in this Amendment is intended, or shall be construed, to constitute a novation or an accord and satisfaction of any of Borrower's obligations under or in connection with the Loan Agreement or any other Loan Document.

**6. Miscellaneous.**

(a) Entire Agreement. This Amendment, together with the Loan Agreement and other Loan Documents constitutes the entire agreement and understanding among the parties relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings relating to such subject matter. In entering into this Amendment, Borrower acknowledges that it is relying on no statement, representation, warranty, covenant or agreement of any kind made by the Lender or any employee or agent of Lender, except for the agreements of Lender set forth herein.

(b) Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, provided that no party other than Lender may assign any of its rights or obligations hereunder without the prior written consent of Lender.

(c) Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF MICHIGAN APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE.

(d) Counterparts: Facsimile or Electronic Signatures. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same instrument. A facsimile or PDF signature shall be effective as an original signature.

*[Signatures on following page]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first hereinabove set forth.

**BORROWER:**

**NANOFILM, LTD.,**  
an Ohio limited liability company

By: /s/ Krish Rao  
Name: Krish Rao  
Title: President

**LENDER:**

**MACKINAC COMMERCIAL CREDIT, LLC,**  
a Michigan limited liability company

By: /s/ Edward P. Lewan  
Name: Edward P. Lewan  
Title: President

**ACKNOWLEDGEMENT OF GUARANTOR**

Scott E. Rickert, guarantor under that certain Validity Guaranty dated April 4, 2014 in favor of Lender (the "Validity Guaranty"), acknowledges the above Amendment and agrees that his Validity Guaranty shall continue in full force and effect.

**GUARANTOR:**

/s/ Scott E. Rickert  
Scott E. Rickert, an individual

## CORPORATE GUARANTY

**THIS CORPORATE GUARANTY** (“Guaranty”), effective as of May 1, 2015, is made by **PEN INC.**, a Delaware corporation (“Guarantor”), whose address is 431 Fairway Drive, Suite 200, Deerfield Beach, FL 33441, to and with **MACKINAC COMMERCIAL CREDIT, LLC**, a Michigan limited liability company (“Lender”), whose address is 260 E. Brown Street, Birmingham, Michigan 48009.

## RECITALS:

**WHEREAS**, Lender has agreed to extend credit to **NANOFILM, LTD.**, an Ohio limited liability company (“Borrower”) in an amount up to \$1,500,000.00 (the “Loan”), as evidenced by one or more promissory notes executed by Borrower (individually and collectively, the “Note”);

**WHEREAS**, Borrower has executed and delivered to Lender a Loan and Security Agreement dated April 4, 2014, together with one or more Riders dated April 4, 2014, as amended by a First Amendment to Loan and Security Agreement of even date herewith (collectively, the “Loan Agreement”), and other loan documents executed in connection therewith, (the Loan Agreement, Note and other loan documents are referred to collectively herein as the “Loan Documents”). Capitalized terms used, but not defined in this Guaranty shall have the same meanings as set forth in the Loan Documents; and

**WHEREAS**, Lender requires as a condition of renewing the Loan, that Guarantor executes and delivers this Guaranty.

**1. Amount of Guaranty.** In order to induce Lender to renew the Loan to Borrower, Guarantor absolutely and unconditionally guarantees to Lender the due and prompt payment and performance of any and all indebtedness, liabilities and obligations of Borrower to Lender whether now existing or hereinafter purchased or incurred, direct or indirect, absolute or contingent, secured or unsecured, matured or unmatured, joint or several, including without limitation, all indebtedness evidenced by the Loan Documents, whether for principal, interest, fees, expenses, costs of enforcement, including reasonable attorneys’ fees, or otherwise (the “Guaranteed Obligations”). In addition, Guarantor shall pay to Lender all costs incurred, including reasonable attorneys’ fees, in enforcing payment and performance of this Guaranty. This is a guaranty of payment and not of collection.

**2. Lender’s Authority.** Lender may from time to time without notice to Guarantor and/or without Guarantor’s consent and upon such terms and conditions as Lender may deem advisable without affecting this Guaranty:

- (a) release Borrower, any maker, guarantor, surety or other person liable for payment of all or any part of the Guaranteed Obligations;
- (b) make any agreement extending or otherwise altering the time for or the terms of payment of all or any part of the Guaranteed Obligations;
- (c) modify, waive, forbear, compromise, release, subordinate, resort to, exercise or refrain from exercising any right Lender may have hereunder, or under any of the Loan Documents;
- (d) accept or decline additional security or guarantees of any kind;
- (e) endorse, transfer or assign the Note or any other security to any other party;
- (f) accept partial payment or payments on account of the Guaranteed Obligations;
- (g) make further or additional loans or give or extend credit to or for the benefit of Borrower;

- (h) release, settle or compromise any of Lender's claims against Borrower or any other person, firm, corporation, guarantor, or account debtor whose obligation is held by Lender as collateral security for the Guaranteed Obligations;
- (i) release or substitute collateral, guaranties or guarantors; and/or
- (j) amend the Loan Agreement by accepting any new Revolving Credit Loan Rider or Term Loan Rider, whether or not such amendment increases the likelihood of Guarantor's liability under this Guaranty.

**3. Guarantor's Waivers.** Guarantor unconditionally and absolutely waives:

- (a) any obligation Lender may have to protect, secure or insure any of the collateral given to secure the payment of the Guaranteed Obligations or to ensure Borrower's compliance with any such obligation imposed on Borrower under the Loan Documents;
- (b) any right to participate in any of the collateral given as security for the payment of the Loan;
- (c) notice of Lender's acceptance of this Guaranty;
- (d) any right to notice of presentment, notice of demand for payment, notice of non-performance, protest, notice of protest and notice of dishonor, notice of non-payment and notice of partial payment;
- (e) any right to notice of any default under any of the Loan Documents or in the performance of any of the covenants and agreements contained therein or in any instrument given as security for the Loan;
- (f) any defense, offset or claim Borrower may have against Lender;
- (g) any limitation or exculpation of liability on the part of Borrower whether contained in the Loan Documents or otherwise;
- (h) the right to notice and the right to consent or object to the transfer or sale by Borrower of any collateral or any diminution in value of any collateral or any release of any collateral;
- (i) any defense, offset or claim of lack of commercial reasonableness in the method, manner, time, place and terms of the disposition of collateral given as security for the Guaranteed Obligations;
- (j) any failure, neglect or omission on Lender's part to realize upon or protect the Guaranteed Obligations or any collateral given as security therefor;
- (k) any right to insist that Lender prosecute collection of the Guaranteed Obligations or resort to any collateral given as security for the Guaranteed Obligations or to proceed against Borrower or against any other guarantor or surety prior to enforcing this Guaranty; provided, however, in Lender's sole discretion Lender may, either in a separate action or in an action pursuant to this Guaranty, pursue its remedies against Borrower or any other guarantor or surety, without affecting its rights under this Guaranty;
- (l) any right to participate in or direct such action or proceeding in 3(k) above;
- (m) any right to notice of advances made to Borrower under the Loan Documents;
- (n) any right relating to notice or any order, method or manner of application of any payments on the Guaranteed Obligations; and/or
- (o) any right to insist that Lender disburse the full principal amount of the Loan to Borrower or the order, method, manner or amounts disbursed under the Loan Documents.

**4. Guarantor's Revocation.** This Guaranty shall remain in full force and effect and be binding upon Guarantor and shall inure to Lender's benefit until thirty (30) days after the date this Guaranty is expressly terminated by notice in writing delivered personally to or received by registered mail by Lender at the address specified in the introductory paragraph of this Guaranty, or such other address specified in writing to Guarantor; provided, however, that this Guaranty shall remain in full force and effect regardless of such termination with respect to all Guaranteed Obligations in existence on the date of such termination (including any subsequent extension, renewal, modification, amendment or compromise thereof and all subsequently accruing interest and other charges thereon) until all such Guaranteed Obligations are fully satisfied and paid to Lender. In the absence of any termination of this Guaranty in accordance with the provisions of this Section 4, Guarantor agrees that until all Guaranteed Obligations and Guarantor's obligations under this Guaranty are satisfied, this Guaranty shall remain in full force and effect notwithstanding that from time to time Borrower may be free from all Guaranteed Obligations.

**5. Additional Waivers.** Guarantor shall not assert against Lender and does hereby unconditionally and absolutely waive all defenses of Borrower and any defenses Guarantor may have against Lender, including, but not limited to, defenses of waiver, release, discharge, bankruptcy, statute of limitations, *res judicata*, statute of frauds, anti-deficiency statute, fraud, fraudulent conveyance, insolvency, lack of consideration, merger of claims under this Guaranty with the Guaranteed Obligations, *ultra vires* acts, usury, illegality or unenforceability, any defense which, under principles of guaranty, suretyship or other applicable law, would operate to impair or diminish Guarantor's liability under this Guaranty, any setoff available against Lender by Borrower whether or not on account of a related transaction, and Guarantor shall be and remain liable for any deficiency remaining after foreclosure of any mortgage or any security interest securing the Guaranteed Obligations notwithstanding any provisions of law that may prevent Lender from enforcing such deficiency against Borrower.

**6. Effect of Bankruptcy.** Guarantor's liability shall not be affected nor impaired by any voluntary or involuntary dissolution, sale or other disposition of all or substantially all of the collateral or assets of Borrower, receivership, insolvency proceeding, bankruptcy, assignment for the benefit of creditors, reorganization proceeding, arrangement, composition or readjustment of, or other similar event or proceeding affecting Borrower or any of its assets and upon the institution of any of the above actions, at Lender's sole discretion and without notice thereof or demand therefor, Guarantor's obligations hereunder shall become due and payable and enforceable against Guarantor, whether or not the Guaranteed Obligations are then due and payable.

**7. Marshaling of Assets.** Guarantor waives any defense or claim relating to any obligation Lender may have to marshal the collateral or other assets of Borrower for Guarantor's benefit, and Guarantor agrees that Lender shall be under no duty to marshal the assets of Borrower for Guarantor's benefit or any third party.

**8. Absolute and Unconditional.** No act or thing, except for payment in full, which but for this provision might or could in law or in equity act as a release of Guarantor's liabilities, shall in any way affect or impair this Guaranty. This shall be a continuing, absolute and unconditional Guaranty, and Guarantor's liability on this Guaranty shall be immediate. Lender may have immediate recourse against Guarantor for full and immediate payment and performance of the Guaranteed Obligations, or any part thereof, at any time after the Guaranteed Obligations have not been paid or performed when due (whether by acceleration or otherwise). Subject to Section 4 hereof, this Guaranty shall remain in full force and effect until the Guaranteed Obligations have been paid in full notwithstanding any change or modification of Guarantor's relationship with Borrower which exists as of the date hereof.

**9. Subordination.** All indebtedness and liability now or at any time or times hereafter owing to Guarantor by Borrower is hereby subordinated to the Guaranteed Obligations and, after demand by Lender or default by Borrower, any payment of indebtedness or liabilities of Borrower to Guarantor shall be held in trust for Lender, segregated from other funds, and shall, immediately upon receipt, be turned over to Lender in the exact form received by Guarantor (duly endorsed to Lender, if required), to be applied against the Guaranteed Obligations, whether matured or unmatured, in such order as Lender may determine in its sole discretion.

**10. Subrogation.** Guarantor waives any claim or other right which Guarantor may now have or may hereafter acquire against Borrower or any other person that is primarily or contingently liable on the obligations that arise from the existence or performance of Guarantor's obligations under this Guaranty, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, indemnification, any right to participate in any claim or remedy Lender may have against Borrower or any collateral security therefor, which Lender now has or may hereafter acquire, whether or not such claim, remedy or right arises in equity, or under contract, statute or common law. If any amount shall be paid to Guarantor contrary to the terms of this Section 10, such amount shall be held by Guarantor in trust for Lender, segregated from all other funds, and shall, immediately upon receipt by Guarantor, be turned over to Lender in the exact form received by Guarantor (duly endorsed to Lender, if required), to be applied against the Guaranteed Obligations, whether matured or unmatured, in such order as Lender may determine.

**11. Setoff.** Upon the occurrence and continuation of a Default (as defined in the Loan Agreement) under the Loan Documents, Guarantor hereby authorizes Lender at any time and from time to time to set off and apply any deposit held and any other indebtedness at any time owing by Lender to Guarantor or for Guarantor's account against its Guaranteed Obligations and liabilities to Lender.

**12. Reinstatement.** This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of all or any part of the Guaranteed Obligations is rescinded or must otherwise be returned by Lender upon the insolvency, bankruptcy, reorganization, liquidation or dissolution of Borrower or otherwise, all as if such payment had not been made. Guarantor hereby indemnifies and holds Lender harmless from and against all costs and expenses Lender may incur, including reasonable attorneys' fees, in connection with the defense of a bankruptcy preference action, fraudulent conveyance action, lien avoidance action, or other action relating to Lender's right to retain amounts previously paid to it in respect of the Guaranteed Obligations, and for all costs and expenses Lender may incur relating to the Guaranteed Obligations or the security therefor during any applicable redemption period following the foreclosure of any mortgage or security interest in any collateral, including but not limited to, taxes and insurance costs in respect of such collateral, whether or not Borrower would be liable to Lender for such costs and expenses.

**13. Lender's Reliance.** Guarantor acknowledges that this Guaranty is executed in order to induce Lender to continue to make and disburse the Loan with the intent that Lender will rely upon it in making and disbursing the Loan with the knowledge that Lender would not continue to disburse the Loan but for execution of this Guaranty. Disbursement of any part of the Loan, without any further action or notice, shall constitute conclusive evidence of Lender's reliance hereon.

**14. Representations and Covenants.** Each of the undersigned hereby represents and agrees as follows:

- (a) The fair saleable value of Guarantor's assets exceeds its liabilities, including the liability undertaken pursuant to this Guaranty; Guarantor is meeting its current liabilities as they mature; its financial statements furnished to Lender are true and correct; since the date of such financial statements, there have been no material adverse change in Guarantor's financial condition; there are not now pending any material court or administrative proceedings or any undischarged judgments against Guarantor, and no federal or state tax liens have been filed or threatened against Guarantor, nor is Guarantor in default or claimed default under any agreement for borrowed money.
- (b) Guarantor agrees to immediately give Lender written notice of any material adverse change in its financial condition, including but not limited to litigation commenced, tax liens filed, defaults claimed under Guarantor's indebtedness for borrowed money or bankruptcy proceedings commenced by or against Guarantor.
- (c) Guarantor agrees to deliver to Lender copies of (i) the Form 10-K Annual Report for Guarantor within ninety (90) days of the date of filing with the Securities and Exchange Commission, and (ii) Form 10-Q Quarterly Report for Guarantor within sixty (60) days after the date of filing with the Securities and Exchange Commission.
- (d) Guarantor is fully aware of the financial condition of Borrower and delivers this Guaranty based solely upon its own independent investigation and in no part upon any representation or statement made by Lender with respect thereto. Guarantor is in a position to, and hereby assumes full responsibility for, obtaining any additional information concerning Borrower's financial condition as Guarantor may deem material to its obligations hereunder. Guarantor is not relying upon nor expecting Lender to furnish to it any information in Lender's possession concerning Borrower's financial condition.
- (e) None of the loan advances will be used for (i) Guarantor's personal, family or household purposes, or (ii) to purchase or otherwise obtain title to residential property which is security for Guarantor's obligations under this Guaranty.

**15. Security.** The performance of Guarantor's obligations under this Guaranty is unsecured, other than for such rights of set-off which Lender may have by virtue of its holding Guarantor's property.

**16. Miscellaneous.**

(a) No right or remedy conferred upon or reserved to Lender under this Guaranty is intended to be exclusive of any other available remedy or remedies but each and every remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty, or the Loan Documents, or as may now or hereafter exist at law or in equity. No waiver, amendment, release or modification of this Guaranty shall be established by conduct, custom or course of dealing, but only by an instrument in writing duly executed by Lender.

(b) Whenever the context requires or permits, the singular shall include the plural, the plural shall include the singular, and the masculine, feminine and neuter shall be freely interchangeable.

(c) This Guaranty is delivered and made in, is executed with respect to and shall in all respects be construed pursuant to and governed by the laws of the State of Michigan.

(d) This Guaranty and each and every part hereof, shall be binding upon Guarantor and its heirs, administrators, representatives and executors and shall inure to Lender's benefit, and Lender's successors and assigns, including each and every holder of the Note.

(e) This Guaranty may be executed by one or more of the parties hereto on any number of separate counterparts and all of the counterparts taken together shall constitute one and the same instrument.

(f) This Guaranty constitutes the joint and several obligation of each guarantor of the Guaranteed Obligations, including the undersigned, and shall be fully binding upon and enforceable against any or all of such parties or persons and their sole and separate estates. Neither the death nor release of any guarantor of the Guaranteed Obligations shall affect or release the joint and several liability of any other person or party. Lender may at its option, enforce this Guaranty against one or more or all of the guarantors of the Guaranteed Obligations; provided Lender shall not be required to resort to enforcement against each and every guarantor of the Guaranteed Obligations and the failure to proceed against or join each and every of the guarantors of the Guaranteed Obligations shall not affect the joint and several liability of each of the guarantors of the Guaranteed Obligations.

(g) This Guaranty is intended by Guarantor as a final expression of its agreement and is intended as a complete statement of the terms and conditions to which Guarantor is bound.

**17. Waiver of Jury Trial.** Guarantor's legal counsel has advised it that (a) there may be a constitutional right to a jury trial in connection with any claim, dispute or lawsuit arising out of this Guaranty, and (b) such constitutional right may be waived. After consultation with its counsel (or opportunity to consult), Guarantor believes that it is in its best interest in this commercial transaction to waive such right. Accordingly, Guarantor hereby waives its right to a jury trial and further agrees that the best forum for hearing any claim, dispute or lawsuit, if any, arising in connection with this Guaranty or Guarantor's relationship with Lender, shall be a court of competent jurisdiction sitting without a jury.

GUARANTOR GIVES THIS GUARANTY FREELY AND VOLUNTARILY TO LENDER WITHOUT ANY DURESS OR COERCION. GUARANTOR HAS CONSULTED WITH ITS OWN COUNSEL (OR HAS HAD THE OPPORTUNITY TO CONSULT WITH ITS OWN COUNSEL) AND HAS CAREFULLY AND COMPLETELY READ ALL OF THE TERMS AND PROVISIONS OF THIS GUARANTY.

*[Signature on following page]*

IN WITNESS WHEREOF, this Guaranty has been duly executed and delivered as of the date set forth above.

GUARANTOR:

**PEN INC.,**  
a Delaware corporation

By: /s/ Scott E. Rickert

Name: Scott E. Rickert

Its: Chief Executive Officer



**Certificate of Principal Executive Officer**  
**Pursuant to Rule 13a-14(a)/15d-14(a)**

I, Scott Rickert, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2015 of PEN Inc. (the “registrant”);
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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting) as defined in the 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 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 officers 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:
  - (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 12, 2015

/s/ Scott Rickert

Scott Rickert  
President and Chief Executive Officer

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**Certificate of Principal Financial Officer**  
**Pursuant to Rule 13a-14(a)/15d-14(a)**

I, Adam Wasserman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2015 of PEN Inc. (the “registrant”);
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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting) as defined in the 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 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 officers 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:
  - (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 12, 2015

/s/ Adam Wasserman

Adam Wasserman  
Chief Financial Officer

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**Section 1350 Certification of Principal Executive Officer and Principal Financial Officer**

In connection with the quarterly report of PEN, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Rickert, President and Chief Executive Officer of the Company, and I, Adam Wasserman, Chief Accounting Officer, certify to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; 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 12, 2015

/s/ Scott Rickert

Scott Rickert  
President and Chief Executive Officer

Date: May 12, 2015

/s/ Adam Wasserman

Adam Wasserman  
Chief Financial Officer

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