UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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	**47-1598792**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
431 Fairway Drive, Suite 200 Deerfield Beach, FL	**33441**
(Address of principal executive offices)	(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. [X] 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). [X] 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 [X]

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

As of November 13, 2015, the registrant had 244,116,851 shares of Class A common stock, par value $.0001 per share, 251,126,637 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.

PEN INC.

INDEX

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash	$ 190,101	$ 464,735
Accounts receivable, net	1,017,114	1,032,995
Accounts receivable - related party	10,842	38,246
Inventory	1,220,048	1,557,100
Prepaid expenses and other current assets	250,444	200,079
Total Current Assets	2,688,549	3,293,155
OTHER ASSETS:		
Property, plant and equipment, net	930,389	850,847
Intangible assets, net	200,873	239,338
Other assets	40,093	41,841
Total Other Assets	1,171,355	1,132,026
TOTAL ASSETS	$ 3,859,904	$ 4,425,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank revolving line of credit	$ 1,127,090	$ 773,344
Current portion of notes payable	74,380	-
Convertible notes payable, net	-	13,333
Accounts payable	1,322,451	1,426,465
Accounts payable - related parties	14,072	
Accrued expenses	1,006,278	964,587
Deferred revenue	26,414	28,790
Total Current Liabilities	3,570,685	3,206,519
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	320,696	-
Total Long-term Liabilities	320,696	-
Total Liabilities	3,891,381	3,206,519
Commitments and Contingencies (See Note 13)		
STOCKHOLDERS' EQUITY:		
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; 237,316,851 and 234,744,655 issued and outstanding at September 30, 2015 and December 31, 2014, respectively	23,732	23,474
Class B common stock: $.0001 par value, 400,000,000 shares authorized; 251,126,637 and 251,017,063 issued and outstanding at September 30, 2015 and December 31, 2014, respectively	25,113	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 September 30, 2015 and December 31, 2014, respectively	4,727	4,727
Additional paid-in capital	4,914,950	4,640,278
Accumulated deficit	(4,999,999)	(3,474,919)
Total Stockholders' Equity	(31,477)	1,218,662
Total Liabilities and Stockholders' Equity	$ 3,859,904	$ 4,425,181

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30, 2015 (Unaudited)	For the Three Months Ended September 30, 2014 (Unaudited)	For the Nine Months Ended September 30, 2015 (Unaudited)	For the Nine Months Ended September 30, 2014 (Unaudited)
REVENUES:				
Products (including related party sales of $38,198 and $40,810 for the three months ended September 30, 2015 and 2014, respectively, and $115,316 and $147,862 for the nine months ended September 30, 2015 and 2014, respectively)	$ 1,674,242	$ 1,721,307	$ 5,973,689	$ 7,360,680
Research and development services	336,550	233,414	1,418,193	233,414
Total Revenues	2,010,792	1,954,721	7,391,882	7,594,094
COST OF REVENUES:				
Products	1,009,775	1,130,202	3,494,922	3,961,870
Research and development services	484,568	210,557	1,448,790	210,557
Total Cost of Revenues	1,494,343	1,340,759	4,943,712	4,172,427
GROSS PROFIT	516,449	613,962	2,448,170	3,421,667
OPERATING EXPENSES:				
Selling and marketing expenses	83,488	42,033	214,599	186,062
Salaries, wages and relatesd benefits	554,809	574,213	1,742,248	1,448,933
Research and development	174,736	131,371	620,291	426,740
Professional fees	202,571	249,503	546,622	568,225
General and administrative expenses	234,895	265,563	748,465	622,085
Total Operating Expenses	1,250,499	1,262,683	3,872,225	3,252,045
(LOSS) INCOME FROM OPERATIONS	(734,050)	(648,721)	(1,424,055)	169,622
OTHER INCOME (EXPENSES):				
Interest expenses	(26,947)	(1,806)	(91,031)	(19,230)
Other income, net	2,830	12,124	10,177	-
Total Other Income/(Expense)	(24,117)	10,318	(80,854)	(19,230)
(Loss) Income before income taxes	(758,167)	(638,403)	(1,504,909)	150,392
Income tax benefit (expense)	1,057	159,726	(20,171)	(55,901)
NET (LOSS) INCOME	(757,110)	(478,677)	(1,525,080)	94,491
Net (Income) Loss attributable to former non-controlling interest	-	29,790	-	(53,418)
NET (LOSS) INCOME ATTRIBUTABLE TO PEN INC.	$ (757,110)	$ (448,887)	$ (1,525,080)	$ 41,073
NET (LOSS) INCOME PER COMMON SHARE:				
Basic	$ (0.00)	$ (0.00)	$ (0.00)	$ 0.00
Diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ 0.00
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	535,646,508	401,181,389	535,105,724	351,098,340
Diluted	535,646,508	401,181,389	535,105,724	351,098,340

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2015 (Unaudited)	2014 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (1,525,080)	$ 94,491
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Change in inventory obsolescence reserve	(6,650)	26,535
Depreciation and amortization expense	190,719	171,502
Amortization of deferred lease incentives	(3,208)	(9,623)
Stock-based compensation	137,931	103,090
Change in operating assets and liabilities:		
Accounts receivable	15,881	713,604
Accounts receivable related party	27,404	8,112
Inventory	343,702	202,031
Prepaid expenses and other assets	(48,617)	(230,562)
Accounts payable	(104,014)	(179,688)
Accounts payable - related parties	14,072	-
Accrued expenses	210,346	101,003
Income taxes payable	-	50,000
Deferred revenue	(2,376)	(25,596)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(749,890)	1,024,899
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired in acquisition	-	48,121
Purchases of property and equipment	(231,796)	(144,039)
NET CASH USED IN INVESTING ACTIVITIES	(231,796)	(95,918)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	6,209,500	-
Repayment of bank lines of credit	(5,855,754)	(774,919)
Proceeds from bank loan	371,901	-
Repayment of bank loans	(18,595)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	707,052	(774,919)
NET (DECREASE) INCREASE IN CASH	(274,634)	154,062
CASH, beginning of year	464,735	100,367
CASH, end of period	$ 190,101	$ 254,429
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	$ 91,031	$ 19,230
Income taxes	$ 4,944	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for convertible notes and accrued interest	$ 13,725	$ -
Common stock issued for accrued expenses	$ 123,285	$ -
Reclassification of accrued salary to notes payable - long-term	$ 41,770	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Liabilities assumed in share exchange	$ -	$ 1,689,070
Less: assets acquired in share exchange	-	496,693
Net liabilities assumes	-	1,192,377
Fair value of shares exchanged	-	1,235,282
Increase in intangible assets	$ -	$ 2,427,659

See accompanying notes to unaudited condensed consolidated financial statements.

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 and nine months ended September 30, 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 September 30, 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.

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 and nine months ended September 30, 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 nine months ended September 30, 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.

	At September 30, 2015			At December 31, 2014		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Intangible assets	-	-	$ 200,873	-	-	$ 239,338
Stock Appreciation Rights Plan A	-	-	$ 46,146	-	-	$ 46,146
Equity Credits Issued	-	-	$ 25,178	-	-	$ 25,178

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A roll forward 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	(38,465)	-	-
Change in fair value included in net loss	-	-	-
Balance at September 30, 2015	$ 200,873	$ 46,146	$ 25,178

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. At September 30, 2015 and December 31, 2014, inventory consisted of the following:

	September 30, 2015	December 31, 2014
Raw materials	$ 865,251	$ 953,566
Finished goods	622,813	813,352
	1,488,064	1,766,918
Less: reserve for obsolescence	(268,016)	(209,818)
Total	$ 1,220,048	$ 1,557,100

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 nine months ended September 30, 2015 and 2014.

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 September 30, 2015 and 2014 and for the nine months ended September 30, 2015 and 2014, the Company recorded approximately $32,747 and $30,030 and $114,440 and $95,538, respectively, as a reduction of sales related to these costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 September 30, 2015 and 2014 and for the nine months ended September 30, 2015 and 2014, shipping and handling costs incurred for product shipped to customers are included in cost of sales and amounted to $44,980 and $42,047, and $147,002 and $151,955, 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 September 30, 2015 and 2014 and for the nine months ended September 30, 2015 and 2014, research and development costs incurred in the development of the Company's products were $174,736 and $131,371, and $620,291 and $426,740, 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 September 30, 2015 and 2014 and for the nine months ended September 30, 2015 and 2014, advertising costs charged to operations were $46,522 and $23,360, and $81,290 and $115,474, 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 September 30, 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 September 30, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation (continued)

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.

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 September 30, 2015 and December 31, 2014, 6,800,000 contingently issuable common shares that are 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:

	September 30, 2015	December 31, 2014
Total stock options	2,078,833	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:

Net (loss) income per common shares outstanding:		**Three Months ended September 30, 2015**		**Three Months ended September 30, 2014**		**Nine Months ended September 30, 2015**		**Nine Months ended September 30, 2014**
Class A common stock	$	(0.00)	$	(0.00)	$	(0.00)	$	0.00
Class B common stock	$	(0.00)	$	(0.00)	$	(0.00)	$	0.00
Class Z common stock	$	(0.00)	$	(0.00)	$	(0.00)	$	0.00
Weighted average shares outstanding:								
Class A common stock		237,266,529		103,209,814		236,775,059		53,126,765
Class B common stock		251,106,508		250,698,105		251,057,196		250,698,105
Class Z common stock		47,273,470		47,273,470		47,273,470		47,273,470
Total weighted average shares outstanding		535,646,508		401,181,389		535,105,724		351,098,340

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Recent accounting pronouncements

In April 2015, the FASB issued ASU 2015-03, *Imputation of Interest* ("ASC 835") which requires debt issuance costs related to a recognized debt liability to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. This guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation*, which clarifies accounting for share-based payments for which the terms of an award provide that a performance target could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The updated guidance clarifies that such a term should be treated as a performance condition that affects vesting. As such, the performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The guidance will be effective for the Company beginning with fiscal year 2016, and may be applied either prospectively or retrospectively. The Company does not anticipate that this guidance will materially impact its condensed consolidated financial statements and related disclosures.

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

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.

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 any 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.

On May 1, 2015 Nanofilm 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, the Company guaranteed Nanofilm's obligations to the Lender.

At September 30, 2015, the Company had $1,127,090 in borrowings outstanding under the Revolving Note with $372,910 available for borrowing under such note. The weighted average interest rate during the period was approximately 7.28%.

NOTE 5 – NOTES 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. Nanofilm 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 September 30, 2015, the principal amount due under the Equipment Note amounted to $353,306.

On June 3, 2015, in connection with a severance package offered to three employees, the Company entered into three promissory note agreements with such employees which obligates the Company to pay these employees accrued and unpaid deferred salary in an aggregate amount of $41,770. The principal amounts due under these notes shall bear interest at the minimum rate of interest applicable under the internal revenue code (approximately 2.5% at September 30, 2015). All principal and interest payable under two of these notes aggregating $27,420 are due June 3, 2025 and all principal and interest payable under one of these notes amounting to $14,350 are due June 3, 2020.

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 September 30, 2015 and December 31, 2014, aggregate convertible notes payable consisted of the following:

	September 30, 2015	December 31, 2014
Convertible notes payable	$ -	$ 10,000
Put premium	-	3,333
Total	$ -	$ 13,333

NOTE 7 – RELATED PARTY TRANSACTIONS

Sales to related party

During the three and nine months ended September 30, 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 $38,198 and $40,810 for the three months ended September 30, 2015 and 2014 and totaled $115,316 and $147,862 for the nine months ended September 30, 2015 and 2014, respectively. Accounts receivable from the related party totaled $10,842 and $38,246 at September 30, 2015 and December 31, 2014, respectively.

Other

A board member is a principal in an investment advisory firm which the Company expensed $36,000 and $107,000 in fees and expenses during the three months ended September 30, 2015 and 2014 and $108,000 and $197,000 in fees and expenses during the nine months ended September 30, 2015 and 2014, respectively.

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.

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.

NOTE 8 - STOCKHOLDERS' EQUITY (continued)

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

Under 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 unaudited consolidated balance sheet. Upon issuance of these shares in 2015, the accrued interest was relieved and recorded as equity.

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 a convertible promissory note, and accrued interest on that note of $392 (see note 6). Upon conversion, the Company reclassified $3,333 of the conversion premium to additional paid-in capital.

Common shares issued for services

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 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.

On July 30, 2015, the Company issued an aggregate of 154,320 shares of Class A common stock and 61,728 shares of Class B common stock to the Company's directors as partial payment for their service on the Company's board. These shares were valued on the date of grant of July 30, 2015 at $0.0324 per share based on the quoted price of the stock for a total value of $7,000.

NOTE 8 - STOCKHOLDERS' EQUITY (continued)

Stock Options

Stock options outstanding are to purchase Class A common stock, Stock option activities for the nine months ended September 30, 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	(2,278,695)	(0.51)	-	-
Balance Outstanding September 30, 2015	2,078,833	$ 0.49	4.20	$ -
Exercisable, September 30, 2015	2,078,833	$ 0.49	4.20	$ -

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 and nine months ended September 30, 2015, in connection with the amortization of the fair value of this stock grant, the Company recorded stock-based compensation of $41,310 and $123,930, respectively.

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 September 30, 2015 and December 31, 2014. The Company has not experienced any losses in such accounts through September 30, 2015.

NOTE 9 – CONCENTRATIONS (continued)

Customer concentrations

Customer concentrations for the nine months ended September 30, 2015 and 2014 are as follows:

	Revenues	
	For the nine months ended September 30,	
	2015	2014
Customer A	27%	24%
Customer B	0%	23%
Customer C	11%	11%
Total	38%	58%

	Accounts Receivable	
	As of September 30, 2015	As of December 31, 2014
Customer A	25%	31%
Customer C	13%	10%
Total	38%	41%

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 nine months ended September 30, 2015 and 2014, total sales in the United States represent approximately 92% and 89% of total consolidated revenues, respectively. No other geographical area accounting for more than 10% of total sales during the nine months ended September 30, 2015 and 2014.

Vendor concentrations

For the nine months ended September 30, 2015, the Company purchased 55% of its inventory from three suppliers (32%, 12% and 11%, respectively). For the nine months ended September 30, 2014, the Company purchased 51% of its inventory from four suppliers (24%, 9%, 9% and 9%, 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 nine months ended September 30, 2015, no equity credits were forfeited and no units were redeemed. As of September 30, 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 September 30, 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.

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 September 30, 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 September 30, 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 and nine months ended September 30, 2015 and 2014 were i) the Product Segment and ii) the Research and Development Segment. For the 2014 period, the Company began operating in the Research and Development Segment beginning after August 27, 2014. 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 September 30, 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.

NOTE 12 – SEGMENT REPORTING (continued)

Segment information available with respect to these reportable business segments for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues:				
Product segment	$ 1,674,242	$ 1,721,307	$ 5,973,689	$ 7,360,680
Research and development segment	336,550	233,414	1,418,193	233,414
Total segment and consolidated revenues	**2,010,792**	**1,954,721**	**7,391,882**	**7,594,094**
Gross profit (loss):				
Product segment	664,850	591,105	2,479,150	3,398,810
Research and development segment	(148,401)	22,857	(30,980)	22,857
Total segment and consolidated gross profit	**516,449**	**613,962**	**2,448,170**	**3,421,667**
Income (loss) from operations				
Product segment	$ (53,959)	$ (355,391)	$ 275,827	$ 462,952
Research and development segment	(313,546)	(11,370)	(612,467)	(11,370)
Total segment income (loss)	(367,505)	(366,761)	(336,640)	451,582
Unallocated costs	(366,545)	(281,960)	(1,087,415)	(281,960)
Total consolidated (loss) income from operations	$ **(734,050)**	$ **(648,721)**	$ **(1,424,055)**	$ **169,622**
Depreciation and amortization:				
Product segment	$ 37,857	$ 82,644	$ 113,571	$ 167,010
Research and development segment	12,873	4,492	38,683	4,492
Total segment depreciation and amortization	50,730	87,136	152,254	171,502
Unallocated depreciation	12,822	-	38,465	-
Total consolidated depreciation and amortization	**63,552**	**87,136**	**190,719**	**171,502**
Capital additions:				
Product segment	$ 4,204	$ 136,981	$ 228,410	$ 144,039
Research and development segment	-	-	3,386	-
Total segment capital additions	4,204	136,981	231,796	144,039
Unallocated capital additions	-	-	-	-
Total consolidated capital additions	$ **4,204**	$ **136,981**	$ **231,796**	$ **144,039**

	September 30, 2015	**December 31, 2014**
Segment tangible assets:		
Product segment	$ 865,490	$ 750,651
Research and development segment	64,899	100,196
Total consolidated tangible assets	$ **930,389**	$ **850,847**

NOTE 13 - COMMITMENTS AND CONTINCENGIES

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).

NOTE 13 - COMMITMENTS AND CONTINCENGIES (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 an 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 paid them $50,000. Their fee if a transaction closes is a minimum of $250,000 (inclusive of the $50,000 which 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).

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 and nine months ended September 30, 2015 were (i) the Product Segment and (ii) the Research and Development Segment. For the three and nine months ended September 30, 2014, the two reportable segments were (i) the Product Segment and (ii) the Research and Development 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 googles.
- 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 HALO surface protector. It is expected to be part of a family of products that can protect against unhealthy substances at the nanoscale-level. Revenues from the surface protector are reported in our Product Segment. 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 after application;
- 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.

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

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation*, which clarifies accounting for share-based payments for which the terms of an award provide that a performance target could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The updated guidance clarifies that such a term should be treated as a performance condition that affects vesting. As such, the performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The guidance will be effective for the Company beginning with fiscal year 2016, and may be applied either prospectively or retrospectively. The Company does not anticipate that this guidance will materially impact its condensed consolidated financial statements and related disclosures.

There are no other 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 and nine months ended September 30, 2015 and 2014.

In the 2014 periods, 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 and nine months ended September 30, 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 and Nine Months ended September 30, 2015 and 2014

Revenues:

For the three and nine months ended September 30, 2015 and 2014, revenues consisted of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Sales:				
Product segment	$ 1,674,242	$ 1,721,307	$ 5,973,689	$ 7,360,680
Research and development segment	336,550	233,414	1,418,193	233,414
Total segment and consolidated sales	**$ 2,010,792**	**$ 1,954,721**	**$ 7,391,882**	**$ 7,594,094**

For the three and nine months ended September 30, 2015, sales from the Product segment decreased by $47,065 or 2.7%, and $1,386,991 or 18.8% as compared to the three and nine months ended September 30, 2014, respectively, 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 and nine months ended September 30, 2015, revenues from our research and development segment amounted to $336,550 and $1,418,193, respectively. For the three and nine months ended September 30, 2014, revenues from our research and development segment amounted to $233,414 and $233,414, respectively. For the 2014 periods 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 as summarized as follow:

We only report results for the Research and development segment in 2014 after August 27, 2014, the date of the Combination.

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Cost of revenues:				
Product segment	$ 1,009,775	$ 1,130,202	$ 3,494,922	$ 3,961,870
Research and development segment	484,568	210,557	1,448,790	210,557
Total segment and consolidated cost of revenues	**$ 1,494,343**	**$ 1,340,759**	**$ 4,943,712**	**$ 4,172,427**

Gross profit and gross margin.

For the three months ended September 30, 2015, gross profit amounted to $516,449 as compared to $613,962 for the three months ended September 30, 2014, a decrease of $97,513 or 15.9%. For the three months ended September 30, 2015 and 2014, gross margins were 25.7% and 31.4%, respectively. For the nine months ended September 30, 2015, gross profit amounted to $2,448,170 as compared to $3,421,667 for the nine months ended September 30, 2014, a decrease of $973,497 or 28.4%. For the nine months ended September 30, 2015 and 2014, gross margins were 33.1% and 45.1%, respectively.

Gross profit and gross margin by segment is shown below. We only report results for the Research and development segment in 2014 after August 27, 2014, the date of the Combination.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	%	2014	%	2015	%	2014	%
Gross profit:								
Product segment *	664,467	40.0%	591,105	34.3%	2,479,150	41.5%	3,398,810	46.2%
Research and development segment*	(148,018)	(44.0)%	22,857	9.8%	(30,980)	(2.2)%	22,857	9.8%
Total gross profit	516,449	25.7%	613,962	31.4%	2,448,170	33.1%	3,421,667	45.1%

* Gross margin % based on respective segments revenues.

For the three months ended September 30, 2015, the increase in gross margins for the product segment as compared to that period in 2014 was due largely to product mix in optical products. For the nine months ended September 30, 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 periods as compared to 2015 periods as discussed in revenues above.

The decrease in gross margins from the research development segment for the three months ended September 30, 2015 as compared to the nine months ended September 30, 2015 was attributable to a decrease in revenues related to a decrease in the number of research projects being performed and the allocation of fixed overhead and salaries to the reduced number of projects.

Operating expenses:

For the three months ended September 30, 2015, operating expenses amounted to $1,250,499 as compared to $1,262,683 for the three months ended September 30, 2014, a decrease of $12,184 or 1.0%. For the nine months ended September 30, 2015, operating expenses amounted to $3,872,225 as compared to $3,252,045 for the nine months ended September 30, 2014, an increase of $620,180 or 19.0%. For the three and nine months ended September 30, 2015 and 2014, operating expenses consisted of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Selling and marketing expenses	$ 83,488	$ 42,033	$ 214,599	$ 186,062
Salaries, wages and contract labor	554,809	574,213	1,742,248	1,448,993
Research and development	174,736	131,371	620,291	426,740
Professional fees	202,571	249,503	546,622	568,225
General and administrative expenses	234,895	265,563	748,465	622,085
Total	**$ 1,250,499**	**$ 1,262,683**	**$ 3,872,225**	**$ 3,252,045**

- For the three months ended September 30, 2015, sales and marketing expenses increased by $41,455 or 98.6% as compared to the three months ended September 30, 2014. For the nine months ended September 30, 2015, sales and marketing expenses increased by $28,537 or 15.3% as compared to the nine months ended September 30, 2014. For the three months ended September 30, 2015, the increase was attributable to an increase in commissions of approximately $5,400 and an increase in other sales and marketing expenses of approximately $36,000 as compared to the comparable 2014 period. For the nine months ended September 30, 2015, the increase was attributable to an increase in commissions of approximately $9,200 and an increase in other sales and marketing expenses of approximately $19,000 as compared to the comparable 2014 period. These increases were attributable to increased sale incentives and an increase in marketing efforts to promote new product lines in our product segment.

- For the three months ended September 30, 2015, salaries, wages and related benefits decreased by $19,404, or 3.4%, as compared to the three months ended September 30, 2014. For the nine months ended September 30, 2015, salaries, wages and contract services increased by $293,315, or 20.2%, as compared to the nine months ended September 30, 2014. For the three months ended September 30, 2015, the decrease was primarily attributable to a decreases in salaries and related benefits in our product segment of approximately $56,000 relating to a reduction in staff, offset by an increase in salaries of approximately $9,110 related to the acquisition of Applied Nanotech, and an increase in stock-based compensation of approximately $27,500 associated with our contract with Dr. Yaniv. For the nine months ended September 30, 2015, the increase was primarily attributable to an increase in salaries of approximately $101,900 related to the acquisition of Applied Nanotech, and an increase in stock-based compensation of approximately $110,200 associated with our contract with Dr. Yaniv, and an increases in salaries and related benefits in our product segment of approximately $81,200 relating to the hiring of internal legal staff. We are currently analyzing our staff needs and have begun to reduce our labor force due to cost-cutting measures.

- For the three months ended September 30, 2015, research and development costs increased by $43,365 or 33.0%, as compared to the three months ended September 30, 2014. For the nine months ended September 30, 2015, research and development costs increased by $193,551 or 45.4%, as compared to the nine months ended September 30, 2014. For the three and nine months ended September 30, 2015, these increases were attributable to research and development costs incurred in connection with our new surface protector and fortifier product of approximately $57,428 and $204,744, and a decrease of approximately $14,063 and $11,193 in research and development costs incurred in our product segment related to the development of a new product formulations and new lens cleaning and conditioning products, respectively.

- For the three and nine months ended September 30, 2015, professional and other fees decreased by $46,932 or 18.8%, and $21,603 or 3.8%, as compared to the three and nine months ended September 30, 2014, respectively. These decreases were attributable to a decrease in professional fees as compared to the fees incurred in the 2014 period associated with the Combination.

- For the three months ended September 30, 2015, general and administrative expenses decreased by approximately $30,700 or 11.6% as compared to the three months ended September 30, 2014. For the nine months ended September 30, 2015, general and administrative expenses increased by approximately $126,400 or 20.3% as compared to the nine months ended September 30, 2014. For the three months ended September 30, 2015, the decrease were primarily attributable to a decrease in amortization expense related to intangible assets of $27,600. For the nine months ended September 30, 2015, the increase was attributable to an increase in general and administrative expenses of approximately $79,100 related to the acquisition of Applied Nanotech and increases in other expenses such as D&O insurance and travel expenses of approximately $80,000 offset by a decrease in depreciation and amortization of $33,000.

(Loss) Income from operations.

As a result of the factors described above, for the three months ended September 30, 2015, loss from operations amounted to $(734,050) as compared to $(648,721) for the three months ended September 30, 2014, a change of $(85,329) or (13.1)%, and for the nine months ended September 30, 2015, loss from operations amounted to $(1,424,055) as compared to income from operations of $169,622 for the nine months ended September 30, 2014, a change of $(1,593,677).

Other income (expense).

Other income (expense) includes interest expense and other income (expense). For the three months ended September 30, 2015, total other expenses amounted to $(24,117) as compared to other income of $10,318, an increase of $(34,435). This increase in other expenses was attributable to an increase in interest expense of approximately $(25,000) attributable to the increase in borrowing under the line of credit and additional unused line of credit fees and a decrease in other income of $9,294. For the nine months ended September 30, 2015, total other expenses amounted to $(80,854) as compared to other expenses of $(19,230), an increase of $(61,624). This increase was attributable to an increase in interest expense of approximately $(71,800) 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 $10,177.

Income taxes

For the three and nine months ended September 30, 2015, income tax expense (benefit) amounted to $(1,057) and $20,171 as compared to $(159,726) and $55,901 for the three and nine months ended September 30, 2014, respectively. Beginning at the end of February 2014, Nano became subject to federal and state corporate income taxes and the expense (benefit) for the nine months ended September 30, 2014 represents the period from the end of February 2014 date through the date of the Combination on August 27, 2014.

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

As a result of the foregoing, for the three and nine months ended September 30, 2015, net loss amounted to $(757,110) and $(1,525,080) as compared to net income (loss) of $(478,677) and $94,491 for the three and nine months ended September 30, 2014, a change of $(278,433) or 58.2% and $(1,619,571) or 1,714%, respectively.

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 and nine months ended September 30, 2014, net income (loss) attributable to former non-controlling interest amounted to $(29,790) and $53,418, respectively. During the 2015 periods, we did not have any non-controlling interests.

For the three months ended September 30, 2015 and 2014, net loss attributable to PEN Inc. amounted to $(757,110) or $(0.00) per common share (basic and diluted), and $(448,887) or $(0.00) per common share (basic and diluted), respectively. For the nine months ended September 30, 2015 and 2014, net (loss) income attributable to PEN Inc. amounted to $(1,525,080) or $(0.00) per common share (basic and diluted), and $41,073 or $0.00 per common share (basic and diluted), respectively.

LIQUIDITY AND CAPITAL RESOURSES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had working capital deficit of $(882,136) and $190,101 of cash as of September 30, 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 September 30, 2015:

	September 30, 2015	December 31, 2014	December 31, 2014 to September 30, 2015 Change in working capital	December 31, 2014 to September 30, 2015 Percentage Change
Working capital:				
Total current assets	$ 2,688,549	$ 3,293,155	$ (604,606)	(18.4)%
Total current liabilities	3,570,685	3,206,519	(364,166)	11.4%
Working capital (deficit):	$ (882,136)	$ 86,636	$ (968,772)	(358.1)%

The decrease in working capital of $882,136 was primarily attributable to a decrease in current assets of $604,606 including a decrease in cash of $274,634, a decrease in accounts receivable of $43,285, and a decrease in inventory of $337,052, offset by an increase in prepaid expenses and other current assets of $50,365. Additionally, current liabilities increased by $280,166 including an increase in amounts due on the bank revolving line of credit of $353,746 offset by a decrease in other current liabilities of $73,580.

Net cash flow used by operating activities was $749,890 for the nine months ended September 30, 2015 as compared to net cash provided by operating activities of $1,024,899 for the nine months ended September 30, 2014, a decrease of $1,774,789.

- Net cash flow used in operating activities for the nine months ended September 30, 2015 primarily reflected a net loss of $1,525,080 adjusted for the add-back of non-cash items consisting of depreciation and amortization of $190,719, stock-based compensation expense of $137,931, and other non-cash items of $(9,858), and changes in operating assets and liabilities primarily consisting of a decrease in accounts receivable (third party and related party) of $43,285 due to timing of collections, a decrease in inventory of $343.702, and an increase in accrued expenses of $210,346 offset by an increase in prepaid expense and other assets of $48,617 and a decrease in accounts payable of $104.014.

- Net cash flow provided by operating activities for the nine months ended September 30, 2014 primarily reflected net income of $94,491 and the add-back of non-cash items consisting of depreciation and amortization of $171,502, and stock-based compensation expense of $103,090, and changes in operating assets and liabilities primarily consisting of a decrease in accounts receivable of $713,604 due to collection in 2014, a decrease in inventory of $202,031, an increase in accrued expenses of $101,003, and an increase in income taxes payable of $50,000, offset by an increase in prepaid expenses and other assets of $230,562 and a decrease in accounts payable of $179,688.

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

- the development new products,

- continued costs and payments to service providers in connection with being a public company,

- an increase in legal and filing fees incurred to protect the technology underlying our products, 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 used in investing activities was $231,796 for the nine months ended September 30, 2015 as compared to net cash used in investing activities of $95,918 in the same period in 2014. For the nine months ended September 30, 2015, net cash flow used in investing activities reflects the purchase of property and equipment of $231,796 attributable to the purchase of additional packaging equipment. For the nine months ended September 30, 2014, net cash flow used in investing activities reflects the purchase of property and equipment of $144,039 offset by cash acquired in Combination of $48,121.

Net cash provided by financing activities was $707,052 for the nine months ended September 30, 2015 as compared to net cash used in financing activities of $(774,919) in the same period in 2014. During the nine months ended September 30, 2015, we received proceeds from a bank note of $371,901 and proceeds from a bank line of credit of $6,209,500 offset by the repayment of bank note of $18,595 and repayment of bank line of credit of $5,855,754. During the 2014 period, we repaid a bank line of credit of $774,919.

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 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 after, 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 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.

On May 1, 2015 Nanofilm 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.

At September 30, 2015, we had $1,127,090 in borrowings outstanding under the Revolving Note with $372,910 available for borrowing under such note. The weighted average interest rate during the nine month period ended September 30, 2015 was approximately 7.28%. Borrowings under the line of credit may be limited based on our borrowing base, as defined in the agreement, as amended.

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 September 30, 2015, the principal amount due under the Equipment Note amounted to $353,306.

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 September 30, 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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certificate of Chief 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: November 16, 2015

/s/ Scott Rickert
Scott Rickert.
President and Chief Executive Officer

Date: November 16, 2015

/s/ Adam Wasserman
Adam Wasserman
Chief Financial Officer

Exhibit 31.1

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 September 30, 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: November 16, 2015

/s/ Scott Rickert

Scott Rickert
President and Chief Executive Officer

Exhibit 31.2

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 September 30, 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: November 16, 2015

/s/ Adam Wasserman

Adam Wasserman
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the quarterly report of PEN Inc. (the “Company”) on Form 10-Q for the quarterly period ended September 30, 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: November 16, 2015	*/s/ Scott Rickert*
	Scott Rickert President and Chief Executive Officer
Date: November 16, 2015	*/s/ Adam Wasserman*
	Adam Wasserman Chief Financial Officer