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 June 30, 2018

[ ] 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. [ ] Yes [X] 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.

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

As of May 9, 2019, the registrant had 4,375,576 shares of Class A Common Stock (including 37,778 shares that are subject to forfeiture).

PEN INC.

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements	F-1
Consolidated Balance Sheets—June 30, 2018 (unaudited) and December 31, 2017	F-1
Consolidated Statements of Operations—Three and Six Months Ended June 30, 2018 and 2017 (unaudited)	F-2
Consolidated Statements of Cash Flows—Six Months Ended June 30, 2018 and 2017 (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	9
Item 4. Controls and Procedures	9
Part II. Other Information	
Item 1. Legal Proceedings	9
Item 1A. Risk Factors	9
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	9
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. Those statements in this Form 10-Q containing the words "believes," "anticipates," "plans," "expects" and similar expressions constitute forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to our operations, results of operations, competitive factors, shifts in market demand and other risks and uncertainties.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PEN INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash	$ 150,588	$ 138,296
Restricted cash	$ 85,000	$ 95,003
Accounts receivable, net	795,881	607,632
Accounts receivable - related party	-	14,226
Inventory	1,052,723	733,979
Prepaid expenses and other current assets	297,080	162,246
Total Current Assets	2,381,272	1,751,382
Property, plant and equipment, net	356,515	388,777
Other assets	35,706	41,116
Total Assets	$ 2,773,493	$ 2,181,275
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 1,281,232	$ 1,383,514
Accounts payable - related parties	19,887	19,887
Accrued expenses and other current liabilities	1,125,249	649,974
Customer deposits	35,746	169,970
Bank revolving line of credit	957,444	563,218
Current portion of notes payable	85,124	96,533
Advances from related parties	140,000	115,000
Deferred revenue	85,985	98,381
Total Current Liabilities	3,730,667	3,096,477
Notes payable, net of current portion	151,409	180,803
Total Liabilities	3,882,076	3,277,280
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; 1,662,808 and 1,653,322 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	166	165
Class B common stock: $0.0001 par value, 2,500,000 shares authorized; 1,436,052 and 1,423,252 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	144	142
Class Z common stock: $0.0001 par value, 300,000 shares authorized; 0 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	-	-
Additional paid-in capital	5,519,664	5,490,925
Accumulated deficit	(6,628,557)	(6,587,237)
Total Stockholders' Deficit	(1,108,583)	(1,096,005)
Total Liabilities and Stockholders' Deficit	$ 2,773,493	$ 2,181,275

See accompanying notes to consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES:				
Products (including related party sales of $0 for the three and six months ended June 30, 2018 and $53,314 and $111,911 for the three and six months ended June 30, 2017)	$ 919,557	$ 1,754,336	$ 2,062,132	$ 3,750,825
Contract services	447,896	248,273	748,846	468,134
Total Revenues	1,367,453	2,002,609	2,810,978	4,218,959
COST OF REVENUES:				
Products	650,816	1,080,347	1,455,503	2,116,182
Contract services	289,741	266,005	591,313	513,203
Total Cost of Revenues	940,557	1,346,352	2,046,816	2,629,385
GROSS PROFIT	426,896	656,257	764,162	1,589,574
OPERATING EXPENSES:				
Selling and marketing expenses	(12,920)	172,143	28,776	236,870
Salaries, wages and related benefits	191,047	266,222	355,071	566,436
Research and development	2,251	146,431	10,444	215,153
Professional fees	150,802	186,769	323,240	401,023
General and administrative expenses	143,368	248,262	290,677	464,248
Total Operating Expenses	474,548	1,019,827	1,008,208	1,883,730
INCOME (LOSS) FROM OPERATIONS	(47,652)	(363,570)	(244,046)	(294,156)
OTHER (EXPENSE) INCOME:				
Interest expense	(26,271)	(8,326)	(42,612)	(33,914)
Other income, net	53,121	50,706	245,338	101,292
Total Other (Expense) Income	26,850	42,380	202,726	67,378
NET INCOME (LOSS)	$ (20,802)	$ (321,190)	$ (41,320)	$ (226,778)
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	$ (0.01)	$ (0.11)	$ (0.01)	$ (0.07)
Diluted	$ (0.01)	$ (0.11)	$ (0.01)	$ (0.07)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	3,092,220	3,046,341	3,087,695	3,044,393
Diluted	3,092,220	3,046,341	3,087,695	3,044,393

See accompanying notes to consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2018	**2017**
	(unaudited)	**(unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (41,320)	$ (226,778)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Change in inventory obsolescence reserve	28,641	38,420
Depreciation and amortization expense	32,261	68,877
Amortization of deferred lease incentives	-	3,564
Stock-based compensation	8,746	121,620
Change in operating assets and liabilities:		
Accounts receivable	(188,249)	(92,560)
Accounts receivable - related party	14,226	(4,768)
Inventory	(347,385)	(347,546)
Prepaid expenses and other assets	(129,424)	(41,672)
Accounts payable	(102,282)	524,703
Accounts payable - related parties	-	(32,000)
Customer deposits	(134,224)	-
Accrued expenses	495,272	131,303
Deferred revenue	(12,396)	37,081
NET CASH PROVIDED BY OPERATING ACTIVITIES	(376,134)	180,244
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	-	-
Purchases of property, plant and equipment	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank lines of credit	1,903,600	3,556,000
Repayment of bank lines of credit	(1,509,374)	(3,707,030)
Repayment of bank loans	(40,803)	(37,190)
Repayment of loan to third party	-	(4,940)
Proceeds from advances from related parties	25,000	-
NET CASH USED IN FINANCING ACTIVITIES	378,423	(193,160)
NET DECREASE IN CASH	2,289	(12,916)
CASH, beginning of year	233,299	189,128
CASH, end of period	$ 235,588	$ 176,212
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	$ 42,612	$ 33,914
Income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Reclassification of accrued salary to notes payable - long-term	$ -	$ 17,425
Accrued director fees settled with common stock	$ 19,997	$ 19,000

The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the consolidated statement of cash flows:

	2018	2017
Cash	$ 150,588	176,212
Restricted cash	85,000	-
Total cash and restricted cash	$ 235,588	$ 176,212

See accompanying notes to consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(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 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 June 30, 2018 and for the three and six months ended June 30, 2018 and 2017. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full year ending December 31, 2018 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, 2017 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on June 15, 2018.

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 June 15, 2018, the Company had a net loss of $687,068 and $556,001 for the years ended December 31, 2017 and 2016. Additionally, the Company had a net loss of $20,802 and $41,320 for the three and six months ended June 30, 2018. Furthermore, the Company had an accumulated deficit, a stockholders' deficit and a working capital deficit of $6,628,557, $1,108,583 and $1,349,395, respectively, at June 30, 2018. 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. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. During 2017 and continuing in the first two quarters of 2018, management has taken measures to reduce operating expenses. Although the Company has historically raised capital from sales of equity, 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. 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 and six months ended June 30, 2018 and 2017 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, the fair value of assets acquired and liabilities assumed in the merger, estimates of current and deferred income taxes and deferred tax valuation allowances, the fair value of non-cash equity transactions, and the fair value of equity incentives.

Fair Value of Financial Instruments and Fair Value Measurements

The Company adopted the guidance of Accounting Standards Codification ("ASC") 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

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

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

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

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

The Company analyzes all financial and non-financial instruments with features of both liabilities and equity under the Financial Accounting Standards Board ("FASB") 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 June 30, 2018			At December 31, 2017		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Stock Appreciation Rights Plan A	-	-	$ -	-	-	$ -
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, 2017	$ -	$ 2,278
Change in fair value included in net loss	-	(2,278)
Balance at June 30, 2018	$ -	$ -

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 June 30, 2018 and December 31, 2017, inventory consisted of the following:

	June 30, 2018	December 31, 2017
Raw materials	$ 849,238	$ 595,747
Work in process	135	-
Finished goods	481,820	388,060
	1,331,193	983,807
Less: reserve for obsolescence	(278,470)	(249,828)
Inventory, net	$ 1,052,723	$ 733,979

Effective January 1, 2017, the Company adopted 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 and six months ended June 30, 2018 and 2017.

Revenue Recognition

Pursuant to the guidance of ASC Topic 605 and ASU 2014-09, 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 is generally recognized based on what we have a right to invoice.
- 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 and six months ended June 30, 2018, the Company recorded $0 and $0, respectively, as a reduction of sales related to sales incentives as compared to $34,886 and $73,505 for the prior three and six month periods.

During the year ended December 31, 2017, based on industry trends related to cooperative advertising management recorded a one-time adjustment to reduce its cooperative advertising liability by approximately $446,000 to $0 as of December 31, 2017 with a corresponding $446,000 increase to product revenue for the year ended December 31, 2017.

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 incurred for product shipped to customers are included in cost of sales. For the three months ended June 30, 2018 and 2017 shipping and handle costs amounted to $33,115 and $52,601, respectively, $66,440 and $97,157 for the six months ended June 30, 2018 and 2017, 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. Research and development costs incurred in the development of the Company's products for the three months ended June 30, 2018 and 2017 were $2,251 and $146,431, respectively, and were $10,444 and $215,153 for the six months ended June 30, 2018 and 2017, 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. Advertising costs charged to operations for the three months ended June 30, 2018 and 2017 were $95 and $9,598, respectively, and were $500 and $14,626 for the six months ended June 30, 2018 and 2017, respectively, and are included in sales and marketing on the unaudited consolidated accompanying statements of operations. These costs are included in sales and marketing on the 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 June 30, 2018, and December 31, 2017, 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 June 30, 2018 or December 31, 2017.

On December 22, 2017, H.R. 1, known as the "Tax Cuts and Jobs Act" (the Act), was signed into law. The Act includes a number of changes in existing tax law impacting businesses including, among other things, a permanent change in the corporate income tax rate to a fixed rate of 21%. The new rate took effect on January 1, 2018. As a result, the Company revalued its deferred taxes at December 31, 2017.

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.

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 loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As of June 30, 2018, and December 31, 2017, 37,778 contingently issuable common shares that are issuable based on certain market conditions (see Note 9) 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). These common stock equivalents may be dilutive in the future . Potentially dilutive common shares were excluded from the computation of diluted shares outstanding as they would have an anti-dilutive impact on the Company's net losses and consisted of the following:

	June 30, 2018	December 31, 2017
Stock options	18,726	19,120
Stock warrants	712	712
Restricted Stock	37,778	37,778
Total	57,216	57,610

Additionally, there are an unknown quantity of common stock equivalents that result from a potential conversion of stock appreciation rights (See Note 9).

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

Net (loss) income per common shares outstanding:	Three Months ended June 30, 2018	Three Months ended June 30, 2017	Six Months ended June 30, 2018	Six Months ended June 30, 2017
Class A common stock	$ (0.01)	$ (0.09)	$ (0.01)	$ (0.09)
Class B common stock	$ (0.01)	$ (0.07)	$ (0.01)	$ (0.07)
Class Z common stock	$ -	$ -	$ -	$ -
Weighted average shares outstanding:				
Class A common stock	1,658,824	1,429,896	1,657,375	1,428,727
Class B common stock	1,433,396	1,408,952	1,430,319	1,408,173
Class Z common stock		207,493		207,493
Total weighted average shares outstanding	3,092,220	3,046,341	3,087,694	3,044,393

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 May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition ("ASC 605") and most industry-specific guidance throughout ASC 605. The FASB has issued numerous updates that provide clarification on a number of specific issues as well as requiring additional disclosures. The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance may be adopted through either retrospective application to all periods presented in the financial statements (full retrospective approach) or through a cumulative effect adjustment to retained earnings at the effective date (modified retrospective approach). The guidance was revised in July 2015 to be effective for public companies for annual and interim periods beginning on or after December 15, 2017.

The Company adopted ASC 606 effective January 1, 2018 using the modified retrospective method. Implementing ASC 606 the Company concluded that no change was required in its accounting for any sources of revenue for the year ended December 3, 2017.

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

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 consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 provides clarity on the accounting for modifications of stock-based awards. ASU 2017-09 requires adoption on a prospective basis in the annual and interim periods beginning after December 15, 2017 for share-based payment awards modified on or after the adoption date. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, "Earnings Per Share (Topic 260) and Derivatives and Hedging (Topic 815) - Accounting for Certain Financial Instruments with Down Round Features," ("ASU 2017-11"). Equity-linked instruments, such as warrants and convertible instruments may contain down round features that result in the strike price being reduced on the basis of the pricing of future equity offerings. Under ASU 2017-11, a down round feature will no longer require a freestanding equity-linked instrument (or embedded conversion option) to be classified as a liability that is remeasured at fair value through the income statement (i.e. marked-to-market). However, other features of the equity-linked instrument (or embedded conversion option) must still be evaluated to determine whether liability or equity classification is appropriate. Equity classified instruments are not marked-to-market. For earnings per share ("EPS") reporting, the ASU requires companies to recognize the effect of the down round feature only when it is triggered by treating it as a dividend and as a reduction of income available to common shareholders in basic EPS. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its 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 accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statements.

NOTE 3 – BANK LOANS AND LINES OF 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, PEN Inc., the parent 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 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 changed the interest rate to 3.0% above the Prime Rate, as reported in the Wall Street Journal. Under a subsequent amendment, the maturity date was changed to July 3, 2018.

On October 17, 2017, pursuant to the terms of the Revolving Note, the gross proceeds of $85,000 in connection with the Asset Purchase agreement were applied to decrease the borrowing base of the Revolving Note. In connection with the sale of fixed assets, the Company amended the Revolving Note to establish a cash collateral account to be no less than $85,000. Pursuant to this amendment, the Company entered into a loan agreement with two Company directors in the aggregate principal amount of $85,000 in order to fund the cash collateral provision pursuant to the amended loan agreement. The loan bears no interest and is due when cash flow permits, or if earlier, upon the payment or refinancing of the loan from the Lender to PEN Brands.

On March 30, 2018, PEN Brands and the lender entered into the fourth amendment that permits the borrower to request up to three advances of not more than $200,000 each supported by certain qualifying purchase orders. Each purchase order advance to be repaid in not less than 30 days. No subsequent request can be made until any prior purchase order advance has been repaid. Two of the Company's officers and directors have personally guaranteed repayment of purchase order advances. The fourth amendment also changes the maturity date for the loan to July 3, 2018. That date becomes the date for an automatic one-year renewal unless either the lender or the borrower gives notice of non-renewal. Other terms and conditions of the agreement remain the same.

On August 8, 2018, PEN Brands and the lender entered into the fifth amendment with an effective date of July 3, 2018. The fifth amendment renewed the agreement through July 3, 2019 and provides for an automatic one-year renewal at that time unless it is terminated by either party 60 days in advance. The fifth amendment also limits the amounts that PEN Brands can advance to its parent, and provides that advances based on eligible inventory will reduce monthly by $7,500 per month starting November 1, 2018.

At June 30, 2018 and December 31, 2017, the Company had $944,778 and $563,218, respectively, which includes accrued interest of $23,181 and $14,797, respectively, in amounts outstanding under the Revolving Note with availability of up to $555,222 as of June 30, 2018, depending on the borrowing base at the time of the request for the advance. The weighted average interest rate during the six months ended June 30, 2018 and 2017 was approximately 7.8% and 7.7%, respectively.

See Note 12 – Subsequent Events for details on the payment in full of the outstanding balance and the termination of the Revolving Note.

NOTE 4 – NOTES PAYABLE

On February 10, 2015, Nanofilm entered into a promissory note (the "Equipment Note") with KeyBank, N.A. (the "Bank") to borrow up to $373,000. Nanofilm may obtain one or more advances not to exceed $373,000. The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At December 31, 2017, the principal amount due under the Equipment Note amounted to $179,399, respectively. As of June 30, 2018, $68,182 and $79,898, represent the current and non-current portion due under this note.

In June and November 2015, in connection with a severance package offered to four employees, the Company entered into four promissory note agreements with the four employees which obligate the Company to pay these employees accrued and unpaid deferred salary in an aggregate amount of $51,808. The principal amounts due under these notes shall bear interest at the minimum rate of interest applicable under the internal revenue code (approximately 3.0% at December 31, 2018). All principal and interest payable under three of these notes aggregating $40,565 are due in 2025 and all principal and interest payable under one of these notes amounting to $15,695 are due in 2020. Accordingly, $51,808 is included in non-current notes payable.

On May 31, 2016, in connection with a restatement of our agreement with a former research partner, we delivered a promissory note to repay amounts previously advanced to us and accrued. The initial principal amount was $51,239 bearing interest at 5% per annum. Installment payments include both principal and interest. After an initial payment of $2,000, the note requires payments of $1,000 for eleven months, payments of $2,000 for the following 12 months and monthly payments of $3,000 thereafter until paid in full. The principal balance due on December 31, 2017 was $28,351, all classified as a current liability. At March 31, 2018 the principal balance due was $22,682.05 all classified as a current liability.

January 2017, the Company 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, and is included in non-current notes payable.

Future principal payments of notes payable are as follows:

Year	As of June 30, 2018	As of December 31, 2017
2018	$ 54,132	$ 96,533
2019	74,380	74,380
2020	51,540	51,540
2021	-	-
2022	-	-

Thereafter	54,882	54,883
Total	$ 234,935	$ 277,336

NOTE 5 – RELATED PARTY TRANSACTIONS

Sales to Related Party

During the three and six months ended June 30, 2018 and 2017, 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 $0 and $58,597 for the three months ended June 30, 2018 and 2017 and totaled $0 and $111,911 for the six months ended June 30, 2018 and 2017. Accounts receivable from the related party totaled $0 at June 30, 2018 and $15,242 at December 31, 2017. At June 30, 2018, that director no longer served on the Company's Board and the shareholder was no longer an affiliate.

Other

As of June 30, 2018, the Company included the following within accounts payable-related parties: $1,000 in accrued director fees and $159,887 due to certain of the Company's executives, and $419,408 in accrued payroll to certain of the Companies executives.

NOTE 6 - STOCKHOLDERS' EQUITY

Description of Preferred and Common Stock

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

Preferred Stock

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

Common Stock – General

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

Class A Common Stock

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

Class B Common Stock

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

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

Class Z Common Stock

Conversion Rights . Shares of Class Z common stock can be converted, one-for-one, into shares of Class A common stock at any time at the option of the holder. Shares of Class Z common stock will automatically be converted into shares of Class A common stock if the shares of Class Z common stock are not owned by Zeiss or an entity wholly owned by the ultimate parent of Zeiss.

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 28, 2018, the Company issued an aggregate of 4,443 shares of Class A common stock and 2,962 shares of Class B common stock to the Company's directors as compensation to them for service on its board. These shares were valued on that date at $1.35 per share based on the quoted price of the stock for a total value of $10,000. On that same day, the Company issued 6,746 shares of Class B common stock in satisfaction of the outstanding equity credits.

On May 23, 2018, the Company issued an aggregate of 5,043 shares of Class A common stock and 3,362 shares of Class B common stock to the Company's directors as compensation to them for service on our board. These shares were valued on that date at $0.19 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 six months ended June 30, 2018 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2017	19,120	$ 29.38	3.21	$ -
Exercised	-		-	-
Expired	(394)	$	-	-
Balance Outstanding June 30, 2018	18,726	$ 29.09	2.78	$ -
Exercisable, June 30, 2018	8,726	$ 59.21	2.44	$ -

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 share for a total value of $495,720. The Company estimates the fair value of the awards with market conditions using a Binomial simulation, which utilizes several assumptions including the risk-free interest rate, the volatility of the Company's stock and the exercise behavior of award recipients. The grant-date fair value of $495,720 of the awards was recognized over the requisite service period of 3 years, which represents the derived service period for the stock grant as determined by the Binomial simulation method. For the three and six months ended June 30, 2018 and 2017, in connection with the amortization of the fair value of this stock grant, the Company recorded stock-based compensation of $0 and $41,310, respectively. At June 30, 2018, there is no unamortized stock-based compensation expense to be recognized in future periods.

Conversion of Class Z Common Stock

On May 23, 2017, Zeiss converted 262,631 shares of Class Z common stock into 262,631 shares of Class A common stock. Immediately thereafter, Zeiss sold 262,631 shares of Class A common stock to certain buyers which included the Company's Chief Executive Officer for an aggregate of $100,000. In addition, pursuant to the certificate of incorporation, Zeiss' Board representation automatically terminated and, as a result, Zeiss ceased to be a related party as of May 23, 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 primarily on one lender under a $1,500,000 Revolving Note.

Customer Concentrations

Customer concentrations for the six months ended June 30, 2018 and 2017 are as follows:

	Revenues	
	For the six months ended June 30,	
	2018	2017
Customer A	32%	34%
Customer B	10%	12%
Customer D	*%	13%
Total	42%	59%

*Less than 10%

	Accounts Receivable	
	As of June 30, 2018	As of December 31, 2017
Customer A	42%	30%
Customer B	12%	21%
Total	54%	51%

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

Geographic Concentrations of Sales

For the six months ended June 30, 2018 and 2017, total sales in the United States represent approximately 96% and 80% of total consolidated revenues, respectively. No other geographical area accounting for more than 10% of total sales during the six months ended June 30, 2018 and 2017.

Vendor Concentrations

Vendor concentrations for inventory purchases for the six months ended June 30, 2018 and 2017 are:

	For the six months ended June 30,	
	2018	2017
Customer A	25%	28%
Customer B	14%	11%
Customer C	11%	12%
Customer D	10%	11%
Total	60%	62%

NOTE 8 – <u>EQUITY CREDITS</u>

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 June 30, 2018, no equity credits were forfeited and no units were redeemed. As of June 30, 2018, $0 was accrued and at December 31, 2017, $2,278 was accrued, representing the value associated with the equity credits outstanding.

NOTE 9 – <u>STOCK APPRECIATION PLAN</u>

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 June 30, 2018 and December 31, 2017. 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 PEN Brands, 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 PEN Brands (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 June 30, 2018 and December 31, 2017, 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 – <u>SEGMENT REPORTING</u>

The Company's principal operating segments coincide with the types of products to be sold. The products from which revenues are derived are consistent with the reporting structure of the Company's internal organization. The Company's two reportable segments for the three and six months ended June 30, 2018 and 2017 were 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 June 30, 2018 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 loss. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. The Company manages certain operating expenses separately at the corporate level and does not allocate such expenses to the segments. Segment income from operations excludes interest income/expense and other income or expenses and income taxes according to how a particular reportable segment's management is measured. Management does not consider impairment charges, and unallocated costs in measuring the performance of the reportable segments.

Segment information available with respect to these reportable business segments for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Product segment	$ 919,557	$ 1,754,336	$ 2,062,132	$ 3,750,825
Contract services segment	$ 447,896	248,273	$ 748,846	468,134
Total segment and consolidated revenues	$ 1,367,453	$ 2,002,609	$ 2,810,978	$ 4,218,959
Cost of revenues:				
Products	$ 650,816	$ 1,080,347	$ 1,455,503	$ 2,116,182
Contract services segment	$ 289,741	266,005	$ 591,313	513,203
Total segment and consolidated cost of revenues	$ 940,557	$ 1,346,352	$ 2,046,816	$ 2,629,385
Gross profit (loss):				
Product segment	$ 268,741	$ 673,989	$ 606,629	$ 1,634,643
Contract services segment	158,155	(17,732)	157,533	(45,069)
Total segment and consolidated gross profit	$ 426,896	$ 656,257	$ 764,162	$ 1,589,574
Gross margin:				
Product segment	29.2%	38.4%	29.4%	43.6%
Contract services segment	35,3%	-7.1%	21.0%	-9.6%
Total gross margin	31.2%	32.8%	27.2%	37.7%
Segment operating expenses:				
Product segment	272,153	761,719	593,307	1,323,025
Contract services segment	62,639	48,789	102,038	100,566
Total segment operating expenses	334,793	810,508	695,345	1,423,591
Income (loss) from operations:				
Product segment	$ (3,412)	$ (87,730)	$ 13,322	$ 311,618
Contract services segment	95,516	(66,521)	55,495	(145,635)
Total segment income (loss)	91,102	(154,251)	68,817	165,983
Unallocated costs	(139,756)	(209,319)	(312,864)	(460,139)
Total consolidated income (loss) from operations	$ (47,653)	$ (363,570)	$ (244,046)	$ (294,156)
Depreciation and amortization:				
Product segment	$ 15,989	$ 28,293	$ 32,261	$ 61,026
Contract services segment	-	2,770	-	7,851
Total segment depreciation and amortization	15,989	31,063	32,261	68,877
Unallocated depreciation	-	-	-	-
Total consolidated depreciation and amortization	$ 15,989	$ 31,063	$ 32,261	$ 68,877
Capital additions:				
Product segment	$ -	$ -	$ -	$ -
Contract services segment	-	-	-	-
Total segment capital additions	-	-	-	-
Unallocated capital additions	-	-	-	-
Total consolidated capital additions	$ -	$ -	$ -	$ -

	June 30, 2018	December 31, 2017
Segment total assets:		
Product segment	$ 2,490,374	$ 1,982,579
Contract services segment	264,628	168,740
Corporate	18,491	29,956
Total consolidated total assets	$ 2,773,493	$ 2,181,275

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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 8).

Litigation

On May 20, 2018, PEN Brands reached a settlement with a former employee in exchange for a full release. We accrued $80,000 related to this settlement as of December 31, 2017. On July 27, 2018 PEN Brands and its then President were named as defendants in a suit for breach of this agreement in the Court of Common Pleas in Cleveland, Ohio. On December 13, 2018 the case was resolved with a full release for a one-time payment of $24,000 and the case was dismissed with prejudice.

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.

Lease for Real Property

On September 20, 2017, the Company entered into a three-year lease agreement for 22,172 square feet of office space in Brooklyn Heights, Ohio beginning September 20, 2017 and ending September 20, 2020. Monthly lease payments amount to $8,688 for a total of approximately $312,768 for the total term of the lease.

NOTE 12 - SUBSEQUENT EVENTS

Sales of Common Stock and Derivate Equity Securities
Grant of Registration Rights

On October 15, 2018, we sold 590,847 shares of Class A common stock for a purchase price of $0.50 per share in a private placement for aggregate proceeds of $295,423. Purchasers were PEN Comeback, LLC and Scott & Jeanne Rickert. Ronald Berman, one of our directors, and his son, Tom Berman have reported that they each have 50% control of PEN Comeback. Immediately prior to this sale, Tom Berman was elected as our President and as President of PEN Brands that operates as our Products segment. Tom Berman was also elected to our board.

On that day we also sold to PEN Comeback options to acquire up to an additional 550,847 shares at an option exercise price of $1.00 per share, exercisable at any time before June 30, 2019; and warrants to purchase up to 550,847 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that our Class A common stock has been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. We also sold additional "warrant options" to purchase warrants. For each share purchased under an option described above, the warrant options entitle PEN Comeback investor can purchase at a price of $0.03 per warrant a warrant to purchase an additional share at an exercise price of $2.00 per share. If purchased, these warrants will expire on the earlier of (1) 45 days after the day that Class A shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the options, warrants and warrant options were $49,576.

On October 15, 2018, we also entered into an agreement that granted to PEN Comeback one demand registration right that is exercisable if certain warrants issued to that investor result in proceeds to us of $1 million or more. If the demand is exercised, the investor can register common shares purchased, including common shares purchased directly or upon exercise of the options or warrants issued to the investor.

On or about October 15, 2018 as part of the terms for the stock sale, the Rickerts and their family partnership exercised the right to convert Class B shares into Class A shares on a 1:1 basis resulting in the issuance of 1,436,052 shares of Class A common stock. The Rickerts also agreed to forgiveness of accrued salary owed to them and agreed to each receive a salary of $1,000 per month for 2018 and 2019.

On January 31, 2019, we sold an additional 325,581 shares of Class A common stock in a private placement to PEN Comeback at a per share price of $0.40 for aggregate proceeds of $130,232. At the same time the investor bought warrants to purchase up to 325,581 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $9,767.

On March 22, 2019, we sold 232,558 shares of Class A common stock in a private placement to PEN Comeback at a per share price of $0.40 for aggregate proceeds of $93,023. At the same time the investor bought warrants to purchase up to 325,581 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $6,977.

On May 10, 2019, we sold 523,266 shares of Class A common stock in a private placement to PEN Comeback at a per share price of $0.40 for aggregate proceeds of $209,302. At the same time the investor bought warrants to purchase up to 523,266 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $15,698.

Stock for Services

On October 15, 2018, we issued an aggregate of 20,000 shares of Class A common stock to the Company's directors as compensation to them for service on our board. These shares were valued on that date at $0.50 per share based on the price paid in the private placement for a total value of $10,000. On that date 1,774 shares of Class A common stock were issued to fully retire the last outstanding equity credits.

On December 5, 2018, we issued an aggregate of 30,000 shares of Class A common stock to our directors as compensation to them for service on our Board. These shares were valued on that date at $0.40 per share based on the quoted price of the stock for a total value of $12,000.

On April 3, 2019, we issued an aggregate of 18,180 shares of our Class A common stock to five of our directors as compensation to them for service on our Board. The shares were valued at $0.55 per share based on the quoted price of the stock for a total value of $10,000. On that date the Board also granted to our President an option to purchase up to 550,000 shares of our Class A common stock at a price of $0.55 per share. Under that option, the right to purchase 50,000 shares vested on the date of grant, the right to purchase up to 75,000 shares will vest on December 31, 2019, the right to purchase 100,000 shares will vest on June 30, 2020, and the right to purchase up to 125,000 shares will vest on December 31, 2020 and two tranches entitling him to purchase 100,000 shares will vest if he reaches the cap for cash payments under the bonus program in 2019 or 2020. All rights to purchase have a term of 5 years from date of vesting.

On April 24, 2019, we issued an aggregate of 19,998 shares of Class A common stock to our directors as compensation to them for service on our Board. These shares were valued on that date at $0.60 per share based on the quoted price of the stock for a total value of $12,000.

Lease for Real Property

On December 10, 2018, we entered into a five-year lease agreement for 3,742 square feet of space for the design facility in Austin, beginning January 2019 and ending February 29, 2024. Monthly lease payments start at $3,472 per month, increasing 3% each year for a total of approximately $238,440 over the term of the lease.

Lender Pay-Off

On January 31, 2019, PEN Brands paid $172,101 to its secured lender, MBank. This payment, and the application of $85,000 in cash collateral held by MBank paid in full the outstanding principal balance, accrued interest and fees due to the lender. The parties also terminated the revolving credit line agreement and note originally executed in April 2014 that was renewed in August 2018.

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 and six months ended June 30, 2018 were (i) the Product Segment and (ii) the Contract services Segment. For the three and six months ended June 30, 2017, the Company operated the same two segments.

RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements that are included elsewhere in this report. The results discussed below are for the three and six months ended June 30, 2018 and 2017.

Comparison of Results of Operations for the Three and Six Months ended June 30, 2018 and 2017

Revenues:

For the three and six months ended June 30, 2018 and 2017, revenues consisted of the following:

	Three Months ended June 30,		Six Months ended June 30,	
	2018	2017	2018	2017
Sales:				
Product segment	$ 919,557	$ 1,754,336	$ 2,062,132	$ 3,750,825
Contract services segment	$ 447,896	248,273	748,846	468,134
Total segment and consolidated sales	$ **1,367,453**	**$** **2,002,609**	$ **2,810,978**	**$** **4,218,959**

For the three months ended June 30, 2018, sales from the Product segment decreased by $834,779 or 48% as compared to the three months ended June 30, 2017 which was primarily attributable to delays in production and shipment. For the six months ended June 30, 2018 revenue from the Product segment decreased by $1,688,693 or 45%, as compared to the six months ended June 30, 2017, also attributable to delays in production and shipment.

For the three months ended June 30, 2018, sales from the Contract services segment increased by $199,623 or 80% as compared to the three months ended June 30, 2017 which was primarily attributable to contracts awarded in 2018. For the six months ended June 30, 2018 revenue from the Contract services segment increased by $280,712 or 60%, as compared to the six months ended June 30, 2017 reflecting the contract awards in 2018.

Cost of revenues

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

For the three months ended June 30, 2018, cost of revenues decreased by $405,795 or 30% as compared to the three months ended June 30, 2106. For the six months ended June 30, 2018, cost of revenues decreased by $582,569 or 22%. These changes consisted of the following:

	Three Months ended June 30,		Six Months ended June 30,	
	2018	2017	2018	2017
Cost of revenues:				
Product segment	$ 650,816	$ 1,080,347	$ 1,455,503	$ 2,116,182
Contract services segment	289,741	266,005	591,313	513,203
Total segment and consolidated cost of revenues	**$** **940,557**	**$** **1,346,352**	**$** **2,046,816**	**$** **4,218,959**

Gross profit and gross margin

For the three months ended June 30, 2018, gross profit amounted to $426,896 as compared to $656,257 for the three months ended June 30, 2017, a decrease of $229,361 or 53%. For the three months ended June 30, 2018 and 2017, gross margins were 31.2% and 32.8%, respectively. For the six months ended June 30, 2018, gross profit amounted to $764,162 as compared to $1,589,574 for the six months ended June 30, 2017, a decrease of $882,878 or 47%. For the six months ended June 30, 2018 and 2017, gross margins were 27.2% and 37.7%, respectively.

Gross profit and gross margin by segment is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	%	2017	%	2018	%	2017	%
Gross profit:								
Product segment *	$ 268,741	29.2%	673,989	38.4%	$ 606,629	29.4%	1,634,643	43.6%
Contract services segment *	$ 158,155	35.3%	(17,732)	(7.1)%	$ 157,533	21.0%	(45,069)	(9.6)%
Total gross profit	$ 426,896	31.2%	656,257	32.8%	764,162	27.2%	1,589,574	37.7%

* Gross margin % based on respective segments revenues.

For the three and six months ended June 30, 2018, Product segment margins were down due to lower revenue that was not offset by reductions on cost.

The gross margins from the research development segment for the three and six months ended June 30, 2018 were substantially improved as new contracts were awarded in 2018 and the prior periods had seen several research contracts come to an end. 2018 benefited from increased revenue and fixed costs that were largely unchanged.

Operating expenses

For the three months ended June 30, 2018, operating expenses were essentially flat, increasing by $7,717 or 1% compared to the three months ended June 30, 2017. The same was true for the six months period as operating expenses decreased by $7,615 for the period ended June 30, 2018, as compared to the six months ended June 30, 2017. For the three and six months ended June 30, 2018 and 2017, operating expenses consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Selling and marketing expenses	$ (12,920)	$ 172,143	$ 28,776	$ 236,870
Salaries, wages and related benefits	191,047	266,222	345,237	566,436
Research and development	2,251	146,431	10,444	215,153
Professional fees	150,802	186,769	324,324	401,023
General and administrative expenses	143,368	248,262	292,071	464,248
Total	**$ 474,548**	**$ 1,019,827**	**$ 1,000,852**	**$ 1,883,730**

- For the three months ended June 30, 2018, selling and marketing expenses decreased by $185,063 or 108% as compared to the three months ended June 30, 2017 due to a decrease in commission payments and sales incentives. For the six months ended June 30, 2018, sales and marketing expenses increased by $208,094 or 88% as compared to the six months ended June 30, 2017. For the six months ended June 30, 2018, the increase was also due to reduced commissions and sales incentives.

- For the three months ended June 30, 2018, salaries, wages and related benefits decreased by $75,175, or 28%, as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, salaries, wages and contract services decreased by $211,365, or 37%, as compared to the six months ended June 30, 2017. For the three and six months ended June 30, 2018, these decreases were attributable to personnel reductions related to our ongoing efforts to reduce costs.

- For the three months ended June 30, 2018, research and development costs decreased by $144,180 or 98%, as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, research and development costs decreased by $204,709 or 95%, as compared to the six months ended June 30, 2017. For the three and six months ended June 30, 2018, there was work on specialty coatings for new markets and potential enhancements of the surface protector and fortifier product that did not continue into 2017.

- For the three and six months ended June 30, 2018, professional and other fees decreased by $35,967 or 19%, and $77,783 or 19%, as compared to the three and six months ended June 30, 2017, respectively. This decrease was due to non-recurring expenses in 2017 in preparation for moving product segment operations to a new location.

- For the three months ended June 30, 2018, general and administrative expenses decreased by $104,894 or 42% as compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, general and administrative expenses decreased by approximately $173,571 or 37% as compared to the six months ended June 30, 2017. The decrease was attributable to several factors including personnel reductions with associated general and administrative expenses.

Loss from operations

As a result of the factors described above, for the three months ended June 30, 2018, loss from operations amounted to $47.652 as compared to loss from operations of $363,570 for the three months ended June 30, 2017, a decrease of $315,918 or 87%. For the six months ended June 30, 2018, loss from operations amounted to $244,046 as compared to a loss from operations of $294,156 for the six months ended June 30, 2017, a difference of $50,110 or 17%.

Other (expense) income

For the three months ended June 30, 2018, other income was $ 26,850 as compared to $42,380 for the three months ended June 30, 2017, a decrease of $15,530 or 37%. There was a decrease in interest expense of approximately $19,810 attributable to a reduced interest rate on our revolving credit loan and a decrease in other income of $70,763. For the six months ended June 30, 2018 other income was $202,726, as compared to a $67,378 for the six months ended 2017, an increase of $135,348, or 201% due to cash advances to the company from several directors.

Net loss

As a result of the foregoing, for the three and six months ended June 30, 2018, net loss amounted to $20,802 and $202,726 as compared to net loss of $321,190 and $226,778 for the three and six months ended June 30, 2017. The decrease in net loss for the 3-month period was $300,388 or an improvement of 949%. For the six-month period there was in improvement of $185,478 or 82%. Decreases in net losses resulted from significant decreases in operating expenses for the business across most major expense categories.

For the three months ended June 30, 2018 and 2017, net loss amounted to $20,802 or $0.01 per common share (basic and diluted), and $321,190 or $0.11 per common share (basic and diluted), respectively. For the six months ended June 30, 2018 and 2017, net loss amounted to $244,046 or $0.01 per common share (basic and diluted), and $226,778 or $0.07 per common share (basic and diluted), respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had working capital deficit of $1,349,395 and $150,588 of unrestricted cash as of June 30, 2018 and working capital deficit of $1,345,095 and $138,296 of cash as of December 31, 2017.

The following table sets forth a summary of changes in our working capital from December 31, 2017 to June 30, 2018:

	June 30, 2018	December 31, 2017	December 31, 2017 to June 30, 2018	
			Change in working capital	Percentage Change
Working capital:				
Total current assets	$ 2,381,272	$ 1,751,382	$ 602,262	34.39%
Total current liabilities	3,730,667	3,096,477	599,206	19.35%
Working capital deficit:	$ (1,349,395)	$ (1,345,095)	$ 4,300	(0.32)%

The increase in current assets was attributable to an increase in inventory due to shipping delays and an increase in accounts receivable in the Product segment. The increase in current liabilities was due to an increase in most liabilities, including a large increase in accrued expenses.

Net cash used in operating activities was $376,134 for the six months ended June 30, 2018 as compared to cash provided of $180,244 for the six months ended June 30, 2017, a change of ($556,378) or 309%. Net cash provided by operating activities for the six months ended June 30, 2018 primarily reflected a net loss of ($41,320) adjusted for add-backs of $149,545 and changes in operating assets of $(484,359).

Net cash flow provided by investing activities was $0 for the six months ended June 30, 2018 and the same for the six months ended June 30, 2017.

Net cash used in financing activities of $378,423 for the six months ended June 30, 2018 as compared to $(193,160) in the same period in 2017. During the six months ended June 30, 2018, we paid down a portion of the equipment loan. We borrowed more under our revolver than we repaid.

Future Liquidity and Capital Needs .

Our principal future uses of cash are for working capital requirements, including reduction of accrued liabilities. Application of funds will depend on numerous factors including our sales and other revenues and our ability to control costs.

Revolving Credit Note

In April 2014, our subsidiary, 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 changed the interest rate to 3.0% above the Prime Rate, as reported in the Wall Street Journal. Under a subsequent amendment, the maturity date was changed to July 3, 2018.

On October 17, 2017, pursuant to the terms of the Revolving Note, the gross proceeds of $85,000 in connection with the Asset Purchase agreement were applied to decrease the borrowing base of the Revolving Note. In connection with the sale of fixed assets, the Company amended the Revolving Note to establish a cash collateral account to be no less than $85,000. Pursuant to this amendment, the Company entered into a loan agreement with two Company directors in the aggregate principal amount of $85,000 in order to fund the cash collateral provision pursuant to the amended loan agreement. The loan bears no interest and is due when cash flow permits, or if earlier, upon the payment or refinancing of the loan from the Lender to PEN Brands.

On March 30, 2018, PEN Brands and the lender entered the fourth amendment that permits the borrower to request up to three advances of not more than $200,000 each supported by certain qualifying purchase orders. Each purchase order advance to be repaid in not less than 30 days. No subsequent request can be made until any prior purchase order advance has been repaid. Two of the Company's officers and directors have personally guaranteed repayment of purchase order advances. The fourth amendment also changes the maturity date for the loan to July 3, 2018. That date becomes the date for an automatic one-year renewal unless either the lender or the borrower gives notice of non-renewal. Other terms and conditions of the agreement remain the same.

On August 8, 2018, PEN Brands and the lender entered into the fifth amendment with an effective date of July 3, 2018. The fifth amendment renewed the agreement through July 3, 2019 and provides for an automatic one-year renewal at that time unless it is terminated by either party 60 days in advance. The fifth amendment also limits the amounts that PEN Brands can advance to its parent, and provides that advances based on eligible inventory will reduce monthly by $7,500 per month starting November 1, 2018.

At June 30, 2018 and December 31, 2017, the Company had $919,068 and $979,688, respectively, which includes accrued interest of $11,840 and $17,494, respectively, in amounts outstanding under the Revolving Note with availability of up to $580,932 as of June 30, 2018, depending on the borrowing base at the time of the request for the advance. The weighted average interest rate during the six months ended June 30, 2018 and 2017 was approximately 6.3% and 7.7%, respectively.

See Note 12 – Subsequent Events for details on the payment in full of the outstanding balance and the termination of the Revolving Note.

Equipment Financing

On February 10, 2015, PEN Brands entered into a $373,000 promissory note (the "Equipment Note") with KeyBank, N.A. (the "Bank"). The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At June 30, 2018, the principal amount due under the Equipment Note amounted to $152,550.

Off-balance Sheet Arrangements

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

ITEM 3. Quantitative and Qualitative disclosures about market risk

Not applicable to smaller reporting companies.

ITEM 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). Based upon this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports was recorded, but we lacked the staff or cash to purchase outside resources to process, summarize, and report within the time periods specified in SEC rules and forms.

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 June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not required of smaller reporting companies

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

On October 15, 2018, we sold 590,847 shares of Class A common stock for a purchase price of $0.50 per share in a private placement for aggregate proceeds of $295,423. On that same day we issued an aggregate of 20,000 shares of Class A common stock to the Company's directors as compensation to them for service on our board. These shares were valued on that date at $0.50 per share based on the price paid in the private placement for a total value of $10,000. On that date 1,774 shares of Class A common stock were issued to fully retire the last outstanding equity credits.

In the closing for the private placement on October 15, 2018 we also sold to one investor that purchased 550,847 shares of stock: options to acquire up to an additional 550,847 shares at an option exercise price of $1.00 per share, exercisable at any time before June 30, 2019; and warrants to purchase up to 550,847 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that our Class A common stock has been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. We also sold additional "warrant options" to purchase warrants. For each share purchased under the options described above, the investor can purchase at a price of $0.03 per warrant a warrant to purchase an additional share at an exercise price of $2.00 per share. These warrants will expire on the earlier of (1) 45 days after the day that Class A shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the options, warrants and warrant options were $49,576.

Proceeds were used for working capital and other corporate expenditures.

On January 31, 2019, we sold 325,581 shares of Class A common stock in a private placement at a per share price of $0.40 for aggregate proceeds of $130,232. At the same time the investor bought warrants to purchase up to 325,581 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $9,767.

Proceeds were used, along with other corporate funds, to pay in full the principal balance, accrued interest and fees due to our lender MBank.

On March 22, 2019, we sold 232,558 shares of Class A common stock in a private placement to PEN Comeback at a per share price of $0.40 for aggregate proceeds of $93,023. At the same time the investor bought warrants to purchase up to 325,581 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $6,977.

On May 10, 2019, we sold 523,266 shares of Class A common stock in a private placement to PEN Comeback at a per share price of $0.40 for aggregate proceeds of $209,302. At the same time the investor bought warrants to purchase up to 523,266 additional shares at a warrant exercise price of $1.50. The right to purchase warrant shares expires on the earlier of (1) 45 days after the day that PEN shares have been trading at or above 120% of the exercise price for a period of 90 days, or (2) four years from date of issue. Aggregate proceeds from the sales of the warrants were $15,698.

Proceeds were used for working capital and other corporate purposes.

On October 15, 2018, we issued an aggregate of 20,000 shares of Class A common stock to the Company's directors as compensation to them for service on our board. These shares were valued on that date at $0.50 per share based on the price paid in the private placement for a total value of $10,000. On that date 1,774 shares of Class A common stock were issued to fully retire the last outstanding equity credits.

On December 5, 2018, we issued an aggregate of 30,000 shares of Class A common stock to our directors as compensation to them for service on our Board. These shares were valued on that date at $0.40 per share based on the quoted price of the stock for a total value of $12,000.

On April 3, 2019, we issued an aggregate of 18,180 shares of our Class A common stock to five of our directors as compensation to them for service on our Board. The shares were valued at $0.55 per share based on the quoted price of the stock for a total value of $10,000. On that date the Board also granted to our President an option to purchase up to 550,000 shares of our Class A common stock at a price of $0.55 per share. Under that option, the right to purchase 50,000 shares vested on the date of grant, the right to purchase up to 75,000 shares will vest on December 31, 2019, the right to purchase 100,000 shares will vest on June 30, 2020, and the right to purchase up to 125,000 shares will vest on December 31, 2020 and two tranches entitling him to purchase 100,000 shares will vest if he reaches the cap for cash payments under the bonus program in 2019 or 2020. All rights to purchase have a term of 5 years from date of vesting

On April 24, 2019, we issued an aggregate of 19,998 shares of Class A common stock to our directors as compensation to them for service on our Board. These shares were valued on that date at $0.60 per share based on the quoted price of the stock for a total value of $12,000.

The sales and the issuances of stock and derivative securities were exempt from registration under Section 4(2).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Rule 13a-14(a)/15d-14(a) Certificate of Principal Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer
32.1*	Section 1350 Certificate of Principal 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 29, 2019

/s/ Tom J. Berman
Tom J. Berman
President

Date: May 29, 2019

/s/ Jacqueline M. Soptick
Jacqueline M. Soptick
Chief Accounting Officer

Exhibit 31.1

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

I, Tom J. Berman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 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 29, 2019

/s/ Tom J. Berman

Tom J. Berman
President

Exhibit 31.2

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

I, Jacqueline M. Soptick, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 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 29, 2019

/s/ Jacqueline M. Soptick

Jacqueline M. Soptick
Chief Accounting Officer

EXHIBIT 32.1

Section 1350 Certification of Principal Executive Officer

In connection with the quarterly report of PEN Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tom J. Berman, President 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 29, 2019

/s/ Tom J.Berman

Tom J. Berman
President

Date: May 29, 2019

/s/ Jacqueline M. Soptick

Jacqueline M. Soptick
Chief Accounting Officer