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, 2016

[ ] 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.)
701 Brickell Ave., Suite 1550 Miami, FL	**33131**
(Address of principal executive offices)	(Zip Code)

(844) 273-6462

(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 8, 2016, the registrant had 1,401,573 shares of Class A common stock, par value $.0001 per share (including 37,779 shares that are subject to forfeiture), 1,399,680 shares of Class B common stock, par value $.0001 per share, and 262,631 shares of Class Z common stock, par value $.0001 per share, issued and outstanding.

PEN INC.

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FORWARD-LOOKING STATEMENTS

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PEN INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash	$ 126,714	$ 262,519
Accounts receivable, net	636,205	1,100,352
Accounts receivable - related party	40,336	11,984
Inventory	1,261,662	1,083,385
Prepaid expenses and other current assets	96,751	194,950
Total Current Assets	2,161,668	2,653,190
OTHER ASSETS:		
Property, plant and equipment, net	764,760	897,358
Other assets	53,668	32,103
Total Other Assets	818,428	929,461
TOTAL ASSETS	$ 2,980,096	$ 3,582,651
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Bank revolving line of credit	$ 958,797	$ 1,288,748
Current portion of notes payable	84,986	74,380
Accounts payable	1,267,911	1,259,865
Accounts payable - related parties	41,887	27,064
Accrued expenses	862,929	871,098
Deferred revenue	-	21,692
Total Current Liabilities	3,216,510	3,542,847
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	292,593	312,139
Total Long-Term Liabilities	292,593	312,139
Total Liabilities	3,509,103	3,854,986
Commitments and Contingencies (See Note 11)		
STOCKHOLDERS' DEFICIT:		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized; no shares issued and outstanding	-	-
Class A common stock: $0.0001 par value, 7,200,000 shares authorized; 1,363,795 and 1,336,759 issued and outstanding at September 30, 2016 and December 31, 2015, respectively	136	134
Class B common stock: $0.0001 par value, 2,500,000 shares authorized; 1,399,680 and 1,395,678 issued and outstanding at September 30, 2016 and December 31, 2015, respectively	140	139
Class Z common stock: $0.0001 par value, 300,000 shares authorized; 262,631 and 262,631 issued and outstanding at September 30, 2016 and December 31, 2015, respectively	26	26
Additional paid-in capital	5,271,385	5,071,532
Accumulated deficit	(5,800,694)	(5,344,166)
Total Stockholders' Deficit	(529,007)	(272,335)
Total Liabilities and Stockholders' Deficit	$ 2,980,096	$ 3,582,651

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
REVENUES:				
Products (including related party sales of $52,328 and $38,198 for the three months ended September 30, 2016 and 2015, respectively, and $148,624 and $115,316 for the nine months ended September 30, 2016 and 2015, respectively)	$ 1,781,755	$ 1,674,242	$ 5,391,305	$ 5,973,689
Research and development services	225,083	336,550	804,522	1,418,193
Total Revenues	2,006,838	2,010,792	6,195,827	7,391,882
COST OF REVENUES:				
Products	1,116,987	1,009,775	3,175,629	3,494,922
Research and development services	258,768	484,568	864,905	1,448,790
Total Cost of Revenues	1,375,755	1,494,343	4,040,534	4,943,712
GROSS PROFIT	631,083	516,449	2,155,293	2,448,170
OPERATING EXPENSES:				
Selling and marketing expenses	57,942	83,488	177,274	214,599
Salaries, wages and related benefits	375,794	554,809	1,241,033	1,742,248
Research and development	71,921	174,736	236,534	620,291
Professional fees	118,818	202,571	364,450	546,622
General and administrative expenses	242,380	233,838	738,909	768,636
Total Operating Expenses	866,855	1,249,442	2,758,200	3,892,396
LOSS FROM OPERATIONS	(235,772)	(732,993)	(602,907)	(1,444,226)
OTHER INCOME (EXPENSES):				
Interest expenses	(26,000)	(26,947)	(82,270)	(91,031)
Other income, net	50,870	2,830	228,649	10,177
Total Other Income/(Expense)	24,870	(24,117)	146,379	(80,854)
NET LOSS	$ (210,902)	$ (757,110)	$ (456,528)	$ (1,525,080)
NET LOSS PER COMMON SHARE:				
Basic	$ (0.07)	$ (0.25)	$ (0.15)	$ (0.51)
Diluted	$ (0.07)	$ (0.25)	$ (0.15)	$ (0.51)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	3,020,062	2,975,814	3,006,837	2,972,810
Diluted	3,020,062	2,975,814	3,006,837	2,972,810

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,	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (456,528)	$ (1,525,080)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Change in inventory obsolescence reserve	34,184	(6,650)
Bad debt expense	12,034	-
Depreciation and amortization expense	136,598	190,719
Amortization of deferred lease incentives	9,623	(3,208)
Gain on sale of property and equipment	(21,866)	-
Gain on settlement of accounts payable	(33,511)	-
Gain on settlement of accrued salary	(36,973)	-
Stock-based compensation	151,856	137,931
Change in operating assets and liabilities:		
Accounts receivable	452,113	15,881
Accounts receivable - related party	(28,352)	27,404
Inventory	(212,461)	343,702
Prepaid expenses and other assets	76,634	(48,617)
Accounts payable	41,557	(104,014)
Accounts payable - related parties	14,823	14,072
Accrued expenses	70,420	210,346
Deferred revenue	(21,692)	(2,376)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	188,459	(749,890)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	21,866	-
Purchases of property and equipment	(4,000)	(231,796)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	17,866	(231,796)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	50,000	-
Payment of issuance costs related to sale of common stock	(2,000)	-
Proceeds from bank line of credit	5,193,000	6,209,500
Repayment of bank lines of credit	(5,522,951)	(5,855,754)
Proceeds from bank loan	-	371,901
Repayment of bank loans	(55,785)	(18,595)
Repayment of loan to third party	(4,394)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(342,130)	707,052
NET DECREASE IN CASH	(135,805)	(274,634)
CASH, beginning of period	262,519	464,735
CASH, end of period	$ 126,714	$ 190,101
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	$ 82,270	$ 91,031
Income taxes	$ -	$ -
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	$ 51,239	$ 41,770

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(UNAUDITED)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

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

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

Basis of Presentation

The Company's consolidated financial statements include the financial statements of its wholly-owned subsidiaries, Applied Nanotech, Inc., PEN Technology LLC, and Nanofilm, Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements for the three and nine months ended September 30, 2016 and 2015 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, 2016 and 2015, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments.

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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2015 and footnotes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2016.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the consolidated financial statements filed with our Form 10-K on March 30, 2016, the Company had a net loss of $1,869,247 and $2,370,254 for the years ended December 31, 2014 and 2015. The Company also had a net loss of $456,528 for the nine months ended September 30, 2016. Moreover, the Company had an accumulated deficit, a stockholders' deficit and a working capital deficit of $5,800,694, $529,007 and $1,054,842, respectively, at September 30, 2016. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. During 2015 and continuing in the first three quarters of 2016, management has taken measures to reduce operating expenses.

Although the Company has historically raised capital from sales of equity and from the issuance of promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending, management expects that the Company will need to curtail its operations. These unaudited consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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, 2016 and 2015 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, 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 two instruments at fair value using level 3 valuation.

	At September 30, 2016			At December 31, 2015		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Stock Appreciation Rights Plan A	-	-	$ 53,108	-	-	$ 53,108
Equity Credits Issued	-	-	$ 12,551	-	-	$ 14,154

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

	Stock Appreciation Rights Plan A	Equity Credits Issued
Balance at December 31, 2015	$ 53,108	$ 14,154
Change in fair value included in net loss	-	(1,063)
Balance at September 30, 2016	$ 53,108	$ 12,551

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, 2016 and December 31, 2015, inventory consisted of the following:

	September 30, 2016	December 31, 2015
Raw materials	$ 913,650	$ 705,951
Finished goods	556,362	551,599
	1,470,012	1,257,551
Less: reserve for obsolescence	(208,350)	(174,166)
Total	**$ 1,261,662**	**$ 1,083,385**

Property and equipment

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

Impairment of long-lived assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charge for the nine months ended September 30, 2016 and 2015.

Revenue recognition

Pursuant to the guidance of ASC Topic 605, the Company recognizes revenue 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 by 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 are 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 primary business of the Company's subsidiary, Applied Nanotech, is research and development, not the sale of products. Product sales are not significant in number, and are generally limited to the sale of conductive inks, thermal management materials, graphene foil, 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, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015, the Company recorded approximately $40,471 and $32,747 and $106,262 and $114,440, respectively, as a reduction of sales related to these costs.

Cost of sales

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

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, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015, shipping and handling costs incurred for product shipped to customers are included in cost of sales and amounted to $46,255 and $44,980, and $140,059 and $147,002, 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, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015, research and development costs incurred in the development of the Company's products were $71,921 and $174,736, and $236,534 and $620,291, 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, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015, advertising costs charged to operations were $5,193 and $46,522, and $23,624 and $81,290, respectively and are included in selling and marketing expenses 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.

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, 2016 and December 31, 2015, 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, 2013. 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, 2016.

Stock-based compensation

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

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

Net 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 (loss) by the weighted average number of shares of common stock and potentially dilutive securities outstanding during each period. As of September 30, 2016 and December 31, 2015, 37,778 contingently issuable common shares that are issuable based on certain market conditions (see Note 6) and are potentially dilutive are excluded from the calculation of diluted EPS since they are anti-dilutive. Additionally, potentially dilutive common shares consist of common stock options and warrants (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, 2016	December 31, 2015
Stock options	20,707	12,397
Stock warrants	712	-
Restricted shares	37,778	37,778
Total	59,197	50,175

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 8, 9 and 11).

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, 2016	Three Months ended September 30, 2015	Nine Months ended September 30, 2016	Nine Months ended September 30, 2015
Class A common stock	$ (0.07)	$ (0.25)	$ (0.15)	$ (0.51)
Class B common stock	$ (0.07)	$ (0.25)	$ (0.15)	$ (0.51)
Class Z common stock	$ (0.07)	$ (0.25)	$ (0.15)	$ (0.51)
Weighted average shares outstanding:				
Class A common stock	1,358,234	1,318,147	1,346,656	1,315,417
Class B common stock	1,399,197	1,395,037	1,399,550	1,394,763
Class Z common stock	262,631	262,630	262,631	262,630
Total weighted average shares outstanding	3,020,062	2,975,814	3,006,837	2,972,810

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 research and development services for government and private entities and any related sales of related products.

Recent accounting pronouncements

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern,* that will require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management will assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the issuance date. The new standard defines substantial doubt and provides example indicators. Disclosures will be required if conditions give rise to substantial doubt. However, management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures. This standard is effective for public entities for annual periods ending after December 15, 2016. Earlier application of this standard is permitted. This standard is not expected to have a material effect on the Company's financial position, results of operations and cash flows.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the current guidance in ASC Topic 740, *Income Taxes* , which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The Company does not expect the impact of ASU 2015-17 to be material to its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* , which requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The accounting standard is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company does not expect this accounting standard to have a significant impact on the Company's consolidated financial position or results of operations.

On January 5, 2016, the FASB issued ASU No. 2016-01 to amend the accounting guidance on the classification and measurement of financial instruments. The standard requires that all investments in equity securities, including other ownership interests, are carried at fair value through net income. This requirement does not apply to investments that qualify for equity method accounting or to those that result in consolidation of the investee or for which the entity has elected the predictability exception to fair value measurement. Additionally, the standard requires that the portion of the total fair value change caused by a change in instrument-specific credit risk for financial liabilities for which the fair value option has been elected would be recognized in other comprehensive income. Any accumulated amount remaining in other comprehensive income is reclassified to earnings when the liability is extinguished. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017. The Company does not anticipate the guidance to have a material impact on its consolidated financial statements or notes to its consolidated financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02") to amend the accounting guidance for leases. The accounting applied by a lessor is largely unchanged under ASU 2016-02. However, the standard requires lessees to recognize lease assets and lease liabilities for leases classified as operating leases on the balance sheet. Lessees will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it will recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact of the guidance on its consolidated financial statements and notes to its consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09 ("ASU 2016-09") to amend the accounting guidance for share-based payment accounting. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016. The Company is currently assessing the impact of the guidance on its consolidated financial statements and notes to its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in this update clarify the following two aspects to Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The entity first identifies the promised goods or services in the contract and reduce the cost and complexity. An entity evaluates whether promised goods and services are distinct. Topic 606 includes implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). ASU 2016-10 is effective for annual and interim reporting periods beginning after December 15, 2017 and early application is permitted. The Company is currently evaluating ASU 2016-10 and its impact on its consolidated financial statements or 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.

Reclassifications

Certain prior period amounts in the consolidated statement of operations have been reclassified for comparative purposes to conform to the fiscal 2016 presentation. These reclassifications have no impact on the previously reported net loss.

NOTE 3 - BANK LOANS AND LINES OF REVOLVING CREDIT FACILITY

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 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 if (i) 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. On May 1, 2015, Nanofilm and the Lender entered into an amendment to the Loan and Security Agreement extending the outside maturity date to April 4, 2016 and permitting advances against an expanded borrowing base. The borrowing base was increased by $450,000 through October 31, 2015, with this amount reducing by $7,500 monthly thereafter. In addition, the Company guaranteed Nanofilm's obligations to the Lender. On April 4, 2016, the maturity date under the Loan & Security Agreement between Nanofilm and the Lender was automatically extended for a one-year renewal term.

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, 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.

At September 30, 2016, the Company had $958,797 in borrowings outstanding under the Revolving Note with $541,203 available for borrowing under such note. The weighted average interest rate during the three months ended September 30, 2016 was 8.3% and for the nine months then ended was approximately 8.1%.

NOTE 4 – 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, 2016, the principal amount due under the Equipment Note amounted to $278,927.

In June and November 2015, in connection with a severance package offered to four employees, the Company entered into three promissory note agreements with those individuals that obligate the Company to pay them accrued and unpaid deferred salary in an aggregate amount of $51,807. The principal bears interest at the minimum rate of interest applicable under the internal revenue code (approximately 1.41% at September 30, 2016). All principal and interest payable under three of these notes aggregating $37,457 are due in 2025 and all principal and interest payable under one of these notes amounting to $14,350 is due in 2020.

On May 31, 2016, in connection with a restatement of our agreement with a former research partner we delivered a promissory note to repay amounts previously advanced to us and accrued. The initial principal amount was $51,239 bearing interest at 5% per annum. Installment payments include both principal and interest. After an initial payment of $2,000, the note requires payments of $1,000 for eleven months, payments of $2,000 for the following 12 months and monthly payments of $3,000 thereafter until paid in full. The principal balance due on September 30, 2016 was $46,845. In addition, we agreed that our share of certain patent costs would be an offset against future royalties due to us, so we reversed accruals of $33,713, resulting in a net gain of $33,511, which is included within other income, net on the consolidated statement of operations.

At September 30, 2016, future annual payments of notes payable are as follows:

		Amount
2016	$	21,021
2017		90,449
2018		102,731
2019		74,380
2020		51,540
2021		0
Thereafter		37,458
	$	377,579

NOTE 5 – RELATED PARTY TRANSACTIONS

Sales to related party

During the three and nine months ended September 30, 2016 and 2015, the Company engaged in certain sales transactions with a company which is a shareholder and related to a director of the Company. Sales to the related party totaled $52,328 and $38,198 for the three months ended September 30, 2016 and 2015 and totaled $148,624 and $115,316 for the nine months ended September 30, 2016 and 2015, respectively. Accounts receivable from the related party totaled $40,336 and $11,984 at September 30, 2016 and December 31, 2015, respectively.

Other

A board member is a principal in an investment advisory firm to which the Company incurred $0 and $36,000 in fees and expenses during the three months ended September 30, 2016 and 2015 and $13,195 and $108,000 in fees and expenses during the nine months ended September 30, 2016 and 2015, respectively. That Board member is also a principal in the firm that provides the services of our CFO and other financial and accounting services. Starting in June 2016 we are paying a monthly fee of $8,000 for those services and we reimburse travel expenses incurred on our behalf.

NOTE 6 - STOCKHOLDERS' EQUITY

Description of Preferred and Common Stock

On December 11, 2015, the Board of Directors of the Company approved a reverse stock split of the issued and outstanding shares of the Company's common stock at the ratio of 1-for-180 (the "Reverse Stock Split") and authorized an amendment of the Company's Amended and Restated Certificate of Incorporation, as amended, to effect the Reverse Stock Split, to reduce the number of authorized shares of common stock, and to set a par value of $0.0001 per share after the Reverse Stock Split. On January 26, 2016, each one hundred eighty (180) shares of the Company's (i) Class A Common Stock ("Class A common stock"), (iii) Class B Common Stock and (iii) Class Z Common Stock, then issued and outstanding were automatically combined into one (1) validly issued, fully paid and non-assessable share of Class A Common Stock, Class B Common Stock and Class Z Common Stock, respectively, without any further action by the Company or the holder. Additionally, the authorized number of shares of common stock were reduced to 10,000,000 comprised of 7,200,000 shares of Class A Common Stock, 2,500,000 shares of Class B Common Stock ("Class B common stock"), and 300,000 shares of Class Z Common Stock ("Class Z common stock"). The par value of each class of common stock remained the same at $0.0001 per common share. All share and per share data in the accompanying unaudited consolidated financial statements have been retroactively restated to reflect the effect of the Reverse Stock Split and authorized shares. The Company is also authorized to issue 20,000,000 shares of Preferred Stock, par value $0.0001 per share ("preferred 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.

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 shares issued for services

On February 17, 2016, the Company issued 1,248 shares of Class A common stock and 624 shares of Class B common stock to the Company's directors in partial payment for their service on the Company's board. These shares were valued on the date of grant of February 17, 2016 at $3.20 per share based on the quoted price of the stock for a value of $6,000.

On April 25, 2016, the Company issued an aggregate of 2,800 shares of Class A common stock and 1,600 shares of Class B common stock to the Company's directors as compensation for their service on the Company's board and Board committees. These shares are valued were valued on the date of grant of April 25, 2016 at $2.50 per share based on the quoted price of the stock for a total value of $11,000.

On July 25, 2016, we issued an aggregate of 2,667 shares of our Class A common stock and 1,778 shares of our Class B common stock as compensation to our directors for service on our board. These shares were valued on the date of grant of July 25, 2015 at $2.25 per share based on the closing price of our stock for a total value of $10,000.

Sales of Common Stock

On July 25, 2016, we issued 17,793 shares of Class A common stock at a price of $2.81 per share to a private investor for a total cash purchase of $50,000 that was received in May, 2016 and reflected as a deposit on stock purchase liability at June 30, 2016. On July 25, 2016, we also issued a 5-year warrant to purchase up to 712 shares of Class A common stock at an exercise price of $2.81 per share to the investment banking firm that assisted us in placing the shares with that investor for a value of $1,546, assuming a 1.15% risk free rate and 191.8% annual volatility. We also paid that firm a cash fee of $2,000. Both the warrant value and cash fee will be charged against the proceeds to additional paid in capital.

Stock Options

On July 25, 2016, the Company granted to two consultants five-year options to purchase an aggregate of 10,000 shares of the Company's common stock at an exercise price of $2.81 per share. The options vest and become exercisable after the Company has recorded revenue of at least $1,000,000 for its HALO brand products that reflect the rebranding designed with the assistance of the consultants. Pursuant to ASC 505, the fair value of the options is measured once the performance condition is achieved, at which time the Company will recognize expense associated with the options.

Stock options outstanding are to purchase Class A common stock, Stock option activities for the nine months ended September 30, 2016 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2015	12,397	$ 81.15		
Exercised	-			
Forfeited	(1,690)	98.48		
Granted	10,000	2.81		
Balance Outstanding, September 30, 2016	20,707	$ 41.91	4.19	$ -
Exercisable, September 30, 2016	10,707	$ 78.42	3.61	-

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 retired employee of the Company granting Dr. Yaniv 37,778 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 an $18.00 price, 5,554 shares vest, with additional tranches of 5,556 shares vesting if the price reaches $27.00, $36.00, $45.00 and $54.00. The last 10,000 shares vest at a $63.00 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 $13.12 per share 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 method. For the three and nine months ended September 30, 2016, 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 7 – 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.

Lender concentration

The Company relies primarily on one lender under a $1,500,000 Revolving Note.

Customer concentrations

Customer concentrations for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Revenues			
	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Customer A	38%	34%	32%	27%
Customer B	13%	17%	14%	13%
Total	**51%**	**51%**	**46%**	**40%**

	Accounts Receivable	
	As of September 30, 2016	As of December 31, 2015
Customer A	38%	31%
Customer B	20%	14%
Total	58%	45%

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

Geographic concentrations of sales

For the three and nine months ended September 30, 2016, sales in the United States represent 91% and 91%, respectively, of total consolidated revenues and, for the same periods in 2015, 74% and 92% of total consolidated revenues, respectively. No other geographical area accounts for more than 10% of total sales during the three and nine months ended September 30, 2016 and 2015.

Vendor concentrations

Vendor concentrations for the three and nine months ended September 30, 2016 and September 30, 2015 are as follows:

	Inventory Purchases			
	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Vendor A	36%	38%	31%	32%
Vendor B	12%	12%	11%	12%
Vendor C	*	*	*	11%
Total	**48%**	**50%**	**42%**	**55%**

* Less than 10%

NOTE 8 – 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 higher of the purchase price or 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, 2016, 5,000 credits were redeemed and no equity credits were forfeited. As of September 30, 2016, 41,750 equity credits were issued and outstanding with an aggregate formula redemption value of $12,551, and, as of December 31, 2015, 46,750 equity credits were issued and outstanding with an aggregate formula redemption value of $14,154.

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 9 – STOCK APPRECIATION RIGHTS 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, 2016 and December 31, 2015. 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 Nanofilm, 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 Nanofilm (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 business combination that closed in August 2014 did 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 $53,108 and $53,108, at September 30, 2016 and December 31, 2015, 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 10 – 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, 2016 and 2015 were i) the Product Segment and ii) the Research and Development Segment. The Company's chief operating decision-maker has been identified as the Chairman and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon the Company's management organization structure as of September 30, 2016 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.

Segment information available with respect to these reportable business segments for the three and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Product segment	$ 1,781,755	$ 1,674,242	$ 5,391,305	$ 5,973,689
Research and development segment	225,083	336,550	804,522	1,418,193
Total segment and consolidated revenues	**$ 2,006,838**	**$ 2,010,792**	**$ 6,195,827**	**$ 7,391,882**
Gross profit (loss):				
Product segment	$ 664,768	$ 664,467	$ 2,215,676	$ 2,478,767
Research and development segment	(33,685)	(148,018)	(60,383)	(30,597)
Total segment and consolidated gross profit	**$ 631,083**	**$ 516,449**	**$ 2,155,293**	**$ 2,448,170**
Income (loss) from operations				
Product segment	$ 108,634	$ (53,959)	$ 409,115	$ 275,827
Research and development segment	(91,391)	(313,546)	(248,765)	(612,467)
Total segment income (loss)	17,243	(367,505)	160,350	(336,640)
Unallocated expenses	(253,015)	(365,488)	(763,257)	(1,107,586)
Total consolidated (loss) income from operations	**$ (235,772)**	**$ (732,993)**	**$ (602,907)**	**$ (1,444,226)**
Depreciation and amortization:				
Product segment	$ 34,516	$ 37,857	$ 103,546	$ 113,571
Research and development segment	7,826	12,873	33,052	38,683
Total segment depreciation and amortization	42,342	50,730	136,598	152,254
Unallocated depreciation	-	12,822	-	38,465
Total consolidated depreciation and amortization	**$ 42,342**	**$ 63,552**	**$ 136,598**	**$ 190,719**
Capital additions:				
Product segment	$ -	$ 4,204	$ 4,000	$ 228,410
Research and development segment	-	-	-	3,386
Total segment capital additions	-	4,204	4,000	231,796
Unallocated capital additions	-	-	-	-
Total consolidated capital additions	$ -	**$ 4,204**	**$ 4,000**	**$ 231,796**

	September 30, 2016	**December 31, 2015**
Segment total assets:		
Product segment	$ 2,684,420	$ 3,119,551
Research and development segment	206,348	353,583
Corporate	89,328	109,517
Total consolidated total assets	$ **2,980,096**	$ 3,582,651

NOTE 11 - 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 8).

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 9).

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.

OVERVIEW

PEN's primary 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, and thermal management materials. Additionally, we conduct research and development services for governmental and private customers.

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, 2016 were (i) the Product Segment and (ii) the Research and Development Segment. For the three and nine months ended September 30, 2015, the Company operated the same two segments.

Product segment

Revenue is based on the successful development of specialty products utilizing nanotechnology to deliver unique performance attributes at the surfaces 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. We rely on intellectual property and or trade secret formulations to protect our proprietary technology.

We have three broad product technology platforms that offer solutions to some common problems such as ease of cleaning, preventing fogging, preventing accumulation of dirt or grime, improving resistance to scuffing and wear. All our products have some "nano" characteristic about them – whether it is being active at the molecular level, incorporation of submicron-particles, or creating very thin, self-assembling coatings that are 20 nanometers or less in thickness.

One line of commercial products center on our customized optical and eyewear cleaning and de-fogging treatments. Another is a family of coating liquids that create very thin, strongly-bound, clear coatings on surfaces used for glass and ceramic surfaces. The third product family is series of clear coatings for plastics incorporating submicron size particles to improve abrasion resistance and wear resistance without sacrificing transparency. Our goal continues to be to create segment leading brands through sales of high quality consumer products, and to develop and produce customized formulas for sale to strategic, industrial partners to be incorporated into their customer's products. We manufacture our formulations internally to protect our technology and maintain the highest quality for the products that we and our commercial partners bring to the marketplace.

Our main products are:

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

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

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

1. Health: Treating or printing of surfaces at the nano-scale to promote health, fight the spread of disease, and assist in the arms race against super bugs;

2. Safety: "Smelling" at the nano-scale level to identify hazardous condition, alert those in danger, and initiate steps to prevent catastrophe; and

3. Sustainability: Creating nano-scale devices and formulas using the minimal amounts of safe, natural ingredients and manufacturing methods, and avoiding using harsh chemicals and pesticides, whenever possible.

The first new product is the HALO surface protector. 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.

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, 2016 and 2015.

Comparison of Results of Operations for the Three and Nine Months ended September 30, 2016 and 2015

Revenues:

For the three and nine months ended September 30, 2016 and 2015, revenues consisted of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2016	2015	2016	2015
Sales:				
Product segment	$ 1,781,755	$ 1,674,242	$ 5,391,305	$ 5,973,689
Research and development segment	225,083	336,550	804,522	1,418,193
Total segment and consolidated sales	**$ 2,006,838**	**$ 2,010,792**	**$ 6,195,827**	**$ 7,391,882**

For the three months ended September 30, 2016, sales from the Product segment increased by $107,513 or 6%. For the nine-month period ended September 30, 2016 sales decreased by $582,384 or 10%. The decline for the nine-month period is due primarily to several institutional customers who bought significant inventory in the first nine-months of 2015 and did not purchase in the first nine months of 2016. The revenues from the Research and development segment decreased by 111,467 or 33% for the three-month period and declined $613,671 or 43% for the nine-month period. Research contracts expire at the end of a project, and, curtailed by our decision to improve profitability and not to seek cost-share contracts, the Research development segment has not been successful at winning new contracts to replace all those that expire.

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:

	Three Months ended September 30,		Nine Months ended September 30,	
	2016	2015	2016	2015
Cost of revenues:				
Product segment	$ 1,116,987	$ 1,009,775	$ 3,175,629	$ 3,494,922
Research and development segment	258,768	484,568	864,905	1,448,790
Total segment and consolidated cost of revenues	**$ 1,375,755**	**$ 1,494,343**	**$ 4,040,534**	**$ 4,943,712**

Gross profit and gross margin:

Gross profit for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, increased $114,634 or 22.2%. Gross profit for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, decreased $292,877 or 12.0%.

Gross profit and gross margin by segment is shown below.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	%	2015	%	2016	%	2015	%
Gross profit:								
Product segment *	$ 664,768	37.3%	$ 664,467	39.7%	$2,215,676	41.1%	$2,478,767	41.5%
Research and development segment*	(33,685)	(15.0)%	(148,018)	(44.0)%	(60,383)	(7.5)%	(30,597)	(2.2)%
Total gross profit	**$ 631,083**	31.4%	**$ 516,449**	25.7%	**$2,155,293**	34.8%	**$2,448,170**	33.1%

* Gross margin % based on respective segments revenues.

For the three months ended September 30, 2016, the decrease in gross margin percentage for the Product segment as compared to that period in 2015 was due largely to product mix in optical products. For the nine months ended September 30, 2016, the decrease in gross margin percentage from the Product segment as compared to the comparable 2015 period was also due to the product mix in optical products as well as a drop off in sales of the anti-fog products.

The increase in gross margin percentage for the research development segment for the three month period was primarily attributable to a decrease in cost of revenues. The decrease in gross margin percentage for the research development segment for the nine month period 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. The operating losses in this segment do not reflect sublease income reflected in other income and expense that offset some of the facility costs incurred by this segment.

Operating expenses:

Operating expenses for the three and nine month periods ended September 30, 2016 and September 30, 2015 are shown below. For the three-month period, operating expenses decreased $382,587 or 31%. For the nine months, operating expenses decreased $1,134,196 or 29%. For the three and nine months ended September 30, 2016 and 2015, operating expenses consisted of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2016	2015	2016	2015
Selling and marketing expenses	$ 57,972	$ 83,488	$ 177,274	$ 214,599
Salaries, wages and contract labor	375,794	554,809	1,241,033	1,742,248
Research and development	71,921	174,736	236,534	620,291
Professional fees	118,818	202,571	364,450	546,622
General and administrative expenses	242,380	233,838	738,909	768,636
Total	**$ 866,855**	**$ 1,249,442**	**$ 2,758,200**	**$ 3,892,396**

- For the three months ended September 30, 2016, sales and marketing expenses decreased by $25,546 or 31% as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, sales and marketing expenses decreased by $37,325 or 17% as compared to the nine months ended September 30, 2015. The decreases in both periods of 2016 reflect the high costs incurred to prepare packaging and sales and marketing materials for new products during 2015.

- For the three months ended September 30, 2016, salaries, wages and related benefits decreased by $179,015, or 32%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, salaries, wages and contract services decreased by $501,215, or 29%, as compared to the nine months ended September 30, 2015. In each case the decrease was primarily attributable to staff reductions in both segments and the associated decreases in salaries and employee benefits.

- For the three months ended September 30, 2016, research and development costs decreased by $102,815 or 59%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, research and development costs decreased by $383,757 or 62%, as compared to the nine months ended September 30, 2015. These decreases were attributable to research and development costs incurred in 2015 for the surface protector and fortifier product of approximately $57,428 and $204,744, and other costs incurred in 2015 related to the development of a new product formulations and new optical products.

- For the three and nine months ended September 30, 2016, professional and other fees decreased by $83,753 or 41%, and $182,172 or 33%, as compared to the three and nine months ended September 30, 2015. These decreases were attributable to bringing additional work in-house, and a decrease in patent fees and related costs as we focus our patent portfolio more narrowly on those patents and patent applications with what we consider to have the greater near-term, commercial potential. In 2015 we also had higher accounting costs for the preparation of tax returns reporting the combination transaction that closed in August 2014.

- For the three months ended September 30, 2016, general and administrative expenses increased by approximately $8,542 or 4% as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, general and administrative expenses decreased by approximately $29,727 or 4% as compared to the nine months ended September 30, 2015. These variations were not significant.

Loss from operations:

As a result of the factors described above, for the three months ended September 30, 2016, loss from operations amounted to $(235,772) as compared to $(732,993) for the three months ended September 30, 2015, an improvement of $497,221 or 68%, and for the nine months ended September 30, 2016, loss from operations amounted to $(602,907) as compared to $(1,444,226) for the nine months ended September 30, 2015, an improvement of $841,319, or 58%.

Other income (expense) **:**

Other income (expense) includes interest expense and other income (expense). For the three months ended September 30, 2016, total other income was $24,870 as compared to other expenses of $(24,117), an increase of $48,987. This variance was attributable primarily to rent from the sublease of excess space at the R&D center in Austin. For the nine months ended September 30, 2016, total other income amounted to $146,379. as compared to other expense in the 2015 period of $(80,854). The sublease income in Austin, and sales of equipment in Austin earlier in the year were the primary factors contributing to the change.

Net loss and net loss per share:

As a result of the foregoing, for the three and nine months ended September 30, 2016, net loss amounted to $(210,902) and $(456,528) as compared to net loss of $(757,110) and $(1,525,080) for the three and nine months ended September 30, 2015, an improvement of $546,208 or 72% for the three-month period and $1,068,552 or 70% for the nine months.

For the three months ended September 30, 2016 and 2015, net loss per share amounted to $(0.07) per common share (basic and diluted), and $(0.15) per common share (basic and diluted), respectively. For the nine months ended September 30, 2016 and 2015, net loss per share amounted to $(0.25) per common share (basic and diluted), and $(0.51) per common share (basic and diluted), respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had a working capital deficit of $(1,054,842) and $126,714 of cash as of September 30, 2016 and a working capital deficit of $(889,657) and $262,519 of cash as of December 31, 2015.

The following table sets forth a summary of changes in our working capital from December 31, 2015 to September 30, 2016:

			December 31, 2015 to September 30, 2016	
	September 30, 2016	December 31, 2015	Change in working capital	Percentage Change
Working capital:				
Total current assets	$ 2,161,668	$ 2,653,190	$ (491,522)	(18.5)%
Total current liabilities	3,216,510	3,542,847	(326,337)	(9.2)%
Working capital (deficit):	$ (1,054,842)	$ (889,657)	$ (165,185)	(18.6)%

Both total current assets and total current liabilities decreased, but the decrease in total current assets was larger primarily because of a decrease in accounts receivable primarily due to decreased sales.

Net cash flow provided by operating activities was $188,459 for the nine months ended September 30, 2016 as compared to net cash used by operating activities of $(749,890) for the nine months ended September 30, 2015, an improvement of $938,349.

- Net cash flow provided by operating activities for the nine months ended September 30, 2016 primarily reflected a net loss of $456,528 adjusted for the add-back of non-cash items totaling $251,945 and a net change in operating assets and liabilities that provided $393,042.

- 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 of $318,792 and a net change in operating assets and liabilities that provided $456,398.

We expect our cash used in operating activities to increase for additional working capital to support increases in sales and for increased advertising, commissions and sales promotions.

Net cash provided by investing activities was $17,866 for the nine months ended September 30, 2016 as compared to net cash used in investing activities of $231,796 in the same period in 2015. For the nine months ended September 30, 2016, net cash flow provided by investing activities reflects the sale of property and equipment related to the subleasing of excess space at the R&D center in Austin resulting in proceeds of $21,866 that was reduced by the purchase of property and equipment of $4,000. For the nine months ended September 30, 2015, net cash flow provided by investing activities reflects the purchase of property and equipment of $231,796.

Net cash used by financing activities was $(342,130) for the nine months ended September 30, 2016 as compared to net cash provided by financing activities of $707,052 in the same period in 2015. During the nine months ended September 30, 2016, we received proceeds from our line of credit of $5,193,000 while repaying $5,522,951 on the line. During the nine months ended September 30, 2015, we received proceeds from our line of credit of $6,209,500 while repaying $5,855,754 on the line.

Although we have historically raised capital from sales of equity and from the issuance of promissory notes, there is no assurance that we will be able to continue to do so. If we are unable to raise additional capital or secure additional lending, we expect that we will need to curtail our operations.

Our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our principal future uses of cash are for working capital requirements, including sales and marketing expenses and other operating activities, plus the reduction of liabilities. Application of funds among these uses will depend on numerous factors including our sales and other revenues and our ability to control costs.

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 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. On April 4, 2016, the maturity date was automatically extended for a one-year renewal term. So long as the Revolving Note remains outstanding, in addition to other covenants as defined in the Revolving Note, Nanofilm must obtain the Lender's consent in order to do the following: a) merge or consolidate with any other company, 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.

At September 30, 2016, the Company had $958,797 in borrowings outstanding under the Revolving Note with $541,203 available for borrowing under such note. The weighted average interest rate during the three months ended September 30, 2016 was 8.3% and for the nine months then ended was approximately 8.1%.

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 of $7,211 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, 2016, the principal amount due under the Equipment Note amounted to $278,927.

Critical Accounting Policies and Estimates

There are no material changes from the critical accounting policies set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

Off-balance Sheet Arrangements

None.

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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Nothing to report.

ITEM 1A. RISK FACTORS

Not required of smaller reporting companies.

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

On July 25, 2016, in payment for service on our Board we issued 2,667 shares of Class A common stock and 1,778 shares of Class B common stock to our Board members with an aggregate value of $10,000.

On July 25, 2016, we issued 17,793 shares of Class A common stock at a price of $2.81 per share to a private investor for a cash purchase of $50,000 that was received in May, 2016 and reflected as a deposit on stock purchase liability at June 30, 2016. On July 25, 2016, we also issued a 5-year warrant to purchase up to 712 shares of Class A common stock at an exercise price of $2.81 per share and we subsequently paid a fee of $2,000 to the investment banking firm that assisted us in the private placement that resulted in the sale to the cash investor.

Shares issued to our Board and the warrant issued to the investment bank were exempt from registration under Section 4(a)(2) and 3(a)(9). The cash investor is an accredited investor under Regulation D and the shares issued to that investor were exempt from registration under Section 4(2).

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
** Furnished 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 10, 2016

By: */s/ Scott Rickert*
Scott Rickert.
President and Chief Executive Officer

Date: November 10, 2016

By: */s/ John B. Hollister*
John B. Hollister
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, 2016 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 10, 2016

By: */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, John B. Hollister, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2016 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 10, 2016

By: */s/ John B. Hollister*
John B. Hollister
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, 2016, 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, John B. Hollister, Chief Financial 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 10, 2016

By: */s/ Scott Rickert*
Scott Rickert
President and Chief Executive Officer

Date: November 10, 2016

By: */s/ John B. Hollister*
John B. Hollister
Chief Financial Officer