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

FORM 10-Q

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

For the quarterly period ended March 31, 2020

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

COMMISSION FILE NO. 1-11602

NANO MAGIC INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-1598792

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

750 Denison Court, Bloomfield Hills, MI

(Address of principal executive offices)

48302

(Zip Code)

(844) 273-6462

(Registrant's telephone number, including area code)

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock, \$0.0001 par value	NMGX	OTC Markets

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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 No.

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

As of June 1, 2020, the registrant had 7,199,942 shares of Class A Common Stock issued and outstanding.

Nano Magic INC.

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EXPLANATORY NOTE

Nano Magic Inc. is filing this Form 10Q for the period ended March 31, 2020 after the May 15, 2020 deadline in reliance on the SEC Order issued March 25, 2020 (Release No. 34-88465) (the “Order”) under Section 36 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which granted exemptive relief from certain provisions of the Exchange Act and rules promulgated thereunder. On May 15, 2020, the Company filed a Current Report on Form 8-K in which it (i) stated that it was relying on the Order; (ii) provided a brief description of the impact of the COVID-19 pandemic and related government restrictions on its operations, specifically with respect to the preparation of the Company’s quarterly report on Form 10-Q for the period ended March 31, 2020, and indicated that it would file its quarterly report on Form 10-Q by June 29, 2020.

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

**NANO MAGIC INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	<u>March 31</u> <u>2020</u> <u>(unaudited)</u>	<u>December 31</u> <u>2019</u> <u>(audited)</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 574,059	\$ 216,801
Investments	10,236	10,236
Accounts receivable, net	198,310	151,290
Inventory	424,006	422,622
Prepaid expenses and contract assets	37,851	34,160
Total Current Assets	<u>1,244,462</u>	<u>835,109</u>
Right-of-use assets, non-current	220,029	257,523
Property, plant and equipment, net	227,882	221,565
Other assets	5,890	5,890
Total Assets	<u>\$ 1,698,263</u>	<u>\$ 1,320,087</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 769,267	\$ 801,788
Accounts payable - related parties	19,887	19,887
Accrued expenses and other current liabilities	163,843	199,875
Customer deposits	66,943	-
Current portion of notes payable	49,641	52,641
Advances from related parties	140,000	140,000
Current portion of lease liabilities	104,035	131,835
Contract liabilities	93,369	162,123
Total Current Liabilities	<u>1,406,985</u>	<u>1,508,149</u>
Notes payable, net of current portion	111,792	122,170
Lease liabilities, net of current portion	127,682	136,624
Total Liabilities	<u>1,646,459</u>	<u>1,766,943</u>
Commitments and Contingencies (See Note 11)		
STOCKHOLDERS' DEFICIT:		
Preferred stock, \$0.0001 par value, 100,000 shares authorized; no shares issued and outstanding	-	-
Class A common stock: \$0.0001 par value, 7,200,000 shares authorized; 7,199,942 and 6,222,881 issued and outstanding at March 31, 2020 and December 31, 2019, respectively	720	622
Class B common stock: \$0.0001 par value, 2,500,000 shares authorized; 0 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	-	-
Class Z common stock: \$0.0001 par value, 300,000 shares authorized; 0 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	-	-
Additional paid-in capital	8,118,444	7,242,067
Accumulated deficit	(8,067,360)	(7,689,545)
Total Stockholders' Deficit	<u>51,804</u>	<u>(446,856)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 1,698,263</u>	<u>\$ 1,320,087</u>

See accompanying notes to consolidated financial statements.

PEN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2020	2019
	(unaudited)	(unaudited)
REVENUES:		
Products	\$ 241,717	\$ 456,868
Contract services	206,457	300,993
Total Revenues	448,174	757,861
COST OF REVENUES:		
Products	222,818	197,957
Contract services	166,899	332,548
Total Cost of Revenues	389,717	530,505
GROSS PROFIT	58,457	227,356
OPERATING EXPENSES:		
Selling and marketing expenses	11,057	7,800
Salaries, wages and related benefits	144,633	56,512
Research and development	16,652	15,805
Professional fees	124,752	79,434
General and administrative expenses	137,070	139,660
Total Operating Expenses	434,164	299,211
INCOME (LOSS) FROM OPERATIONS	(375,707)	(71,855)
OTHER (EXPENSE) INCOME:		
Interest expense	(2,108)	(2,594)
Other income, net	-	4,210
Total Other (Expense) Income	(2,108)	1,616
NET INCOME (LOSS)	\$ (377,815)	\$ (70,239)
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ (0.06)	\$ (0.02)
Diluted	\$ (0.06)	\$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	6,501,208	3,978,173
Diluted	6,501,208	3,978,173

See accompanying notes to consolidated financial statements.

NANO MAGIC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(unaudited)

	Class A Common Stock		Class B Common Stock		Class Z Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2018	3,741,481	\$ 374	-	\$ -	-	\$ -	\$ 5,886,600	\$ (6,640,370)	\$ (753,396)
Common stock issued for cash, net of issuance costs	558,139	55	-	-	-	-	223,200	-	223,255
Warrants, options, and warrant options on private placement	-	-	-	-	-	-	16,745	-	16,745
Net loss	-	-	-	-	-	-	-	(70,239)	(70,239)
Balance, March 31, 2019	<u>4,299,620</u>	<u>\$ 429</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 6,126,545</u>	<u>\$ (6,710,609)</u>	<u>\$ (583,635)</u>
Balance, December 31, 2019	6,222,881	\$ 622	-	\$ -	-	\$ -	\$ 7,242,067	\$ (7,689,545)	\$ (446,856)
Common stock issued for cash, net of issuance costs	956,013	96	-	-	-	-	621,313	-	621,409
Common stock issued for services	21,048	2	-	-	-	-	11,998	-	12,000
Stock-based compensation	-	-	-	-	-	-	24,475	-	24,475
Warrants, options, and warrant options on private placement	-	-	-	-	-	-	37,058	-	37,058
Stock Subscription Payable	-	-	-	-	-	-	181,533	-	181,533
Net loss	-	-	-	-	-	-	-	(377,815)	(377,815)
Balance, March 31, 2020	<u>7,199,942</u>	<u>\$ 720</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 8,118,444</u>	<u>\$ (8,067,360)</u>	<u>\$ 51,804</u>

See accompanying notes to consolidated financial statements.

NANO MAGIC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31,	
	2020	2019
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (377,815)	\$ (70,239)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Change in inventory obsolescence reserve	12,566	35,381
Depreciation and amortization expense	(4,841)	12,444
Stock-based compensation	36,475	55
Change in operating assets and liabilities:		
Accounts receivable	(47,020)	181,737
Inventory	(13,950)	(105,797)
Prepaid expenses and other assets	(3,691)	22,138
Accounts payable	(32,522)	(65,297)
Operating lease liabilities	752	-
Customer deposits	66,943	-
Accrued expenses	(36,032)	(15,640)
Deferred revenue	(68,754)	9,869
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(467,889)	4,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,475)	(2,482)
NET CASH USED IN INVESTING ACTIVITIES	(1,475)	(2,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank lines of credit	-	(348,369)
Repayment of bank loans	(10,378)	818
Proceeds from sale of common stock and warrants	840,000	239,944
Repayment of notes payable	(3,000)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	826,622	(107,607)
NET INCREASE (DECREASE) IN CASH	357,258	(105,438)
CASH, beginning of year	216,801	306,502
CASH, end of period	<u>\$ 574,059</u>	<u>\$ 201,064</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	\$ 2,108	\$ 2,594
Income taxes	\$ -	\$ -

See accompanying notes to consolidated financial statements.

NANO MAGIC INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020
(UNAUDITED)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

Nano Magic Inc. (“we”, “us”, “our”, “Nano Magic” 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. On March 3, 2020, we changed our name from PEN Inc. to Nano Magic Inc.

Through the Company’s wholly-owned subsidiary, Nano Magic LLC, formerly known as PEN Brands LLC, 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 directly to consumers and also to retailers and other institutional customers. On March 31, 2020, PEN Brands LLC changed its name to Nano Magic LLC.

Through the Company’s wholly-owned subsidiary, Applied Nanotech, Inc., we primarily perform contract research services for the Company 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 March 31, 2020 and for the three months ended March 31, 2020 and 2019. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the operating results for the full year ending December 31, 2020 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, 2019 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on May 13, 2020.

Going Concern

These unaudited 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 May 13, 2020, the Company had losses from operations and net cash used by operations of \$1,031,083 and \$878,668, respectively, for the year ended December 31, 2019. Furthermore, the Company had an accumulated deficit and a working capital deficit of \$8,067,360 and \$162,523, respectively, at March 31, 2020. 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. After taking action to reduce operating expenses in 2018, during 2019 and the first quarter of 2020, we closely monitor costs. In addition, the Company raised equity capital in 2018, 2019 and 2020. These unaudited consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the three months ended March 31, 2020 and 2019 include estimates for costs to complete open contracts, allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, estimates of current and deferred income taxes and deferred tax valuation allowances, the fair value of non-cash equity transactions, and the fair value of equity incentives.

Fair Value of Financial Instruments and Fair Value Measurements

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

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

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

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

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

The Company analyzes all financial and non-financial instruments with features of both liabilities and equity under the 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 no instruments at fair value using level 3 valuation.

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowance when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balance, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. The Company only grants credit terms to established customers who are deemed to be financially responsible. 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 based on prices paid for inventory items. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as sales to individual customers and expected recoverable values.

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 other income or expense in the year of disposition. The Company examines the possibility of decreases in the value of these assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charge for the three months ended March 31, 2020 or 2019.

Revenue Recognition

We adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606"), effective January 1, 2018 using the modified retrospective method. ASC Topic 606 is a comprehensive revenue recognition model that requires revenue to be recognized when control of the promised goods or services are transferred to our customers at an amount that reflects the consideration that we expect to receive. The application of ASC Topic 606 requires us to use significant judgment and estimates. Application of ASC Topic 606 requires a five-step model applicable to all revenue streams as follows:

Identification of the contract, or contracts, with a customer

A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

Identification of the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

When a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Determination of the transaction price

The transaction price is determined based on the consideration to which we will be entitled to receive in exchange for transferring goods or services to our customer. We estimate any variable consideration included in the transaction price using the expected value method that requires the use of significant estimates for discounts, cancellation periods, refunds and returns. Variable consideration is described in detail below.

Allocation of the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative Stand-Alone Selling Price (“SSP;”) basis. We determine SSP based on the price at which the performance obligation would be sold separately. If the SSP is not observable, we estimate the SSP based on available information, including market conditions and any applicable internally approved pricing guidelines.

Recognition of revenue when, or as, we satisfy a performance obligation

We recognize contract revenue over time and product revenue at a point in time, when the related performance obligation is satisfied by transferring the promised goods or services to our customer. Contract revenue is recognized based on a cost-to-cost input method.

Disaggregation of Revenue

For the three months ended March 31, 2020 and 2019, total sales in the United States represent approximately 85% and 90% of total consolidated revenues, respectively. Sales to Italy represented 13% and less than 10% of consolidated revenues in the three months ended March 31, 2020 and 2019, respectively. No other geographical area accounted for more than 10% of total sales during the three months ended March 31, 2020 and 2019.

Principal versus Agent Considerations

When another party is involved in providing goods or services to our customer, we apply the principal versus agent guidance in ASC Topic 606 to determine if we are the principal or an agent to the transaction. When we control the specified goods or services before they are transferred to our customer, we report revenue gross, as principal. If we do not control the goods or services before they are transferred to our customer, revenue is reported net of the fees paid to the other party, as agent. Our evaluation to determine if we control the goods or services within ASC Topic 606 includes the following indicators:

We are primarily responsible for fulfilling the promise to provide the specified good or service.

When we are primarily responsible for providing the goods and services, such as when the other party is acting on our behalf, we have indication that we are the principal to the transaction. We consider if we may terminate our relationship with the other party at any time without penalty or without permission from our customer.

We have inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.

We may commit to obtaining the services of another party with or without an existing contract with our customer. In these situations, we have risk of loss as principal for any amount due to the other party regardless of the amount(s) we earn as revenue from our customer.

The entity has discretion in establishing the price for the specified good or service.

We have discretion in establishing the price our customer pays for the specified goods or services.

Contract Assets

We capitalize costs and estimated earnings in excess of billings as a contract asset in current assets. At March 31, 2020 and 2019, contract assets totaled \$0 and \$16,486, respectively.

Contract Liabilities

Contract liabilities consist of customer advance payments and billings in excess of revenue recognized. We may receive payments from our customers in advance of completing our performance obligations. We record contract liabilities equal to the amount of payments received in excess of revenue recognized. Contract liabilities are recorded under the caption “contract liabilities” and are reported as current liabilities on our consolidated financial statements when the time to fulfill the performance obligations under terms of our contracts is less than one year. At March 31, 2020 and 2019, contract liabilities totaled \$93,369 and \$162,123, respectively.

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 March 31, 2020 and 2019 shipping and handling costs amounted to \$37,611 and \$16,521, respectively.

Research and Development

Research and development costs incurred in the development of the Company’s products and under other Company sponsored research and development projects are expensed as incurred. Costs such as direct labor, direct costs, and other allocated costs incurred to perform research and development service pursuant to government and private research projects are included in cost of sales. Research and development costs incurred in the development of the Company’s products for the three months ended March 31, 2020 and 2019 were \$16,652 and \$15,805, 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 March 31, 2020 and 2019 were \$2,594 and \$146, respectively, and are included in selling 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 include cooperative advertising and sales incentives which have been deducted from sales.

Federal and State Income Taxes

The Company accounts for income tax using the liability method prescribed by ASC 740, “Income Taxes”. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 “Income Taxes”. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of March 31, 2020, and December 31, 2019, 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, 2017. The Company does not expect any significant changes in its unrecognized tax benefits within twelve months of the reporting date. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of March 31, 2020 or December 31, 2019.

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. The Company adopted ASU No. 2017-09 in 2018; its adoption did not have a material impact on its consolidated financial statements.

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. 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:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Stock options	554,859	455,502
Stock warrants	4,052,715	2,817,463
Total	<u>4,607,574</u>	<u>3,272,952</u>

Additionally, there are an unknown quantity of common stock equivalents that result from a potential conversion of stock appreciation rights (See Note 14).

Net loss per share for common stock is as follows:

Net (loss) income per common shares outstanding:	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Class A common stock	\$ (0.06)	\$ (0.02)
Weighted average shares outstanding:		
Class A common stock	6,501,345	3,978,173
Total weighted average shares outstanding	6,501,345	3,978,173

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 President 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 (the “Contract services segment”).

Leases

The Company adopted ASC 842 on January 1, 2019 using the modified retrospective basis and did not adjust comparative periods as permitted under Accounting Standards Update (“ASU”) 2018-11. ASC 842 supersedes nearly all existing lease accounting guidance under U.S. GAAP issued by the Financial Accounting Standards Board (“FASB”) including ASC Topic 840, Leases. ASC 842 requires that lessees recognize Right-of-Use (ROU) assets and lease liabilities calculated based on the present value of lease payments for all lease agreements with terms that are greater than twelve months. ASC 842 distinguishes leases as either a finance lease or an operating lease that affects how the leases are measured and presented in the statement of operations and statement of cash flows.

For operating leases, we calculated ROU assets and lease liabilities based on the present value of the remaining lease payments as of the date of adoption using the IBR as of that date. On the date of adoption, operating lease liabilities and right-of-use assets totaled \$400,327. We do not have finance leases as per the definition of ASC 842 as of March 31, 2019.

The FASB issued practical expedients and accounting policy elections that the Company has applied as described below.

Practical Expedients

ASC 842 provides a package of three practical expedients that must be adopted together and applied to all lease agreements. The Company elected the package of practical expedients as follows for all leases:

Whether expired or existing contracts contain leases under the new definition of a lease.

Because the accounting for operating leases and service contracts was similar under ASC 840, there was no accounting reason to separate lease agreements from service contracts in order to account for them correctly. The Company reviewed existing service contracts to determine if the agreement contained an embedded lease to be accounted for on the balance sheet under ASC 842.

Lease classification for expired or existing leases.

Leases that were capital leases under ASC 840 are accounted for as financing leases under ASC 842 while leases that were operating leases under ASC 840 are accounted for as operating leases under ASC 842.

Whether previously capitalized initial direct costs would meet the definition of initial direct costs under the new standard guidance.

The definition of initial direct costs is more restrictive under ASC 842 than under ASC 840. Entities that do not elect the practical expedient are required to reassess capitalized initial direct costs under ASC 840 and record an equity adjustment for those that are not capitalizable under ASC 842.

Accounting Policy Elections

Lease Term

The Company calculates the term for each lease agreement to include the noncancelable period specified in the agreement together with (1) the periods covered by options to extend the lease if the Company is reasonably certain to exercise that option, (2) periods covered by an option to terminate if the Company is reasonably certain not to exercise that option and (3) period covered by an option to extend (or not terminate) if controlled by the lessor.

The assessment of whether the Company is reasonably certain to exercise an option to extend a lease requires significant judgement surrounding contract-based factors, asset-based factors, entity-based factors and market-based factors.

Lease Payments

Lease payments consist of the following payments (as applicable) related to the use of the underlying asset during the lease term:

- Fixed payments, including in substance fixed payments, less any lease incentives paid or payable to the lessee
- Variable lease payments that depend on an index or a rate, such as the Consumer Price Index or a market interest rate, initially measured using the index or rate at the commencement date of January 1, 2019.
- The exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option.
- Payments for penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.
- Fees paid by the lessee to the owners of a special-purpose entity for structuring the transaction
- For a lessee only, amounts probable of being owed by the lessee under residual value guarantees

Incremental Borrowing Rate

The ROU asset and related lease liabilities recorded under ASC 842 are calculated based on the present value of the lease payments using (1) the rate implicit in the lease or (2) the lessee's IBR, defined as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Recently Issued Accounting Pronouncements

Financial Instruments — Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). This standard prescribes an impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which is intended to result in the timely recognition of losses. Under the CECL model, entities will estimate credit losses over the entire contractual term of the instrument from the date of initial recognition of the financial instrument.

Measurement of expected credit losses is to be based on relevant forecasts that affect collectability. The scope of financial assets within the CECL methodology is broad and includes trade receivables from certain revenue transactions and certain off-balance sheet credit exposures. Different components of the guidance require modified retrospective or prospective adoption. ASU 2016-13 is effective for the annual reporting period beginning on or after December 15, 2020. The Company adopted this standard January 1, 2020 and there was no material impact.

Except for our accounting policies for allowance for doubtful accounts as a result of adopting ASU 2016-13, there have been no changes to our significant accounting policies described in Note 2 to our Annual Report on Form 10-K for the year ended December 31, 2019, that have had a material impact on our Consolidated Financial Statements and related notes.

Reclassifications

Certain accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statements.

NOTE 3 – CORRECTION OF IMMATERIAL ERRORS

During the fourth quarter of 2019, the Company identified errors in accounting for revenues and cost of revenues resulting in immaterial correction of errors in previously issued consolidated financial statements. Each of these errors affected periods beginning prior to 2018 through December 31, 2019. In accordance with Staff Accounting Bulletin (SAB) No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, management evaluated the materiality of the errors from qualitative and quantitative perspectives, and concluded that while the errors did not, individually, or in the aggregate, result in a material misstatement of the previously issued consolidated financial statements, correcting these errors in the fourth quarter ended December 31, 2019 would have been material to that quarter.

The adjustments cumulatively impacted the following balances as of March 31, 2019:

	As Reported	Adjustment	As Corrected
Accrued expenses	\$ 440,515	\$ 22,000a	\$ 462,515
Cost of revenues	576,212	(45,707)b	530,505
Gross profit	181,649	(45,707)b	227,356
Operating expenses	277,211	22,000a	299,211
Other income	47,323	(45,707)b	1,616
Net (loss)	(48,239)	(22,000)a	(70,239)

References to above adjustments

- This adjustment accounts for the accrual of audit fees performed in the first quarter of 2019 not previously recorded in the period. During the 2019 year-end audit, various other reclassifications were made between operating expense accounts not impacting net losses and accordingly the Company has booked these in the proper periods in order to facilitate comparative analysis between the periods presented.
- This reclassification relates to the proper booking of sublease income in cost of revenues rather than other income.

NOTE 4 – ACCOUNTS RECEIVABLE

At March 31, 2020 and December 31, 2019, accounts receivable consisted of the following:

	March 31, 2020	December 31, 2019
Accounts receivable	\$ 211,980	\$ 164,960
Less: allowance for doubtful accounts	(13,670)	(13,670)
Accounts receivable, net	\$ 198,310	\$ 151,290

NOTE 5 – INVENTORY

At March 31, 2020 and December 31, 2019, inventory consisted of the following:

	March 31, 2020	December 31, 2019
Raw materials	\$ 679,333	\$ 663,932
Work-in-progress	17,441	-
Finished goods	316,870	335,762
	1,013,644	999,694
Less: reserve for obsolescence	(589,638)	(577,072)
Inventory, net	\$ 424,006	\$ 422,622

NOTE 6 - 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 other income or expense 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.

NOTE 7 – OPERATING LEASE RIGHT-OF-USE ASSETS

Leasing Transactions

The Company's leased assets include offices, production and research and development facilities. Our current lease portfolio has remaining terms from less than one-year up to seven years. Many of these leases contain options under which we can extend the term for several years. Renewal options are excluded from our calculation of lease liabilities unless we are reasonably assured to exercise the renewal option. Our lease agreements do not contain residual value guarantees or material restrictive covenants.

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.

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.

On June 21, 2019, we leased approximately 1,200 square feet of office space in Bingham Farms, Michigan for nine months for a sales office. Monthly payments are \$1,529 per month. The lease has been extended through December 31, 2020.

Operating leases are reflected on our balance sheet within operating lease ROU assets and the related current and non-current operating lease liabilities. Leases with terms of less than twelve months have been classified as current ROU assets, whereas the lease with a remaining term of more than twelve months has been classified as a non-current ROU asset. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from lease agreement. Operating lease ROU assets and liabilities are recognized at the commencement date, or the date on which the lessor makes the underlying asset available for use, based upon the present value of the lease payments over the respective lease term. Lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectation regarding the terms. Variable lease costs such as common area maintenance, property taxes and insurance are expensed as incurred.

Balance Sheet

Supplemental balance sheet information related to leases was as follows:

	March 31, 2020	December 31, 2019
Operating Leases		
Total operating lease ROU assets	\$ 220,029	\$ 257,523
Operating lease liabilities (current)	104,035	131,835
Operating lease liabilities (noncurrent)	127,682	136,624
Total operating lease liabilities	<u>\$ 231,717</u>	<u>\$ 268,459</u>

The average remaining lease term in months is 21.3 months with an average discount rate of 8.5%.

Income Statement

Supplemental income statement information related to leases was as follows:

	March 31, 2020	March 31, 2019
Operating Lease Costs		
Cost of product revenue	\$ 31,154	31,154
Cost of contract services	11,585	11,585
Variable lease costs	10,323	25,074
Sublease income	(13,500)	(37,707)
Net operating lease cost	<u>\$ 39,562</u>	<u>\$ 39,562</u>

NOTE 8 – BANK LOANS AND LINES OF REVOLVING CREDIT FACILITY

In April 2014, our subsidiary, Nano Magic 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 was payable on demand and was secured by all of Nano Magic LLC’s assets. The Revolving Note was amended five times in 2015, 2017 and 2018. As amended, the interest rate was, 3.0% above the Prime Rate (as reported in the Wall Street Journal). Under a subsequent amendment, the maturity date was extended to July 3, 2019 with an automatic one-year renewal unless terminated by either party 60 days in advance.

On January 31, 2019, the Company paid \$172,101 to the Lender. This payment, and the application of \$85,000 in cash collateral held by the Lender, constituted the outstanding principal balance of \$234,841 and accrued interest and fees of \$22,260 due to the Lender and thus paid in full all of our remaining obligations under the Revolving Note. The parties also terminated a revolving credit line agreement originally executed in April 2014 that was renewed in August 2018.

NOTE 9 – NOTES PAYABLE

On February 10, 2015, our subsidiary Nano Magic LLC entered into a promissory note (the “Equipment Note”) with KeyBank, N.A. (the “Bank”) to borrow up to \$373,000. The borrower may obtain one or more advances not to exceed \$373,000. The unpaid principal balance of the Equipment Note is payable in 60 equal monthly installments 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. On June 18, 2019, Nano Magic LLC entered into an Amendment to the Equipment Note with the Bank (the “Amendment”). By the amendment, the maturity date of the note was extended until April 10, 2022, the interest rate was raised to 6.29% per year, and the monthly payments were reduced to \$4,053 per month including interest. As of December 31, 2019, \$48,641 and \$67,285, respectively, represent the current and non-current portion due under the Equipment Note, as amended by the Amendment. As of March 31, 2020, \$48,641 and \$56,910, represent the current and non-current portion due under this note, respectively.

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, 2019). In July 2019, we settled with one holder who agreed to accept aggregate payments of \$10,000 in lieu of \$14,000, of which \$6,000 was paid in 2019 and the balance of \$4,000 due in monthly payments of \$1,000 during the first four months of 2020. In addition, in 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. This note does not bear interest and is due in January 2027. In aggregate, as of March 31, 2020, \$55,883 is payable under all five notes, of which \$54,883 is included in non-current notes payable.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the period ended March 31, 2020, we incurred consulting fees to our directors as follows: Ronald Berman \$90,000; Scott Rickert \$3,000, and Jeanne Rickert \$3,000. Tom J. Berman, a director and officer was paid salary of \$45,000 during the period. For the period ended March 31, 2019, we incurred consulting fees to our directors as follows: Ronald J. Berman \$12,760; and Tom J. Berman \$17,000; in addition, Scott Rickert and Jeanne Rickert were each paid a salary of \$1,000 per month for an aggregate of \$3,000 each. Accounts Payable – related parties and advances from related parties of \$159,887 used as working capital in 2018 from Mr. Rickert and Ms. Rickert and accrued payroll of \$16,000 due to them have been included within the consolidated balance sheet as of March 31, 2020 and December 31, 2019.

NOTE 11 - 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"), (ii) 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 100,000 shares of Preferred Stock, par value \$0.0001 per share ("preferred stock").

The Company has accepted subscriptions and has received payment for 279,283 shares of Class A common stock that have not been issued because the Company lacks sufficient authorized shares to issue the shares and status of shareholder approval to increase the authorized shares of common stock. The same constraint affects outstanding options and warrants; the Company does not have authorized and reserved shares sufficient to issue shares if options or warrants were to be exercised. See Note 16, Subsequent Events, for a description of expected changes to the Company's common stock.

Preferred Stock

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

Common Stock – General

The rights of each share of Class A common stock, each share of Class B common stock and each share of Class Z common stock are the same with respect to dividends, distributions and rights upon liquidation. See Note 16 Subsequent Events regarding proposed changes to our common stock.

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 Nano Magic 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 Nano Magic 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 Nano Magic 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 Nano Magic (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 12, 2020, we issued an aggregate of 21,048 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 \$0.57 per share based on the quoted price of the stock for a total value of \$12,000.

Sales of Common Stock and Derivative Equity Securities

On January 22, 2020, we sold 198,530 shares of Class A common stock in a private placement to PEN Comeback 2 at a per share price of \$0.65 for aggregate proceeds of \$129,044. At the same time the investor bought 198,516 warrants to purchase up to 198,516 additional shares at a warrant exercise price of \$1.50. The right to purchase warrant shares expires four years from date of issue. Aggregate proceeds from the sales of the warrants were \$5,955.

On February 24, 2020, we sold 205,883 shares of Class A common stock in a private placement to PEN Comeback 2 at a per share price of \$0.65 for aggregate proceeds of \$133,824. At the same time the investor bought 205,868 warrants to purchase up to 198,516 additional shares at a warrant exercise price of \$1.50. The right to purchase warrant shares expires four years from date of issue. Aggregate proceeds from the sales of the warrants were \$6,176.

On March 24, 2020, in a private placement to PEN Comeback 2, we sold 551,600 shares of Class A common stock and committed to issue an additional 242,518 shares when we have additional authorized shares. If the additional shares have not been issued by March 24, 2021, we must refund the purchase price (without interest). Proceeds, at a per share price of \$0.65, were \$516,177. At the same time the investor bought 794,110 warrants to purchase up to 794,110 additional shares at a warrant exercise price of \$1.50. The right to purchase warrant shares expires four years from date of issue. Aggregate proceeds from the sale of the warrants were \$23,823.

On March 26, 2020, in a private placement to the same investor we committed to issue 36,765 shares when we have additional authorized shares and accepted \$0.65 per share for proceeds of \$23,897. If the shares have not been issued by March 26, 2021, we must refund the purchase price (without interest). At the same time the investor bought 36,758 warrants to purchase up to 36,780 additional shares at a warrant exercise price of \$1.50. The right to purchase warrant shares expires four years from date of issue. Aggregate proceeds from the sale of the warrants were \$1,103.

In total for the three months ended March 31, 2020, 956,013 shares of Class A common stock were sold and issued for \$621,409. Additionally, 1,235,252 warrants were sold for \$37,058, and 279,283 shares of Class A common stock were sold for \$181,533 but not yet issued and therefore recorded as a subscription payable at March 31, 2020.

Stock Options

Stock options outstanding are to purchase Class A common stock. Stock options outstanding at March 31, 2020 are 554,859, reflecting a grant of 100,000 under the 2015 Equity Incentive Plan and the expiration of 643 options. No options were exercised during the period.

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding December 31, 2019	455,502	\$ 1.24	4.22	\$ 18,000
Exercised	-	-	-	-
Issued	100,000	\$ 0.65	3.84	\$ 120,000
Expired	643			
Outstanding March 31, 2020	<u>554,859</u>	<u>\$ 1.06</u>	<u>3.96</u>	<u>\$ 705,000</u>
Exercisable March 31, 2020	<u>129,859</u>	<u>\$ 2.67</u>	<u>3.91</u>	<u>\$ 162,500</u>

Warrants

As of March 31, 2020, there were outstanding and exercisable warrants to purchase 4,052,715 shares of common stock with a weighted average exercise price of \$1.50 per share and a weighted average remaining contractual term of 40.29 months. As of March 31, 2020, there was no intrinsic value for the warrants.

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.

Conversion of Class B Common Stock

On or about October 15, 2018 as part of the terms for the stock sale to PEN Comeback, Scott and Jeanne Rickert 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.

2015 Equity Incentive Plan

On November 30, 2015, the Board of Directors authorized the 2015 Equity Incentive Plan (the "Plan"), which reserved 111,111 shares of common stock. If any share of common stock that has been granted pursuant to a stock option ceases to be subject to a stock option, or if any forfeiture or termination affects shares of common stock that are the subject to any other stock-based award, the shares are again available for future grants and awards under the Plan. The Plan's purpose is to enable the Company to offer its employees, officers, directors and consultants an opportunity to acquire a proprietary interest in the Company for their contributions. On December 31, 2019, we issued an aggregate of 102,500 shares to employees in settlement of accrued salaries totaling \$66,615. On January 31, 2020 we granted an option to purchase 100,000 shares to a senior member of the sales team with vesting tied directly to 2020 sales goals.

NOTE 12 - 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 14).

Litigation

The Company may be, from time to time, subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. We are not currently a defendant in any proceedings. Our policy is to accrue costs for contingent liabilities, including legal proceedings or unasserted claims that may result in legal proceedings, when a liability is probable and the amount can be reasonably estimated. As of March 31, 2020, the Company has not accrued any amount for litigation contingencies.

NOTE 13 – 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.

Customer Concentrations

For the three months ended March 31, 2020 and 2019, two customers represented 63% and one different customer represented 17% of product revenues respectively. For the contract revenues segment, two customers accounted for 100% of revenues for the three months ended March 31, 2020 and 2019.

These customers did not have material accounts receivable balances at March 31, 2020 or 2019. A reduction in sales from or loss of such customers would have a material adverse effect on our results of operations and financial condition.

Geographic Concentrations of Sales

For the three months ended March 31, 2020 and 2019, total sales in the United States represent approximately 85% and 90% of total consolidated revenues, respectively. Sales to Italy represented 13% and less than 10% of consolidated revenues in the three months ended March 31, 2020 and 2019, respectively. No other geographical area accounted for more than 10% of total sales during the three months ended March 31, 2020 and 2019.

Vendor Concentrations

For the three months ended March 31, 2020 and 2019, one vendor represented 21% and two different vendors represented 68% of inventory purchases respectively.

NOTE 14 – STOCK APPRECIATION PLAN

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

There were 235,782 fully vested stock appreciation rights (“SARS”) outstanding under the terms of the Plan at March 31, 2020 and December 31, 2019. The SARS unit value is based on the book value of the Company as of the last fiscal year end multiplied by a SARS multiplier stipulated in the SARS plan. However, in the event of an initial public offering (“IPO”) of Nano Magic, 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 Nano Magic LLC. Generally, the SARS are redeemable in cash, at their then fair value as computed pursuant to the Plan, in the event of termination of employment or business relationship, death, permanent and total disability, or sale of Nano Magic (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 \$42,823, at March 31, 2020 and December 31, 2019. 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 15 – SEGMENT REPORTING

The Company’s principal operating segments coincide with the types of products to be sold. The products from which revenues are derived are consistent with the reporting structure of the Company’s internal organization. The Company’s two reportable segments for the three months ended March 31, 2020 and 2019 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 March 31, 2020 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 months ended March 31, 2020 and 2019 was as follows:

	Three Months Ended March 31,	
	2020	2019
Revenues:		
Product segment	\$ 241,717	\$ 456,868
Contract services segment	206,457	300,993
Total segment and consolidated revenues	<u>\$ 448,174</u>	<u>\$ 757,861</u>
Cost of revenues:		
Products	\$ 222,818	\$ 197,957
Contract services segment	166,899	332,548
Total segment and consolidated cost of revenues	<u>\$ 389,717</u>	<u>\$ 530,505</u>
Gross profit (loss):		
Product segment	\$ 18,899	\$ 258,911
Contract services segment	39,558	(31,355)
Total segment and consolidated gross profit	<u>\$ 58,457</u>	<u>\$ 227,356</u>
Gross margin:		
Product segment	7.8%	56.7%
Contract services segment	19.2%	-10.5%
Total gross margin	<u>13.0%</u>	<u>30.0%</u>
Segment operating expenses:		
Product segment	242,240	155,190
Contract services segment	45,980	65,031
Total segment operating expenses	<u>288,220</u>	<u>220,221</u>
Income (loss) from operations:		
Product segment	\$ (223,341)	\$ 103,721
Contract services segment	(6,422)	(96,586)
Total segment income (loss)	<u>(229,763)</u>	<u>7,135</u>
Unallocated costs	(145,944)	(78,990)
Total consolidated income (loss) from operations	<u>\$ (375,707)</u>	<u>\$ (71,855)</u>
Depreciation and amortization:		
Product segment	\$ (5,260)	\$ 12,444

Contract services segment	419	-
Total segment depreciation and amortization	(4,841)	12,444
Unallocated depreciation	-	-
Total consolidated depreciation and amortization	\$ (4,841)	\$ 12,444

Capital additions:

Product segment	\$ 1,475	\$ -
Contract services segment	-	-
Total consolidated capital additions	\$ 1,475	\$ -

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Segment total assets:		
Product segment	\$ 1,410,252	\$ 1,132,858
Contract services segment	223,819	176,568
Corporate	64,192	10,661
Total consolidated total assets	\$ 1,698,263	\$ 1,320,087

NOTE 16 - SUBSEQUENT EVENTS

Paycheck Protection Program Loan

On May 8, 2020, we obtained a loan from Fifth Third Bank for \$130,000 under the Small Business Administration Paycheck Protection Program.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Restrictions imposed by Federal, state and local governments have affected operations of our business and those of our vendors and customers as well as logistics for shipping and receiving supplies and shipping our products.

Apart from the disruption affecting all manufacturing businesses, some of the raw materials and bottles used to produce our liquid products, including the new surface product, are used to produce hand sanitizer and other cleaning product that are in high demand and some of our raw materials and packaging have become harder to find due to the COVID-19 pandemic. If shortages continue, we may not be able to obtain adequate supply. Moreover, when the material is available, the price can be substantially higher which will probably adversely impact our profit margin even if we can implement some price increases. The increased use of face masks and other personal protective equipment as a result of the pandemic has created additional demand for our antifog product. There has also been a slow-down in business activity as a result of the COVID-19 pandemic, and the severity of the disruption and the length of the slow-down and timing of recovery are unknown.

As noted above, on May 8, 2020, we obtained a loan from Fifth Third Bank for \$130,000 under the Small Business Administration Paycheck Protection Program. Depending on the severity and term of the disruptions from the COVID-19 pandemic, our business may still suffer from a lack of working capital.

Equipment Loan Modification

In April, 2020, KeyBank agreed that we would not be required to make scheduled payments in April, May and June. The amount that would have been paid will be added to the final scheduled loan payment.

Michigan Lease

Effective May 31, 2020, we entered into a lease for a 29,220 square foot building in Madison Heights, Michigan. The occupancy date and rent commencement date is October 1, 2020. By that date, the landlord, Magic Research LLC, is required to have completed tenant improvements to accommodate our office and manufacturing needs. When we are established in the new facility, we expect to vacate our facility in Brooklyn Heights, Ohio as our lease there expires in September 2020.

The new lease has a term of seven years with a renewal option at the end of the initial term for an additional 3-year term, and a second renewal option thereafter for an additional 5-year term. As the sole tenant, we are responsible for all taxes, ordinary maintenance, snow removal and other ordinary operating expenses. Rent is \$6.50 per square foot, increasing by \$0.25 per year. During the first three years we also have the right to buy up to a 49% interest in Magic Research LLC for a price equal to 49% of the contributions received from other members.

Ron Berman, one of our directors, and his son Tom Berman, our CEO and a director, each have a 2.08% ownership interest in Magic Research LLC. The manager of Magic Research LLC is Magic Research Management LLC; Ron Berman and Tom Berman are two of its three co-managers. Compensation to Magic Research Management LLC is \$10,000 per year to oversee the recordkeeping, tax return preparation, oversight of tenant improvements and other operating costs for the landlord.

In connection with the lease described above, we issued the landlord warrants to purchase up to 410,000 shares of our Class A common stock at a warrant exercise price of \$1.50 per share. The warrants are exercisable after we have additional authorized shares of stock until the fourth anniversary of the date of the lease

Election of Directors, Proposed changes to Common Stock and Authorization of Additional Shares

On June 10, 2020 we filed with the SEC and mailed to our stockholders a definitive 14C Information Statement notifying our stockholders that our Board and a majority of our stockholders had taken action to: (1) re-elect our incumbent directors, (2) amend our Amended and Restated Certificate of Incorporation (as amended), to eliminate the Company’s Class B common stock and Class Z common stock and related provisions and rename as “common stock” the Company’s Class A Common Stock, and (3) to increase the number of authorized shares of common stock from 7,200,000 to 30,000,000. In accordance with Rule 14c-2 promulgated under the Exchange Act, these actions will become effective no sooner than 20 calendar days after the mailing. We expect these actions to be effective on or about July 2, 2020.

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

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

Our principal operating segments coincide with our different business activities and types of products sold. This is consistent with our internal reporting structure. Our two reportable segments for the three months ended March 31, 2020 were (i) the Product Segment and (ii) the Contract services Segment. For the three months ended March 31, 2019, 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 months ended March 31, 2020 and 2019.

Comparison of Results of Operations for the Three Months ended March 31, 2020 and 2019

Revenues:

For the three months ended March 31, 2020 and 2019, revenues consisted of the following:

	Three Months Ended March 31,	
	2020	2019
Sales:		
Product segment	\$ 241,717	\$ 456,868
Contract services segment	206,457	300,993
Total segment and consolidated sales	<u>\$ 448,174</u>	<u>\$ 757,861</u>

For the three months ended March 31, 2020, sales from the Product segment decreased by \$215,151 or 47% as compared to the three months ended March 31, 2019 due to a loss of major lens care customers.

For the three months ended March 31, 2020, sales from the Contract services segment decreased by \$94,536 or 31% as compared to the three months ended March 31, 2019 primarily due to completion of major government contracts.

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 March 31, 2020, cost of revenues decreased by \$140,788 or 27% as compared to the three months ended March 31, 2019.

	Three Months Ended March 31,	
	2020	2019
Cost of revenues:		
Product segment	\$ 222,818	\$ 197,957
Contract services segment	166,899	332,548
Total segment and consolidated cost of revenues	<u>\$ 389,717</u>	<u>\$ 530,505</u>

Gross profit and gross margin

Gross profit and gross margin by segment are as follows:

Gross Profit	Three Months Ended March 31,			
	2020	%	2019	%
Product Segment	\$ 18,899	7.8%	\$ 258,911	56.7%
Contract services segment	\$ 39,558	19.2%	(31,555)	(10.5)%
Total gross profit	<u>\$ 58,457</u>	<u>13.0%</u>	<u>\$ 227,356</u>	<u>30.0%</u>

* Gross margin % based on respective segments revenues.

For the three months ended March 31, 2020, as compared to the comparable 2019 periods, the margin in the Product segment decreased by \$240,012 or 93% due to a significant drop in product sales volume not offset by fixed expenses to support the product segment. The margin for the Contract research segment for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 increased by \$71,113 or 225% primarily due to the timing of cost recoveries on government contracts.

Operating expenses

For the three months ended March 31, 2020, operating expenses increased by \$134,953 or 45% compared to the three months ended March 31, 2019. For the three months ended March 31, 2020 and 2019, operating expenses consisted of the following:

	Three Months Ended March 31,	
	2020	2019
Selling and marketing expenses	\$ 11,057	\$ 7,800
Salaries, wages and related benefits	144,633	56,512
Research and development	16,652	15,805
Professional fees	124,752	79,434
General and administrative expenses	137,070	139,660
Total	\$ 434,164	\$ 299,211

- For the three months ended March 31, 2020, selling and marketing expenses increased by \$3,257 or 42% as compared to the three months ended March 31, 2019, due to an increase in product marketing expenses.
- For the three months ended March 31, 2020, salaries, wages and related benefits increased by \$88,121 or 156%, as compared to the three months ended March 31, 2019. These increases were attributable to higher management and personnel costs.
- For the three months ended March 31, 2020, research and development costs increased by \$847 or 5%, as compared to the three months ended March 31, 2019, due to direct product development costs incurred in the current period.
- For the three months ended March 31, 2020, professional fees increase by \$45,318 or 57%, as compared to the three months ended March 31, 2019 due to an increase in the Company's legal and fundraising expenses.
- For the three months ended March 31, 2020, general and administrative expenses decreased by \$2,590 or 2% as compared to the three months ended March 31, 2019, representing a small general reduction in the period.

Loss from operations

As a result of the factors described above, for the three months ended March 31, 2020, loss from operations amounted to \$375,707 as compared to a loss of \$71,855 for the three months ended March 31, 2019, an increase of \$303,852 or 423%.

Other income (expense)

For the three months ended March 31, 2020, other expense was \$2,108 as compared to other income of \$1,616 for the three months ended March 31, 2019, a decrease of \$3,724 or 230%.

Net loss

For the three months ended March 31, 2020, net loss amounted to \$(377,815) as compared to a loss of \$(70,239) for the three months ended March 31, 2019. For the three-month period the increase was \$307,576 or 438%.

For the three months ended March 31, 2020 and March 31, 2019, net (loss) amounted to \$(0.06) per Class A common share (basic and diluted), and \$(0.02), 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 \$162,523 and \$574,059 of unrestricted cash as of March 31, 2020 and working capital deficit of \$673,040 and \$216,801 of unrestricted cash as of December 31, 2019.

The following table sets forth a summary of changes in our working capital from December 31, 2019 to March 31, 2020:

	March 31, 2020	December 31, 2019	December 31, 2019 to March 31, 2020	
			Change in Working Capital	Percentage Change
Working capital:				
Total current assets	\$ 1,244,462	\$ 835,109	\$ 409,353	49.0%
Total current liabilities	1,406,985	1,508,149	(101,164)	(6.7)%
Working capital deficit:	\$ (162,523)	\$ (673,040)	\$ 510,517	(75.9)%

The increase in current assets was due in substantial part to an increase in cash as a result of the sale of equity securities. The decrease in current liabilities was due to a reduction in accrued expenses and other current liabilities and to a reduction in the current portion of lease payments.

Net cash used in operating activities was \$(467,889) for the three months ended March 31, 2020 as compared to net cash provided by operating activities of \$4,651 for the three months ended March 31, 2019, a net change of \$(472,540) or -102%. Net cash used by operating activities for the three months ended March 31, 2020 primarily reflected a net loss of \$(377,815) adjusted for add-backs of \$44,200 and changes in operating assets of \$(134,274).

Net cash flow used in investing activities was \$(1,475) for the three months ended March 31, 2020 and \$(2,482) for the three months ended March 31, 2019.

Net cash provided by financing activities was \$826,622 for the three months ended March 31, 2020 reflecting \$840,000 in proceeds from sales of common stock and warrants, as compared to \$239,944 for the same period in 2019. The 2019 period reflected the payoff of the revolving credit facility totaling \$348,369.

Future Liquidity and Capital Needs.

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

Revolving Credit Note

In April 2014, our subsidiary, Nano Magic 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 was payable on demand and was secured by all of Nano Magic LLC's assets. The Revolving Note was amended five times in 2015, 2017 and 2018. As amended, the interest rate was, 3.0% above the Prime Rate (as reported in the Wall Street Journal). Under a subsequent amendment, the maturity date was extended to July 3, 2019 with an automatic one-year renewal unless terminated by either party 60 days in advance.

On January 31, 2019, the Company paid \$172,101 to the Lender. This payment, and the application of \$85,000 in cash collateral held by the Lender, constituted the outstanding principal balance of \$234,841 and accrued interest and fees of \$22,260 due to the Lender and thus paid in full all of our remaining obligations under the Revolving Note. The parties also terminated a revolving credit line agreement originally executed in April 2014 that was renewed in August 2018.

Equipment Financing

On February 10, 2015, Nano Magic entered a \$373,000 promissory note (the "Equipment Note") with KeyBank, N.A. (the "Bank"). The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At March 31, 2020, the principal amount due under the Equipment Note amounted to \$105,551. See Note 9.

On June 18, 2019, Nano Magic entered into an Amendment to the Equipment Note with the Bank. By the amendment, the maturity date of the note was extended until April 10, 2022, the interest rate was raised to 6.29% per year, and the monthly payments were reduced to \$4,053 per month, including interest.

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 March 31, 2020 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

Sales of Common Stock and Derivate Equity Securities

In connection with the new lease for a facility in Michigan described in the subsequent events footnote in Note 16 above, on May 31, 2020 we issued the landlord warrants to purchase up to 410,000 shares of our Class A common stock at a warrant exercise price of \$1.50 per share. The warrants are exercisable after we have additional authorized shares of stock until the fourth anniversary of the date of the lease.

Stock for Services

On February 12, 2020, we issued an aggregate of 21,048 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 \$0.57 per share based on the quoted price of the stock for a total value of \$12,000.

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

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
4.1*	Warrant to Purchase Shares of Class A Common Stock of Nano Magic Inc., dated May 31, 2020 issued to Magic Research LLC
10.1*	Lease Agreement, effective May 31, 2020, between Magic Research LLC and Nano Magic LLC.
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.

Nano Magic Inc.
(Registrant)

Date: June 29, 2020

/s/ Tom J. Berman

Tom J. Berman,
President and Chief Executive Officer

Date: June 29, 2020

/s/ Leandro Vera

Leandro Vera
Chief Financial Officer

THIS WARRANT AND THE SHARES PURCHASABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

Dated: May 31, 2020

**WARRANT TO PURCHASE
SHARES OF CLASS A COMMON STOCK OF
NANO MAGIC INC.**

This certifies that Magic Research LLC (the “**Holder**”), for value received, is entitled to purchase, at the Stock Purchase Price (as defined below), from Nano Magic Inc., a Delaware corporation (the “**Company**”), up to 410,000 fully paid and nonassessable shares (the “**Warrant Shares**”) of Class A Common Stock, \$0.0001 par value per share (the “**Class A Stock**”) (subject to adjustment under Section 4).

This Warrant will be exercisable at one time in its entirety from and after the date that an increase in the number of the Company’s authorized shares of Class A common stock becomes effective (the “**Initial Exercise Date**”) up to and including 5:00 p.m. (Eastern Time) until May 31, 2024 (the “**Expiration Time**”), upon delivery to the Company of (i) the Form of Exercise Notice attached as Appendix A duly completed and executed, (ii) payment of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised. The “**Stock Purchase Price**” equals \$1.50 per share of the Warrant Shares (subject to adjustment under Section 4).

1. Exercise; Delivery; Acknowledgement.

(a) Exercise. This Warrant is exercisable at the option of the Holder, at one time in its entirety from or after the Initial Exercise Date up to the Expiration Time for all or any part of the Warrant Shares. The Holder will be treated as the record owner of Warrant Shares as of the close of business on the date on which (i) the completed, executed form of Exercise Notice is delivered, and (ii) payment is made for the shares.

(b) Delivery. Upon exercise of this Warrant, the Company will deliver the Warrant Shares by book entry, confirmed by the Company’s transfer agent.

“**Business Day**” means any day, other than a Saturday, Sunday and any day that is a legal holiday on which banking institutions are authorized or required by law or other governmental action to close.

2. Payment for Shares. The aggregate purchase price for Warrant Shares being purchased hereunder may be paid by (i) cash or wire transfer of immediately available funds to a bank account specified by the Company, or (ii) certified or bank cashier’s check.

3. Shares to be Fully Paid. All Warrant Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable. The Company will take all action as may be reasonably necessary to assure that the shares of Class A Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any securities exchange or automated quotation system, if applicable, upon which the Class A Stock may be listed.

4. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment as described in this Section 4. Upon each adjustment of the Stock Purchase Price, the Holder shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from the adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to the adjustment by the number of shares purchasable pursuant hereto immediately prior to the adjustment, and dividing the product by the Stock Purchase Price resulting from the adjustment.

(a) Subdivisions, Combinations and Dividends. If the Company (x) pays a dividend or makes a distribution, in shares of Class A Stock, on any all or substantially all shares of Class A Stock, (y) splits or subdivides its outstanding Class A Stock into a greater number of shares, or (z) combines its outstanding Class A Stock into a smaller number of shares, then in each case the Stock Purchase Price in effect immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive the number of shares of Class A Stock that the Holder would have owned or would have been entitled to receive after the occurrence of any of the events described above had this Warrant been exercised immediately prior to the event. An adjustment made under this Section 4(a) shall become effective immediately after the close of business on the dividend or distribution date in the case of a dividend or distribution and shall become effective immediately after the close of business on the effective date in the case of a subdivision, split or combination, as the case may be. If as a result of an adjustment under this Section 4(a), the Holder is entitled to receive any shares of the Company other than shares of Class A Stock, thereafter the number of other shares receivable upon exercise of this Warrant shall be subject to adjustment on terms as nearly equivalent as practicable to the provisions of this Section 4 with respect to the Class A Stock.

(b) Reclassification. If any reclassification of the capital stock of the Company, by merger, consolidation, reorganization or otherwise, is effected so that holders of Class A Stock are entitled to receive stock, securities, or other assets or property, then, as a condition of the reclassification, lawful and adequate provisions shall be made whereby the Holder shall thereafter have the right to purchase and receive (in lieu of the shares of Class A Stock purchasable and receivable upon the exercise of this Warrant immediately prior to the reclassification) the shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of Class A Stock equal to the number of shares of Class A Stock purchasable and receivable upon the exercise of this Warrant immediately prior to the reclassification. If the Company is acquired in an all cash transaction, the Holder shall have the right to receive cash equal to the value of the Warrant Shares issuable upon exercise of this Warrant immediately prior to the closing of the transaction reduced by the aggregate Stock Purchase Price. In any reclassification described above, appropriate provision shall be made with respect to the rights and interests of the Holder so that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall continue to apply in relation to any shares of stock, or other securities or assets thereafter deliverable upon the exercise hereof.

(c) Pro Rata Distributions. If the Company, at any time while this Warrant is outstanding, distributes to all holders of Class A Stock for no consideration (w) evidences of its indebtedness, (x) any security (other than a distribution of Class A Stock covered by the preceding paragraphs), (y) rights or warrants to subscribe for or purchase any security, or (z) any other asset, including cash (in each case, "**Distributed Property**"), then, upon any exercise of this Warrant that occurs after the record date for determination of stockholders entitled to receive the distribution, the Holder shall be entitled to receive, in addition to the Warrant Shares, the Distributed Property that the Holder would have been entitled to receive if the Holder been the record holder of the Warrant Shares immediately prior to the record date.

(d) Notice of Adjustment. Upon any adjustment of the Stock Purchase Price or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant, the Company shall give notice to the Holder. The notice shall state the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which the calculation is based.

(e) Other Notices. If at any time: (1) the Company declares any cash dividend upon its shares of Class A Stock; (2) there is any capital reorganization or reclassification of the capital stock of the Company; (3) the Company is acquired in an all cash transaction; or (4) there is a voluntary or involuntary dissolution, liquidation or winding-up of the Company, then the Company notice to the Holder (a) at least ten days prior to the date on which the books of the Company will close, or the record date for the dividend, cash payment or for determining rights to vote in respect of any the reorganization or reclassification, and (b) if a reorganization or reclassification, at least ten days prior to the date when the same shall take place.

5. No Voting or Dividend Rights. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or to consent to receive notice as a stockholder of the Company or any other matters or any rights whatsoever as a stockholder of the Company prior to the exercise of this Warrant. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant is exercised.

6. Transfer. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder may only be transferred with the consent of the Company. The Company consents to a subdivision and transfer of this warrant into 26 warrants to purchase 15,000 shares, and two warrants for 25,000 shares respectively to the members of the initial Holder if the person receiving the new warrant from the initial Holder is an accredited investor as defined by the rules of the SEC.

7. Transfer Taxes. The issuance of any shares or other securities upon the exercise of this Warrant, and the delivery of certificates or other instruments representing the shares or other securities, shall be made without charge to the Holder for any transfer taxes. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer of this Warrant or involved in the issuance and delivery of any certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver any certificate unless and until the person or persons requesting the issuance thereof shall have paid to the Company the amount of the tax or shall have established to the satisfaction of the Company that the tax has been paid.

8. Lost or Mutilated Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any mutilation upon surrender and cancellation of the Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant.

9. Modification and Waiver. Any term of this Warrant may be amended by a writing signed by the Company and the Holder. The observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party against whom the waiver is to be enforced.

10. Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of the Holder.

12. Severability. Wherever possible, each provision of this Warrant shall be interpreted to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, the provision shall be ineffective to the extent of the prohibition or invalidity, without invalidating the remainder of the provisions or the remaining provisions of this Warrant.

13. Notices. All notices, requests and other communications hereunder shall be in writing and shall be given and shall be delivered personally or via a messenger service (notice given upon receipt), or mailed with confirming e-mail (notice deemed given upon earlier of e-mail receipt or receipt of hard copy) to the party's corporate address or other address on record with the other parties.

14. Governing Law. This Warrant is to be construed in accordance with and governed by the laws of the State of Delaware without regard to its principles of conflicts of laws.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first above written.

NANO MAGIC INC.

/s/ Tom J Berman

By: Tom J. Berman
Its: President & CEO

TO: Nano Magic Inc.
750 Denison Court
Bloomfield Hills, MI 48302
Attn: Secretary
via e-mail: j.rickert@nanomagic.com

The undersigned hereby irrevocably elects to purchase shares of Class A common stock of Nano Magic Inc. under the terms of that Warrant originally issued to _____ on _____, 2020 (the "**Warrant**") and tenders payment under the Warrant as follows:

Number of shares being purchased: _____

Payment of \$ _____

Capitalized terms not defined in this notice have the meanings set forth in the Warrant. This notice is being sent by facsimile to the number and officer identified above and by e-mail to the address noted above.

If this notice represents the full exercise of the outstanding balance of the Warrant, either the Holder has previously surrendered the Warrant to the Company or will surrender the Warrant to the Company within ten trading days after delivery of the shares.

The address of the Holder to be shown on the records of the Company is:

The Tax ID number of the Holder is: _____

E-mail address for notices: _____

Date of notice _____

Name of Holder: _____

By: _____

LEASE AGREEMENT
BETWEEN
MAGIC RESEARCH LLC
AND
NANO MAGIC LLC

SUMMARY OF LEASE

Lessor: Magic Research LLC, a Michigan limited liability Company

Tenant: Nano Magic LLC, an Ohio limited liability company

Premises: An approximate 29,220 usable square foot free-standing one story building (“Building”), as shown on Exhibit A, with related amenities including parking, all situated on an approximate 2.23+/- acre parcel of land commonly known as 31601 Research Park Drive, Madison Heights, Michigan 48071 **Section 1.01**

Term: Seven (7) years, commencing on the Rent Commencement Date; extendable for one (1) additional three (3) year period and one (1) additional five (5) year period. **Sections 2.02 and 2.03**

First Right of Refusal and Purchase Option: TENANT shall have a 3-year Option to Purchase 49% of the Premises **Section 2.05**

Base Rent: \$6.50 /SF/Year with annual \$.25 increases **Section 3.01**

Operating Expenses/Taxes: TENANT responsible for all Operating Expenses and Taxes. **Sections 3.03 and 3.02**

Security Deposit: Not applicable

Effective Date: The date this Lease is executed by LESSOR and TENANT. **Section 2.02**

Lease Commencement Date: October 1, 2020. **Section 2.03**

Improvements: Exhibit C **Section 4.01**

Maintenance: TENANT to be primarily responsible for all operating and maintenance expenses for the Premises for the Term. **Section 7.01 and Section 7.02**

Insurance: Commercial General Liability: \$1,000,000.00 Each Occurrence; \$2,000,000.00 General Aggregate. **Section 8.01**
Fire and Extended Coverage. **Section 8.02**

Utilities: TENANT responsible. **Section 9.01.**

Party Address Lessor: Magic Research LLC
Atten: Managers – Miles Gatland, Tom Berman and Ronald Berman
750 Denison Court
Bloomfield Hills, Michigan 48302
tjb@bermanlawpllc.com with a required copy to mgatland@aol.com

Party Address Tenant: Nano Magic LLC
Atten: Tom Berman, President and CEO
31601 Research Park Drive
Madison Heights, Michigan 48071
tom@nanomagic.com with a required copy to j.rickert@nanomagic.com

Use: Office, light manufacturing, warehousing and distribution with related uses. **Section 2.01**

LEASE AGREEMENT

THIS AGREEMENT of Lease (“Lease” or “Agreement”) is made as of the 31st day of May, 2020 (“Effective Date”), by and between **Magic Research LLC**, a Michigan limited liability company (hereinafter referred to as the “LESSOR”) and **Nano Magic LLC**, an Ohio limited liability company (hereafter referred to as the “TENANT”).

WITNESSETH:

In consideration of the mutual covenants and agreements hereinafter set forth, LESSOR and TENANT agree as follows:

ARTICLE I

DEMISE OF PREMISES; DEFINITIONS; QUIET ENJOYMENT

SECTION 1.01. DEMISE OF PREMISES.

Subject to the terms, conditions, covenants, and undertakings hereinafter set forth, LESSOR does hereby lease to TENANT and TENANT does hereby lease from LESSOR those certain premises described as follows:

A free standing one story building, consisting of approximately 29,220 usable sq. ft. (“Building”) as shown on **Exhibit A**, with related amenities, including parking, all situated on an approximate 2.33+/- acre parcel of land commonly known as 31601 Research Park Drive, Madison Heights, Michigan 48071 (Parcel ID: 25-01-327-017) (the Building and amenities on the Land, collectively, the “Premises”). A legal description of the Land is attached hereto, made a part hereof and marked **Exhibit B**.

SECTION 1.02. DEFINITIONS AND USE OF TERMS.

“**Business Day(s)**” mean the days of the week between and including Monday through Friday and do not include State and National public holidays.

“**Land**” means the parcel of land upon which the Building is situated as more particularly described on **Exhibit B** attached hereto and incorporated herein.

“**Operating Expense(s)**” mean and include all actual costs and expenses incurred in the operation and maintenance of the Premises and Building including but not limited to: (i) keeping the same in a safe, neat and clean condition, free of snow and ice; (ii) landscaping, lawn, tree/shrub trimming and sprinkling system (if any) in good condition and repair including the winterizing of the sprinkling system and the turning on of the sprinkling system in the spring, de-weeding Premises including but not limited to parking lot, building/fence perimeters; (iii) of sweeping, patching, seal coating, striping and sealing all sidewalks, parking areas, entranceways and driveways; (iv) maintaining, repairing and replacing pavement signs; (v) repairing, maintaining, and replacing all freestanding signs located on the Premises; (vi) the cost of caring for and maintaining all landscaped and planted areas; (vii) maintaining the Premises and Building (including caulking, weather stripping and painting) and every part and component thereof including but not limited to the doors (including every part and component), windows, glass, fixtures, the any dumpster enclosure, truck railing, signage (including parking and exit signage), gutters, downspouts, overhead doors (including every part and component), docks, dock levelers (including every part and component), dock shelters (including every part and component), plumbing (including sanitary and storm sewer lines, backflow preventer, toilets, water lines and connections, and water meters electric (interior and exterior including light bulbs, security/emergency/exit lights, ballasts and lighting fixtures) and other utility systems and all other appliances, appurtenances and equipment belonging or used in connection therewith; and (viii) all insurance costs resulting from the requirements of Article XVIII.

The following are excluded from Operating Expenses (the "Exclusions") (1) tax or accounting depreciation and amortization, including but not limited to depreciation of structures located on the Land (including the Building); (2) legal fees incurred in connection with the development, marketing, advertising, or leasing of the Premises ; (3) leasing commissions, costs of art and sculptures, advertising, and marketing expenses incurred in connection with the development, marketing, advertising, or leasing of the Premises; (4) costs or expenses for correcting defects in the design or construction of the Premises or Building; (5) costs or expenses incurred that are reimbursed by TENANT, or third parties (including, without limitation, insurers), water sub-metered and separately billed; (6) costs or expenses incurred as a result of disputes or negotiations regarding the Premises not involving TENANT, including but not limited to attorneys' fees, any costs or expenses incurred in negotiating, amending, administering or terminating leases, or any brokerage commissions; (7) fines or penalty assessments incurred due to violations by LESSOR of any laws, rules, regulations, or ordinances applicable to the Premises or Building which do not involve TENANT or any changes made to the Premises or Building by TENANT; (8) overhead and profit paid to subsidiaries or affiliates of LESSOR for services on or to the Building and/or Premises, to the extent only that the costs of such services exceed competitive costs for such services were they not so rendered by a subsidiary or affiliate; (9) any compensation paid to clerks, attendants, or other persons engaged in commercial concession operated by LESSOR; (10) costs or expenses associated with the operation of the business of the entity which constitutes LESSOR, such as the formation of the entity, internal accounting and legal matters; (11) costs or expenses representing an amount paid to an entity related to LESSOR which is in excess of the amount which would have been paid in the absence of such relationship in the competitive marketplace; (12) cost of repairs or other work occasioned by the exercise of a right of eminent domain; (13) any interest or payments on any mortgages or deeds of trust or rental on any ground or underlying lease, and penalties and charges incurred as a result of LESSOR's late payment under such mortgages, deeds of trust or ground leases (unless due to a late payment by TENANT hereunder); (14) costs or expenses of repairing or restoring any portion of the Building or Premises damaged or destroyed by fire or other casualty, unless such fire or other casualty was in any way related to or caused by TENANT's actions or inaction.; (15) any taxes, assessments, charges or impositions (including but not limited to any inheritance, estate, succession, transfer, gift tax, capital levy, margin, revenue, excise, corporation or net profit tax) calculated upon LESSOR's net income; (16) merchants association or like charges; (17) Real Estate Taxes as herein defined (and which are payable by TENANT in accordance with the terms of Section 3.02), and (18) any costs expressly excluded from Operating Expenses elsewhere in this Lease.

"Usable Square Feet" means approximately 29,220 square feet of enclosed floor area as depicted on Exhibit A-2, which square feet within the Building is intended for the exclusive use of the TENANT and its invitees measured from the interior of the outside walls.

SECTION 1.03. QUIET ENJOYMENT.

LESSOR covenants and agrees that, upon TENANT's paying Rent as herein defined and performing all of the covenants and conditions set forth in the Lease, TENANT's quiet and peaceable enjoyment of the Premises shall not be disturbed by LESSOR or any person claiming by, through or under LESSOR.

ARTICLE II

USE; EFFECTIVE DATE; RENT COMMENCEMENT DATE/TERM; RENEWAL OPTION; POSSESSION; CONDITION OF PREMISES; COVENANTS WITH RESPECT TO OCCUPANCY

SECTION 2.01. USE.

TENANT'S use of the Premises shall be limited to general office use, light industrial manufacturing, warehousing and distribution ("Permitted Use"), and for no other use without the prior written consent of LESSOR, which consent shall not be unreasonably withheld, conditioned or delayed.

During the Term of this Lease, LESSOR shall not create or be a party to the creation of any use restrictions, covenants, agreements or conditions which prohibit TENANT'S use of the Premises for its Permitted Use.

LESSOR without TENANT's approval, shall not during the Term change or modify the Building or Premises in any way which would materially interfere with TENANT's use or occupancy of the Premises including, without limitation, the access points, visibility, parking and signage. LESSOR shall use its best efforts to prevent others from doing the same.

LESSOR hereby represents and warrants to TENANT that: (i) LESSOR has full right and authority to enter into this Lease and no other consents or approvals are required from any other party for LESSOR to enter into this Lease, including, without limitation, any lender of LESSOR; (ii) LESSOR is not a party to (nor has created or consented to during any period of LESSOR's ownership of the Premises), and there are no, non-governmental restrictions, covenants, agreements or conditions, including but not limited to environmental contamination, litigation, restrictions on utilities, private use restrictions or any other legal restrictions which would prevent TENANT from using the Premises for the Permitted Use or TENANT's Exclusive Uses, or interfere with TENANT's design, permitting, construction, or signage; LESSOR shall not create, and shall use its best efforts to prevent from being created, any such restrictions, covenants, agreements or conditions during the Term.

TENANT hereby accepts from LESSOR possession of the Premises and Building in its present "AS IS" condition subject to Exhibit C-2, and TENANT acknowledges inspecting the Premises and Building or having had the opportunity to inspect the Premises and Building, and that TENANT is satisfied with the condition thereof and that no representations as to the condition or state of repairs thereof have been made by LESSOR or its agents.

Not later than the Rent Commencement Date, TENANT shall (i) complete TENANT's Work (as defined below).

Notwithstanding anything set forth herein to the contrary, TENANT, at no cost or expense to LESSOR, shall be solely responsible for any and all zoning, land use or administrative, governmental or other approvals, consents, permits or licenses necessary for the occupancy and use of the Premises for the Permitted Use. LESSOR, however, shall cooperate with TENANT to obtain such zoning, land use, or administrative, governmental or other approvals, consents, permits or licenses, at no cost to LESSOR.

SECTION 2.02. EFFECTIVE DATE/TERM.

The "Effective Date" shall be the date stated at the beginning of this Lease. The initial term of this Lease shall be eighty-four (84) months, commencing on October 1, 2020 ("Term"). The date on which the Term shall commence shall be designated as the "Lease Commencement Date".

SECTION 2.03. RENT COMMENCEMENT DATE

The "Rent Commencement Date" shall be the Lease Commencement Date. From the Rent Commencement Date set forth in this Lease through the end of the Term as provided herein, TENANT shall be responsible for all Rent as defined herein owed to LESSOR as stated in Section 3.01.

SECTION 2.04. RENEWAL OPTIONS.

Provided that TENANT is not in default with respect to any provision of this Lease at the time TENANT exercises its rights provided in this Section 2.04, TENANT shall have the right to extend the Term for two (2) additional consecutive periods – one additional three (3) year term and one additional five (5) year term, the first after the expiration of the original Lease Term (seven (7) years after the Rent Commencement Date), the second after the expiration of the first extension, both after giving written notice to LESSOR of such intention to extend the Term at least six (6) months prior to the applicable expiration date. Such extension term shall be upon the same terms and conditions as initially provided herein (including, for the avoidance of doubt, a Base Rent increase at the end of each 12-month period) except that TENANT shall have no further rights of renewal after the second extension. Unless otherwise provided herein, the word “Term” shall include any extension period thereof.

SECTION 2.05. FRIST RIGHT OF REFUSAL AND PURCHASE OPTION.

If LESSOR receives an offer to purchase the Premises during the Term from a person unaffiliated with LESSOR and its members, and LESSOR considers the offer an acceptable bona fide offer, LESSOR shall notify TENANT in writing together with the offer and any correspondence related thereto and any information available to LESSOR about the owners and management of the offeror. TENANT shall have the right of first refusal to purchase the Premises upon the same terms and conditions of said acceptable bona fide offer.

TENANT shall have ten (10) days from the date of receipt of LESSOR’s notice to advise LESSOR in writing that the TENANT wishes to exercise its right to purchase the Premises upon the same exact terms and conditions of the bona fide offer. Failure by TENANT to notify LESSOR within the time specified shall constitute TENANT’s waiver of its right to purchase.

TENANT is hereby granted a Purchase Option to purchase up to forty-nine (49%) percent of the Premises (“Purchase Option”). The Purchase Option shall expire thirty-six (36) months from the Rent Commencement. The Purchase Option shall permit TENANT to purchase up to a forty-nine (49%) percent Membership Interest in LESSOR. TENANT shall provide written notice to LESSOR of its intention to exercise said Purchase Option. Terms of closing shall be reasonably agreed upon at the time of exercise. Further, the Purchase Price shall be determined at the time of the exercise and shall be calculated as follows: (1) the percentage (not to exceed forty-nine (49) percent that TENANT elects to purchase, multiplied by (2) the sum of a) the total cumulative amount of the initial capital contributions of all members of the LLC, plus b) all, if any, additional capital contributions paid up and until the closing date pursuant to the exercise of the Purchase Option. For illustrative purposes, the sum of a + b + c shall then be multiplied by forty-nine (49%) percent, which shall equal the Option Purchase Price.

SECTION 2.06. INTENTIONALLY OMITTED.

SECTION 2.07. POSSESSION.

Possession of the Premises shall be given to TENANT on or before June 15, 2020 to enable TENANT to complete its planning and approved construction.

**ARTICLE III
RENT; TAXES; TRIPLE NET LEASE**

SECTION 3.01. BASE RENT.

TENANT, in consideration of the leasing of the Premises and the covenants and conditions herein contained, hereby covenants and agrees to pay to LESSOR, commencing on the Rent Commencement Date, without demand, offset or deduction whatsoever, except as provided herein, at its offices or such other place as LESSOR may from time to time designate, as the base rental for the Premises ("Base Rent"), during the continuance of this Lease, the following amounts:

<u>Months</u>	<u>Base Rent</u>	<u>Annually*</u>	<u>Monthly*</u>
1 – 12	\$ 6.50	\$ 189,930.00	\$ 15,827.50
12 – 24	\$ 6.75	\$ 197,235.00	\$ 16,436.25
24 – 36	\$ 7.00	\$ 204,540.00	\$ 17,045.00
36 – 48	\$ 7.25	\$ 211,845.00	\$ 17,653.75
48 – 60	\$ 7.50	\$ 219,150.00	\$ 18,262.50
60 – 72	\$ 7.75	\$ 226,455.00	\$ 18,871.25
72 – 84	\$ 8.00	\$ 233,760.00	\$ 19,480.00

Base Rent shall increase by twenty-five (\$.25) cents per year during the Term.

If LESSOR does not receive any payment of Base Rent or other charges or amounts due under this Lease within five (5) Business Days after the date first due, then TENANT will pay (i) a late fee equal to \$250 and (ii) interest shall accrue on any unpaid amounts at a rate of ten 10% per year or the maximum interest rate allowed by law, whichever is lower. Notwithstanding anything contained herein to the contrary, TENANT shall not be responsible for the payment of Base Rent prior to the Rent Commencement Date, even if TENANT is occupying the Premises.

Beginning on the Rent Commencement Date and continuing during the remainder of the Term, TENANT shall pay annual Base Rent in advance, in United States currency, in twelve (12) equal monthly installments, not later than the first (1st) day of each calendar month. Base Rent for any partial month shall be paid in advance and prorated based on the number of days in such partial calendar month. Base Rent and all other sums of money due from TENANT to LESSOR hereunder ("Additional Rent") shall be collectively referred to herein as "Rent". All Rent payments shall be mailed or delivered to LESSOR's office at the address set forth at the head of this Agreement (or to such other address that LESSOR may give upon thirty (30) days' prior written notice thereof to TENANT, together with a completed Substitute W-9 form if current information is different from the W-9 form originally submitted by LESSOR to TENANT). LESSOR acknowledges that TENANT must receive a current and completed Substitute W-9 form from LESSOR to process the payment of Base Rent. TENANT shall not be subject to late charges or in default for non-payment of Base Rent prior to receipt of an accurate and complete Substitute W-9 form from LESSOR. Acceptance of a payment which is less than the amount then due shall not be a waiver of LESSOR's rights to the balance of Rent, regardless of LESSOR's endorsement of any check so stating.

SECTION 3.02. TAXES.

Beginning on the Effective Date and continuing during the remainder of the Term, TENANT agrees to pay, without notice, demand, abatement, deduction or offset, all real estate and ad valorem taxes, general and special assessments, and all other taxes, impositions and assessments of every kind and description, assessed or imposed upon the Premises or improvements located thereon, or on the leasehold estate, including without limitation any assessment payable in connection with any assessment district, which may be levied or assessed by any lawful authority against the Premises ("Real Estate Taxes"), to the full extent of installments becoming due during the Term (regardless of whether such Real Estate Taxes were assessed or became a lien during, prior or subsequent to the calendar year of payment). LESSOR hereby represents that all Real Estate Taxes have been paid in full to the Lease Commencement Date. Any Real Estate Taxes relating to a tax period a part of which is not included within the Term shall be prorated so that TENANT shall only pay that portion thereof which relates to the tax period falling within the Term. Any Real Estate Taxes paid by LESSOR relating to a tax period a part of which applies to the period after the Effective Date shall be prorated so that TENANT shall reimburse LESSOR for that portion thereof which relates to the tax period after the Effective Date.

Any communications or bills received by LESSOR regarding taxes which are applicable to the Premises shall be promptly furnished to TENANT for review, and LESSOR shall cooperate in any attempts by TENANT to have such communications or bills issued directly to TENANT. Prior to the date on which the Real Estate Taxes are due and payable to the taxing authorities, TENANT shall furnish LESSOR with reasonable evidence of TENANT's timely payment of any Real Estate Taxes.

Provided TENANT has timely paid all assessments of Real Estate Taxes when due, TENANT, acting in a commercially reasonable manner and with LESSOR'S approval which will not be unreasonably withheld, shall have the right to timely challenge any basis for the calculation of the Real Estate Taxes or any portion thereof. TENANT agrees to indemnify and hold LESSOR free and harmless from and against any and all damages, losses, claims or liabilities which LESSOR may suffer, as a result of any tax challenge by TENANT including, but not limited to, any interest or penalties which may be assessed by any real estate taxing authority. LESSOR agrees to cooperate with TENANT in any such challenge. In the event that LESSOR shall contest the Real Estate Taxes or any portion thereof without the consent of TENANT, TENANT shall not be responsible for any of LESSOR's costs or attorney fees incurred by reason thereof.

TENANT shall be obligated to timely pay all Real Estate Taxes throughout the Term. If TENANT fails to pay the Real Estate Taxes or any part thereof, LESSOR shall have the right but not the obligation to pay the same and charge TENANT for such payment, as well as an administrative fee of \$250 as part of the next installment of Base Rent due.

LESSOR shall be responsible for the payment of any transaction, privilege, rental or similar tax thereon unless such tax is related to TENANT or TENANT'S use of the Premises.

TENANT shall pay, prior to delinquency, all taxes, assessments, charges and impositions assessed against, or related to, all personal property, equipment, inventory and trade fixtures assessed to TENANT and/or the Premises.

SECTION 3.03. OPERATING EXPENSES.

Beginning on the Effective Date and continuing during the remainder of the Term, TENANT shall pay all Operating Expenses directly to the vendors and other providers thereof.

SECTION 3.04. TRIPLE NET LEASE.

Except for the Exclusions and as may otherwise be expressly provided in this Lease, all Base Rent shall be absolutely net to LESSOR so that this Lease shall yield net to LESSOR the Base Rent to be paid each month during the Term of this Lease. Accordingly, and except as may otherwise be provided herein or expressly excluded from being an Operating Expense, all costs, expenses and obligations of every kind or nature whatsoever relating to the Premises that may arise or become due during the Term (the Operating Expenses, costs of repairs and necessary replacements, insurance costs and Real Estate Taxes, etc., except as may otherwise be expressly provided in this Lease) shall be paid by TENANT. In the event TENANT fails to pay, perform or discharge any imposition, insurance premium, utility charge, maintenance, repair or replacement expense which it is obligated to pay or discharge, LESSOR may, but shall not be obligated to, pay, perform and/or discharge the same, and in that event TENANT shall reimburse LESSOR for such amount, plus an administrative charge of \$250, as Additional Rent, within thirty (30) days after invoice, and TENANT hereby agrees to indemnify, defend and hold LESSOR harmless for, from and against such costs, fees, charges, expenses, reimbursements and obligations referred to above. Nothing herein contained, however, shall be deemed to require TENANT to pay or discharge any liens or mortgages of any character whatsoever which may exist or hereafter be placed upon the Premises by an affirmative act or omission of LESSOR.

SECTION 3.05. SECURITY DEPOSIT.

No security deposit is required under the terms of this Lease.

**ARTICLE IV
LESSOR IMPROVEMENT WORK; REMODELING;
TELECOMMUNICATIONS.**

SECTION 4.01. IMPROVEMENT WORK; REMODELING

LESSOR hereby agrees to provide TENANT with an improvement allowance of up to four hundred thousand and 00/100 (**\$400,000.00**) dollars ("Improvement Allowance") to improve the exterior and interior of the Leased Premises, including the painting of the exterior of the building and necessary parking lot repairs. TENANT shall pay all costs incurred in excess of the Improvement Allowance ("Excess Costs").

LESSOR and TENANT shall jointly be responsible for the improvement of the Leased Premises and LESSOR shall be entitled to approve the space design and construction plan for all improvements made ("Improvement Plans"). If LESSOR fails to approve or deny the Improvement Plans or any variation thereof, within five (5) business days from receipt thereof, the Improvement Plans shall be deemed accepted, and approved by LESSOR. Upon approval of the Improvement Plans, LESSOR and TENANT shall jointly commence the improvement of the Leased Premises. Upon presentation of invoices in furtherance of the Improvement Plans, LESSOR shall be obligated to promptly pay such invoices. Said Plans shall be attached as **Exhibit C**.

SECTION 4.02. TELECOMMUNICATION EQUIPMENT.

Notwithstanding anything contained herein to the contrary, TENANT shall have the right to install on the Building, a satellite or other communication or telecommunication dish and related equipment (collectively, "Equipment") at TENANT's sole cost and expense. The location, appearance and installation of the Equipment and contract between TENANT and its telecommunication provider shall be subject to LESSOR'S prior written approval, such approval not be unreasonably withheld, delayed or conditioned. All work required on the roof of the Building shall be performed, at TENANT'S sole cost and risk, in a manner which will not damage the roof or void or adversely affect any roof warranties or guaranties. If required by LESSOR, TENANT, at its sole cost and expense, shall retain any roofing contractor having a then existing warranty in effect on the roof to perform such work (to the extent that it involves the roof), provided that the cost of the same is comparable to similar bids received by TENANT for such work. TENANT shall keep the roof of the Building free of all trash and waste materials produced by TENANT or its agents or contractors. TENANT shall not lease the telecommunication equipment. TENANT shall be responsible for the costs of purchase, maintenance and repair of the Equipment, and any and all damage and repairs to the roof directly resulting from the installation, removal, operation and/or maintenance of the Equipment. During the Term the Equipment shall remain the property of TENANT. LESSOR may have its representative present at the installation, removal or any reinstallation of the Equipment.

**ARTICLE V
JANITORIAL SERVICES**

SECTION 5.01. JANITORIAL SERVICES.

LESSOR shall not furnish any janitorial or cleaning services to the Premises. TENANT shall at TENANT's sole cost and expense be responsible for any such janitorial and cleaning services.

**ARTICLE VI
SIGNS**

SECTION 6.01. SIGNS, AWNINGS AND CANOPIES BY TENANT; PARKING

TENANT shall not erect or install any signs, lettering or placards in or around the Premises without the written consent of LESSOR, which consent shall not be unreasonably withheld, delayed or conditioned. LESSOR agrees that TENANT may erect the maximum amount of signage allowable by local code and any other laws, sign ordinances or private restrictions which govern the Premises, subject to LESSOR's consent which shall not be unreasonably withheld. TENANT shall at its own risk and expense, (i) erect all its approved signage, (ii) observe all applicable federal, state, county, or city ordinances, laws or regulations or any applicable private restrictions, (iii) agree to maintain and repair all exterior, pylon and interior window signage, including but not limited to mechanical and electrical parts, in a good state of repair and (iv) save LESSOR harmless from any cost, loss or damage as a result of the erection, maintenance, existence or removal of its signage by TENANT.

TENANT will remove all signage at the expiration or termination of this Lease including but not limited to its store sign, name, trademark, and insignia from any exterior signage referenced above but not the supporting sign structures upon vacating the Premises and will repair any damage to the Premises caused by the installation, erection, maintenance, or removal of such signage. TENANT shall be entitled to the exclusive use of the monument sign presently on the Premises, provided, however, TENANT, at no cost to LESSOR, shall be solely responsible for its installation on the monument sign in accordance with plans and specifications approved or to be approved in advance by LESSOR (and if to be approved, notwithstanding anything contained herein to the contrary, such approval shall not be unreasonably withheld, delayed or conditioned) and in compliance with all applicable federal, state and local sign codes, ordinances, rules and regulations.

With regard to any exterior signage, and if TENANT places any exterior awnings, canopies or display modules on the Premises, TENANT is responsible for obtaining LESSOR'S approval which shall not be unreasonably withheld, delayed or conditioned and, if required, any municipal or state approval or private approvals. LESSOR shall cooperate, at no cost to LESSOR with TENANT using commercially reasonable efforts to obtain any necessary approvals or permits for any signage or for the above referenced structures which may be proposed by TENANT.

TENANT shall have the exclusive use of all the parking areas serving the Building and located on the Premises. TENANT, working with LESSOR and the appropriate authorities, shall be solely responsible for assuring that the available parking is adequate for TENANT's use. All existing parking spaces located on the Premises are for the exclusive use of TENANT.

ARTICLE VII. MAINTENANCE OF PREMISES

SECTION 7.01. MAINTENANCE.

LESSOR shall maintain in good condition and repair the foundation, structural walls, roof of the Building, and water and sewer lines from the meter to the street, provided, however, that LESSOR shall not be responsible to maintain, repair or replace any portion of the foundation, structural walls or roof that is damaged by TENANT, its agents, employees, contractors, subcontractors or invitees, notwithstanding LESSOR'S consent to any improvements which may result in such damage. Any such damage occasioned through the act or omission of LESSOR or its agents, employees, contractors, subcontractors or invitees shall be promptly repaired by LESSOR at LESSOR'S sole cost and expense.

LESSOR shall be responsible for performance of the HVAC system serving the Premises for a period of one (1) year from the Rent Commencement Date, which includes any repairs and/or replacement of the HVAC system. Then, TENANT shall be responsible for any repairs and/or replacement of the HVAC system, including, providing regular servicing of the HVAC system at least one time per year by a licensed HVAC inspector/contractor. Should the TENANT be required to replace any unit of the HVAC system, TENANT shall have the option to either pay for any replacement on its own, or, the LESEE shall provide notice to the LESSOR that TENANT wishes for LESSOR to pay for said replacement. Should LESSOR pay for said replacement, TENANT shall be required to reimburse the LESSOR for the total cost of said replacement in equal monthly installments for the remainder of the then current Term of the Lease.

If LESSOR does not commence any required repair within fifteen (15) Business Days after receipt of written notice of the need for the same from TENANT, TENANT may, but shall not be obligated to, make such reasonable repairs and, notwithstanding anything set forth herein to the contrary, charge LESSOR for all costs and expenses actually incurred by TENANT in completing such repairs by taking a credit against future payments of Rent.

Except as otherwise provided herein or for damage caused by the intentional act or omission or gross negligence of LESSOR, and its agents, TENANT shall perform all other maintenance and repairs needed to keep the Building and Premises in good order, condition and repair, and shall at all times operate, maintain, repair, and keep the Premises and the Building, including, but not limited to, the exterior of the Building, the parking lot, the sidewalks, the drive aisles, lawns and landscaping, signage, and all mechanical systems, electrical systems, plumbing systems, windows, window frames and moldings, glass, doors, door openers, fixtures, floor covering, equipment and appurtenances thereto and all parts of the Premises and Building in good order, condition and repair, and clean, orderly, sanitary and safe. TENANT shall commence required repairs as soon as reasonably practicable. If TENANT does not commence any required repair within seven (7) Business Days after receipt of written notice of the same from LESSOR, LESSOR may, but shall not be obligated to, make such reasonable repairs and, notwithstanding anything set forth herein to the contrary, charge TENANT for all reasonable costs and expenses actually incurred by LESSOR in completing such repairs, plus an administrative charge of \$250.

Where replacement of mechanical systems, equipment, fixtures and appurtenances thereto are required hereunder, the same shall be replaced with mechanical systems, equipment, fixtures, and appurtenances of the same quality, and all damage done in or by such replacement shall be repaired.

TENANT shall give prompt, written notice of any accident, casualty, damage or other similar occurrence in or to the Premises or the Building of which TENANT has knowledge.

TENANT shall be responsible for all repairs or replacements to the Premises and Building occasioned by the negligence or willful act of TENANT, its agents, employees, invitees, or licensees.

TENANT shall not to make any punctures or holes in the roof without prior written approval from LESSOR. TENANT shall not erect any structures for storage or any aerial or use the roof for any purpose without the written consent of LESSOR. TENANT agrees that no equipment, cranes, piping or any other item is permitted to be hanging from or be attached to any steel joists or metal deck, supported on steel beams or masonry bearing walls without prior written approval from LESSOR and LESSOR's designated structural engineer.

SECTION 7.02. SURRENDER OF PREMISES.

At the expiration of this Lease including any extension thereto, TENANT shall surrender the Premises in good condition, reasonable wear and tear and damage by casualty excepted and deliver all keys for any combination locks, safes and vaults if any, in the Premises, to LESSOR at LESSOR'S address. "Reasonable wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice on the part of TENANT as may be required herein. TENANT shall repair any damage occasioned by the installation, maintenance or removal of trade fixtures, TENANT-owned alterations and/or utility installations, furnishings, and equipment.

All costs and expenses incurred by LESSOR in connection with repairing or restoring the Premises and Building to the condition called for herein together with the costs, if any, of removing from the Premises or Building any property of TENANT left therein, together with liquidated damages in an amount equal to the amount of the Base Rent plus all other charges which would have been payable by TENANT under this Lease if the Term had been extended for the period of time reasonably required for LESSOR to repair or restore the Premises and Building to the condition called for herein, shall be invoiced to TENANT and shall be payable by TENANT as additional rent within thirty (30) days after delivery of an invoice for same.

ARTICLE VIII INSURANCE AND INDEMNITY

SECTION 8.01. LIABILITY INSURANCE.

TENANT agrees to carry at its own expense, throughout the Term of this Lease, public liability insurance covering the Premises from companies and in a form or forms reasonably satisfactory to LESSOR with a Minimum Commercial General Liability Limits of \$1,000,000 Each Occurrence, \$2,000,000 General Aggregate, \$2,000,000 Products/Completed Operations and \$500,000 for property damage as a result of each occurrence and to deposit said policies or certificates thereof with LESSOR prior to the date of possession by TENANT..

All policies of insurance required to be maintained by TENANT under this Article shall name LESSOR and any other parties in interest designated by LESSOR and LESSORS's mortgagee as additional insured as their respective interests may appear, and shall contain a provision that the insurer will not cancel, change or fail to renew the insurance without giving LESSOR at least thirty (30) days prior written notice. All such policies of insurance shall be issued by companies licensed in the State of Michigan and rated by Best's Insurance Reports, or any successor publication of comparable standing, and carrying a rating of at least "A" or the then equivalent rating. TENANT shall furnish to LESSOR such evidence as TENANT may require that the insurance referred to in this section is in full force and effect and that the premiums therefore have been paid.

In the event that LESSOR learns that TENANT has failed to acquire such insurance as mandated by this Lease or that such insurance has lapsed, LESSOR may at its own discretion acquire and purchase the necessary insurance and charge TENANT therefore, as well as an administrative fee of \$250 and any such charge shall be additional rent. Such action by LESSOR would not in any way constitute a waiver of any rights granted herein as LESSOR would expressly retain and reserve any and all rights pursuant to this Lease.

SECTION 8.02. FIRE, LIABILITY & EXTENDED COVERAGE INSURANCE.

LESSOR shall maintain fire, liability and extended coverage including but not limited to building ordinance coverage or any other insurance coverage deemed necessary by LESSOR or LESSOR's lender throughout the Term of this Lease in an amount equal to at least full replacement value (exclusive of foundation and excavation costs) of the Premises and/or Building , LESSOR may adjust \the full replacement value of the Building and other improvements as LESSOR deems necessary and make changes in coverage accordingly. All policies of insurance required to be maintained by LESSOR under this Article shall name TENANT as an additional insured, and shall contain a provision that the insurer will not cancel, change or fail to renew the insurance without giving TENANT at least thirty (30) days prior written notice. TENANT shall furnish to LESSOR such evidence as TENANT may require that the insurance referred to in this section is in full force and effect and that the premiums therefore have been paid. TENANT shall pay the cost of all insurance coverage paid by LESSOR as an Operating Expense. TENANT shall, at its own expense, comply with all the requirements including the installation of fire extinguishers or automatic dry chemical extinguishing system, of the insurance underwriters and any governmental authority having jurisdiction there over, necessary for the maintenance of reasonable fire and extended coverage insurance for the Premises.

TENANT shall, during the Term hereof, keep in full force and effect, at its sole cost and expense, twelve-month business interruption insurance and all risk property insurance, insuring against fire and extended coverage insurance covering the full replacement value of TENANT'S personal property (and the property of its customers, if applicable), fixtures, equipment, improvements and alterations located on the Premises. The proceeds from any such policy shall be used by TENANT solely for the replacement of personal property or fixtures or the restoration of TENANT'S improvements or alterations. All personal property of any kind, nature or description whatsoever, kept, stored or maintained upon or in the Premises shall be kept, stored or maintained at the sole risk and responsibility of TENANT exclusively, and TENANT further acknowledges and agrees that LESSOR shall not be responsible or liable to TENANT for any loss or damage resulting to TENANT or its property from burst, stopped or leaking water, gas or sewer pipes, or for any damage or loss of property within the Premises. TENANT hereby releases and discharges LESSOR and its members, officers, shareholders, partners, agents, employees, and representatives from any liability whatsoever arising from the loss, damage, or injury to TENANT's property or to the property of others in or on or about the Premises from any cause whatsoever, including fire or other casualty.

SECTION 8.03. SUBROGATION.

LESSOR and TENANT and all parties claiming under them, mutually release and discharge each other from all claims and liabilities arising from or caused by any casualty or hazard covered or required hereunder to be covered in whole or in part by insurance on the Premises or in connection with the Building of which the Premises is a part or activities conducted on the Premises, to the extent permitted by Michigan law.

SECTION 8.04. INDEMNIFICATION OF LESSOR.

TENANT will indemnify LESSOR and save LESSOR harmless from and against any and all claims, demands, actions, damages, liability and expense (including reasonable attorney's fees and costs of investigation with respect to any claim, demand or action) in connection with loss of life, personal injury and/or damage to property arising from the act(s) or omission(s) of TENANT, its agents, customers, invitees, contractors, employees, servants, TENANTS or concessionaires. This indemnification shall not apply to damages resulting solely from the gross negligence of LESSOR, unless covered by insurance required to be carried by TENANT. In case LESSOR shall, without fault on its part, be made a party to any litigation commenced by or against TENANT, then TENANT shall protect and hold LESSOR harmless and shall pay all costs, expenses and reasonable attorney's fees incurred or paid by LESSOR in connection with such litigation.

All property of TENANT kept in the Premises shall be so kept at TENANT's risk only and TENANT shall save LESSOR harmless from claims arising out of damage to same except where caused by the LESSOR's negligence or willful misconduct. TENANT shall also maintain Workers' Compensation insurance in accordance with the laws of the State of Michigan.

SECTION 8.05. INDEMNIFICATION OF TENANT.

LESSOR will indemnify TENANT and save TENANT harmless from and against any and all claims, demands, actions, damages, liability and expense (including reasonable attorney's fees and costs of investigation with respect to any claim, demand or action) in connection with loss of life, personal injury and/or damage to property arising from the act(s) or omission(s) of LESSOR, its agents, contractors, employees, servants, TENANTS or concessionaires. This indemnification shall not apply to damages resulting solely from the gross negligence of TENANT, unless covered by insurance required to be carried by LESSOR. In case TENANT shall, without fault on its part, be made a party to any litigation commenced by or against LESSOR, then LESSOR shall protect and hold TENANT harmless and shall pay all costs, expenses and reasonable attorney's fees incurred or paid by TENANT in connection with such litigation.

**ARTICLE IX
UTILITIES**

SECTION 9.01. UTILITIES PROVIDED.

LESSOR hereby represents that the Premises are served by electricity, heat/gas, telephone service, high speed internet access, public water and public sewer (to the Building), all which are separately metered. TENANT shall pay all charges for such utilities directly to the applicable utility company/provider, commencing on the Effective Date. TENANT shall be solely responsible for the prompt payment, as and when the same may become due and payable, of all charges for water, sewer, electricity, gas, telephone and any other utility used or consumed at the Premises.

**ARTICLE X
ASSIGNMENT AND SUBLETTING**

SECTION 10.01. CONDITION FOR ASSIGNMENT AND SUBLETTING.

Except for an assignment or subletting to an affiliate of TENANT, TENANT will not sell, assign, mortgage, sublet or pledge this Lease, or, any part thereof, or allow the same to be assigned by operation of law or otherwise, or in any way transfer this Lease or any interest therein, nor sublet all or any part of the Premises, without first obtaining the written approval of LESSOR, which approval shall not be unreasonably withheld, delayed or conditioned. The term "affiliate" as used above shall mean the parent company of TENANT, any subsidiary of TENANT or its parent company, or any other entity which controls, is controlled by or is under common control with TENANT and the term "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise. Although LESSOR's consent shall not be required for an assignment or subletting to an affiliate of TENANT, TENANT shall give LESSOR prompt written notice of any such assignment or subletting and for all other assignments or sublettings, together with a fully executed copy of the assignment or sublease, the assumption of this Lease by the assignee and/or the acceptance of the sublease by the subtenant, as the case may be. The approval by LESSOR to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment, mortgaging, pledging or subletting nor shall such approval be deemed to release or otherwise discharge TENANT from the obligations of TENANT to perform under this Lease unless otherwise agreed in writing.

In the event of any assignment, transfer (including transfers by operation of law or otherwise), hypothecation, mortgage or subletting without such written consent, in addition to any other right or remedy LESSOR may have under the provision of this Lease, LESSOR shall have the right to terminate this Lease and/or re-enter and repossess the Premises but LESSOR'S rights to damages shall survive and TENANT shall not be released from any of its obligations under this Lease. Notwithstanding anything herein to the contrary, LESSOR'S consent to any assignment, subletting or other transfer of this Lease shall in no way constitute a novation or release of TENANT. Notwithstanding any assignment or subletting, TENANT shall continue to remain liable for all obligations under the Lease Agreement. Any request to sell, assign, mortgage, pledge, or in any manner transfer this Lease or sublet the Premises or any portion of the Premises shall be accompanied by a payment of two thousand dollars (\$2,000) which shall be used by LESSOR to cover all associated costs, including attorney fees.

Except as provided in Section 2.05, LESSOR'S right to assign this Lease is and shall remain unqualified. On any transfer of LESSOR'S interest in the Premises made in compliance with Section 2.05 in which the purchaser assumes all obligations under this Lease, LESSOR shall be free of all obligations of LESSOR under this Lease and shall not be subject to any liability resulting from any act or omission or event occurring after the conveyance. TENANT agrees to recognize such transferee as LESSOR, and TENANT further agrees, at LESSOR'S request, to execute and deliver such documents and estoppel letters as LESSOR may request to assist in that transfer.

**ARTICLE XI
SUBORDINATION AND ATTORNMENT; ESTOPPEL CERTIFICATES**

SECTION 11.01. SUBORDINATION AND ATTORNMENT.

This Lease is subject and subordinate at all times to the lien of any mortgage which may now or hereafter affect the Premises, and to all renewals, modifications, amendments, consolidations, replacements and extensions thereof. TENANT shall execute and deliver any instrument which may be reasonably required by LESSOR in confirmation of such subordination promptly upon LESSOR'S request. LESSOR, however, shall cause the holder of any mortgage to deliver to TENANT for execution by TENANT and the holder of such mortgage, a subordination non-disturbance and attornment agreement in the standard form used by the holder, with such reasonable revisions thereof as may be requested by TENANT and agreed upon the holder, generally providing, that if, by dispossession, foreclosure, or otherwise the holder, or any successor in interest, comes into possession of the Premises, becomes the owner of the Premises, or takes over the rights of LESSOR in the Premises, it will not disturb the possession, use or enjoyment of the Premises by TENANT, its successors or assigns, or disaffirm this Lease or TENANT's rights or estate hereunder, so long as all of TENANT's obligations are fully performed in accordance with the terms of this Lease.

SECTION 11.02. ESTOPPEL CERTIFICATES

Within ten (10) Business Days following written request from time to time, TENANT shall execute and deliver to LESSOR or its holder of any mortgage, or prospective holder, a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this Lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the Rent and other sums payable under this Lease have been paid; (d) the fact that there are no current defaults under this Lease by either LESSOR or TENANT except as specified in such statement; and (e) such other factual matters as may be requested. LESSOR and TENANT intend that any statement delivered pursuant to this Section 11.02 may be relied upon by any mortgagee, beneficiary or purchaser, and TENANT shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate.

**ARTICLE XII
DESTRUCTION OF THE PREMISES**

SECTION 12.01. TOTAL OR PARTIAL DESTRUCTION.

If the Premises are hereinafter damaged or destroyed or rendered unleaseable for their accustomed use or the Permitted Use, by fire or other casualty under the coverage which LESSOR is obligated to carry under the terms of this Lease, LESSOR shall promptly repair same to substantially the condition which they were in as of the Rent Commencement Date, from the insurance proceeds it may receive (exclusive of TENANT'S Work and other improvements, alterations, equipment and trade fixtures, stock in trade, fixtures, furniture, furnishings, carpeting, floor coverings, wall coverings, drapes, equipment, as well as all other items required to be insured by TENANT), and from the date of such casualty until the Premises are so repaired and restored, the Rent payable hereunder shall abate in such proportion as the part of said Premises thus destroyed or rendered unusable bears to the total Premises; and PROVIDED FURTHER, that (a) if the Premises be damaged, destroyed, or rendered unleaseable for their accustomed uses or the Permitted Use by fire or other casualty to the extent of more than fifty percent (50%) of the cost to replace the Premises during the last two (2) years of the original term of this Lease or its renewals or extensions, then either LESSOR or TENANT shall have the right to terminate this Lease effective as of the date of such casualty by giving to the other, within thirty (30) Business Days after the happening of such casualty, written notice of such termination, and (b) in the event the holder of any existing mortgage requires that any insurance proceeds be applied to any indebtedness secured by the mortgage or deed of trust covering the Premises, LESSOR shall have the right to terminate this Lease by delivering written notice of termination to TENANT. If any such notice is given, this Lease shall terminate effective thirty (30) days after such notice, TENANT shall thereupon use all reasonable efforts to vacate and remove its property from the Premises, and LESSOR shall repay to TENANT any Rent theretofore paid in advance which was not earned at the effective date of such termination. This Lease sets forth the terms and conditions upon which this Lease may terminate in the event of any damage or destruction. Accordingly, except as expressly provided herein, LESSOR and TENANT each hereby waives any and all provisions of applicable law that provide alternative rights for the parties in the event of damage or destruction

**ARTICLE XIII
CONDEMNATION**

SECTION 13.01. TOTAL CONDEMNATION.

If any part of the Premises is taken under the power of condemnation or eminent domain, this Lease shall cease as to the part taken from the day that the actual possession of that part shall be taken by the expropriating authority. Rent shall be paid up to that day, and from that day the Rent shall be reduced in proportion to the portion of the Premises taken. If 25% or more of the Building is taken or a substantial portion of the Premises so that it is no longer suitable for TENANT's use, LESSOR or TENANT shall give the other notice and TENANT and LESSOR each shall have the option to cancel this Lease, to be exercised by written notice to the other within thirty (30) days after receipt of notice given under this Section. The terms "condemnation" or "eminent domain" shall include conveyances and grants made in anticipation or in lieu of such proceedings.

All compensation awarded for any taking under the power of eminent domain, whether for the whole or a part of the Premises shall be the property of LESSOR, whether such damages are awarded as compensation for loss of value of the leasehold or fee of the Premises or otherwise; and TENANT assigns to LESSOR all of its right to such compensation; provided, however, nothing herein contained shall be construed to preclude TENANT from prosecuting any direct claim against the condemning authority, but not against LESSOR, for the value of, or the damages to or for the cost of removal of, TENANT's trade fixtures and other personal property which, under the terms of the Lease, would remain TENANT's property upon the expiration of the Term as may be recoverable by TENANT in TENANT's own right; so long as no such claim shall diminish or otherwise affect LESSOR's award.

SECTION 13.02. PARTIAL CONDEMNATION.

If a material part of the Premises or any part of the Building shall be so taken or condemned by any competent authority, but the remainder of the Premises and Building is leasable and substantially suitable for TENANT's use, the Rent shall proportionately abate as to the part so taken.

SECTION 13.03. DAMAGES.

The termination of the Lease or the apportionment of Rent hereunder shall be without prejudice to the rights of either LESSOR or TENANT to recover compensation according to their respective interests from the condemning authority for any loss or damage caused by such condemnation. Neither LESSOR nor TENANT shall have any rights in or to any award made to the other by the condemning authority.

**ARTICLE XIV
TENANT'S DEFAULT**

SECTION 14.01. NATURE OF DEFAULT.

LESSOR may, at its option, terminate this Lease, or terminate TENANT's right to possession of the Premises without terminating this Lease, or exercise any and all other rights and remedies available under this Lease or at law or in equity, if (i) any default by TENANT continues more than ten (10) days after written notice to TENANT in the case of non-payment of Rent, or (ii) in any other case if TENANT does not cure such default within thirty (30) days after written notice thereof (it being agreed that a default, other than the failure to pay money, which is of such a character that rectification thereof reasonably requires longer than said thirty (30) day period, shall be deemed cured within such period if TENANT commences the rectification thereof within said thirty (30) day period and thereafter proceeds with reasonable diligence and in good faith to remedy such default), or (iii) if a petition under any bankruptcy or insolvency law is filed against TENANT and TENANT, as the case may be, does not proceed with reasonable diligence and in good faith cause such proceeding to be dismissed, terminated, vacated or set aside within sixty (60) days thereafter, or (iv) if a petition under any bankruptcy or insolvency law is filed by TENANT, or (v) if TENANT does, or permits to be done, any act which creates a mechanics lien against the Premises which is not discharged or bonded within twenty (20) days of filing, or (vi) if TENANT abandons the Premises.

Upon such termination of this Lease or TENANT's right to possession, LESSOR may re-enter the Premises only with process of law and accordingly, if authorized by the appropriate court order, remove all persons therefrom, and LESSOR shall account for any inventory, fixtures and chattels upon such entry. Any and all property which may be removed from the Premises by LESSOR pursuant to the authority of this Lease or of law, to which TENANT is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of LESSOR using commercially reasonable methods, but at the risk, cost and expense of TENANT. TENANT shall pay to LESSOR, upon demand, any and all reasonable expenses incurred in such removal and all storage charges against such property so long as the same shall be in LESSOR's possession or under LESSOR's control. Any such property of TENANT not retaken by TENANT from storage within ninety (90) days after removal from the Premises shall, at LESSOR's option, be deemed conveyed by TENANT to LESSOR under this Lease as by a bill of sale without further payment or credit by LESSOR to TENANT.

Upon any termination of this Lease, LESSOR shall be entitled to recover as damages: (a) all outstanding installments of Rent, including any amounts treated as Additional Rent under this Lease, and other sums due and payable by TENANT, (b) the value of the time and expense necessary to obtain a replacement tenant or tenants, and the estimated expenses relating to recovery of the Building and the Premises, preparation for reletting and for reletting itself; (c) the cost of performing any other covenants which would have otherwise been performed by TENANT; and (d) reasonable attorneys' fees and brokers' commissions.

If, on account of any breach or default by TENANT in TENANT's obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for LESSOR to employ or consult with an attorney or collection agency concerning or to enforce or defend any of LESSOR's rights or remedies arising under this Lease or to collect any sums due from TENANT, TENANT agrees to pay all costs and fees so incurred by LESSOR, including, without limitation, sheriff's fees, court cost and reasonable attorneys' fees and costs regardless if any action is filed.

Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or except for self-help, any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or waiver of any Rent due to LESSOR under this Lease or of any damages accruing to LESSOR by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

No act or thing done by LESSOR or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid, unless in writing signed by LESSOR. LESSOR's acceptance of the payment of rental or other payments after the occurrence of a default shall not be construed as a waiver of such default, unless LESSOR so notifies TENANT in writing. Forbearance by LESSOR in enforcing one or more of the remedies provided in this Lease upon an Event of Default shall not be deemed or construed to constitute a waiver of such default or of LESSOR's right to enforce any such remedies with respect to such default or any subsequent default.

The foregoing remedies of LESSOR shall not be exclusive, but shall be cumulative and in addition to all rights and remedies now or hereafter provided or allowed by any and all applicable laws.

SECTION 14.02. RIGHT TO RE-LET.

If LESSOR takes possession pursuant to legal proceedings, it may either terminate this Lease, or without terminating this Lease, re-let the Premises or any part thereof for such term or terms (which may extend beyond the Term provided herein) and at such rentals and upon other terms and conditions as LESSOR exercising reasonable business judgment may determine; upon each reletting all rentals received by LESSOR therefrom shall be applied first to any indebtedness other than Rent due hereunder from TENANT to LESSOR; second to pay any reasonable costs and expenses of reletting, including reasonable broker's and reasonable attorney's fees and reasonable costs of alteration and repairs; third to Rent due hereunder. No re-entry or taking of possession of the Premises by LESSOR shall be construed as an election to terminate this Lease unless a written notice of such termination is given to TENANT by LESSOR. LESSOR shall not make any alterations or repairs to re-let the Premises while TENANT is open for business.

Until such time as LESSOR shall elect to terminate the Lease, TENANT shall pay to LESSOR as the same may become due (a) monthly installments of Rent, including any amounts treated as Additional Rent under this Lease and other sums reserved in this Lease for the remaining Term, and (b) reasonable attorneys' fees and brokers' commissions; and TENANT agrees that LESSOR may file suits from time to time to recover any sums falling due hereunder as they become due. Any net proceeds of reletting by LESSOR in excess of the amount then owed by TENANT to LESSOR from time to time shall be credited against TENANT's future obligations under this Lease, after payment of the cost provided in the preceding paragraph.

ARTICLE XV LESSOR'S DEFAULT

SECTION 15.01. NOTICE OF DEFAULT.

Except as otherwise provided herein, LESSOR shall in no event be charged with default in any of its obligations hereunder unless and until LESSOR shall have failed to perform such obligations within thirty (30) days, or such additional time as is reasonably required to correct any material or physical default if the default cannot be cured within said thirty (30) days after receipt of written notice to LESSOR by TENANT, specifically describing such failure. If LESSOR is in default of its obligations hereunder beyond the expiration of the said notice and cure period, TENANT may, but shall not have the obligation to, cure such default and charge LESSOR for the actual, reasonable, out-of-pocket costs incurred and paid by TENANT to cure such default, which sums shall be payable by LESSOR to TENANT within thirty (30) days after LESSOR receives a written request from TENANT, together with paid invoices or other documentation substantiating the amount of such costs. If a court determined that LESSOR is in default and only if a money judgment has been issued against LESSOR, , TENANT, notwithstanding anything contained herein to the contrary, in addition to any other rights it may have as outlined herein or at law or equity, shall have the right to offset such sums against the payment of future Rent under this Lease. Nothing herein contained shall be deemed to limit TENANT's rights to obtain injunctive relief or specific performance or to avail itself of any other right or remedy that may be awarded TENANT by law or under this Lease. Notwithstanding anything contained herein, and judgment against LESSOR can only be satisfied out of rents or other income from the Premises receivable by LESSOR. LESSOR shall not be personally liable for any deficiency beyond its interests in the Premises.

The obligations of LESSOR and TENANT, respectively, under this Lease are expressly agreed by the parties to be independent covenants. If LESSOR fails to perform any obligation under this Lease required to be performed by LESSOR, TENANT shall have no right to terminate this Lease, abatement or withholding of Rent or any other charges or sums payable by TENANT under this Lease, or any right of setoff, the payment of Rent and other charges hereunder being separate and independent covenants.

**ARTICLE XVI
ACCESS BY LESSOR**

SECTION 16.01. RIGHT OF LESSOR.

LESSOR, its agents, and employees shall have the right to enter the Premises from time to time at reasonable hours and upon reasonable written notice to TENANT's representative, to examine the Premises, show such to prospective purchasers and other persons when allowed hereunder, and make such repairs, alterations, improvements or additions as LESSOR deems commercially reasonable and necessary and which are permitted under the terms of this Lease. Notwithstanding the foregoing, under no conditions other than for emergencies, shall LESSOR seek and obtain access to the Premises without notice unless TENANT vacated the Premises or abandoned the Premises for more than five (5) Business Days. Rent shall not abate while any such repairs, alterations, improvements, or additions are being made. During the last six (6) months of the Term of this Lease, LESSOR may exhibit the Premises to prospective TENANTS and maintain upon the Premises reasonable signage as determined by LESSOR and LESSOR'S real estate brokers. In addition, during any bona fide emergency, LESSOR or its agents, if necessary, may enter the Premises forcibly without notice and liability therefor and without in any manner affecting TENANT's obligations under this Lease. Nothing herein contained, however, shall be deemed to impose upon LESSOR any obligation, responsibility, or liability whatsoever, for any care, maintenance or repair except as otherwise herein expressly provided.

**ARTICLE XVII
HOLDING OVER, SUCCESSORS**

SECTION 17.01. HOLDING OVER.

At the expiration of this Lease, or its termination for other causes, TENANT shall surrender possession of the Premises immediately. If TENANT fails to vacate at the expiration or termination of this Lease, with or without LESSOR's prior written consent, TENANT shall pay LESSOR for each day of such holding over, an amount equal to 125% of the Base Rent payable hereunder, plus all Additional Rent payable hereunder. Any such possession after the expiration or termination of this Lease with LESSOR's consent shall be deemed to be a month to month tenancy, which either party (LESSOR or TENANT) shall have the right to terminate, but only after providing the other party prior written notice no less than one month prior to termination. If TENANT remains in possession without LESSOR's consent, and such possession continues for more than one (1) month after LESSOR gives TENANT notice that such damages may be incurred, then TENANT shall also be liable to LESSOR for all damages sustained by LESSOR as a result of such possession. All property that is not removed within five (5) days following the surrender of the Premises shall at LESSOR'S option be deemed abandoned by TENANT and shall become the property of LESSOR without compensation to TENANT.

SECTION 17.02. SUCCESSORS AND ASSIGNS.

All rights and liabilities herein given or imposed upon the respective parties hereto shall bind and inure to the several respective successors and assigns of the parties.

**ARTICLE XVIII
MISCELLANEOUS**

SECTION 18.01. WAIVER.

No waiver by LESSOR or TENANT of any breach of any term, covenant or condition hereof, shall be deemed a waiver of the same or any subsequent breach of the same or any other term, covenant, or condition. No covenant, term, or condition of this Lease shall be deemed waived by LESSOR or TENANT unless waived in writing and acknowledged with signature by both parties.

SECTION 18.02. NO REPRESENTATION.

There are no representations, covenants, warranties, promises, agreements, conditions or undertakings, oral or written, between TENANT and LESSOR other than herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon LESSOR or TENANT unless in writing and signed by them. LESSOR does not in any way or for any purpose, become a partner, employer, principal, master, or joint venturer of or with TENANT.

SECTION 18.03. ACTS BEYOND CONTROL.

If either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lockouts, labor troubles, inability to procure material, failure of power, restrictive governmental laws or regulations, riots, natural disasters, insurrection, war or other reasons of a like nature not the fault of the party delayed in performing work or doing acts required under this Lease, the period for the performance of any such act shall be extended for a period equal to the prevention, delay or stoppage, except the obligations imposed with regard to Base Rent or any additional rent or amounts owed by TENANT or LESSOR pursuant to this Lease .

SECTION 18.04. NOTICES.

All notices from TENANT to LESSOR required or permitted by any provision of this Lease agreement shall be directed to LESSOR as follows:

Magic Research LLC
Attention: Managers – Miles Gatland, Tom Berman and Ronald Berman
750 Denison Court
Bloomfield Hills, Michigan 48302
Email: tjb@bermanlawpllc.com and a required copy to Miles Gatland at mgatland@aol.com

All notices from LESSOR to TENANT required or permitted hereunder shall be directed as follows:

Nano Magic LLC
Attention: Tom Berman, President and CEO
31601 Research Park Drive
Madison Heights, Michigan 48071
Email: tom@nanomagic.com and a required copy to Jeanne Rickert @ j.rickert@nanomagic.com

Any notice required or contemplated by this herein shall be deemed to have been duly given if it is in writing, properly addressed and delivered personally or mailed by registered or certified mail, postage prepaid addressed or by electronic transmission to LESSOR or TENANT at the address and electronic address set forth above in or such other address nominated by a Party in writing.

SECTION 18.05. INTERPRETATION.

The use herein of a single term shall include the plural, and the use of a masculine, feminine or neuter gender shall include all others.

If any provision of this Lease or the application thereof to any party or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or application of such provision to parties or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby and each remaining provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 18.06. RECORDING.

TENANT shall not record this Lease, any Short Form Lease or Memorandum of Lease describing the Premises without the prior written consent of LESSOR. Any such recordation of this Lease without LESSOR'S prior written consent shall be deemed a default of this Lease. Recording fees shall be paid for such recording, by the requesting party. After recording, a copy of same shall be supplied to each party.

SECTION 18.07. INTENTIONALLY OMITTED.

SECTION 18.08. TIME OF THE ESSENCE.

Time shall be of the essence in the performance of the terms of this Lease.

SECTION 18.09. ATTORNEY'S FEES.

In the event of a breach of this Lease, the prevailing party to such action shall be entitled to, in addition to any other damages it seeks, its costs, expenses and reasonable attorney fees as permitted under Michigan law incurred in enforcing the terms of this Lease.

SECTION 18.10 CHOICE OF LAW.

The law of Michigan shall govern the validity, interpretation, construction and performance of this Agreement, and any litigation or arbitration proceedings relating to this Agreement shall only be determined judicially or by arbitration within the jurisdiction of the State of Michigan, solely and exclusively in the state or federal courts located in the county in which the Premises is located.

SECTION 18.11 WAIVER OF JURY TRIAL.

THE PARTIES HERETO ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL RIGHT, BUT THAT THIS RIGHT MAY BE WAIVED. LESSOR AND TENANT EACH HEREBY KNOWINGLY, VOLUNTARILY AND WITHOUT COERCION, WAIVE ALL RIGHTS TO A TRIAL BY JURY OF ALL DISPUTES ARISING OUT OF, UNDER THIS AGREEMENT OR IN ANY WAY RELATED TO THIS AGREEMENT OR ANY OTHER AGREEMENTS BETWEEN ANY OF THE PARTIES, WHETHER SUCH DISPUTE ARISES OUT OF ACTIONS WHICH TOOK PLACE PRIOR TO THE EXECUTION OF THIS AGREEMENT, OCCURRED DURING THE PERFORMANCE OF THIS AGREEMENT, OR AFTER THIS AGREEMENT TERMINATED, INCLUSIVE OF ANY CLAIMS UNDER THIS CONTRACT OR ACTIONS SOUNDING IN TORT, BAD FAITH, FRAUD, OR OTHERWISE BASED UPON ANY STATUTE. LESSOR AND TENANT ACKNOWLEDGE AND AGREE THAT SUCH WAIVER OF JURY TRIAL ENCOMPASSES ANY AND ALL REMEDIES THAT COULD BE SOUGHT BY LESSOR OR TENANT HEREUNDER, INCLUSIVE OF ANY REMEDIES FOR PUNITIVE DAMAGES OR OTHER RELIEF PROVIDED FOR BY CONTRACT, CASE LAW OR STATUTE.

ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THEIR CONSENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY AND THE OTHER AGREEMENTS SET FORTH IN THIS AGREEMENT. THIS PROVISION WAS A MATERIAL INDUCEMENT FOR TENANT INTO ENTERING INTO THE LEASE.

THIS LEASE REDUCES TO WRITING the agreement of the parties made as of the day, month and year first set forth hereinbefore. This Lease may be executed in any number of counterparts, each of which when executed and delivered shall be an original, but all such counterparts shall constitute one and the same instrument. Facsimile and Portable Document Format (“PDF”) signatures shall be binding on the parties hereto.

LESSOR:

MAGIC RESEARCH LLC
a Michigan limited liability company

By: /s/ Miles Gatland
Its: Manager
Print: Miles Gatland

TENANT:

NANO MAGIC LLC
an Ohio limited liability company

By: /s/ Tom J. Berman
Its: CEO
Print: Tom J. Berman

EXHIBIT A

EXHIBIT B
LAND – LEGAL DESCRIPTION

Real property in the City of Madison Heights, County of Oakland, State of Michigan, described as follows:

Parcel 2N: Land in the City of Madison Heights, County of Oakland, State of Michigan, described as: The South 37 feet of Lot 50, all of Lot 49 and that part of Lot 48 described as beginning at the Southeast corner of said Lot 49, thence North 19 degrees 26 minutes 54 seconds West 142.02 feet along said West line of said Lot 48 to the Northwestern corner of said Lot 48; thence 14.09 feet along the arc of a curve to the left (Radius 75.00 feet central angle 10 degrees 45 minutes 52 seconds chord bearing North 65 degrees 10 minutes 09 seconds East, 14.07 feet) along the North line of said Lot 48; thence South 30 degrees 12 minutes 47 seconds East 88.00 feet; thence South 00 degrees 12 minutes 47 seconds East 58.66 feet; thence South 62 degrees 49 minutes 53 seconds West 11.22 feet to the point of beginning. All of University Place Industrial Park No. 2, as recorded in Liber 183, Pages 18 through 22 of Oakland County Records.

Easement Parcels: A Non-exclusive Mutual Benefit Easement Agreement and Agreement to Participate in Maintenance and/or repair of said easement recorded in Liber 9219, Page 525. Said easement is more particularly described as: Part of the South 1/2 of Section 1, Town 1 North, Range 11 East, City of Madison Heights, Oakland County, Michigan: A 20.00 foot wide easement for mutual access being a part of Lot 48 of University Place Industrial Park No. 2, as recorded in Liber 183, Pages 18 through 22 of the Oakland County Records whose centerline is more particularly described as beginning at a point on the North line of said Lot 48 distant 14.09 feet along the arc of a curve to the left (Radius 75.00 feet central angle 10 degrees 45 minutes 52 seconds, chord bearing North 65 degrees 10 minutes 09 seconds East, 14.07 feet) from the Northwest corner of said Lot 48; thence South 30 degrees 12 minutes 47 seconds East, 88.00 feet; thence South 00 degrees 12 minutes 47 seconds East, 58.66 feet to the point of ending.

A non-exclusive Ingress/Egress Easement for the benefit of the owners and/or TENANTS of Lot 49 as recorded in Liber 8837, Page 851, Oakland County Records, and more particularly described as: A 20.00 foot wide easement for ingress and egress described as part of Lot 50 of University Place Industrial Park No. 2, a subdivision of part of the South 1/2 of Section 1, Town 1 North, Range 11 East, City of Madison Heights, Oakland County, Michigan, as recorded in Liber 183, Pages 18 through 22 of the Oakland County Records, being more particularly described as beginning at a point on the West line of said Lot 50 distant North 00 degrees 48 minutes 29 seconds East, 37.00 feet from the Southwest corner of said Lot 50; thence continuing along the West line of said Lot 50 North 00 degrees 48 minutes 29 seconds East, 20.00 feet; thence South 89 degrees 11 minutes 31 seconds East, 242.59 feet; thence North 71 degrees 25 minutes 42 seconds East, 46.50 feet to a point on the East line of said Lot 50; thence 20.06 feet along the arc of a curve to the left along the East line of said Lot 50 (Radius 75.00 feet, central angle 15 degrees 19 minutes 30 seconds chord bearing South 18 degrees 08 minutes 06 seconds East, 20.00 feet), thence South 71 degrees 25 minutes 42 seconds West 49.76 feet; thence North 89 degrees 11 minutes 31 seconds West, 246.00 feet to the point of beginning.

A non-exclusive easement for water main for the benefit of the owners and/or lessees of Lot 49 recorded in Liber 8837, Page 850, Oakland County Records: A 10 foot wide easement for water main described as a part of Lot 50 of University Place Industrial Park No. 2, a subdivision of part of the South 1/2 of Section

1, Town 1 North, Range 11 East, City of Madison Heights, Oakland County, Michigan as recorded in Liber 183 of Plats, Pages 18 through 22 of the Oakland County Records, being more particularly described as beginning at a point distant North 00 degrees 48 minutes 29 seconds East, 37.00 feet along the West line of said Lot 50 and South 89 degrees 11 minutes 31 seconds East, 267.05 feet from the Southwest corner of said Lot 50; thence North 14 degrees 09 minutes 35 seconds East, 38.51 feet; thence 20.75 feet along the arc of a curve to the left (Radius 85.00 feet, central angle 13 degrees 59 minutes 15 seconds, chord bearing South 14 degrees 43 minutes 43 seconds East, 20.70 feet); thence South 14 degrees 09 minutes 35 seconds West, 18.02 feet; thence North 89 degrees 11 minutes 31 seconds West, 10.28 feet to the point of beginning.

Lease Agreement

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EXHIBIT C
IMPROVEMENTS

Lease Agreement
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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 March 31, 2020 of Nano Magic 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: June 29, 2020

/s/ Tom J. Berman

Tom J. Berman
President and Chief Executive Officer

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

I, Leandro Vera, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2020 of Nano Magic 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: June 29, 2020

/s/ Leandro Vera

Leandro Vera
Chief Financial Officer

Section 1350 Certification of Principal Executive Officer

In connection with the quarterly report of Nano Magic Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tom J. Berman, President of the Company, and I, Leandro Vera, Chief Financial Officer, certify to the best of our knowledge:

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

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

Date: June 29, 2020

/s/ Tom J. Berman

Tom J. Berman
President and Chief Executive Officer

Date: June 29, 2020

/s/ Leandro Vera

Leandro Vera
Chief Financial Officer
