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 March 31, 2017

[ ] 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, a smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]   Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)   Smaller reporting company [X]

Emerging growth company [ ]

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 May 16, 2017, the registrant had 1,419,055 shares of Class A Common Stock, (including 37,778 shares that are subject to forfeiture) par value $0.0001 per share, 1,416,976 shares of Class B Common Stock, par value $0.0001 per share, and 262,631 shares of Class Z Common Stock, par value $0.0001 per share, issued and outstanding.

PEN INC.

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements	F-1
Consolidated Balance Sheets — March 31, 2017 (unaudited) and December 31, 2016	F-1
Consolidated Statements of Operations — Three Months Ended March 31, 2017 and 2016 (unaudited)	F-2
Consolidated Statements of Cash Flows — Three Months Ended March 31, 2017 and 2016 (unaudited)	F-3
Condensed Notes to Unaudited Consolidated Financial Statements	F-4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Item 3. Quantitative and Qualitative Disclosures about Market Risk	8
Item 4. Controls and Procedures	8
Part II. Other Information	
Item 1. Legal Proceedings	10
Item 1A. Risk Factors	10
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	10
Item 3. Defaults Upon Senior Securities	10
Item 4. Mine Safety Disclosures	10
Item 5. Other Information	10
Item 6. Exhibits	11
Signatures	12

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. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “will,” “would,” “should,” “could,” “can,” “predict,” “potential,” “continue,” “objective,” or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these 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

	March 31, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 305,402	$ 189,128
Accounts receivable, net	919,184	722,845
Accounts receivable - related party	32,395	10,474
Inventory	1,016,542	1,035,499
Prepaid expenses and other current assets	87,499	75,080
Total Current Assets	2,361,022	2,033,026
OTHER ASSETS:		
Property, plant and equipment, net	671,813	709,627
Other assets	77,793	51,078
Total Other Assets	749,606	760,705
Total Assets	$ 3,110,628	$ 2,793,731
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Bank revolving line of credit	$ 1,007,456	$ 979,688
Current portion of notes payable	87,994	90,449
Accounts payable	1,258,949	1,078,527
Accounts payable - related parties	41,887	52,887
Accrued expenses	881,776	904,166
Total Current Liabilities	3,278,062	3,105,717
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	264,940	266,110
Total Long-Term Liabilities	264,940	266,110
Total Liabilities	3,543,002	3,371,827
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; 1,371,277 and 1,367,431 issued and outstanding at March 31, 2017 and December 31, 2016, respectively	137	136
Class B common stock: $0.0001 par value, 2,500,000 shares authorized; 1,404,668 and 1,402,104 issued and outstanding at March 31, 2017 and December 31, 2016, respectively	140	140

Class Z common stock: $0.0001 par value, 300,000 shares authorized; 262,631 and 262,631 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	26	26
Additional paid-in capital	5,373,078	5,321,769
Accumulated deficit	(5,805,755)	(5,900,167)
Total Stockholders' Deficit	(432,374)	(578,096)
Total Liabilities and Stockholders' Deficit	$ 3,110,628	$ 2,793,731

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2017	2016
	(unaudited)	(unaudited)
REVENUES:		
Products (including related party sales of $53,314 and $47,692 for the three months ended March 31, 2017 and 2016, respectively)	$ 1,996,489	$ 1,693,426
Contract services	219,861	285,735
Total Revenues	2,216,350	1,979,161
COST OF REVENUES:		
Products	1,035,835	934,926
Contract services	247,198	313,111
Total Cost of Revenues	1,283,033	1,248,037
GROSS PROFIT	933,317	731,124
OPERATING EXPENSES:		
Selling and marketing expenses	64,727	47,369
Salaries, wages and related benefits	300,214	413,737
Research and development	68,722	85,763
Professional fees	214,254	106,358
General and administrative expenses	215,986	226,008
Total Operating Expenses	863,903	879,235
INCOME (LOSS) FROM OPERATIONS	69,414	(148,111)
OTHER (EXPENSE) INCOME:		
Interest expense	(25,588)	(28,134)
Other income, net	50,586	56,310
Total Other Income	24,998	28,176
NET INCOME (LOSS)	$ 94,412	$ (119,935)
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	$ 0.03	$ (0.04)
Diluted	$ 0.03	$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	3,034,659	2,997,646
Diluted	3,034,659	2,997,646

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2017 (unaudited)	For the Three Months Ended March 31, 2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 94,412	$ (119,935)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Change in inventory obsolescence reserve	27,204	14,012
Depreciation and amortization expense	37,814	47,180
Amortization of deferred lease incentives	1,782	(3,208)
Gain on sale of property and equipment	-	(21,866)
Stock-based compensation	51,310	47,310
Change in operating assets and liabilities:		
Accounts receivable	(196,339)	153,024
Accounts receivable - related party	(21,921)	(1,445)
Inventory	(8,247)	(135,203)
Prepaid expenses and other assets	(39,134)	3,118
Accounts payable	180,422	16,194
Accounts payable - related parties	(11,000)	58,897
Accrued expenses	34,885	(128,450)
Deferred revenue	-	(21,692)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	151,188	(92,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	-	21,866
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	21,866
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank lines of credit	1,774,000	1,670,000
Repayment of bank lines of credit	(1,787,864)	(1,708,512)
Repayment of bank loans	(18,595)	(18,596)
Repayment of loan to third party	(2,455)	-
NET CASH USED IN FINANCING ACTIVITIES	(34,914)	(57,108)
NET INCREASE (DECREASE) IN CASH	116,274	(127,306)
CASH, beginning of year	189,128	262,519
CASH, end of period	$ 305,402	$ 135,213
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	$ 25,588	$ 28,134
Income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Reclassification of accrued salary to notes payable - long-term	$ 17,425	$ -

See accompanying condensed notes to unaudited consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017
(UNAUDITED)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

Through our wholly-owned subsidiary, PEN Brands LLC, formerly known as Nanofilm, Ltd., we develop, manufacture and sell consumer and institutional products using nanotechnology to deliver unique performance attributes at the surfaces of a wide variety of substrates. These products are marketed internationally primarily to customers in the optical industry. On May 2, 2017, Nanofilm, Ltd. changed its name to PEN Brands LLC.

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by US GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the unaudited consolidated financial statements of the Company as of March 31, 2017 and for the three months ended March 31, 2017 and 2016. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the operating results for the full year ending December 31, 2017 or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures of the Company as of December 31, 2016 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on March 29, 2017.

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 29, 2017, the Company had a net loss of $556,001 and $1,869,247 for the years ended December 31, 2016 and 2015. Additionally, the Company had net income (loss) of $94,412 and $(119,935) for the three months ended March 31, 2017 and 2016, respectively. Additionally, the Company had an accumulated deficit, a stockholders' deficit and a working capital deficit of $5,805,755, $432,374 and $917,040, respectively, at March 31, 2017. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. While the Company achieved profitable operations, management cannot provide assurance that the Company will ultimately sustain profitable operations and remain cash flow positive, or raise additional debt and/or equity capital. During 2016 and continuing in the first quarter of 2017, 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. 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

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the three months ended March 31, 2017 and 2016 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 three instruments at fair value using level 3 valuation.

	At March 31, 2017			At December 31, 2016		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Stock appreciation rights Plan A	-	-	$ 54,538	-	-	$ 53,108
Equity credits issued	-	-	$ 2,278	-	-	$ 2,278

A rollforward 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, 2016	$ 53,108	$ 2,278
Change in fair value included in net income (loss)	1,430	-
Balance at March 31, 2017	$ 54,538	$ 2,278

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents. The cash balance included $10,003 which is restricted in its use as it serves as collateral for a credit card.

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 net realizable value. Cost is determined using the first-in, first-out (FIFO) method. At March 31, 2017 and December 31, 2016, inventory consisted of the following:

	March 31, 2017	December 31, 2016
Raw materials	$ 857,017	$ 927,833
Finished goods	417,756	338,643
	1,274,773	1,266,528
Less: reserve for obsolescence	(258,231)	(231,027)
Inventory, net	$ 1,016,542	$ 1,035,499

Effective January 1, 2017, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-11, “Simplifying the Measurement of Inventory,” (“ASU 2015-11”) 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 adoption of this standard did not have a material impact on the Company’s unaudited consolidated financial statements.

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 three months ended March 31, 2017 and 2016.

Revenue Recognition

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

Types of revenue:

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

Revenue recognition criteria:

- Net product sales by our subsidiary PEN Brands LLC, are recognized when the product is shipped to the customer and title is transferred.
- Revenue from contract services performed under 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 it is earned.
- Revenue from contract services performed under 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 Company's subsidiary Applied Nanotech's primary business is contract services, not the sale of products. Product sales are generally insignificant in number, and are generally limited to the sale of conductive inks, graphene foils, thermal management materials, samples, proofs of concepts, prototypes, or other items resulting from its contract services.

- Other miscellaneous revenue is recognized as deemed appropriate given the facts of the situation and is generally not material.

Sales Incentives and Consideration Paid to Customers

The Company accounts for certain promotional costs such as sales incentives and cooperative advertising as a reduction of sales. For the three months ended March 31, 2017 and 2016, the Company recorded $38,618 and $21,789, 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 March 31, 2017 and 2016, shipping and handling costs incurred for product shipped to customers are included in cost of sales and amounted to $44,557 and $44,044, 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 in included in cost of sales. For the three months ended March 31, 2017 and 2016, research and development costs incurred in the development of the Company's products were $68,722 and $85,763, respectively, and are included in operating expenses on the accompanying unaudited consolidated statements of operations.

Advertising Costs

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. For the three months ended March 31, 2017 and 2016, advertising costs charged to operations were $5,028 and $7,983, respectively and are included in sales and marketing on the unaudited consolidated accompanying statements of operations. These advertising expenses do not in 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 ASC 740 *"Income Taxes*". Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of March 31, 2017 and December 31, 2016, 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 does not expect any significant changes in its unrecognized tax benefits within twelve months of the reporting date. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of March 31, 2017 or December 31, 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.

Income (Loss) Per Share of Common Stock

ASC 260 "Earnings Per Share", requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As of March 31, 2017, 37,778 contingently issuable common shares that are issuable based on certain market conditions (see Note 6) are not included in the potential dilutive shares in calculating the diluted EPS. Additionally, potentially dilutive common shares consist of common stock options and warrants (using the treasury stock method). During the three months ended March 31, 2017, the Company calculated the potential diluted earnings per share in accordance with ASC 260 and determined that none of its outstanding securities had a dilutive effect. These common stock equivalents may be dilutive in the future. Potentially dilutive common shares were excluded from the computation of diluted income (loss) per share as they would have an anti-dilutive impact on the Company's net income (loss) and consisted of the following:

	March 31, 2017	**December 31, 2016**
Stock options	20,370	20,483
Stock warrants	712	712
Restricted stock	37,778	37,778
Total	58,860	58,973

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 and 9).

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

Net income (loss) per common shares outstanding:	**Three Months Ended March 31, 2017**	**Three Months Ended March 31, 2016**
Class A common stock	$ 0.03	$ (0.04)
Class B common stock	$ 0.03	$ (0.04)
Class Z common stock	$ 0.03	$ (0.04)
Weighted average shares outstanding:		
Class A common stock	1,368,927	1,339,043
Class B common stock	1,403,101	1,395,973
Class Z common stock	262,631	262,630
Total weighted average shares outstanding	3,034,659	2,997,646

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 consumer and institutional products using nanotechnology to deliver unique performance attributes at the surfaces of a wide variety of substrates (the "Product segment") and (ii) nanotechnology design and development services for our future products and for government and private entities and sales of products developed for third parties (the "Contract services segment").

Recently Issued Accounting Pronouncements

In March 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 adoption of this standard did not have a material impact on the Company's unaudited consolidated financial statements.

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 unaudited consolidated financial statements have been reclassified for comparative purposes to conform to the fiscal 2017 presentation. These reclassifications have no impact on the previously reported net loss

NOTE 3 – REVOLVING CREDIT FACILITY

In April 2014, our subsidiary, PEN Brands LLC entered into a $1,500,000 revolving credit line agreement (the "Revolving Note") with Mackinac Commercial Credit, LLC (the "Lender") with draws limited to a borrowing base as defined in the Revolving Note. The unpaid principal balance of this Revolving Note is payable on demand, is secured by all of PEN Brands LLC'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. PEN Brands LLC 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, PEN Brands LLC 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 PEN Brands LLC's obligations to the Lender. On April 4, 2016, the maturity date under the Loan & Security Agreement between PEN Brands LLC 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, PEN Brands LLC shall not a) merge or consolidate with any other company, except for the Combination and shall not suffer a change of control; b) make any capital expenditures, as defined, materially affecting the business; c) declare or pay cash dividends upon any of its stock, or distribute any of its property, make any loans, make investments, redeem, retire or acquire any of its stock, d) become liable for the indebtedness of anyone else, as defined, and e) incur indebtedness, other than trade payables.

On April 3, 2017, PEN Brands LLC and the Lender executed a second amendment to the Revolving Note that extended the maturity date to April 4, 2018, with a one year renewal option. The second amendment also reduced the interest rate to 3.0% above the Prime Rate, as reported in the Wall Street Journal.

At March 31, 2017 and December 31, 2016, the Company had $1,007,456 and $979,688, respectively, which includes accrued interest of $17,720 and $17,494, respectively, in amounts outstanding under the Revolving Note with availability of up to $510,264 as of March 31, 2017, depending on the borrowing base at the time of the request for the advance. The weighted average interest rate during the three months ended March 31, 2017 and 2016 was approximately 6.9% and 7.5%, respectively.

NOTE 4 – NOTES PAYABLE

In January 2017, we issued a promissory note in the principal amount of $17,425 to a departing employee representing the amount of his accrued and unpaid salary. The note does not bear interest and is due in January 2027.

NOTE 5 – RELATED PARTY TRANSACTIONS

Sales to Related Party

During the three months ended March 31, 2017 and 2016, 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 $53,314 and $47,692 for the three months ended March 31, 2017 and 2016, respectively. Accounts receivable from the related party totaled $32,395 and $10,474 at March 31, 2017 and December 31, 2016, respectively.

Other

A board member is a principal in DHJH Holdings LLC, the firm that provided the services of the Company's chief financial officer from May 2016 through February 2017. The Company recognized expenses associated with that firm of approximately $11,000 and $0 in fees and expenses during the three months ended March 31, 2017 and 2016, respectively.

As of March 31, 2017 and December 31, 2016, the Company included the following within accounts payable to related parties: $22,000 of director fees and $19,887 due to certain of the Company's executives. See Note 12 - Subsequent Events for details associated with a stock issuance on April 28, 2017 in satisfaction of $19,000 of the accrued director fees.

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"). 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 were received in the business combination in August 2014, all shares of Class Z common stock will automatically convert into Class A common stock.

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

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

Issuances of Common Stock

Common Stock Issued for Services

On February 24, 2017, the Company issued an aggregate of 3,846 shares of Class A common stock and 2,564 shares of Class B common stock to the Company's directors as payment for their service on the Company's board. These shares were valued on the date of grant at $1.56 per share based on the quoted price of the stock for a total value of $10,000.

Stock Options

Stock options outstanding are to purchase Class A common stock. Stock option activities for the three months ended March 31, 2017 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2016	20,483	$ 41.77		
Exercised	-	-		
Expired	(113)	230.40		
Balance Outstanding March 31, 2017	20,370	$ 40.72	3.76	$ -
Exercisable, March 31, 2017	10,370	$ 77.28	3.22	$ -

Contingently Issuable Class A Common Shares

On August 27, 2014, the Company entered into a Restricted Stock Agreement with Dr. Zvi Yaniv, the former Chief Operating Officer and President, of Applied Nanotech, and a current employee of the Company granting Dr. Yaniv 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 shares for a total value of $495,720. The Company estimates the fair value of the awards with market conditions using a Binomial simulation, which utilizes several assumptions including the risk-free interest rate, the volatility of the Company's stock and the exercise behavior of award recipients. The grant-date fair value of $495,720 of the awards will be recognized over the requisite service period of 3 years, which represents the derived service period for the stock grant as determined by the Binomial simulation method. For the three months ended March 31, 2017 and 2016, in connection with the amortization of the fair value of this stock grant, the Company recorded stock-based compensation of $41,310 and $41,310, respectively. At March 31, 2017, there is $68,850 of unamortized stock-based compensation expense to be recognized in future periods through August 2017.

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 on one lender under a $1,500,000 Revolving Note.

Customer Concentrations

Customer concentrations for the three months ended March 31, 2017 and 2016 are as follows:

	Revenues	
	For the Three Months Ended March 31,	
	2017	2016
Customer A	34%	19%
Customer B	13%	17%
Customer C	*%	*%
	47%	36%

*Less than 10%.

	Accounts Receivable	
	As of March 31, 2017	As of December 31, 2016
Customer A	31%	14%
Customer B	14%	16%
Customer C	11%	15%
Total	56%	45%

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

Geographic Concentrations of Sales

For the three months ended March 31, 2017 and 2016, total sales in the United States represent 82% and 73% of total sales, respectively. No other geographical area accounting for more than 10% of total sales during the three months ended March 31, 2017 and 2016.

Vendor Concentrations

Vendor concentrations for inventory purchases for the three months ended March 31, 2017 and 2016 are as follows:

	For the Three Months Ended March 31,	
	2017	2016
Vendor A	33%	28%
Vendor B	13%	14%
Vendor C	13%	*%
Total	59%	42%

*Less than 10%.

NOTE 8 – EQUITY CREDITS

In 1997, PEN Brands LLC 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 PEN Brands LLC's revenue over a base year of 1996. Eligible credits can be redeemed after two years at the equity credit value for that year. Under certain circumstances, the equity credits are convertible into PEN Brands LLC equity on a one-for-one basis. During the three months ended March 31, 2017, no equity credits were forfeited and no units were redeemed. As of March 31, 2017 and December 31, 2016, 8,250 equity credits were issued and outstanding with an aggregate redemption value of $2,278. At March 31, 2017 and December 31, 2016, $2,278 was accrued, and included in accrued expenses, representing the redemption value associated with the equity credits outstanding.

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 PLAN

From June 1, 1988, until December 31, 1997, when the plan was terminated, PEN Brands LLC 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 PEN Brands LLC. The maximum number of stock appreciation rights that could be granted by the Board was 1,000,000.

There were 235,782 fully vested stock appreciation rights ("SARS") outstanding under the terms of the Plan at March 31, 2017 and December 31, 2016. The SARS unit value is based on the book value of the Company as of the last fiscal year end multiplied by a SARS multiplier stipulated in the SARS plan. However, in the event of an initial public offering ("IPO") of Nano, the SARS are redeemable based on a value equal to offering price of the stock in an IPO times the total outstanding shares of the Company just subsequent to the completion of the IPO, multiplied by the SARS multiplier. The SARS multiplier is to be adjusted, as the Board determines, to reflect changes in the capitalization of PEN Brands LLC. Generally, the SARS are redeemable in cash, at their then fair value as computed pursuant to the Plan, in the event of termination of employment or business relationship, death, permanent and total disability, or sale of Nano (as defined). Upon an IPO, SARS are to be redeemed by applying 70% of the redemption value to purchase common shares, with the remaining 30% being distributed in cash to the participant.

The business combination completed 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 $54,538 and $53,108, at March 31, 2017 and December 31, 2016, 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 months ended March 31, 2017 and 2016 were (i) the Product segment and (ii) the Contract services segment (formerly 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 March 31, 2017 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 months ended March 31, 2017 and 2016 was as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Revenues:		
Product segment	$ 1,996,489	$ 1,693,426
Contract services segment	219,861	285,735
Total segment and consolidated revenues	$ 2,216,350	$ 1,979,161
Gross profit (loss):		
Product segment	$ 960,654	$ 758,500
Contract services segment	(27,337)	(27,376)
Total segment and consolidated gross profit	$ 933,317	$ 731,124
Income (loss) from operations		
Product segment	$ 399,348	$ 165,104
Contract services segment	(79,114)	(85,184)
Total segment income (loss)	320,234	79,920
Unallocated costs	(250,820)	(228,031)
Total consolidated income (loss) from operations	$ 69,414	$ (148,111)
Depreciation and amortization:		
Product segment	$ 32,733	$ 34,515
Contract services segment	5,081	12,665
Total segment depreciation and amortization	37,814	47,180
Unallocated depreciation	-	-
Total consolidated depreciation and amortization	$ 37,814	$ 47,180
Capital additions:		
Product segment	$ -	$ -
Contract services segment	-	-
Total segment capital additions	$ -	$ -
Unallocated capital additions	-	-
Total consolidated capital additions	$ -	$ -

	March 31, 2017	**December 31, 2016**
Segment total assets:		
Product segment	$ 2,892,214	$ 2,577,034
Contract services segment	132,598	146,193
Corporate	85,816	70,504
Total consolidated total assets	$ 3,110,628	$ 2,793,731

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Equity Credits

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

Litigation

The Company may be, from time to time, subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. We are not currently a defendant in any proceedings. Our policy is to accrue costs for contingent liabilities, including legal proceedings or unasserted claims that may result in legal proceedings, when a liability is probable and the amount can be reasonably estimated. As of March 31, 2017 the Company has not accrued any amount for litigation contingencies.

NOTE 12 – SUBSEQUENT EVENTS

On April 28, 2017, the Company issued an aggregate of 10,000 shares of Class A common stock and 12,308 shares of Class B common stock to the Company's directors as payment for their service on the Company's board. The shares issued included 7,692 shares as compensation for attendance at the meeting on that date and the rest were issued in payment of $19,000 in accrued director fees from a prior year. These shares are valued were valued on the date of grant of April 28, 2017 at $1.30 per share based on the quoted price of the stock for a total value of $29,000.

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

The following is management's discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying unaudited consolidated financial statements.

OVERVIEW

PEN develops, commercializes and markets consumer and industrial products enabled by nanotechnology that solve everyday problems for customers in the optical, transportation, military, sports and safety industries. Our primary business is the formulation, marketing and sale of products enabled by nanotechnology including the ULTRA CLARITY brand eyeglass cleaner, CLARITY DEFOGIT brand defogging products and CLARITY ULTRASEAL nanocoating products for glass and ceramics. We also sell an environmentally friendly surface protector, fortifier, and cleaner. Our design center conducts development services for us and for government and private customers and develops and sells printable inks and pastes, thermal management materials, and graphene foils and windows.

Our principal operating segments coincide with our different business activities and types of products sold. This is consistent with our internal reporting structure. Our two reportable segments for the three months ended March 31, 2017 and 2016 were (i) the Product segment and (ii) the Contract services segment.

RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements that are included elsewhere in this report. The results discussed below are for the three months ended March 31, 2017 and 2016.

Comparison of Results of Operations for the Three Months ended March 31, 2017 and 2016

Revenues

For the three months ended March 31, 2017 and 2016, revenues consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Sales:		
Product segment	$ 1,996,489	$ 1,693,426
Contract services segment	219,861	285,735
Total segment and consolidated sales	$ 2,216,350	$ 1,979,161

For the three months ended March 31, 2017, sales from the Product segment increased by $303,063 or 18% as compared to the three months ended March 31, 2016 due to a renewed focus on sales and increased sales of coatings products.

For the three months ended March 31, 2017, revenues from our Contract services segment decreased by $65,874 or 23% compared to the three months ended March 31, 2016. This was primarily attributable to expiration of contracts for research services that were not replaced.

Cost of revenues

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

For the three months ended March 31, 2017, cost of revenues amounted to $1,283,033 as compared to $1,248,037 for the three months ended March 31, 2016, an increase of $34,996 or 3% and consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Cost of revenues:		
Product segment	$ 1,035,835	$ 934,926
Contract services segment	247,198	313,111
Total segment and consolidated cost of revenues	$ 1,283,033	$ 1,248,037

Gross profit and gross margin

For the three months ended March 31, 2017, gross profit amounted to $933,317 as compared to $731,124 for the three months ended March 31, 2016, an increase of $202,193 or 27.8%. For the three months ended March 31, 2017 gross margin was 42.1% as compared to a gross margin of 36.9% for the three months ended March 31, 2016.

Gross profit and gross margin by segment is as follows:

	Three Months Ended March 31,			
	2017	%	2016	%
Gross profit:				
Product segment *	$ 960,654	48.1%	$ 758,500	44.8%
Contract services segment *	(27,337)	(12.4)%	(27,376)	(9.6)%
Total gross profit	$ 933,317	42.1%	$ 731,124	36.9%

* Gross margin % based on respective segments revenues.

For the three months ended March 31, 2017, the increase in gross margins from the Product segment as compared to the comparable 2016 period was primarily attributable to higher sales of our higher margin coatings products.

For the three months ended March 31, 2017, the decrease in gross margins from the Contract services segment as compared to the comparable 2016 period was primarily attributable to a 23% decrease in this segment's revenues as compared to only a 21% decrease in this segment's cost of revenues since certain costs are fixed costs.

Operating expenses

For the three months ended March 31, 2017, operating expenses amounted to $863,903 as compared to $879,235 for the three months ended March 31, 2016, a decrease of $15,332 or 2%. For the three months ended March 31, 2017 and 2016, operating expenses consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Selling and marketing expenses	$ 64,727	$ 47,369
Salaries, wages and contract labor	300,214	413,737
Contract services	68,722	85,763
Professional fees	214,254	106,358
General and administrative expenses	215,986	226,008
Total	$ 863,903	$ 879,235

- For the three months ended March 31, 2017, sales and marketing expenses increased by $17,358 or 37% as compared to the three months ended March 31, 2016. The increase was attributable to additional advertising expense, an increase in commission expense and an increase in other sales and marketing expenses including trade shows.

- For the three months ended March 31, 2017, salaries, wages and contract services decreased by $113,523, or 27%, as compared to the three months ended March 31, 2016. The decrease was primarily attributable to staff reductions that occurred over the course of 2016.

- For the three months ended March 31, 2017, research and development costs decreased by $17,041 or 20%, as compared to the three months ended March 31, 2016. The decrease reflects completion of the reformulation of optical products that had been ongoing in 2016.

- For the three months ended March 31, 2017, professional fees increased by $107,896 or 101%, as compared to the three months ended March 31, 2016. The increase was attributable to an increase in consultants and temporary help, including creative work repackaging products, on social media and trade show displays.

- For the three months ended March 31, 2017, general and administrative expenses decreased by $10,022 or 4% as compared to the three months ended March 31, 2016. The decrease was primarily attributable to costs cutting measures taken during the third and fourth quarters of 2016.

Income (loss) from operations

As a result of the factors described above, for the three months ended March 31, 2017, income from operations amounted to $69,414 as compared to a loss from operations of $(148,111) for the three months ended March 31, 2016, a change of $217,525 or 147%.

Other (expense) income

Other (expense) income includes interest expense and other income. For the three months ended March 31, 2017, total other income amounted to $24,998 as compared to other income $28,176 for the three months ended March 31, 2017, a decrease of $3,178 or 11%. This change was attributable to a decrease in interest expense of $2,546 and a decrease in other income of $5,724 as compared to the 2016 period.

Net income (loss)

As a result of the foregoing, for the three months ended March 31, 2017, net income amounted to $94,412 or $0.03 per common share (basic and diluted) as compared to net loss of $(119,935) or $(0.04) per common share (basic and diluted) for the three months ended March 31, 2016, an increase of $214,347 or 179%.

LIQUIDITY AND CAPITAL RESOURSES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had a working capital deficit of $(917,040) and $305,402 of cash as of March 31, 2017 and a working capital deficit of $(1,072,691) and $189,128 of cash as of December 31, 2016.

The following table sets forth a summary of changes in our working capital from December 31, 2016 to March 31, 2017:

					December 31, 2016 to March 31, 2017		
	March 31,2017		December 31, 2016		Change	Percentage Change
Working capital:							
Total current assets	$	2,361,022	$	2,033,026	$	327,996	16.13%
Total current liabilities		3,278,062		3,105,717		172,345	5.55%
Working capital deficit:	$	(917,040)	$	(1,072,691)	$	155,651	(14.51)%

The decrease in working capital deficit was primarily attributable to income from operations of $69,414 and other income of $24,998.

Net cash provided by operating activities was $151,188 for the three months ended March 31, 2017 as compared to net cash used in operating activities of $92,064 for three months ended March 31, 2016, an increase of $243,252.

- Net cash flow provided by operating activities for the three months ended March 31, 2017 primarily reflected a net income of $94,412, plus the add-back of non-cash items totaling $118,110, partially offset by $61,334 of cash used to fund changes in operating assets and liabilities.

- Net cash flow used in operating activities for the three months ended March 31, 2016 primarily reflected a net loss of $119,935 and the add-back of non-cash items consisting of depreciation and amortization of $47,180, stock-based compensation expense of $47,310, and other non-cash items of $(11,062), and changes in operating assets and liabilities primarily consisting of an increase in inventory of $135,203 and a decrease in accrued expenses of $128,450, and a decrease in deferred revenues of $21,692 offset by a decrease in accounts receivable (third party and related party) of $151,579, an increase in accounts payable of $75,091, and a decrease in prepaid expenses and other current assets of $3,118.

For the three months ended March 31, 2017, we had no net cash flow provided by or used in investing activities. During the three months ended March 31, 2016, net cash flow provided by investing activities of $21,866 related to the sale of property and equipment in our Contract services segment.

Net cash used in financing activities was $34,914 for the three months ended March 31, 2017 as compared to $57,108 in the same period in 2016. During the three months ended March 31, 2017, we had net repayments of bank loans of $18,595 and had net repayments of the bank line of credit of $13,864. During the three months ended March 31, 2016, we had net repayments bank loans of $18,596 and had net repayments of the bank line of credit of $38,512.

Future Liquidity and Capital Needs

Our principal future uses of cash are for working capital requirements, including sales and marketing expenses, legal and other professional fees, capital expenditures and reduction of accrued liabilities. These uses will depend on numerous factors including our sales and other revenues, and our ability to control costs. Recently, we have financed our working capital needs primarily through internally generated funds, and bank loans. We collect cash from our customers based on our sales to them and their respective payment terms. Over the past year we have reduced the scope of our operations to reduce our costs and enable us to operate without raising additional capital, although there can be no assurance that additional capital will not be needed in future periods. We will continue to look for opportunities to raise funds to permit us to increase the marketing of our products.

Revolving Credit Note

In April 2014, our subsidiary, PEN Brands LLC entered into a $1,500,000 revolving credit line agreement (the "Revolving Note") with Mackinac Commercial Credit, LLC (the "Lender") with draws limited to a borrowing base as defined in the Revolving Note. The unpaid principal balance of this Revolving Note is payable on demand, is secured by all of PEN Brands LLC'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. PEN Brands LLC 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, PEN Brands LLC 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 PEN Brands LLC's obligations to the Lender. On April 4, 2016, the maturity date under the Loan & Security Agreement between PEN Brands LLC 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, PEN Brands LLC shall not a) merge or consolidate with any other company, except for the Combination and shall not suffer a change of control; b) make any capital expenditures, as defined, materially affecting the business; c) declare or pay cash dividends upon any of its stock, or distribute any of its property, make any loans, make investments, redeem, retire or acquire any of its stock, d) become liable for the indebtedness of anyone else, as defined, and e) incur indebtedness, other than trade payables.

On April 3, 2017, PEN Brands LLC and the Lender executed a second amendment to the Revolving Note that extended the maturity date to April 4, 2018, with a one year renewal option. The second amendment also reduced the interest rate to 3.0% above the Prime Rate, as reported in the Wall Street Journal.

At March 31, 2017 and December 31, 2016, the Company had $1,007,456 and $979,688, respectively, which includes accrued interest of $17,720 and $17,494, respectively, in amounts outstanding under the Revolving Note with availability of up to $510,264 at March 31, 2017, respectively, depending on the borrowing base at the time of the request for the advance. The weighted average interest rate during the three months ended March 31, 2017 and 2016 was approximately 6.9% and 7.5%, respectively.

Equipment Financing

On February 10, 2015, PEN Brands LLC entered into a $373,000 promissory note (the "Equipment Note") with KeyBank, N.A. The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At March 31, 2017, the principal amount due under the Equipment Note amounted to $241,736.

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, 2016 filed with the SEC on March 29, 2017. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 of the Notes to our unaudited consolidated financial statements for information related to recent accounting pronouncements.

OFF-BALANCE SHEET ARANGEMENTS

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

ITEM 3. Quantitative and Qualitative disclosures about market risk

Not applicable to smaller reporting companies.

ITEM 4. Controls and Procedures

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

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

Changes in Internal Control

There were no changes identified in connection with our internal control over financial reporting during the three months ended March 31, 2017 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 April 28, 2017, the Company issued an aggregate of 10,000 shares of Class A common stock and 12,308 shares of Class B common stock to the Company's directors as payment for their service on the Company's board. The shares issued included both the fee for the board meeting on that date and shares issued in payment of accrued board fees. These shares are valued were valued on the date of grant of April 28, 2015 at $1.30 per share based on the quoted price of the stock for a total value of $29,000.

The issuance of the Company's shares of common stock discussed above were exempt from registration under the Securities Act of 1933, as amended, in reliance on Sections 4(a)(2) and 3(a)(9).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1*	Second Amendment to Loan and Security Agreement, dated April 3, 2017 between Nanofilm, Ltd. And Mackinac Commercial Credit ABL Division of MBank.
10.2*	Amended and Restated Revolving Credit Loan Note dated April 3, 2017 to Mackinac Commercial Credit ABL Division of MBank from Nanofilm, Ltd.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1*	Section 1350 Certificate of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
*	Filed herewith.

SIGNATURES

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

	PEN Inc. (Registrant)
Date: May 22, 2017	*/s/ Scott E. Rickert*
	Scott E. Rickert. President and Chief Executive Officer
Date: May 22, 2017	*/s/ Jacqueline M. Soptick*
	Jacqueline M. Soptick Chief Accounting Officer

Exhibit 10.1

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT ("Amendment") is entered into as of April 3, 2017 ("Effective Date"), between **NANOFILM, LTD.,** an Ohio limited liability company ("Borrower") and **MACKINAC COMMERCIAL CREDIT ABL DIVISION OF MBANK**, a Michigan banking corporation and successor in interest to Mackinac Commercial Credit, LLC, a Michigan limited liability company (together with its successors and assigns, the "Lender").

RECITALS

A. Lender and Borrower entered into a Loan and Security Agreement dated April 4, 2014, as amended by a First Amendment to Loan and Security Agreement dated effective as of April 4, 2015 (as amended, the "Loan Agreement"). All capitalized terms not defined herein shall have the same meanings ascribed to such terms in the Loan Agreement.

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

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

1. Restated Note. Concurrently with the execution and delivery of this Amendment, the Borrower shall execute and deliver to the Lender an Amended and Restated Revolving Credit Loan Note, evidencing the Revolving Credit Loan in the principal amount of $1,500,000 in form and substance satisfactory to the Lender (the "**Restated Note**"). Upon receipt by the Lender of the Restated Note, the Revolving Credit Loan and all accrued and unpaid interest on that certain Revolving Credit Loan Note dated April 4, 2014 in the original principal amount of $1,500,000 (the "**Existing Revolving Note**") shall thereafter be evidenced by the Restated Note; and all references to the "Revolving Credit Loan Note" or "Note" evidencing the Revolving Credit Loan in the Loan Documents relating thereto shall thereafter be deemed to refer to the Restated Note. Without duplication, the Restated Note shall not constitute a novation and shall in no way extinguish the Borrower's unconditional obligation to repay all indebtedness, including accrued and unpaid interest, evidenced by the Existing Revolving Note.

2. Interest Rate. The definition of "Interest Rate" as set forth in Paragraph 2(c) of the Term Sheet to the Loan Agreement is hereby amended to the "Prime Rate plus 3.0%".

(a) The following definition of "Prime Rate" is hereby added to Section 1 of the Loan Agreement in appropriate alphabetical sequence:

"Prime Rate" shall mean the U.S. prime rate of interest as published in the Money and Investing Section of the Wall Street Journal (or other comparable publication if the Wall Street Journal is no longer being published, as determined by the Lender). The Prime Rate is not necessarily the lowest rate of interest which may be available from the Lender on fluctuating rate loans.

3. Maturity Date. The definition of "Maturity Date" as set forth in Paragraph 2(e) of the Term Sheet to the Loan Agreement is hereby amended to the earlier of demand or **April 4, 2018.**

4. Renewal. Section 2(e) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

(e) **Term; Automatic Renewal**. The term of this Agreement and of the Loan shall be on Demand, but if Demand is not made, then no later than the date set forth on the Term Sheet (the "Maturity Date"). Notwithstanding anything to the contrary or inconsistent contained herein, provided no Default exists, the Maturity Date, as extended to April 4, 2018 pursuant to the Second Amendment to Loan and Security Agreement dated April 3, 2017 will automatically be further extended one time for one (1) year ("Renewal Term"), unless either party notifies the other party in writing of its intent not to so extend the Maturity Date at least sixty (60) days prior to the original Maturity Date. If the Maturity Date is extended, Borrower shall pay to Lender a renewal fee in the amount of one percent (1.0%) of the Maximum Loan Amount, which shall be due and payable on or before the beginning of the Renewal Term.

5. Change in Name. Section 10(i) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

> (i) use any other corporate or fictitious name; provided however, that Borrower may change its entity name to "Pen Brands LLC" on or prior to December 31, 2017 so long as it has provided Lender with 10 days' prior written notice thereof. Upon the effectiveness of such name change, any and all references herein or in the other Loan Documents to "nanoFILM, Ltd." or "Nanofilm, Ltd." shall be deemed to refer to "Pen Brands, LLC."

6. Tri-Annual Exams. The first sentence of Section 5(a) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

> Lender may, at all reasonable times, but no less than three times in any fiscal year, have access to, examine, audit, make extracts from and inspect Borrower's records, files, books of account and the Collateral.

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

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

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

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

9. Miscellaneous.

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

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

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

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

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

BORROWER:

NANOFILM, LTD.,
an Ohio limited liability company

By: */s/ Anne Marie Thomas*
Anne Marie Thomas
Title: President

LENDER:

MCC-ABL DIVISION OF MBANK,
a Michigan banking corporation

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

ACKNOWLEDGEMENT OF GUARANTOR

Scott E. Rickert, guarantor under that certain Validity Guaranty dated April 4, 2014 in favor of Lender (the "Validity Guaranty"), and PEN, Inc., a Delaware corporation, a guarantor under that certain Corporate Guaranty dated May 1, 2015 (the "Corporate Guaranty"), each acknowledge the above Amendment and agrees that their respective Guaranty shall continue in full force and effect.

GUARANTOR:

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

PEN, INC.
a Delaware corporation

By: */s/ Scott E. Rickert*
Scott E. Rickert
Title: Chief Executive Officer

Exhibit 10.2

AMENDED AND RESTATED REVOLVING CREDIT LOAN NOTE

$1,500,000.00

Due Date: **The earlier of Demand or**
April 4, 2018
Dated: April 3, 2017

FOR VALUE RECEIVED, the undersigned (whether one or more in number, "Borrower", and if two or more in number, shall be jointly and severally bound), promises to pay to the order of **MACKINAC COMMERCIAL CREDIT ABL DIVISION OF MBANK**, a Michigan banking corporation and successor in interest to Mackinac Commercial Credit, LLC, a Michigan limited liability company (the "Lender"), at its office at 840 W. Long Lake Road, Troy, Michigan 48098, or at such other place as Lender may designate in writing, the principal sum of One Million Five Hundred Thousand and 00/100 Dollars ($1,500,000.00), or such lesser sum as shall have been advanced (each an "Advance") by Lender to Borrower pursuant to that certain Loan and Security Agreement dated as of April 4, 2014 between Borrower and Lender (which, together with all amendments and modifications thereof, is hereinafter referred to as the "Loan Agreement"), plus interest as hereinafter provided, all lawful money of the United States of America, in accordance with the terms hereof. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

The unpaid principal balance of this Amended and Restated Revolving Credit Loan Note (the "Note") shall bear interest computed upon the basis of a year of 360 days for the actual number of days elapsed in a month, at a rate of interest (the "Effective Rate") which is equal to three percent (3.0%) above the Prime Rate (hereinafter defined), as such rate shall vary from time to time, upwards and downwards, and each such Prime Rate change shall cause an identical change in the Effective Rate to occur effective immediately. "Prime Rate" shall mean the U.S. prime rate of interest as published in the Money and Investing Section of the Wall Street Journal (or other comparable publication if the Wall Street Journal is no longer being published, as determined by the Lender). The Prime Rate is not necessarily the lowest rate of interest which may be available from the Lender on fluctuating rate loans.

Interest on all principal amounts advanced by Lender from time to time and unpaid by Borrower shall be paid on the first (1st) day of the month following the initial Advance under this Note, and on the same day of each month thereafter until the Due Date, upon which date the entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be due and payable in full. Borrower shall pay to Lender a late charge of five percent (5.0%) of any monthly payment not received by Lender within ten (10) calendar days after said payment is due, which late charge shall be payable on the next monthly payment date or on Demand. In addition to the foregoing, Borrower shall pay to Lender on the first (1st) day of each month with respect to the prior calendar month or portion thereof, the amount, if any, necessary to pay the fees as set forth in the Loan Agreement.

Advances of principal, repayment, and readvances may be made under this Note from time to time, upon the terms set forth in the Loan Agreement and said Loan Agreement is incorporated herein by reference. Mandatory repayments of principal before the Due Date shall be made by Borrower to Lender pursuant to the Loan Agreement. If, prior to the Due Date, Borrower pays the balance of the Note after Demand or terminates the Loan, whether voluntarily or involuntarily, Borrower shall pay to Lender as liquidated damages and as compensation for the costs of being prepared to make funds available under the Loan Agreement, a termination fee as set forth in the Loan Agreement.

All Advances made hereunder shall be charged to the Loan Account in Borrower's name on Lender's books, and Lender shall debit to such account the amount of each Advance made to, and credit to such account the amount of each repayment made by Borrower. Lender shall furnish Borrower with a monthly statement of Borrower's Loan Account, which statement shall be deemed to be correct, accepted by, and binding upon Borrower, unless Lender receives a written statement of exceptions from Borrower within thirty (30) days after such statement has been furnished. Borrower expressly assumes all risks of loss or delay in the delivery of any payments made by mail, and no course of conduct or dealing shall affect Borrower's assumption of these risks.

Upon the Due Date, which Borrower acknowledges may be upon Demand, Lender, without prior notice to Borrower, may declare the entire unpaid principal balance of this Note and all accrued interest, together with all other indebtedness of Borrower to Lender, to be immediately due and payable. Upon the occurrence of any Default specified in the Loan Agreement, or on Demand, among other remedies set forth in the Loan Agreement, the unpaid principal balance of this Note shall bear interest at a rate which is five percent (5.0%) greater than the Effective Rate otherwise applicable. After Default or Demand, Lender may apply its own indebtedness or liability to Borrower to any indebtedness due under this Note. Borrower agrees to pay all of the Lender's costs incurred in the collection of this Note as provided in the Loan Agreement. Upon the occurrence of a Default, Lender may exercise all rights and remedies as set forth in the Loan Agreement (such rights and remedies being incorporated in this Note by this reference as though fully set forth herein) and applicable law.

Acceptance by Lender of any payment in an amount less than the amount then due shall be deemed an acceptance on account only. Upon any Default or Demand, neither the failure of the Lender promptly to exercise its right to declare the outstanding principal and accrued unpaid interest hereunder to be immediately due and payable, nor the failure of the Lender to demand strict performance of any other obligation of the Borrower or any other person who may be liable hereunder, shall constitute a waiver of any such rights, nor a waiver of such rights in connection with any future default on the part of the Borrower or any other person who may be liable hereunder.

Borrower acknowledges that no Default is necessary for Lender to make Demand.

Borrower and all endorsees, sureties and guarantors hereof hereby jointly and severally waive presentment for payment, demand, notice of non-payment, notice of protest or protest of this Note, and Lender diligence in collection or bringing suit, and do hereby consent to any and all extensions of time, renewals, waivers or modifications as may be granted by Lender with respect to payment or any other provisions of this Note, and to the release of any collateral or any part thereof, with or without substitution. The liability of Borrower under this Note shall be absolute and unconditional, without regard to the liability of any other party. This Note and all rights and obligations hereunder shall be governed by the laws of the State of Michigan.

In no event whatsoever shall the interest rate and other charges charged hereunder exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in the final determination, deem applicable hereto. In the event that a court determines that Lender has received interest or other charges hereunder in excess of the highest rate applicable hereto, Lender shall either, in its sole discretion, promptly apply such amounts to the principal due hereunder or refund such amount to Borrower and the provisions herein shall be deemed amended to provide for such permissible rate.

BORROWER ACKNOWLEDGES THAT ITS LEGAL COUNSEL HAS ADVISED IT THAT (A) THERE MAY BE A CONSTITUTIONAL RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY CLAIM, DISPUTE OR LAWSUIT ARISING OUT OF THIS NOTE, AND (B) SUCH CONSTITUTIONAL RIGHT MAY BE WAIVED. AFTER CONSULTATION WITH ITS COUNSEL OF CHOICE (OR OPPORTUNITY TO CONSULT), WHICH HAS INCLUDED ITS COUNSEL'S REVIEW OF THIS NOTE, BORROWER BELIEVES THAT IT IS IN ITS BEST INTEREST IN THIS COMMERCIAL TRANSACTION TO WAIVE SUCH RIGHT. ACCORDINGLY, BORROWER HEREBY WAIVES ITS RIGHT TO A JURY TRIAL AND FURTHER AGREES THAT THE BEST FORUM FOR HEARING ANY CLAIM, DISPUTE OR LAWSUIT, IF ANY, ARISING IN CONNECTION WITH THIS NOTE OR ITS RELATIONSHIP WITH LENDER, SHALL BE A COURT OF COMPETENT JURISDICTION SITTING WITHOUT A JURY.

This Note constitutes a complete amendment and restatement, without satisfaction or novation of that certain Revolving Credit Loan Note dated April 4, 2014 in the original principal amount of $1,500,000 made by Borrower in favor of Lender, and is issued pursuant to the terms of the Loan Agreement and is secured by the Collateral, as defined in the Loan Agreement. All of the terms, covenants and conditions of the Loan Agreement are hereby made a part of this Note and are hereby incorporated by reference.

BORROWER:

NANOFILM, LTD.,
an Ohio limited liability company

By: */s/ Anne Marie Thomas*
Anne Marie Thomas
Its: President

Exhibit 31.1

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

I, Scott E. Rickert, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2017 of PEN Inc. (the "registrant");

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

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

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

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

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

Date: May 22, 2017

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

Exhibit 31.2

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

I, Jacqueline M. Soptick, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2017 of PEN Inc. (the “registrant”);

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

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

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

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

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

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

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

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

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

Date: May 22, 2017

/s/ Jacqueline M. Soptick
Chief Accounting Officer

Exhibit 32.1

Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

In connection with the quarterly report of PEN, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott E. Rickert, President and Chief Executive Officer of the Company, and I, Jacqueline M. Soptick, Chief Accounting Officer, certify to the best of our knowledge:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 22, 2017	*/s/ Scott E. Rickert* Scott E. Rickert President and Chief Executive Officer
Date: May 22, 2017	*/s/ Jaqueline M. Soptick* Jacqueline M. Soptick Chief Accounting Officer