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**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 June 30, 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)

**Title of each class**

Common Stock, \$0.0001 par value

**Trading Symbol**

NMGX

**Name of Each Exchange on Which Registered**

OTC Markets

Former name or former address, if changed since last report: **701 Brickell Ave, Suite 1550, Miami, FL 33131.**

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 September 30, 2020 the registrant had 7,998,456 shares of Common Stock issued and outstanding.

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NANO MAGIC INC.

INDEX

	<u>Page</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	F-1
<u>Consolidated Balance Sheets—June 30, 2020 (unaudited) and December 31, 2019 (unaudited)</u>	F-1
<u>Consolidated Statements of Operations—Three and Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	F-2
<u>Consolidated Statements of Changes in Stockholders' Deficit for the Three Months Ended June 30, 2020 and 2019 (unaudited)</u>	F-3
<u>Consolidated Statements of Changes in Stockholders' Deficit for the Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	F-4
<u>Consolidated Statements of Cash Flows—Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	F-5
<u>Condensed Notes to Unaudited Consolidated Financial Statements</u>	F-6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	7
<u>Item 4. Controls and Procedures</u>	8
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	8
<u>Item 1A. Risk Factors</u>	8
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	8
<u>Item 3. Defaults Upon Senior Securities</u>	8
<u>Item 4. Mine Safety Disclosures</u>	8
<u>Item 5. Other Information</u>	8
<u>Item 6. Exhibits</u>	9
<u>Signatures</u>	10

## 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

	June 30 2020 <u>(unaudited)</u>	December 31 2019 <u>(unaudited)</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 223,739	\$ 216,801
Investments	10,473	10,236
Accounts receivable, net	528,471	151,290
Inventory	344,023	422,622
Prepaid expenses and contract assets	186,796	34,160
Total Current Assets	<u>1,293,502</u>	<u>835,109</u>
Right-of-use assets, non-current	181,755	257,523
Property, plant and equipment, net	218,099	221,565
Other assets	317,608	5,890
Total Assets	<u>\$ 2,010,964</u>	<u>\$ 1,320,087</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,029,995	\$ 801,788
Accounts payable - related parties	19,887	19,887
Accrued expenses and other current liabilities	221,268	199,875
Customer deposits	5,701	-
Current portion of notes payable	95,005	52,641
Advances from related parties	140,000	140,000
Current portion of lease liabilities	74,449	131,835
Contract liabilities	-	162,123
Total Current Liabilities	<u>1,586,305</u>	<u>1,508,149</u>
Notes payable, net of current portion	196,328	122,170
Lease liabilities, net of current portion	118,320	136,624
Total Liabilities	<u>1,900,953</u>	<u>1,766,943</u>
Commitments and Contingencies (See Note 11)		
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
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 June 30, 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 June 30, 2020 and December 31, 2019, respectively	-	-
Class Z common stock: \$0.0001 par value, 300,000 shares authorized; 0 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	-	-
Additional paid-in capital	8,458,929	7,242,067
Accumulated deficit	(8,349,638)	(7,689,545)
Total Stockholders' Equity (Deficit)	<u>110,011</u>	<u>(446,856)</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,010,964</u>	<u>\$ 1,320,087</u>

See accompanying notes to consolidated financial statements.

**NANO MAGIC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>REVENUES:</b>				
Products	\$ 908,062	\$ 415,832	\$ 1,149,779	\$ 872,700
Contract services	244,422	206,156	450,879	507,149
<b>Total Revenues</b>	<b>1,152,484</b>	<b>621,988</b>	<b>1,600,658</b>	<b>1,379, 849</b>
<b>COST OF REVENUES:</b>				
Products	600,781	390,939	823,599	588,896
Contract services	155,004	198,723	321,903	531,271
<b>Total Cost of Revenues</b>	<b>755,785</b>	<b>589,662</b>	<b>1,145,502</b>	<b>1,120,167</b>
<b>GROSS PROFIT (LOSS)</b>	<b>396,699</b>	<b>32,326</b>	<b>455,156</b>	<b>259,892</b>
<b>OPERATING EXPENSES:</b>				
Selling and marketing expenses	4,826	17,298	15,883	25,098
Salaries, wages and related benefits	163,831	148,186	308,465	204,698
Research and development	14,383	41,024	31,035	56,829
Professional fees	359,420	72,920	484,172	152,354
General and administrative expenses	136,234	140,855	273,304	280,515
<b>Total Operating Expenses</b>	<b>678,694</b>	<b>420,283</b>	<b>1,112,859</b>	<b>719,494</b>
<b>LOSS FROM OPERATIONS</b>	<b>(281,995)</b>	<b>(387,957)</b>	<b>(657,703)</b>	<b>(459,812)</b>
<b>OTHER (EXPENSE) INCOME:</b>				
Interest expense	(519)	(5,159)	(2,627)	(7,753)
Loss on settlement reserve	-	4,654	-	4,654
Other income, net	237	(3,795)	237	415
<b>Total Other (Expense) Income</b>	<b>(282)</b>	<b>(4,300)</b>	<b>(2,390)</b>	<b>(2,684)</b>
<b>NET LOSS</b>	<b>\$ (282,277)</b>	<b>\$ (392,257)</b>	<b>\$ (660,093)</b>	<b>\$ (462,496)</b>
<b>NET LOSS PER COMMON SHARE:</b>				
Basic	\$ (0.04)	\$ (0.09)	\$ (0.10)	\$ (0.11)
Diluted	\$ (0.04)	\$ (0.09)	\$ (0.10)	\$ (0.11)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic	7,199,942	4,472,389	6,850,643	4,312,554
Diluted	7,199,942	4,472,389	6,850,643	4,312,554

See accompanying notes to consolidated financial statements.

**NANO MAGIC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019**  
**(unaudited)**

	<u>Class A Common Stock</u>		<u>Class B Common Stock</u>		<u>Class Z Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance, March 31, 2020</b>	7,199,942	\$ 720	-	\$ -	-	\$ -	\$ 8,118,444	\$ (8,067,361)	\$ 51,803
Stock-based compensation	-	-	-	-	-	-	28,767	-	28,767
Warrants issued in connection with building lease	-	-	-	-	-	-	311,718	-	311,718
Net loss	-	-	-	-	-	-	-	(282,277)	(282,277)
<b>Balance, June 30, 2020</b>	<u>7,199,942</u>	<u>\$ 720</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 8,458,929</u>	<u>\$ (8,349,638)</u>	<u>\$ 110,011</u>
<b>Balance, March 31, 2019</b>	4,299,620	\$ 429	-	\$ -	-	\$ -	\$ 6,126,545	\$ (6,710,609)	\$ (583,635)
Common stock issued for cash, net of issuance costs	965,115	97	-	-	-	-	385,950	-	386,047
Common stock issued for services	41,814	4	-	-	-	-	23,996	-	24,000
Warrants, options, and warrant options on private placement	-	-	-	-	-	-	28,953	-	28,953
Net loss	-	-	-	-	-	-	-	(392,257)	(392,257)
<b>Balance, June 30, 2019</b>	<u>5,306,549</u>	<u>\$ 530</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 6,565,444</u>	<u>\$ (7,102,866)</u>	<u>\$ (539,892)</u>

See accompanying notes to consolidated financial statements.

**NANO MAGIC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019**  
**(unaudited)**

	<u>Class A Common Stock</u>		<u>Class B Common Stock</u>		<u>Class Z Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in Capital</u>	<u>Deficit</u>	<u>Stockholders' Equity (Deficit)</u>
<b>Balance, December 31, 2019</b>	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	-	-	-	-	-	-	53,242	-	53,242
Warrants , options, and warrant options on private placement	-	-	-	-	-	-	37,058	-	37,058
Warrants issued in connection with building lease	-	-	-	-	-	-	311,718	-	311,718
Stock subscription payable	-	-	-	-	-	-	181,533	-	181,533
Net loss	-	-	-	-	-	-	-	(660,093)	(660,093)
<b>Balance, June 30, 2020</b>	<u>7,199,942</u>	<u>\$ 720</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 8,458,929</u>	<u>\$ (8,349,638)</u>	<u>\$ 110,011</u>
<b>Balance, December 31, 2018</b>	3,741,481	\$ 374	-	\$ -	-	\$ -	\$ 5,886,600	\$ (6,640,370)	\$ (753,396)
Common stock issued for cash, net of issuance costs	1,523,254	152	-	-	-	-	609,150	-	609,302
Common stock issued for services	41,814	4	-	-	-	-	23,996	-	24,000
Warrants , options, and warrant options on private placement	-	-	-	-	-	-	45,698	-	45,698
Net loss	-	-	-	-	-	-	-	(462,496)	(462,496)
<b>Balance, June 30, 2019</b>	<u>5,306,549</u>	<u>\$ 530</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 6,565,444</u>	<u>\$ (7,102,866)</u>	<u>(536,892)</u>

See accompanying notes to consolidated financial statements.

**NANO MAGIC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (660,093)	\$ (462,496)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Change in inventory obsolescence reserve	86,121	17,527
Depreciation and amortization expense	8,062	26,416
Bad debt expense	4,000	-
Stock-based compensation	65,242	19,853
Change in operating assets and liabilities:		
Accounts receivable	(381,180)	185,393
Accounts receivable - related party	-	-
Inventory	(7,523)	84,991
Prepaid expenses and contract assets	(152,636)	40,430
Accounts payable	228,207	(131,816)
Operating lease liabilities	78	-
Customer deposits	5,701	-
Accrued expenses	21,393	(181,850)
Contract liabilities	(162,123)	(19,499)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(944,751)</b>	<b>(382,053)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net activity on certificate of deposit	(237)	-
Capitalized lease costs	(311,718)	-
Purchases of property, plant and equipment	(4,596)	(2,483)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(316,551)</b>	<b>(2,483)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of bank lines of credit	-	(330,892)
Repayment of bank loans	(10,378)	818
Proceeds from bank loans	130,900	
Proceeds from sale of common stock and warrants	1,151,718	678,844
Repayment of notes payable	(4,000)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,268,240</b>	<b>348,770</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>6,938</b>	<b>(35,766)</b>
<b>CASH, beginning of year</b>	<b>216,801</b>	<b>306,502</b>
<b>CASH, end of period</b>	<b>\$ 223,739</b>	<b>\$ 270,736</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest		
Interest	\$ 2,627	\$ 7,753

See accompanying notes to consolidated financial statements.



**NANO MAGIC INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 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 June 30, 2020 and for the three and six months ended June 30, 2020 and 2019. The results of operations for the three and six months ended June 30, 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 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, at June 30, 2020, the Company had an accumulated deficit of \$8,349,638, a stockholders’ deficit of \$110,011 and a working capital deficit of \$292,803. These factors raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. During 2018 management took measures to reduce operating expenses. During 2019 and the first two quarters of 2020, management closely monitored 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 and six months ended June 30, 2020 and 2019 include estimates for allowance for doubtful accounts on accounts receivable, the estimates for obsolete inventory, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, estimates of current and deferred income taxes and deferred tax valuation allowances, the fair value of non-cash equity transactions, and the fair value of equity incentives.

## **Fair Value of Financial Instruments and Fair Value Measurements**

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

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

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

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

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

The Company analyzes all financial and non-financial instruments with features of both liabilities and equity under the 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 income in the year of disposition. The Company examines the possibility of decreases in the value of these assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

## Impairment of Long-Lived Assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charge for the three and six months ended June 30, 2020 and 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 and six months ended June 30, 2020, total sales in the United States represented approximately 70% and 74% of total consolidated revenues. For the same periods in 2019, sales in the United States represented approximately 95% and 91% of total consolidated revenues. Sales to Germany represented 22% and 16% of consolidated revenues in the three and six months ended June 30, 2020. No other geographical area accounted for more than 10% of total sales during the three and six months ended June 30, 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 June 30, 2020 and 2019, contract assets totaled \$34,589 and \$14,265, 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 June 30, 2020 and 2019, contract liabilities totaled \$0 and \$95,015, 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 products are sold. Shipping and handling costs incurred for product shipped to customers are included in cost of sales. For the three months ended June 30, 2020 and 2019 shipping and handling costs amounted to \$13,416 and \$29,507, respectively, and \$51,027 and \$46,028 for the six months ended June 30, 2020 and 2019, 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 June 30, 2020 and 2019 were \$14,383 and \$41,024, respectively, and were \$31,035 and \$56,829 for the six months ended June 30, 2020 and 2019, respectively, and are included in operating expenses on the accompanying unaudited consolidated statements of operations.

### **Advertising Costs**

The Company participates in various advertising programs. All costs related to advertising of the Company’s products are expensed in the period incurred. Advertising costs charged to operations for the three months ended June 30, 2020 and 2019 were \$0 and \$1,834, respectively, and were \$2,594 and \$1,980 for the six months ended June 30, 2020 and 2019, respectively, and are included in sales and marketing on the unaudited 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 June 30, 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 June 30, 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>June 30, 2020</u>	<u>December 31, 2019</u>
Stock options	554,719	455,502
Stock warrants	4,462,715	2,817,463
Total	<u>5,017,434</u>	<u>3,272,965</u>

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

	<u>Three Months ended June 30, 2020</u>	<u>Three Months ended June 30, 2019</u>	<u>Six Months ended June 30, 2020</u>	<u>Six Months ended June 30, 2019</u>
<b>Net (loss) income per common shares outstanding:</b>				
Class A common stock	\$ (0.04)	\$ (0.09)	\$ (0.10)	\$ (0.11)
<b>Weighted average shares outstanding:</b>				
Class A common stock	7,199,942	4,472,389	6,850,643	4,312,554
Total weighted average shares outstanding	<u>7,199,942</u>	<u>4,472,389</u>	<u>6,850,643</u>	<u>4,312,554</u>

## 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 June 30, 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 for the six months ended June 30, 2019:

	As Reported	Adjustment	As Corrected
Product revenues	\$ 825,315	\$ 47,385 <sup>a</sup>	\$ 872,700
Contract revenues	584,185	(77,036) <sup>b</sup>	507,149
Cost of product revenues	557,021	31,875 <sup>c</sup>	588,896
Cost of contract revenues	622,353	(91,082) <sup>d</sup>	531,271
Gross profit	230,126	29,556 <sup>e</sup>	259,682
Operating expenses	677,797	41,697 <sup>f</sup>	719,494
Other income (expense)	56,523	(59,207) <sup>d</sup>	(2,684)
Net (loss)	(391,148)	(71,348) <sup>g</sup>	(462,496)
Net (loss) per common share	\$ (0.09)	\$ (0.02) <sup>h</sup>	\$ (0.11)

#### References to above adjustments

- This accounts for a reclassification of \$47,385 in revenues from contract revenues to product revenues booked on the Company's wholly-owned subsidiary, Applied Nanotech, Inc.,
- With the proper recognition of contract services revenues with the adoption of ASC Topic 606, in-progress contract revenue was determined to be overstated in the second quarter of 2019 by \$29,651. This, along with the reclassification in point (a) above, comprises the total adjustment of \$77,036.
- This accounts for the reclassification \$31,875 from cost of contract revenues to cost of product revenues in line with the reclassification of segmented revenues in point (a) above.
- This accounts for the reclassification of sublease income totaling \$59,207 for the six months ending June 30, 2019 from other income to cost of contract revenues, plus \$31,875 in cost of contract revenues reclassified to cost of product revenues as per point (c) above.
- This accounts for the net impact of the reclassification of sublease income of \$59,207 in point (d) above, offset by the overstatement of contract services revenues of \$29,651 outlined in point (b) above.
- The \$41,697 adjustment represents \$19,697 booked for compensation expense from options granted to an executive in the second quarter of 2019 plus \$22,000 for the accrual of audit fees performed in the first quarter of 2019 not previously recorded in the period.
- Net loss was understated by \$71,348 for the six months ending June 30, 2019, due to \$29,651 in overstated contract services revenues outlined in point (b) above plus \$41,697 in understated expenses outlined in point (f) above.
- Net (loss) per common share for the six months ended June 30, 2019 resulting from the adjustments as outlined above has been corrected to \$0.11 per share from the previously reported number of \$0.09 per share.

### NOTE 4 – ACCOUNTS RECEIVABLE

At June 30, 2020 and December 31, 2019, accounts receivable consisted of the following:

	June 30, 2020	December 31, 2019
Accounts receivable	\$ 542,141	\$ 164,960
Less: allowance for doubtful accounts	(13,670)	(13,670)
Accounts receivable, net	\$ 528,471	\$ 151,290

### NOTE 5 – INVENTORY

At June 30, 2020 and December 31, 2019, inventory consisted of the following:

	June 30, 2020	December 31, 2019
Raw materials	\$ 666,175	\$ 663,932
Work-in-progress	-	-
Finished goods	341,041	335,762
	\$ 1,007,216	\$ 999,694
Less: reserve for obsolescence	(663,193)	(577,072)
Inventory, net	\$ 344,023	\$ 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 26,063 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.

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. See Note 10, Stockholders' Equity, for a description of the warrants issued to the landlord in connection with this lease. The fair value of these warrants totaling \$311,718 were recorded as initial direct costs of obtaining the lease and are included in other assets on the accompanying balance sheet. See Note 9, Related Party Transactions, for information about Tom J. Berman and Ronald J. Berman's role in management and economic participation in the landlord.

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:

	June 30, 2020	December 31, 2019
<b>Operating Leases</b>		
Total operating lease ROU assets	<b>\$ 181,755</b>	<b>\$ 257,523</b>
Operating lease liabilities (current)	74,449	131,835
Operating lease liabilities (noncurrent)	118,320	136,624
Total operating lease liabilities	<b>\$ 192,769</b>	<b>\$ 268,459</b>

The average remaining lease term in months is 18.7 months with an average discount rate of 8.5%.

## Income Statement

Supplemental income statement information related to leases was as follows:

	June 30, 2020	June 30, 2019
<b>Operating Lease Costs</b>		
Cost of product revenue	\$ 62,282	\$ 62,282
Cost of contract services	23,170	23,170
Variable lease costs	21,910	34,811
Sublease income	(27,000)	(59,207)
Net operating lease cost	<b>\$ 80,363</b>	<b>\$ 61,056</b>

## NOTE 8 – NOTES PAYABLE

On February 10, 2015, Nano Magic LLC (then named Nanofilm) entered into a promissory note (the “Equipment Note”) with KeyBank, N.A. (the “Bank”) to borrow up to \$373,000. Nanofilm may obtain one or more advances not to exceed \$373,000. The unpaid principal balance of this Equipment Note is payable in 60 equal monthly installments payments of principal and interest through June 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At December 31, 2019, the principal amount due under the Equipment Note amounted to \$115,926. Due to the slowdown caused by the COVID-19 pandemic, KeyBank agreed in April 2020 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. As of June 30, 2020, \$44,333 and \$61,218, represent the current and non-current portion due under this note.

In June and November 2015, in connection with a severance package offered to four employees, the Company entered into four promissory note agreements with the four employees which obligate the Company to pay these employees accrued and unpaid deferred salary in an aggregate amount of \$51,808. The principal amounts due under these notes shall bear interest at the minimum rate of interest applicable under the internal revenue code (approximately 3.0% at December 31, 2019). As of June 30, 2020, principal and interest payable under three of these notes aggregating \$37,458 are due in 2025 and are included in non-current notes payable.

January 2017, the Company issued a promissory note in the principal amount of \$17,425 to a departing employee representing the amount of his accrued and unpaid salary. The note does not bear interest and is due in January 2027, and is included in non-current notes payable.

On May 8, 2020, we obtained a loan from Fifth Third Bank for \$130,900 under the Small Business Administration Paycheck Protection Program. The loan bears interest at 1.00% and is payable in monthly installments of principal and interest in the amount of \$7,330 beginning in December, 2020.

#### NOTE 9 – RELATED PARTY TRANSACTIONS

Apart from Board fees paid to all of our directors, we paid the following amounts as compensation to our directors:

	Three Months ended June 30,		Six Months ended June 30,	
	2020	2019	2020	2019
Ronald J. Berman	\$ 47,700	22,625	139,700	35,385
Tom J. Berman	\$ 45,000*	22,500	92,000*	120,964+
Jeanne M Rickert	\$ 3,000	3,000*	6,000	6,000*
Scott E. Rickert	\$ 3,000	3,000*	6,000	6,000*

\*Indicates amount paid as salary

+ \$57,177 of this total was paid as salary starting in April, 2019.

Ron Berman and Tom Berman each have a 2.08% ownership interest in Magic Research LLC, the landlord for the facility we leased in Michigan effective May 31, 2020. The manager of Magic Research LLC is Magic Research Management LLC; Ron Berman and Tom Berman are two of its three co-managers. Compensation from Magic Research LLC 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.

Ron Berman and Tom Berman share ownership of PEN Comeback Management, LLC that is the sole voting member of PEN Comeback, LLC, PEN Comeback 2, LLC and Magic Growth, LLC.

#### NOTE 10 - 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 20,000,000 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 15, Subsequent Events, for a description of changes that occurred on July 2, 2020 with respect 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.

#### 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 Nano Magic'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 Nano Magic) 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**

### 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 \$.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 and six months ended June 30, 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 June 30, 2020.

### 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.

### **Warrants issued to Landlord**

In connection with the lease for the facility in Michigan effective 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. The fair value of the warrants at the date of issuance was \$311,718 and were recorded as prepaid, initial direct costs associated with the lease.

## Stock Options

Stock options outstanding are to purchase Class A common stock. Stock options outstanding at June 30, 2020 are 554,859, reflecting a grant of 100,000 under the 2015 Equity Incentive Plan made in the first six months of 2020, and the expiration of 643 options during the same period. No options were exercised during the period.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2019	455,502	\$ 1.24	4.22	\$ 585,000
Granted	100,000	0.65	3.60	120,000
Expired	(643)	0.51		
Balance Outstanding June 30, 2020	554,859	\$ 1.06	3.71	\$ 705,000
Exercisable, June 30, 2020	129,859	\$ 2.67	3.66	\$ 162,500

## Warrants

As of June 30, 2020, there were outstanding and exercisable warrants to purchase 4,462,715 shares of common stock with a weighted average exercise price of \$1.50 per share and a weighted average remaining contractual term of 38.19 months. As of June 30, 2020, there was no intrinsic value for exercisable 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, 2019 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 11 - COMMITMENTS AND CONTINGENCIES

### Stock Appreciation Rights

If the Company completes an IPO, the value of stock appreciation rights calculated based on the IPO formula may cause a material increase in the value of the liability (See Note 13).

### 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 June 30, 2020, the Company has not accrued any amount for litigation contingencies.

## **NOTE 12 – 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 six months ended June 30, 2020 and 2019, two customers represented 35% and one different customer represented 15% of product revenues respectively. For the contract revenues segment, three customers accounted for 88% of revenues for the six months ended June 30, 2020 and those same customers accounted for 63% of revenues for the six months ending June 30, 2019.

These customers did not have material accounts receivable balances at June 30, 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 and six months ended June 30, 2020, total sales in the United States represented approximately 70% and 74% of total consolidated revenues. For the same periods in 2019, sales in the United States represented approximately 95% and 91% of total consolidated revenues. Sales to Germany represented 22% and 16% of consolidated revenues in the three and six months ended June 30, 2020. No other geographical area accounted for more than 10% of total sales during the three and six months ended June 30, 2020 and 2019.

### **Vendor Concentrations**

For the six months ended June 30, 2020, two vendors represented 51% of inventory purchases. One of those same vendors represented 49% of inventory purchases for the six months ended June 30, 2019.

## **NOTE 13 – 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 June 30, 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 LLC, 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 Brands (as defined). Upon an IPO, SARS are to be redeemed by applying 70% of the redemption value to purchase common shares, with the remaining 30% being distributed in cash to the participant.

The business combination completed in August 2014 did not qualify as an IPO under the Plan; however, a future underwritten registered offering may qualify.

The accrued redemption value associated with the stock appreciation rights amounted to \$42,823, at June 30, 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 14– SEGMENT REPORTING

The Company’s principal operating segments coincide with the types of products to be sold. The products from which revenues are derived are consistent with the reporting structure of the Company’s internal organization. The Company’s two reportable segments for the three and six months ended June 30, 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 June 30, 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 and six months ended June 30, 2020 and 2019 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Product segment	\$ 908,062	\$ 415,832	\$ 1,149,779	\$ 872,700
Contract services segment	244,422	206,156	450,879	507,149
Total segment and consolidated revenues	\$ 1,152,484	\$ 621,988	\$ 1,600,658	\$ 1,379,849
<b>Cost of revenues:</b>				
Products	\$ 600,781	\$ 390,939	\$ 823,599	\$ 588,896
Contract services segment	155,004	198,723	321,903	531,271
Total segment and consolidated cost of revenues	\$ 755,785	\$ 589,662	\$ 1,145,502	\$ 1,120,167
<b>Gross profit (loss):</b>				
Product segment	\$ 307,281	\$ 24,893	\$ 326,180	\$ 283,804
Contract services segment	89,418	7,433	128,976	(24,122)
Total segment and consolidated gross profit	\$ 396,699	\$ 32,326	\$ 455,156	\$ 259,682
<b>Gross margin:</b>				
Product segment	33.8%	6.0%	28.4%	32.5%
Contract services segment	36.6%	3.6%	28.6%	-4.8%
Total gross margin	34.4%	5.2%	28.4%	18.8%
<b>Segment operating expenses:</b>				
Product segment	\$ 432,723	\$ 262,758	\$ 674,963	\$ 417,948
Contract services segment	32,124	49,607	78,104	114,637
Total segment operating expenses	\$ 464,847	\$ 312,365	\$ 753,067	\$ 532,586
<b>Income (loss) from operations:</b>				
Product segment	\$ (125,442)	\$ (237,866)	\$ (348,783)	\$ (134,144)
Contract services segment	57,294	(42,174)	50,872	(138,759)
Total segment (loss)	(68,148)	(280,039)	(297,911)	(272,904)
Unallocated costs	(213,847)	(107,917)	(359,792)	(186,908)
Total consolidated (loss) from operations	\$ (281,995)	\$ (387,957)	\$ (657,703)	\$ (459,812)
<b>Depreciation and amortization:</b>				
Product segment	\$ 12,488	\$ 13,972	\$ 7,228	\$ 26,416
Contract services segment	415	-	834	-
Total segment depreciation and amortization	12,903	-	8,062	-
Unallocated depreciation	-	-	-	-
Total consolidated depreciation and amortization	\$ 12,903	\$ 13,972	\$ 8,062	\$ 26,416
<b>Capital additions:</b>				
Product segment	\$ 3,121	\$ -	\$ 4,596	\$ -
Contract services segment	-	-	-	-
Total segment capital additions	3,121	-	4,596	-
Unallocated capital additions	-	-	-	-
Total consolidated capital additions	\$ 3,121	\$ -	\$ 4,596	\$ -
			<b>June 30, 2020</b>	<b>June 30, 2019</b>

Segment total assets:		
Product segment	\$ 1,464,088	\$ 849,432
Contract services segment	218,789	163,827
Corporate	16,369	198,086
Total consolidated total assets	<u>\$ 1,699,246</u>	<u>\$ 1,211,345</u>

## **NOTE 15 - SUBSEQUENT EVENTS**

### **COVID-19 Pandemic**

Restrictions imposed by Federal, state and local governments as a result of the COVID-19 pandemic continue to impact our operations, but to date our sources of supply have been adequate for our needs and we have been able to fulfill orders on a timely basis. We have seen a strong increase in demand for anti-fog products. At the same time, there has been a slow-down in our lens cleaning and other 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 last quarter, some of the raw materials and bottles used to produce our liquid products, are used to produce hand sanitizer and other cleaning products that are in high demand and some of our raw materials and packaging have become harder to find due to the COVID-19 pandemic. Price increases for raw materials can be expected to adversely impact our profit margin.

We have financed the furniture and some of the equipment we will be using in the new space in Michigan, and we have arranged financing for receivables from one of our larger customers. We also have pending another application for a PPE loan. This enables us to use more of our cash to keep up with increased demand for our anti-fog product as well as to build inventory as we prepare for the move from Brooklyn Heights to the new Michigan space.

### **Amended and Restated Certificate of Incorporation**

In June, we mailed to our stockholders the definitive information statement on Schedule 14C (the "Information Statement"). Effective July 2, 2020, the Company amended and restated its Certificate of Incorporation to implement the changes described in the Information Statement which (i) eliminated the Company's Class B common stock and Class Z common stock and related provisions, renamed as "common stock" the Company's Class A common stock, and (ii) increased the number of authorized shares of common stock from 7,200,000 to 30,000,000.

### **Sales of Common Stock and Derivate Equity Securities**

On July 13, 2020, Nano Magic Inc. sold to Magic Growth, LLC 388,462 shares of common stock for proceeds of \$485,578 and warrants to purchase up to 388,450 shares of common stock for proceeds of \$19,422. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. PEN Comeback Management, LLC, owned by Tom J. Berman and Ronald J. Berman, is the sole voting member of Magic Growth, LLC.

On August 12, 2020, Nano Magic Inc. sold to Magic Growth, LLC 461,539 shares of common stock for proceeds of \$576,924 and warrants to purchase up to 461,525 shares of common stock for proceeds of \$23,076. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

On September 14, 2020, Nano Magic Inc. sold to Magic Growth, LLC 130,770 shares of common stock for proceeds of \$163,463 and warrants to purchase up to 130,750 shares of common stock for proceeds of \$6,537. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

### **Equipment Financing and Financing of Accounts**

On August 10, 2020, we entered into a lease for new bottling equipment that requires monthly payments of \$2,135 for 48 months. At the end of the lease term we have the right to buy the equipment for \$1.00.

On August 11, 2020 we entered into a financing lease for furniture that will be used in the new Michigan facility. We financed \$60,684 over a period of 36 months and are required to make monthly payments of \$1,972 during that time.

On August 24, 2020, we entered an agreement to finance the purchase of equipment for the new Michigan facility. This financing for a new bottling line will require twelve quarterly payments of \$17,906.

On September 1, 2020, we entered an agreement with NOWaccount Network Corporation for the sale of accounts receivable due from a specific customer of ours. Subject to certain limits, we will receive a payment equal to 95% of the amount of the invoice upon shipment of the product and sale of the account.

## 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 many markets, including the optical, transportation, military, sports and safety industries. Our primary business is the formulation, marketing and sale of products enabled by nanotechnology. We are in the process of rebranding Nano Magic products, including what were formerly known as ULTRA CLARITY brand eyeglass cleaner, DEFOGIT brand defogging products. Our "Forcefield" products will include the CLARITY ULTRASEAL nanocoating products for glass and ceramics. We also plan to increase our focus on our environmentally friendly surface protector, fortifier, and cleaner. Our design center conducts development services for us and for government and private customers and develops and sells printable inks and pastes, thermal management materials, and graphene foils and windows.

Our principal operating segments coincide with our different business activities and types of products sold. This is consistent with our internal reporting structure. Our two reportable segments for the three and six months ended June 30, 2020 were (i) the Product Segment and (ii) the Contract services Segment. For the three and six months ended June 30, 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 and six months ended June 30, 2020 and 2019.

#### Comparison of Results of Operations for the Three and Six Months ended June 30, 2020 and 2019

##### *Revenues:*

For the three and six months ended June 30, 2020, revenues were up \$471,029 or 108%, and \$255,878 or 29%, as compared to the three and six months ended June 30, 2019, respectively.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Revenue:</b>				
Product segment	\$ 908,062	\$ 415,832	\$ 1,149,779	\$ 872,700
Contract services segment	244,422	206,156	450,879	507,149
<b>Total consolidated revenue</b>	<u>\$ 1,152,484</u>	<u>\$ 621,988</u>	<u>\$ 1,600,658</u>	<u>\$ 1,379,849</u>

For the three months ended June 30, 2020, sales from the Product segment increased by \$492,230 or 118% as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020 revenue from the Product segment increased by \$277,079 or 32%, as compared to the six months ended June 30, 2019. Increased use of facemasks and shields during the COVID-19 pandemic has resulted in increased demand for our anti-fog product that is reflected in the increased sales for the quarter ended June 30, 2020.

For the three months ended June 30, 2020, sales from the Contract services segment increased by \$38,266 or 19% as compared to the three months ended June 30, 2019 which was primarily attributable to a new contract award and work started under that contract. For the six months ended June 30, 2020 revenue from the Contract services segment decreased by \$56,270 or 11%, as compared to the six months ended June 30, 2019.

##### *Cost of revenues*

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

For the three months ended June 30, 2020, cost of revenues increased by \$166,123 or 28% as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, cost of revenues increased by \$25,335 or 2% as compared to the same period in 2019. These changes are reflected in the chart that follows. We have seen some price increases and shortages for some of our raw materials and packaging as a result of the COVID-19 pandemic, but thus far we have been able to obtain adequate supply.

	Three Months ended June 30,		Six Months ended June 30,	
	2020	2019	2020	2019
<b>Cost of revenues:</b>				
Product segment	\$ 600,781	\$ 390,939	\$ 823,599	\$ 588,896
Contract services segment	155,004	198,723	321,903	531,271
<b>Total segment and consolidated cost of revenues</b>	<b>\$ 755,785</b>	<b>\$ 589,662</b>	<b>\$ 1,145,502</b>	<b>\$ 1,120,167</b>

### **Gross profit and gross margin**

For the three months ended June 30, 2020, gross profit increased by \$364,373 or 1127%. For the six months ended June 30, 2020, gross profit increased by \$195,474 or 75%.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	%	2019	%	2020	%	2019	%
<b>Gross profit:</b>								
Product segment *	\$307,281	33.8%	24,893	6.0%	\$326,180	28.4%	283,804	32.5%
Contract services segment *	\$ 89,418	36.6%	7,433	3.6%	\$128,976	28.6%	(24,122)	(4.8)%
<b>Total gross profit</b>	<b>\$396,699</b>	<b>34.4%</b>	<b>32,326</b>	<b>5.2%</b>	<b>455,156</b>	<b>28.4%</b>	<b>259,682</b>	<b>18.8%</b>

\* Gross margin % based on respective segments revenues.

### **Operating expenses**

For the three months ended June 30, 2020, operating expenses increased by \$333,091 or 96% compared to the three months ended June 30, 2019. Similarly, for the six months period operating expenses increased by \$468,044 or 73% for the period ended June 30, 2020, as compared to the six months ended June 30, 2019. For the three and six months ended June 30, 2020 and 2019, operating expenses consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Selling and marketing expenses	\$ 4,826	\$ 17,298	\$ 15,883	\$ 25,098
Salaries, wages and related benefits	163,831	148,186	308,464	204,698
Research and development	14,383	41,024	31,035	56,829
Professional fees	359,420	72,920	484,172	152,354
General and administrative expenses	136,234	140,855	273,304	280,515
<b>Total</b>	<b>\$ 678,694</b>	<b>\$ 420,283</b>	<b>\$ 1,122,859</b>	<b>\$ 719,494</b>

- For the three months ended June 30, 2020, selling and marketing expenses decreased by \$12,482 or 72% as compared to the three months ended June 30, 2019 due to general decreases in marketing spend. For the six months ended June 30, 2020, sales and marketing expenses decreased by \$9,215 or 37% as compared to the six months ended June 30, 2019, for same reasons.
- For the three months ended June 30, 2020, salaries, wages and related benefits increased by \$15,645 or 11%, as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, salaries, wages and contract services increased by \$103,767, or 51%, as compared to the six months ended June 30, 2019. For the three and six months ended June 30, 2020, these increases were due to salary increases and additional personnel related to our ongoing efforts to build our team and increase sales and productivity.
- For the three months ended June 30, 2020, research and development costs decreased by \$26,641 or 65%, as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, research and development costs decreased by \$25,794 or 45%, as compared to the six months ended June 30, 2019. For both periods the decreases reflect a general spend decrease in R&D supplies.
- For the three and six months ended June 30, 2020, professional and other fees increased by \$286,500 or 393%, and \$331,818 or 218%, as compared to the three and six months ended June 30, 2019, respectively. These increases are primarily attributable to increased audit fees and other third-party professional expenses to support the business.
- For the three months ended June 30, 2020, general and administrative expenses decreased by \$4,621 or 3% as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, general and administrative expenses decreased by approximately \$7,210 or 3% as compared to the six months ended June 30, 2019.

### ***Loss from operations***

As a result of the factors described above, for the three months ended June 30, 2020, loss from operations amounted to \$281,995 as compared to loss from operations of \$387,957 for the three months ended June 30, 2019, a decrease of \$105,962 or 27%. For the six months ended June 30, 2020, loss from operations amounted to \$657,703 as compared to a loss from operations of \$459,812 for the six months ended June 30, 2019, an increased loss of \$197,891 or 43%.

### ***Other expense (income)***

For the three months ended June 30, 2020, other expense was \$282 as compared to other expense of \$5,159 for the three months ended June 30, 2019, a decrease of income of \$4,690 or 90%. There was a decrease in interest expense as a result of deferral of principal and interest on the equipment loan, and a reduction in other income. For the six months ended June 30, 2020 other expense was \$2,390, as compared to other expense of \$2,684, for the six months ended 2019, a decrease of \$294, or 11% due to the same factors.

### ***Net loss***

As a result of the foregoing, for the three and six months ended June 30, 2020, net loss amounted to \$282,277 and \$660,093 as compared to net loss of \$392,257 and \$462,496 for the three and six months ended June 30, 2019. The decrease in net loss for the 3-month period was \$109,980 or 28%. For the six-month period there was an increased net loss of \$197,597 or 43%.

For the three months ended June 30, 2020 and 2019, net loss amounted to \$0.04 per common share (basic and diluted), and \$0.09 per common share (basic and diluted), respectively. For the six months ended June 30, 2020 and 2019, net loss amounted to \$0.10 per common share (basic and diluted) and \$0.11 per common share (basic and diluted), respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had working capital deficit of \$292,803 and \$223,739 of unrestricted cash as of June 30, 2020 and working capital deficit of \$673,040 and \$216,801 of cash as of December 31, 2019.

The following table sets forth a summary of changes in our working capital from December 31, 2019 to June 30, 2020:

	June 30, 2020	December 31, 2019	December 31, 2019 to June 30, 2020	
			Change in working capital	Percentage Change
<b>Working capital:</b>				
Total current assets	\$ 1,293,502	\$ 835,109	\$ 458,393	54.89%
Total current liabilities	1,586,305	1,508,149	78,156	5.18%
Working capital deficit:	<u>\$ (292,803)</u>	<u>\$ (673,040)</u>	<u>\$ 380,237</u>	<u>(56.50)%</u>

The increase in current assets was attributable primarily to increased accounts receivable and pre-paid expenses. The increase in current liabilities reflects an increase in accounts payable and the new loan under the paycheck protection program.

Net cash used in operating activities was \$944,752 for the six months ended June 30, 2020 as compared to \$382,053 for the six months ended June 30, 2019, a change of \$562,698 or 147%. Net cash used in operating activities for the six months ended June 30, 2020 primarily reflected a net loss of (\$660,093) adjusted for add-backs of \$163,425 and changes in operating assets of (\$448,083).

Net cash flow used in investing activities was \$316,551 for the six months ended June 30, 2020 and \$2,483 for the six months ended June 30, 2019.

Net cash provided by financing activities of \$1,268,240 for the six months ended June 30, 2020 as compared to \$348,770 in the same period in 2019. During the six months ended June 30, 2020, we sold additional common stock and warrants.

***Future Liquidity and Capital Needs.***

Our principal future uses of cash are for working capital requirements, including adding new personnel to support the growth of our business as well as inventory purchases. Funds required for inventory are higher in part for increased prices and longer lead time for some items affected by the COVID-19 pandemic, in part because of higher volume purchases as we prepare for the full-scale launch of Nano Magic branded products and, in part, for inventory build to avoid disruption when the Brooklyn Heights manufacturing moves to the new space in Michigan during the fourth quarter. Application of funds will depend on numerous factors including our sales and other revenues and our ability to control costs.

***Equipment Financing***

On February 10, 2015, Nano Magic LLC 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 September 10, 2020. The Equipment Note is secured by certain equipment, as defined in the Equipment Note, and bears interest computed at a rate of interest of 4.35% per annum based on a year of 360 days. At June 30, 2020, the principal amount due under the Equipment Note amounted to \$105,551.

On June 18, 2019, Nano Magic LLC 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 \$4,052 per month.

***Paycheck Protection Loan***

On May 8, 2020, we obtained a loan from Fifth Third Bank for \$130,900 under the Small Business Administration Paycheck Protection Program. The loan bears interest at 1.00% and is payable in monthly installments of principal and interest in the amount of \$7,330 beginning in December, 2020.

***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***

During the three months ended June 30, 2020, the Nano Magic LLC subsidiary experienced staffing changes that resulted in a short-term lack of oversight on the part creation and sales booking processes such that errors resulted in the booking of sales and cost of sales in the company's ERP system. The errors have since been corrected in the ledger and subledgers and additional controls have been put in place to address this issue. There were no additional changes identified in connection with our internal control over financial reporting during the three months ended June 30, 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**

In connection with the lease for the facility in Michigan effective 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.

On July 13, 2020, Nano Magic Inc. sold to Magic Growth, LLC 388,462 shares of common stock for proceeds of \$485,578 and warrants to purchase up to 388,450 shares of common stock for proceeds of \$19,422. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. PEN Comeback Management, LLC, owned by Tom J. Berman and Ronald J. Berman, is the sole voting member of Magic Growth, LLC.

On August 12, 2020, Nano Magic Inc. sold to Magic Growth, LLC 461,539 shares of common stock for proceeds of \$576,924 and warrants to purchase up to 461,525 shares of common stock for proceeds of \$23,076. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

On September 14, 2020, Nano Magic Inc. sold to Magic Growth, LLC 130,770 shares of common stock for proceeds of \$163,463 and warrants to purchase up to 130,750 shares of common stock for proceeds of \$6,537. The warrants are exercisable at any time during the four years after date of issue at a warrant exercise price of \$2.00 per share. The stock and warrants were sold in a private placement exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

The sales and the issuances of stock and derivative securities were exempt from registration under Section 4(2). Proceeds were used for general corporate purposes.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 5. OTHER INFORMATION**

None



## ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1*	<a href="#"><u>Lease Agreement, dated August 10, 2020, by and between Nano Magic LLC and Team Financial Group, Inc.</u></a>
10.2*	<a href="#"><u>Pierce Capital Investing Agreement, dated August 11, 2020, by and between Pierce Capital Investing, LLC and Nano Magic LLC.</u></a>
10.3*	<a href="#"><u>Equipment Finance Agreement, dated August 24, 2020, by and between Regents Capital Corporation and Nano Magic LLC.</u></a>
10.4*	<a href="#"><u>NOWAccount Merchant Services Agreement dated September 1, 2020, by and between Nano Magic LLC and NOWaccount Network Corporation</u></a>
31.1*	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certificate of Principal Executive Officer</u></a>
31.2*	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer</u></a>
32.1*	<a href="#"><u>Section 1350 Certificate of Principal Executive Officer and Chief Financial Officer</u></a>
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: October 5, 2020

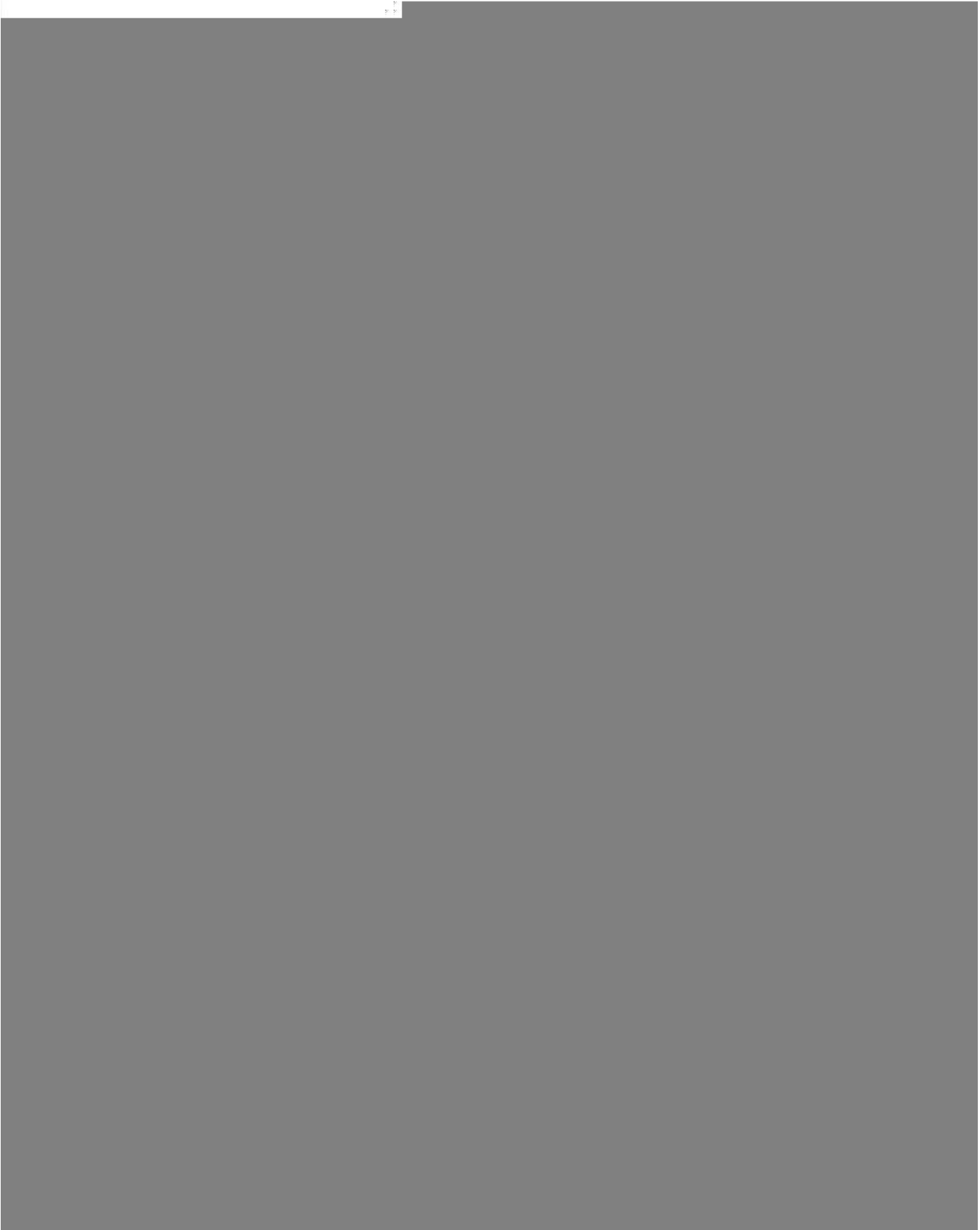
*/s/ Tom J. Berman*

\_\_\_\_\_  
Tom J. Berman  
President

Date: October 5, 2020

*/s/ Leandro Vera*

\_\_\_\_\_  
Leandro Vera  
Chief Financial Officer



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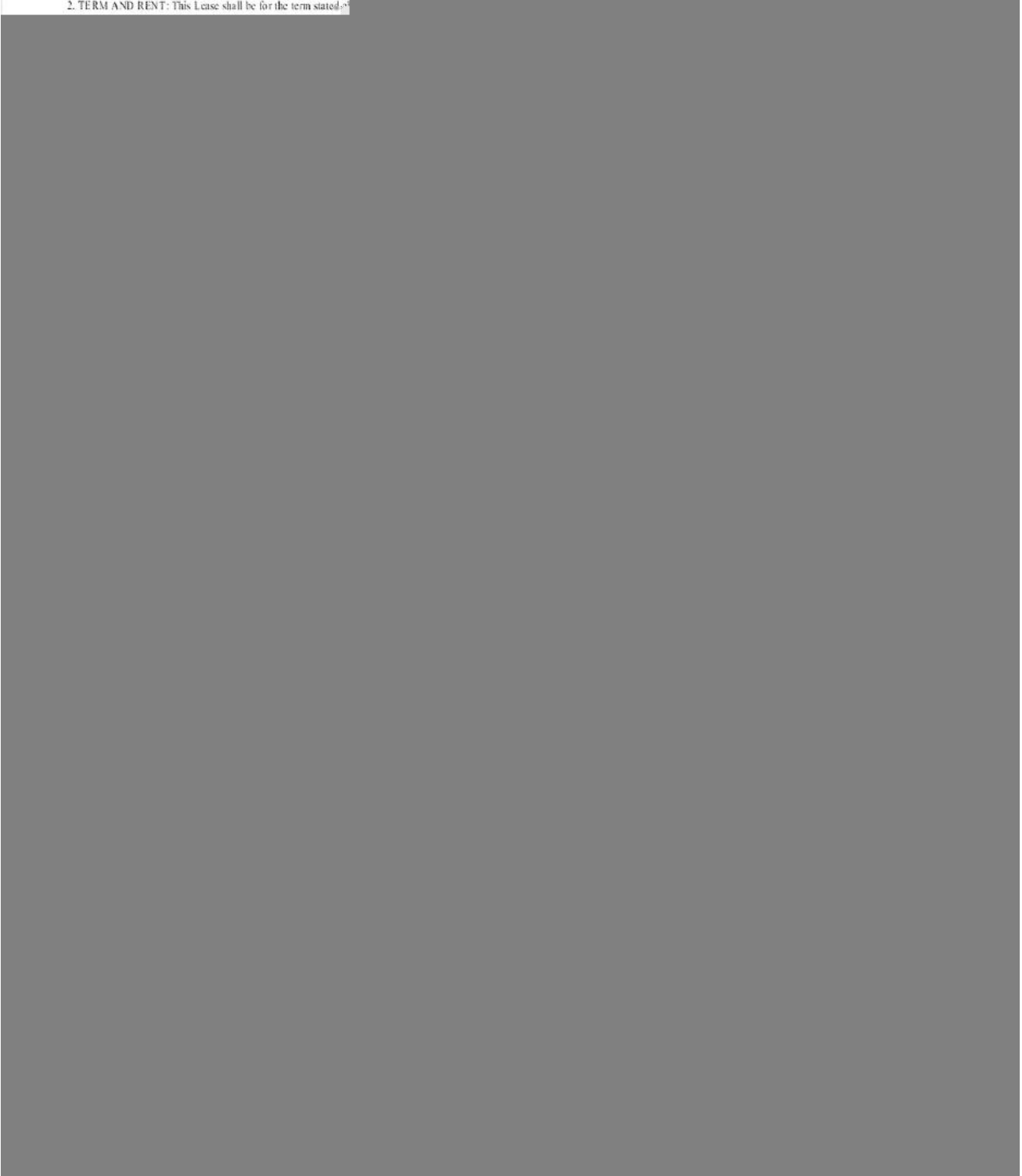
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**TERMS AND CONDITIONS OF LEASE:**

1. LEASE OF EQUIPMENT: Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Equipment described above and on any Schedule which may from time to time be made a part hereof (herein with all replacements, repairs, additions, substitutions and accessories called "Equipment") on the terms and conditions and for the term set forth on the face and reverse side hereof or on any Schedule hereto.

2. TERM AND RENT: This Lease shall be for the term stated on



11. ASSIGNMENT: LESSEE SHALL NOT ASSIGN THIS LEASE OR ANY INTEREST THEREIN WITHOUT THE PRIOR WRITTEN CONSENT OF LESSOR. ANY SUCH ATTEMPTED ASSIGNMENT SHALL BE VOID. Lessor's right, title and interest in and to this Lease and the Equipment may be transferred and assigned by Lessor without notice to Lessee, and Lessor's assignee shall have all rights, powers, privileges and remedies of Lessor hereunder, free from any defenses, counterclaims or offsets of any kind or nature whatsoever, however arising. Any such assignee shall not be obligated to perform any obligation of Lessor hereunder or of any supplier of the Equipment. Lessee agrees not to assert against Lessor any counterclaim or offset in any action brought by Lessor. Lessee agrees that payment of rentals and other sums hereunder, in the event of assignment, shall constitute a direct, independent and unconditional obligation of Lessee to such assignee, and Lessee further agrees to hold such Equipment for and on behalf of such assignee. Upon Lessor's request, Lessee will acknowledge to any assignee, receipt of Lessor's notice of assignment.

12. PAST DUE PAYMENTS: If Lessee shall fail to make any payments required under this lease within ten (10) days from the date said payment is otherwise due, Lessee shall pay to Lessor on demand, as a late charge an amount equal to five percent (5%) of each installment of rent which remains overdue or \$25.00, whichever is greater, as liquidated damages occasioned by such delay. All advances made by Lessor to preserve the Equipment or to pay insurance premiums or to discharge and pay any taxes, fees, penalties, liens or encumbrances thereon shall be added to the unpaid balance of rentals due hereunder and shall be repayable by Lessee to Lessor immediately together with interest thereon at the rate of eighteen percent (18%) per annum until paid, or the highest rate permitted by law, whichever is less. A returned check or insufficient funds ("NSF") fee of \$30.00 will be charged to Lessee for Lessor's time and expense incurred with respect to a check that is returned for any reason, including, but not limited to, a check returned for insufficient funds or uncollected funds which charge is stipulated and agreed to be the greater of thirty dollars (\$30.00) or the actual bank charges incurred by Lessor, plus any amounts allowed by law.


13. DEFAULT AND REMEDIES: If any one of the following events shall occur: (a) Lessee fails to pay any rent or any other payment hereunder when due; or (b) Lessee fails to perform any of the terms, covenants or conditions of this Lease after ten (10) days' written notice; or (c) Lessee becomes insolvent or makes an assignment for the benefit of creditors; or (d) a receiver, trustee, conservator or liquidator of Lessee or all or a substantial part of its assets is appointed with or without the application or consent of Lessee; or (e) a petition is filed by or against Lessee under the Bankruptcy Code or any amendment thereto, or under any other insolvency law or laws providing for the relief of debtors. Lessor may, to the extent permitted by applicable law, exercise any one or more of the following remedies: (i) declare the entire unpaid balance of rent for the unexpired term of the Lease or any Schedule thereto immediately due and payable and to similarly accelerate the balances due under any other leases between Lessor and Lessee without notice or demand; (ii) sue for and recover all rents, and other monies due Lessor and the present value of the unpaid balances of rent for the unexpired term of the Lease, but only to the extent permitted by law; (iii) charge Lessee interest on all monies due Lessor from and after the date the same is due at the rate of one and one-half (1 1/2%) percent per month until paid but in no event more than the maximum rate permitted by law; (iv) require Lessee to return all Equipment, at Lessee's expense, to a place reasonably designated by Lessor or to recover possession of any or all items of Equipment without demand or notice, wherever same may be located, disconnecting and separating all such Equipment from any other property with or without any court order or pre-taking hearing, it being understood that facility of repossession in the event of default is a basis for the financial accommodation reflected by the Lease. Lessee hereby waives any and all damages occasioned by such re-taking. Lessor may, at its option, use, ship, store, repair or lease all Equipment so recovered and sell or otherwise dispose of any such Equipment at a private or public sale. Lessor may expose and resell the Equipment at Lessee's premises at reasonable business hours without being required to remove the Equipment. Lessee shall also be liable for and shall pay to Lessor all expenses incurred by Lessor in connection with the enforcement of any of Lessor's remedies, including all expenses of repossession, storing, shipping, repairing, and selling the Equipment, and Lessor's reasonable attorneys' fees. Lessor and Lessee acknowledge the difficulty in establishing a value for the unexpired lease term and owing to such difficulty agree that the provisions of this paragraph represent an agreed measure of damages and are not to be deemed a forfeiture or penalty. All remedies of Lessor hereunder are cumulative, are in addition to any other remedies provided for by law, and may, to the extent permitted by law, be exercised concurrently or separately. The exercise of any one remedy shall not be deemed to be an election of such remedy or to preclude the exercise of any other remedy. No failure on the part of Lessor to exercise and no delay in exercising any right or remedy shall operate as a waiver thereof or modify the term of this Lease. A waiver of default shall not be a waiver of any other or subsequent default. If this Lease is determined to be subject to any laws limiting the amount chargeable or collectible by Lessor then Lessor's recovery shall in no event exceed the maximum amounts permitted by law.

14. FURTHER ASSURANCES: Lessee agrees to deliver to Lessor, its successors and assigns, upon request of Lessor, such interim or annual financial statements, certificates, acknowledgements, consents, and any other instruments, all in form and substance satisfactory to Lessor which Lessor may, in its sole discretion, determine to be necessary or proper to confirm any or all of the representations and agreements made by Lessee hereunder or to facilitate the assignment by Lessor of its right, title and interest to the Equipment, this Lease or the Rent. LESSEE HEREBY APPOINTS LESSOR OR ITS ASSIGNEE ITS TRUE AND LAWFUL ATTORNEY IN FACT TO EXECUTE ON BEHALF OF LESSEE ALL UNIFORM COMMERCIAL CODE FINANCING STATEMENTS WHICH, IN LESSOR'S DETERMINATION, ARE NECESSARY TO SECURE LESSOR'S INTEREST IN SAID EQUIPMENT IN ALL JURISDICTIONS WHERE SAID EQUIPMENT IS OR WILL BE LOCATED.

15. INDEMNITY: Lessee shall indemnify, protect and save and keep harmless the Lessor, its agents, servants, successors and assigns from and against all losses, damages, injuries, claims, demands and expenses, including legal expenses, of whatsoever nature, arising out of the use, condition (including but not limited to, latent and other defects and whether or not discoverable by it), or operation of any item of Equipment, regardless of where, how and by whom operated, or, in the event Lessee shall be in default hereunder, arising out of or resulting from the condition of any item of Equipment sold or disposed of after use by Lessee. Lessee shall be liable for the expenses of the defense of the settlement of any suit or suits or other legal proceedings brought to enforce all such losses, damages, injuries, claims, demands and expenses, and shall pay all judgments entered in any such suit or suits or other legal proceedings, if the defense or settlement of any such action is tendered by Lessor. The indemnities and assumptions of liabilities and obligations herein provided for shall continue in full force and effect notwithstanding the cancellation or termination of this Lease, whether by expiration of time, by operation of law, or otherwise. Lessee is an independent contractor and nothing contained in this agreement shall authorize Lessee or any other person to operate any item of Equipment so as to incur or impose any liability or obligation for or on behalf of Lessor.

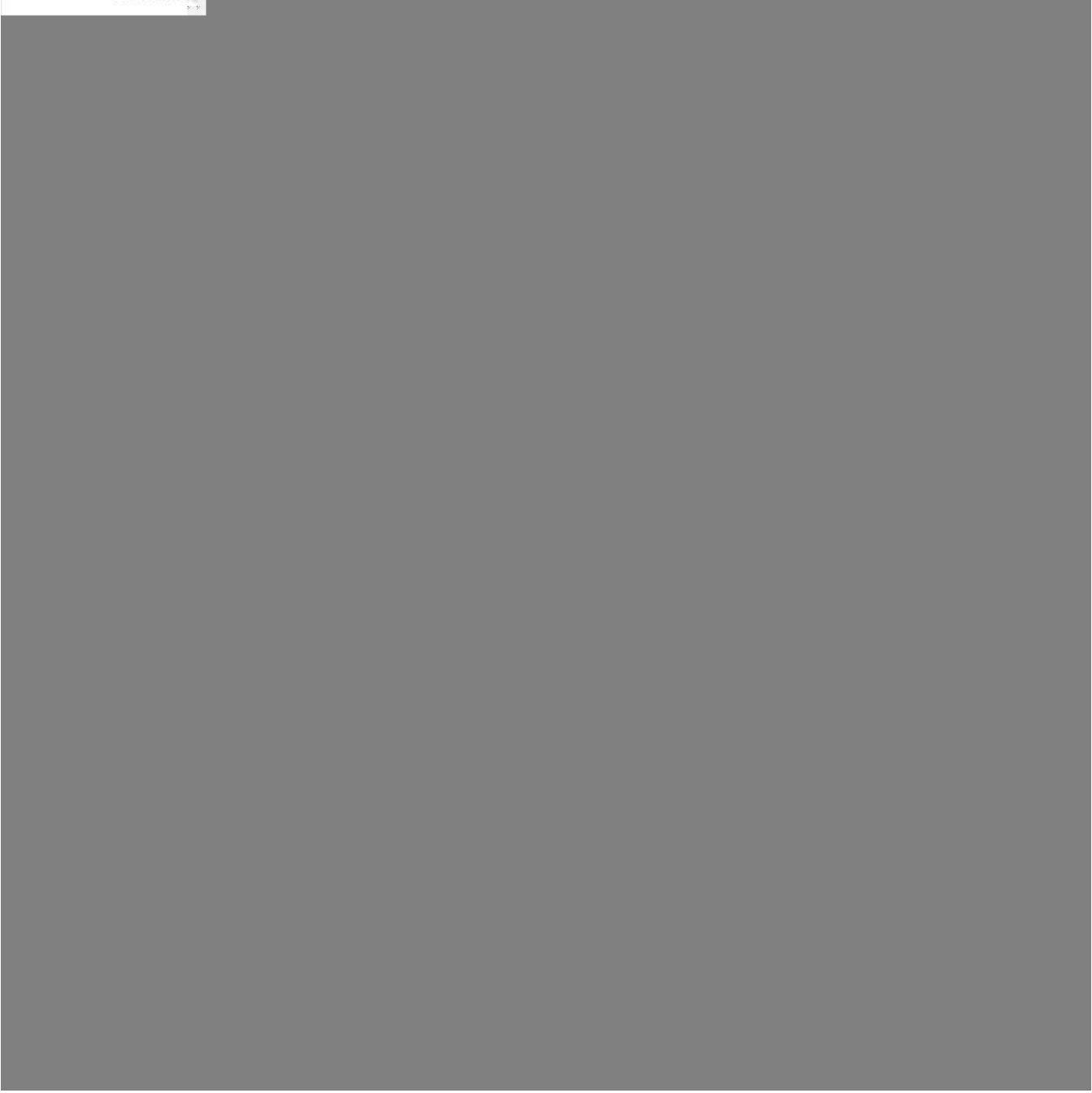
16. GOVERNING LAW; JURISDICTION AND VENUE: This Lease shall be binding when accepted in writing by an officer of Lessor in the State of Michigan and shall be governed by the laws of the State of Michigan, provided, however, in the event this Lease or any provision hereof is not enforceable under the laws of the State of Michigan then the laws of the state where the Equipment is located shall govern. Lessee consents to the personal jurisdiction of the Federal District of competent jurisdiction or any state court within Michigan with respect to any action arising out of this Lease or the Equipment, provided, however, Lessor may, in its sole discretion, enforce this Lease in any state having lawful jurisdiction thereof.

17. NOTICES; MISCELLANEOUS: All notices and consents shall be in writing and shall be deemed given when sent via air courier, when mailed, certified mail, return receipt requested, postage prepaid, to the address of the party to whom intended set forth on the face of this Lease or to such other address as such party shall have designated by notice in writing to the other party. This Lease, consisting of the foregoing and the reverse side hereof, constitutes the entire agreement among the parties and may not be changed or cancelled orally, but only in writing signed by the party to be charged. This Lease shall be binding upon the successors and assigns of the parties. The invalidity or unenforceability of any provision of this Lease shall not affect the validity or enforceability of any other provision hereof. If more than one Lessee is named in the Lease, the liability for each shall be joint and several. Whenever in this Lease the word "Lessee" is used, it shall be deemed to apply to any corporation, partnership or individual, in either singular or plural sense.

Initials 

August 6, 2020

Nano Magic LLC  
31601 Research Park Dr  
Madison Heights, MI 48071



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## SCHEDULE A

Lessee: Nano Magic LLC

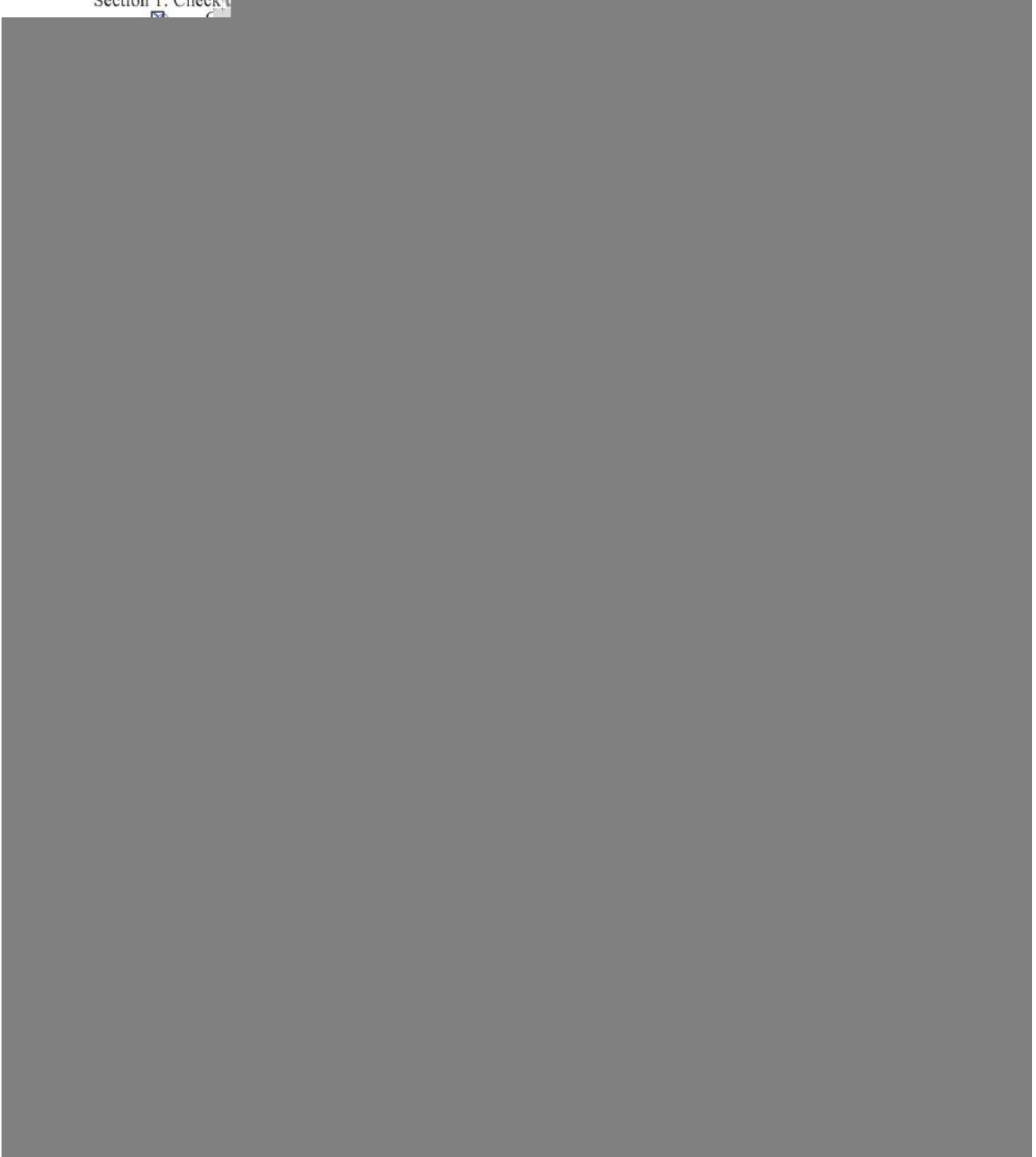
Attached hereto



**MICHIGAN SALES AND USE TAX CERTIFICATE OF EXEMPTION**

This certificate is invalid unless all four sections are completed by the purchaser.

Section 1: Check one of the following:





### LEASE CLOSING

#### INSURANCE

Insurance Company Name  GANNAGHER  
Insurance Company Contact  Peter Gimpolis  
Insurance Company Phone Number  (248) 750-1023

FED ID NUMBER \_\_\_\_\_

(10% & FMV Leases)

LOCAL TOWNSHIP \_\_\_\_\_

COUNTY \_\_\_\_\_

#### INVOICE INFO

(If different than lease)

Billing Address \_\_\_\_\_

City, State Zip \_\_\_\_\_

Attn: \_\_\_\_\_

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**PIERCE CAPITAL INVESTING AGREEMENT**

LESSOR:  
 Pierce Capital Investing, LLC  
 9885 Milford Rd Full Legal Name  
 Holly, MI 48442  
 734-502-8342

LESSEE:  
 NANO Magic LLC  
 31601 Research Park DR.  
 Billing Address  
 Madison Heights MI 49071  
 City State Zip  
 Jacquie Soptick Accounting@nanomagic.com  
 Send invoice to attention of  
 (800) 883 - 6266  
 Telephone

EQUIPMENT INFORMATION: SEE ATTACHED EXHIBIT A

EQUIPMENT LOCATION:

NUMBER & AMOUNT OF LEASE PAYMENTS:

36	Monthly	36	\$1,972.31
Term of Lease in Months	Payment Frequency	Number of Lease Payments	Lease Payment

1. LEASE. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Equipment described above and on any attached schedule (herein with all replacement parts, repairs, additions and accessories called "Equipment") on the terms and conditions set forth in this Lease and on any schedule hereto.

2. TERM AND RENT. The term of this Lease shall commence at the time of Lessor's acceptance of the Lease in writing. The term shall thereafter continue until all obligations of the Lessee under the Lease shall have been fully performed. The first Lease Payment will be applied on the date the Lease is accepted by Lessor or any later date designated by Lessor ("Lease Commencement Date"). The second Lease Payment shall be due on the date designated in writing by the Lessor (not later than 60 days from the Lease Commencement Date) and subsequent payments shall be due on the same day of each successive month (or other time period as designated above) thereafter until the balance of the Lease Payments and any additional Lease Payments or expenses chargeable to Lessee under this Lease shall have been paid in full. Lessee's obligation to pay such Lease Payments shall be absolute and unconditional and is not subject to any abatement, set-off, defense or counterclaim for any reason whatsoever. All payments hereunder shall be made to Lessor at its address specified above or such other place as Lessor, in writing, directs. If the term is extended, the word "term" as used herein shall be deemed to refer to all extended terms. All provisions of this Lease shall apply during any extended term except as may be otherwise specifically provided in this Lease, in a Schedule to this Lease, or in any subsequent written agreement of the parties. The Lessee is obligated to pay to the Lessor any applicable sales tax on the lease payments as required by state and local laws.

3. TITLE, PERSONAL PROPERTY, TAXES AND LOCATION. The Furniture is, and shall at all times be and remain the sole and exclusive property of Lessor, and Lessee, notwithstanding any trade-in or down payment made by Lessee or on its behalf and with respect to the Equipment, shall have no right, title or interest therein or thereto, except as to the use thereof subject to the terms and conditions of this Lease. The Equipment is, and at all times shall remain, personal property notwithstanding that the Equipment or any item thereof may now be, or hereafter become in any manner affixed or attached to, or imbedded in, or permanently resting upon real property or any improvement thereof or attached in any, manner to what is permanent. If requested by Lessor prior to or at any time during the term hereof with respect to any item of Equipment, Lessee will obtain and deliver to Lessor waivers of interest or liens in recordable form, satisfactory to Lessor, from all persons claiming any interest in the real property on which such Equipment is installed or located. The Equipment shall be kept at the address designated in the Lease and shall not be removed therefrom without the prior written consent of the Lessor. The Lessor shall withhold written consent to move the equipment greater than seventy-five (75) miles from an existing Lessor's office, due to the service commitments listed in this agreement. The Lessee is required to reimburse the Lessor any Personal Property Taxes assessed to the Lessor on the Equipment leased by the Lessee.

4. ASSIGNMENT. This Lease or the rights hereunder shall not be assigned, nor shall the Lessee sublease or lend the Equipment or submit it to be used by anyone other than Lessee's employees without the prior written consent of Lessor. Lessor may at any time assign all or part of any interest in this Lease and in each item of Equipment and monies to become due to Lessor hereunder; and, Lessor may grant security interest in the Equipment, subject to the Lessee's rights therein. In such events, all the provisions of this Lease for the benefit of Lessor shall inure to the benefit of and be exercised by or on behalf of such assignee, but the assignee shall not be liable for or be required to perform any of Lessor's obligations to Lessee. The Lessor may direct that all Lease Payments due and to become due under this Lease and assigned by Lessor shall be paid directly to assignee, upon notice of such assignment to Lessee. The right of the assignee to the payment of assigned Lease Payments and performance of all Lessee's obligations, and, to exercise any other of Lessor's rights hereunder shall not be subject to any defense, counterclaim or setoff which the Lessee may have assert against the Lessor, and the Lessee hereby agrees that it will not assert any such defenses, set-offs, counterclaims and claims against the assignee.

5. OWNERSHIP OF EQUIPMENT. Upon expiration of the Lease Term, assuming all payments due under the lease have been made, the equipment listed on Exhibit A becomes the sole property of Nano Magic LLC.

6. LOSS OR DAMAGE. Lessee hereby assumes and shall bear the entire risk of loss (including theft and requisition of use) or destruction of or damage to the Equipment from any and every cause whatsoever, whether or not insured, until the Equipment is returned to Lessor. NO such loss or damage shall relieve Lessee from any Obligation under this Lease, which shall continue in full force and effect. In event of damage to or loss or destruction of the Equipment (or any item thereon, Lessee shall promptly notify Lessor in writing of such fact and shall, at the option of Lessor, (a) place the same in good repair, condition and working order, (b) replace the Equipment with like equipment in good repair, condition and working order, acceptable to Lessor and transfer clear title to such replacement equipment to Lessor, whereupon such equipment shall be subject to this Lease and be deemed the Equipment for purposes hereof, or (c) pay to Lessor the total of all unpaid Lease Payments for the entire Lease Term plus the estimated fair market value of the Equipment at the end of the originally scheduled Lease Term, whereupon this Lease shall terminate with respect thereto. All proceeds of insurance received by Lessor as a result of such loss or damage shall, where applicable, be applied toward the replacement or repair of the Equipment or the payment of the obligations of Lessee hereunder.

7. INSURANCE. Lessee shall obtain, maintain and keep the Equipment insured against all risks of loss or damage from every cause whatsoever in an amount not less than the actual cash value of the Equipment without deductible and without co-insurance. Lessor, its successors or assigns, shall be the sole named loss payee with respect to insurance for damage to or loss of the Equipment and shall be named as an additional insured on Lessee's public liability insurance. Lessee shall pay all premiums for such insurance and shall deliver to Lessor certificate of insurance or other evidence satisfactory to Lessor evidencing the insurance required thereby, along, with proof satisfactory to Lessor, of the payment of the premium therefore, provided, however, that Lessor shall be under no duty to ascertain the existence of or to examine such insurance policy or to advise Lessee in the event such insurance coverage shall not comply with the requirement hereof. All insurance shall provide at least sixty (60) days advance written notice to Lessor before any cancellation or material modification thereof. Lessee hereby irrevocably appoints Lessor as Lessee's attorney-at-fact to make claim for, receive payment of, and execute and endorse all documents, checks or drafts received in payment for loss or damage under any such insurance policy. Unless Lessee is in default, Lessee may with the prior written approval of Lessor, settle and adjust all such claims. Lessee agrees if Lessee shall fail to procure, maintain, and pay for such insurance, Lessor shall have the right, but not the obligation to obtain such insurance on behalf of and at the expense of Lessee. In the event Lessor does obtain such insurance, Lessee agrees to pay all costs thereof with the next Lease Payment.

8. INDEMNITY. Lessee shall hold Lessor harmless from, and defend Lessor against any and all claims, actions, suits, proceedings costs, expenses, damages, and liabilities, including attorney's fees, arising out of, connected with, or resulting from the Equipment or the Lease, including without limitation, the manufacture, selection, delivery, possession, use, operation or return of the Equipment.

9. DEFAULT AND REMEDIES. If a petition in bankruptcy, arrangement, insolvency, or reorganization is filed by or against Lessee or any guarantor of Lessee's obligations hereunder, or if Lessee or any guarantor of Lessee's obligations makes an assignment for the benefit of creditors or if Lessee defaults in payment required under this Lease or under any other Lease agreement between Lessor and Lessee, Lessee agrees Lessor may exercise any one or more of the following remedies: (a) To declare the entire unpaid balance of Lease Payments for the unexpired term of the Lease immediately due and payable and to similarly accelerate the balances due under any other Leases between Lessor and Lessee with notice of demand. (b) To sue for and recover all Lease Payments and other monies due and to become due under the Lease, plus the estimated fair market value of the Equipment at the end of the originally scheduled Lease Term, all of which shall be discounted to the date of default at six (6%) percent per annum, but only to the extent permitted by law. (c) To require Lessee to assemble all Equipment at Lessee's expense, at a place reasonably designated by Lessor. (d) To remove any physical obstructions for removal of the Equipment from the place where the Equipment is located and take possession of any or all items of Equipment, without demand of notice, wherever same may be located, disconnecting and separating all such Equipment from any other property, with or without any court order or pre-taking hearing or other process of law, it being understood that facility of repossession in the event of default is a basis for the financial accommodation reflected by this Lease. Lessee hereby waives any and all damages occasioned by such retaking. Lessee shall also be liable for and shall pay to Lessor (i) all expense incurred by Lessor in connection with the enforcement of any Lessor's remedies, including all expenses of repossessing, storing, shipping, repairing and selling the Equipment, and (ii) Lessor's reasonable attorneys' fees. Lessee acknowledges that Lessor incurs substantial expense in training and retaining qualified personnel and maintaining sufficient inventory or access to such in order to provide the level of service required hereunder for the continued maintenance of the Equipment leased hereunder. Lessee further acknowledges that the Equipment leased hereunder rapidly becomes obsolete due to the constant changing of such technology. Lessor and Lessee both acknowledge the difficulty in establishing a value for the leased Equipment for any unexpired lease term should Lessee default under this Lease and owing to such difficulty both Lessor and Lessee mutually agree and assent that the provisions of this paragraph represent an agreed measure of damages and such agreed measure of damages for default are not to be deemed forfeiture or penalty.

Whenever any payment or any other amounts due under this Lease which are not paid when due hereunder by Lessee such amounts not paid shall bear interest at the lower of (i) two percent (2%) per month, or (ii) the highest interest rate allowed by law. Such amount shall be payable in addition to all amounts payable by Lessee as a result of exercise of any of the remedies herein provided.

All remedies of Lessor hereunder are cumulative, are in addition to any other remedies provided for by law, and may, to the extent permitted by law, be exercised concurrently or separately. The exercise of any one remedy shall not be deemed to be an election of such remedy or to preclude the exercise of any other remedy. No failure on the part of the Lessor to exercise and no delay in exercising any right or remedy shall operate as a waiver thereof or modify the terms of this Lease. A waiver of default shall not be a waiver of any other or subsequent default. Lessor's recovery hereunder shall in no event exceed the maximum recovery permitted by law.

10. UCC FILINGS. Lessee authorizes Lessor to file a financing statement with respect to the Equipment signed only by the Lessor where permitted by the Uniform Commercial Code. Lessee hereby appoints Lessor as Lessee's attorney-in-fact to execute such financing statement on Lessee's behalf and to do all acts or things which Lessor may deem necessary to protect Lessor's title and interest hereunder. Lessor and Lessee further agree that a carbon, photographic or other reproduction of this Lease may be filed as a financing statement and shall be sufficient as a financing statement under the Uniform Commercial Code. It is the intent of the parties that this is a true Lease, and the filing of a financing statement under the Uniform Commercial Code shall not be construed as evidence that any security interest was intended to be created, but only to give public notice of Lessor's ownership of the Equipment. If this Lease shall be deemed at any time to be one intended as security then Lessee hereby grants Lessor a security interest in the Equipment and the proceeds from the sale, lease or other disposition of the Equipment.

11. WARRANTY OF BUSINESS PURPOSE. Lessee hereby warrants and represents that the Equipment will be used for business purposes and not for personal, family or household purposes. Lessee acknowledges that Lessor has relied upon this representation in entering into this Lease.

12. AUTHORIZATION. Lessee represents and warrants to Lessor that Lessee has complete and unrestricted power to enter into this Lease; that the persons executing this Lease have been duly authorized to execute the same on behalf of Lessee and that all information supplied to Lessor by Lessee is true and correct.

13. MISCELLANEOUS. All obligations of the Lessee, of more than one, shall be joint and several. All paragraph headings are inserted for reference purposes only and shall not affect the interpretation or meaning of this Lease.

14. NOTICE. Written notices to be given hereunder shall be deemed to have been given when delivered personally or deposited in the United States mails, postage prepaid addressed to such party at its address set forth above or at such other address as such party may have subsequently provided in writing.

15. CHOICE OF LAW. This Lease shall be binding and effective when accepted by Lessor at its corporate office in Livonia, Michigan, shall be deemed to have been made in Livonia, Michigan, and, except for local filing requirements, shall be governed by and construed in accordance with the laws of the state of Michigan. Lessee hereby consents to and agrees that personal jurisdiction over Lessee and subject matter jurisdiction over the Equipment shall be with the courts of the state of Michigan or the Federal District Court for Southeastern Michigan, solely at Lessor's option, with respect to any provision of this Lease. Lessee also agrees to waive its right to a trial by jury.

16. ENTIRE AGREEMENT; NON-WAIVER; SEVERABILITY. This Lease contains the entire agreement and understanding between Lessee and Lessor relating to the subject matter hereof. No agreements or understanding shall be binding on the parties hereto unless set forth in writing and signed by the parties. Time is of the essence in this Lease. No waiver by Lessor of any breach or default shall constitute a waiver of any additional or subsequent breach or default by Lessor nor shall it be a waiver of any of Lessor's rights. Any provision of this Lease which for any reason may be held unenforceable in any jurisdiction shall, as to such jurisdiction be ineffective to the extent of such unenforceability without invalidating the remaining provisions of this Lease, and any such unenforceability in any jurisdiction shall not render unenforceable such provisions in any other jurisdiction.

Facsimile Signatures: You agree that a facsimile copy of this agreement bearing authorized signatures may be treated as an original.

Executed this    day of August 20   

LESSOR:

Pierce Capital Investing, LLC

LESSEE:

Nano Magic LLC

Legal Name of Lessee

Tom J. Berman, CEO

Name of Authorized Singer and Title (**Print**)

By: \_\_\_\_\_

By: */s/ Tom J. Berman*

Name of Authorized Singer and Title (**Signature**)

LESSOR: Pierce Capital Investing, LLC 9885  
Milford Rd  
Holly, MI 48442

NON-APPROPRIATION OF FUNDS ADDENDUM

(For School and Government Funded Agencies)

This Addendum will become part of that certain Equipment Rental Agreement # \_\_\_\_\_ dated as of 8/11/20 (“Agreement”) between Lessor and Nano Magic LLC (“Lessee”). All capitalized terms used in this Addendum which are not defined herein shall have the meanings given to such terms in the Agreement.

You hereby represent and warrant to Us that as of the date of the Agreement, and throughout the Agreement Term: (a) the individual who executed the Agreement had at the time of execution of the Agreement full power and authority to execute the Agreement; and that all required procedures necessary to make the Agreement a legal and binding obligation of the Lessee have been followed; (b) the Equipment is essential to the immediate performance of a governmental or proprietary function by You within the scope of Your authority and shall be used during the Agreement Term only by You and only to perform such function; (c) that all payments due and payable for the fiscal year are within the current budget and are within an available, unexhausted and unencumbered appropriation.

In the event You are not granted funds in future fiscal years for the Equipment and subject to the Agreement or for equipment which is functionally similar to the Equipment and operating funds are not otherwise available to You to pay the Rent and other payments due under the Agreement, and there is no other legal procedure or available funds by or with which payments can be made to Us, and the appropriation did not result from an act or omission by You, You shall have the right to return the Equipment in accordance with the section in the Agreement titled, Return of Equipment and terminate the Agreement on the last day of the fiscal period for which appropriations were received. At least thirty (30) days prior to the end of Your fiscal year, Your legal counsel shall certify in writing that (a) funds have not been appropriated for the fiscal period; (b) such non-appropriation did not result from any act or failure to act by You; and (c) You have exhausted all funds legally available for payment of Rent. If you terminate this Agreement because of non-appropriation of funds, You may not purchase, lease or rent, during such fiscal period, equipment performing functions similar to those performed by the Equipment for a period of twelve (12) months.



Facsimile Signatures: You agree that a facsimile copy of this agreement bearing authorized signatures may be treated as an original.

LESSOR:

LESSEE:

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: /s/ Tom J. Berman (on behalf of Nano Magic LLC)  
Printed Name: Tom J. Berman  
Title: CEO

Date

Date 8/11/20



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CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT IN ACCORDANCE WITH REGULATION S-K ITEM 601(a)(6) BECAUSE IT WOULD CONSTITUTE A CLEARLY UNWARRANTED INVASION OF PERSONAL PRIVACY. [\*] INDICATES THAT INFORMATION HAS BEEN REDACTED.”;

**NOWaccount Network Corporation**  
2300 Peachtree Road NW Suite C-102 Atlanta, GA 30309

[www.nowaccount.com](http://www.nowaccount.com)

**Instructions for Completing the  
NOWaccount<sup>®</sup> Merchant Services Agreement and  
Client Information Form**

1. Please read the details of the NOWaccount Merchant Services Agreement (“MSA”) contained in **Exhibit A** that follows the Cover Page and the Client Information Form.
2. Sign the MSA Cover Page.
3. Complete the Client Information Form.
4. A copy of the signed Agreement will be emailed to you.

If there are any questions, please call  
the NOWaccount Membership Team at:

**855-9-NOWHELP (855-966-9435), Extension 3**

or email us at [membership@nowaccount.com](mailto:membership@nowaccount.com).

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NOWACCOUNT MERCHANT SERVICES AGREEMENT

Version 2.2f (March 1, 2019)

(Cover Page)

By its signature below, the undersigned (“Client” or “we” or “us”) hereby adopts and agrees to be bound by and agrees to all of the terms and conditions set forth in the NOWaccount Merchant Services Agreement, Version 2.2f. rev (August 19, 2020) , attached hereto as Exhibit A (the “MSA”), which terms and conditions are incorporated herein by reference. Each capitalized term used herein and not otherwise defined herein has the meaning given to it in the MSA.

We request that payments of the Purchase Price and other payments to be credited or debited to our account accordance with the MSA be credited or debited to the bank deposit account listed **Bank ACH Deposit Directions** form, attached hereto.

The MSA shall not become effective until accepted by NOW in Atlanta, Georgia, notice of which acceptance is hereby waived by us.

IN WITNESS WHEREOF, the undersigned has caused the MSA to be signed, sealed and delivered on the date specified below.

**Authorized Signatory:**

Date: 9-1-20 \_\_\_\_\_, 20  

/s/ Tom J. Berman

Legal Name of Business: Nano Magic LLC

Title: President & CEO

[Seal]

\_\_\_\_\_  
Company EIN:   [\*]  

Accepted in Atlanta, Georgia, as of the date specified above:

**NOWaccount Network Corporation**

By: /s/ Earl Camp

Name: Earl Camp

**Client Information Form and ACH Deposit Directions**

What do you expect your total revenue (sales) to be for the next 12 months? \$ \_\_\_\_[\*]\_\_\_\_\_. (We need this information to estimate how much capital and customer credit to allocate for your businesses.)

Please provide the information on the bank deposit account where the funds from

NOWaccount will be deposited via ACH or wire, if you request a wire. **Please note that some banks have ACH and wire deposit bank numbers that are different from the routing numbers on the face of a check.** (We will debit the amount of the Annual NOW Network Membership Fee from this account to verify. Please let us know the exact date of the debit to complete this process.)

Either:

- Email to [start@nowaccount.com](mailto:start@nowaccount.com) a voided copy (picture is fine) of your check for the deposit account, or
- Provide the information below:

Deposit Account in Name of \_\_\_\_[\*]\_\_\_\_\_

(This is usually the business legal name)

Bank Deposit Account Number: [\*] \_\_\_\_\_

ACH Routing Number (9 digits): [\*] \_\_\_\_\_ (See directions below) \*Wire Routing Number (Verify with your bank):  
\_\_\_\_\_ (See asterisk below)

*(Please see next page for example of Deposit Account Number and Routing Code)*

Name of Financial Institution: \_\_\_\_[-]\_\_\_\_\_

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Address of Financial Institution:

\* Bank wire routing numbers may be different from ACH routing numbers.

**Finding Routing Numbers and Account Numbers**

The following example shows where to find the Account Number and the 9 digit ACH Routing Number on most checks. The ACH Routing Number is the one usually found on checks, but NOT the one found on deposit slips.

**Note that some financial institutions have a separate routing number for ACH deposits and Wire Transfers. NOWaccount will make deposits to your account via ACH unless you request a Wire Transfer. (A fee applies for each Wire Transfer – See Schedule 1 for Fees.). We may ask you to contact your bank to obtain the correct routing numbers before we can transfer funds.**

*You may also send a copy (picture is fine) of a voided check for us to double check the routing and account numbers. If you send the voided check, please also complete the form above.*

Please email: [start@nowaccount.com](mailto:start@nowaccount.com) if help is needed!

**Exhibit A**

**NOWaccount® Merchant Services Agreement**

Version 2.2f. rev (August 19, 2020)

1. **DEFINITIONS.** Capitalized terms not herein defined shall have the meaning set forth in the Uniform Commercial Code as adopted and in force in the State of Georgia (the “UCC”). The terms “you” and “your” and “Seller” mean the organization executing this Agreement; and the terms “us” and “we” and “NOW” mean NOWaccount Network Corporation, a Delaware business corporation with its principal place of business in Atlanta, Georgia. In addition, the following terms shall have the following meanings (terms defined in the singular to have the same meaning when used in the plural, and *vice versa*):

“Account Related Property” means, with respect to any Purchased Account owed by a Buyer, all of your rights, interests, securities, guaranties and Liens with respect to such Account, including (a) all unpaid seller’s rights (including rights of rescission, replevin, reclamation, and stoppage in transit), (b) all claims of Lien filed or held by you on any property of the Buyer or any other Person, (c) all rights and interests in the Inventory sold to the extent returned by or repossessed from the Buyer, (d) all rights, remedies and benefits under all instruments or agreements between you and the Buyer, (e) all Documents, Instruments, Chattel Paper (including Electronic Chattel Paper), General Intangibles (including Payment Intangibles) that are given to evidence the terms or amount of payment or the terms of sale in respect of such Account, and (f) without duplication, all Supporting Obligations and Letter-of-Credit Rights related to or assuring payment of such Account.

“Applicable Law” means any law, rule, or regulation (whether state, federal or foreign) that may be applicable to the agreement, conduct, transaction, proceeding, other matter in question.

“Application” means the application made by you to us for the establishment of a NOWaccount.

“Books and Records” has the meaning given to it in Section 22 hereof.

“Buyer” means a Person to whom you sell Inventory or render services in the ordinary course of your business (each such Buyer being an “account debtor” as defined in the UCC) identified on Schedule 3 as amended from time to time by agreement of the parties.

“Buyer Claims” has the meaning given to it in Section 9 hereof.

“Buyer Credit Line” means, with respect to any Buyer, a credit line authorized by our credit department with respect to such Buyer.

“ Collateral “ has the meaning given to it in Section 19 hereof.

“Contract Year” means period beginning on the acceptance of this Agreement by NOW and ending twelve (12) months thereafter.

“Cover Page of this Agreement” means a page to which this Agreement is attached that references and incorporates the terms and conditions set forth herein (whether that page exists in physical form or electronic form) and is executed between you and us, such execution witnessed by physical signatures, electronic signatures pursuant to the Uniform Electronic Transaction Act, or otherwise.

“Credit Approval” means, with respect to any Buyer, a credit approval by our Credit Department of the Buyer, your terms of sale to such Buyer, and the amount and duration of a Buyer Credit Line for such Buyer.

“Event of Default” has the meaning given to it in Section 26 hereof.

“Funding Source” has the meaning given to it in Section 25 hereof.

“Immediate Payment” has the meaning given to it in Sections 3 and 14 hereof.

“Insolvency Proceeding” means a case or proceeding that is filed by or against a Person under any Applicable Law: (i) to obtain the appointment of a receiver, custodian, trustee or conservator for such Person or any such Person’s assets; (ii) as an assignment or trust mortgage for the benefit of creditors of such Person; or (iii) for an order for relief under the Bankruptcy Code or any other insolvency law.

“Lien” means a security interest, mortgage, or statutory lien or other encumbrance, whether arising by contract or under Applicable Law.

“NOW Risk Account” has the meaning given to it in Section 5 hereof.

“NOWaccount” means the services provided to the Seller under this Agreement.

“Obligations” means all indebtedness, liabilities and other obligations owed by you to us at any time or times, whether due or to become due, absolute or conditional, direct or indirect, secured or unsecured and whether arising or incurred under this Agreement, any other agreement or otherwise, including all fees and charges set forth in Section 23 hereof and charge-backs under Section 16 hereof.

“Online System” has the meaning given to it in Section 4 hereof.

“Other Funding Source” has the meaning given to it in Section 25 hereof.

“Payment Admin Account” has the meaning given to it in Section 3.

“Person” means any individual or entity, including a corporation, partnership, limited liability company, trust or state, federal or foreign government or any agency, department or subdivision thereof.

“Purchased Account” has the meaning given to it in Section 3 hereof.

“Purchase Price” has the meaning given to it in Section 11 hereof.

“SBCC” has the meaning given to it in Section 25 hereof.

“Seller Credit Line” has the meaning given to it in Section 21 hereof.

“Statement of Account” has the meaning given to it in Section 18 hereof.

2. **TERM; TERMINATION.** This Agreement shall remain effective for a term of two (2) years, unless sooner terminated as provided herein. At least thirty (30) days prior to the expiration of the term of this Agreement, we will review your status with us and notify you if we will not be able to renew this Agreement. You may terminate this Agreement at any time by giving us at least fifteen (15) days prior written notice, provided that on or before the effective date of such termination you have paid all Obligations in full and all NOW Risk Accounts are paid in full. Any notice of termination is ineffective and shall not be recognized as long as there are Obligations and NOW Risk Accounts outstanding. We may terminate this Agreement immediately, without prior notice to you, upon or after the occurrence of an Event of Default. All Obligations shall become immediately due and payable upon any termination of this Agreement without further notice to or demand upon you. Upon termination of this Agreement, we will not purchase from you any new Accounts. Upon payment in full of all Obligations, we shall record any terminations or satisfactions of any Lien we hold in your property (other than Purchased Accounts and Account Related Property in respect of Purchased Accounts). All of our rights, remedies and Liens hereunder shall continue in full force and effect after any termination of this Agreement. No termination of this Agreement shall diminish, release or otherwise affect any of our rights, remedies, Liens, powers, or privileges hereunder, or any of your covenants, duties or Obligations hereunder, until indefeasible payment in full of all of the Obligations.

3. **SALE OF ACCOUNTS.** You agree to sell and assign to us, and, subject to all of the terms and conditions hereof, we agree to purchase as absolute owner, all Accounts at any time due from each Buyer identified on Schedule 3, to the extent that such Accounts qualify as Immediate Payment Accounts (also called PaymentNOW accounts) and arise from your sales of Inventory or your rendition of services to that Buyer in the ordinary course of your business, including any sales made by you under any trade names (including any trade names listed on Cover Page of this Agreement), through any divisions and through any selling agent (such Accounts purchased by us are referred to as the “Purchased Accounts” and individually as a “Purchased Account”). Other accounts owed to you from those Buyers will be Payment Admin Accounts under this Agreement (Payment Admin Accounts). You agree to deliver to each Buyer under a Purchased Account, and concurrently deliver a copy of us, no later than thirty (30) days after delivery of the goods or completion of the services for which the Purchased Account arises an invoice or other request for payment, in a form acceptable to us and you agree to give us copies of invoices for all Payment Admin Accounts..

Each such sale, assignment, and transfer automatically shall become effective upon the creation of the respective Purchased Account, and is intended to be unconditional, absolute, and remain effective in accordance with the terms of this Agreement even if a bankruptcy case is filed by or against you or you otherwise become insolvent. You irrevocably authorize us to file financing statements, and all amendments and continuations with respect thereto, to perfect our ownership of the Purchased Accounts. You will notify us of the existence of each Purchased Account by sending us copies of the invoice and files as specified in Sections 4 and 22. Each Purchased Account will be for a Buyer who is credit approved as provided in Section 4 hereof so that it is “Immediate Payment and a NOW Risk Account as provided in Section 5. Other accounts due from that Buyer will not be purchased accounts, but will be Payment Admin Accounts under this Agreement.

4. **CREDIT APPROVAL.** Requests for Credit Approval for any Buyer to be added to Schedule 3 must be submitted to our Credit Department via our Online System URL specified on the Cover Page of this Agreement or such other URL as we may direct (“Online System”). All credit decisions by our Credit Department (including approvals, declines, or holds) will be sent to you via the Online System by a Credit Decision Report, which constitutes the official record of our credit decision. Credit Approvals will be effective only for Accounts that represent sales of Inventory or services to Buyers whose principal place of business, primary assets and jurisdiction of organization is in the United States of America, Canada, or a country listed in the Country List published on the Online System as updated from time to time (excluding private individuals not carrying out a commercial activity). We may in our discretion at any time withdraw Credit Approval of any Buyer or terms of sale to such Buyer and reflect the change on the Online System. Withdrawal of Credit Approval of a Buyer will not change the terms applicable to a NOW Risk Account in existence immediately prior to such withdrawal being reflected on the Online System.
5. **CREDIT RISK.** Subject to our rights of charge-back under Section 16 hereof, we assume the Credit Risk on all Immediate Payment Accounts for each Buyer that is credit approved at the time the Accounts are purchased as and to the extent stated in the Credit Decision Report. “Credit Risk” means, with respect to any Purchased Account, the Buyer’s failure to pay the Purchased Account when due by its longest maturity date solely because of the Buyer’s financial inability to pay. A Purchased Account on which we bear the Credit Risk is a “NOW Risk Account” and all Purchased Accounts hereunder will be NOW Risk Accounts. If there is any change in the amount, terms, shipping date, or delivery date for any shipment of Inventory or rendition of services (other than accepting returns and granting allowances as provided in this Agreement), you must submit a change of terms notice to us in writing. If any NOW Risk Account is not paid for any reason other than Credit Risk (including as a result of any Buyer Claims), you will promptly notify us and we will on discovery charge your account accordingly, and we shall have the rights provided for in this Agreement with respect to such NOW Risk Account, including, but not limited to, charge-back rights as provided in Section 16.

6. **NO LIABILITY; NO FIDUCIARY DUTIES.** We will have no liability to you or to any other Person for declining, withholding, or withdrawing Credit Approval of any Buyer, or declining to approve or reducing the amount of any requested Buyer Credit Line. If we decline to approve credit on a Buyer and furnish to you any information regarding the credit standing of that Buyer, such information is confidential, and you agree not to reveal same to any Person other than the Buyer or your sales agent. You agree that we have no obligation to perform, in any respect, any of your contracts or obligations relating to any Accounts, whether or not the same are Purchased Accounts. You acknowledge and agree that we have no fiduciary duties to you, and any sums that we may be required to pay or turn over to you at any time shall be owed solely pursuant to a debtor/creditor relationship.
7. **BUYER NON-APPROVAL.** We will not grant Credit Approval (and any Credit Approval that is granted by us shall be deemed to have been withdrawn without notice to you) for any Buyer if at the time such Buyer is submitted to us for such Credit Approval: (a) payment of any Account that is proposed for purchase by us is overdue, (b) any other Account owing by such Buyer to you is ninety (90) days or more overdue, (c) the due date of any Account owing by such Buyer to you that is proposed for purchase is more than ninety (90) days from invoice date. In addition, we will not grant Credit Approval for a Buyer if when submitted for Credit Approval if (d) the amount of the Account would increase our exposure to the Buyer beyond the Buyer Credit Line for such Buyer, or (e) any of the following apply with respect to such Buyer: (i) an Insolvency Proceeding is filed by or against such Buyer; (ii) there is outstanding against such Buyer or any of its assets an unsatisfied order or judgment of a court or award of an arbitrator; (iii) the Buyer has made an offer of settlement or compromise to its creditors generally (or a majority thereof), whether or not such offer of settlement or compromise has become final and binding; (iv) if such Buyer is an individual (whether or not operating a business under a trade name or as a sole proprietor), such Buyer absconds, is adjudicated mentally incompetent by a court or law, or dies; (v) all or a material part of the assets of such Buyer are subject to a local, state, federal or foreign Lien for unpaid taxes that are not being actively contested in good faith and by appropriate proceedings; (vi) such Buyer sells, assigns or otherwise transfers, in bulk, all or a substantial part of such Buyer's stock in trade or proposes to do so; (vii) such Buyer has been indicted or convicted of a crime that is punishable as a felony under the laws of the applicable jurisdiction; (viii) an event has occurred elsewhere than in the United States of America, which is, in our sole opinion, substantially equivalent in effect under Applicable Law to any of the events listed above; or (ix) such situations or events occur or are threatened which, in our sole opinion, impair the credit, trustworthiness, or integrity of such Buyer or any of its principals.

8. **INVOICING; STATEMENTS; NOTICES.** You agree to place a conspicuous notice (in form and content acceptable to us and as initially specified on Schedule 1 of this Agreement and as we may specify from time to time on the Online System) on each invoice (including invoices transmitted to your Buyers electronically), or other request for payment, that the Purchased Account and any Payment Admin Account is payable only at the address and in the manner specified on Schedule 1 of this Agreement or as otherwise specified by us, and, at our election, that such Purchased Account is sold and assigned to us (or a party we designate); and you agree to take all steps necessary to instruct Buyers to make all payments and remittances to us, including at our sole discretion and at our sole expense the use of third-party notification or remittance security services. We may, in our sole discretion, change at any time the notice specified herein and the remittance address. Unless we otherwise direct, all invoices for Buyers will be promptly mailed or otherwise transmitted by you to us after delivery to your Buyers. You will provide us, within five (5) business days after our request therefor, with paper or electronic copies of all confirmation of the sale of the Purchased Accounts to us, proof of shipment, proof of delivery, proof of rendering service, and other documents relating to the sale or services, all as we may request. If you fail to provide us with copies of such invoices or other requests for payment, or such proof or documents as we request, on a timely basis after requested by us, the Purchased Accounts of those Buyers will be subject to our charge-back rights under Section 16. At our sole discretion, we may send to Buyer a statement of account of their Accounts on a monthly or other basis; and such statements may bear your name as the Seller and our remittance addresses and telephone numbers. You agree that we can disclose to Buyer, and send to any Buyer notices of, the sale and assignment of any Purchased Account at any time or times, and we will be free to inform any Buyer of the sale of such Accounts upon inquiry by Buyer.
9. **ACCOUNT REPRESENTATIONS AND WARRANTIES.** You represent and warrant to us that (a) each of your Accounts with a Buyer arises from a bona fide sale and delivery of Inventory or rendition of services made by you in the ordinary course of your business, and no such sale and delivery of Inventory or rendition of services is unlawful or illegal; (b) any Inventory being sold by you to a Buyer and each Purchased Account created and Purchased Account Related Property are your exclusive property and are not, and will not be, subject to any Lien or consignment arrangement other than Liens in favor of us and Liens otherwise disclosed to us in writing prior to your entering into this Agreement; (c) all amounts in respect of your Accounts with Buyers are due and payable in U.S. dollars; (d) all original invoices with respect to Purchased Accounts conform to the notice requirements of Section 8; (e) any taxes or fees relating to your Accounts or Inventory are solely your responsibility; (f) none of the Purchased Accounts represents a sale to any subsidiary, affiliate, or parent company of Seller; (g) you have absolute and indefeasible ownership in, and title to, all of your Accounts with Buyers, with full right and power to assign, transfer, and sell them to us (and, upon your sale of such Accounts to us, they shall be), free and clear of all Liens other than Liens disclosed to us in writing prior to your entering into this Agreement; and (h) if you have disclosed a Lien pursuant to Section 9(b) other than a Lien in favor of us, your sale of Accounts to us that are subject to any such Lien and our receipt and retention of the proceeds of such Purchased Account does not violate the terms of any agreement that you have with the holder of such Lien. You also warrant and represent that with respect to all Accounts with Buyers: your Buyers have accepted the goods or services and owe and are obligated to pay the full amounts stated in the invoices according to their terms, without dispute, claim, offset, defense, deduction, rejection, recoupment, counterclaim, or contra account, other than as to returns and allowances as provided in this Agreement (the foregoing being referred to as "Buyer Claims").



10. **SELLER REPRESENTATIONS AND WARRANTIES; INFORMATION COVENANTS.** In addition to all other representations and warranties that you have made to us in writing or by electronic means, you further represent and warrant that (a) your legal name is exactly as set forth on Cover Page; (b) you are a duly organized and validly existing business organization incorporated, registered, or otherwise lawfully organized in the state set forth on the Cover Page or in the Application, and are qualified to do business in all states where required; (c) all information provided in the Application or any other document submitted to us is true and complete and accurately and properly reflects your business, financial condition, and principal partners, owners, and officers; (d) each Person signing this Agreement on your behalf has the authority to execute and perform this Agreement and the power to bind you to all provisions of this Agreement; (e) your signature and performance of this Agreement will not violate any Applicable Law or conflict with any other agreement to which you are subject; (f) there is no action, suit, or proceeding pending or, to your knowledge, threatened against you or any of your property which if decided adversely would impair your ability to carry on your business as presently conducted or adversely affect your financial condition or operations; and (g) the most recent financial statements provided by you to us from time to time accurately reflect your financial condition as of that date and there has been no material adverse change in your financial condition since the date of those financial statements. You shall furnish us, via our Online System where possible, with such information concerning your business affairs, financial condition, and the Collateral as we may reasonably request from time to time, including quarterly financial statements in an electronic form and final annual financial statements as of the end of each of your fiscal years. You shall promptly notify us of any changes in or to the following: your name, state of organization, location of and contact information for your chief executive office, place(s) of business, and legal or business structure and of any change in control of the ownership of your business organization, any material adverse change in your business, and of lawsuits, proceedings, or other legal claims asserted against you or any of your assets.
11. **PURCHASE PRICE FOR ACCOUNTS.** The purchase price for each Purchased Account shall be the gross amount of the invoice less (a) discounts (calculated on the shortest terms), credits, allowances, present or future taxes, levies, imposts, duties, fees, assessments, deductions, retainage, offsets, withholdings or similar charges, or other discounts available to or taken by a Buyer, and (b) our fees and other charges pursuant to Section 23 hereof (the "Purchase Price"). Our purchase of the Purchased Accounts will be reflected on the Statement of Account (defined in Section 18 below), which we shall render to you via our Online System. You will promptly update the Online System to reflect all credits and discounts made available to your Buyers.
12. **[Reserved.]**
13. **PAYMENT OF OBLIGATIONS; RECOUPMENT AND SET-OFF.** All Obligations and any other amounts you owe us, including any debit balance in your Seller Position Account (described in Section 18 below), are payable upon termination of this Agreement whether or not demand for payment thereof has ever been made. All Obligations shall be deemed to be and shall be treated as loans or other extensions of credit by us to you. We have the right of recoupment and set-off, which means that we may offset any outstanding Obligations against any amounts we would otherwise be obligated to pay you, under this Agreement, provided that prior to termination of this Agreement or default, offset will be limited as stated in Section 16. Our rights in this Section are not intended to be exclusive of each other or of any of our other rights and remedies in this Agreement, at law or in equity; rather, each of our rights under this Agreement, at law or in equity, is concurrent with and in addition to every other right.

14. **TIMING AND REMITTANCE OF ACCOUNT PAYMENTS.** We will pay you the Purchase Price of such Purchased Account by remittance to you or to the bank account you designate on the Cover Sheet or otherwise in writing to us, provided that, if we receive notice of the existence of any Lien in respect of any Purchased Account, we may, in our discretion, remit such payment to the holder of such Lien and, if the amount of such payment exceeds the amount secured by such Lien, we shall have no liability to you and you shall address and resolve any claim for such excess solely and directly with such holder. We will remit to you for Immediate Payment, the Purchase Price, within five (5) business day after we purchase an Account. Notwithstanding the foregoing, if the aggregate amount of Immediate Payment Purchased Accounts owed by a Buyer on any date exceeds the Buyer Credit Line for such Buyer in effect on that date, we may defer payment of the Purchase Price on Immediate Payment Purchased Accounts owed by such Buyer until such time as the aggregate amount of Immediate Purchased Accounts owed by such Buyer is equal to or less than the Buyer Credit Line for such Buyer and, until that time, the Account will be a Payment Admin Account. Subject to charge-backs under Section 16, we will remit to you promptly, and in any even within five (5) business days after receipt, Payments we receive from Buyers with respect to Payment Admin Accounts.
15. **BUYER CLAIMS AND CREDIT MEMOS.** You shall notify us promptly of any matter affecting the validity, enforceability, or collectability of any Purchased Account, including all Buyer Claims. You shall promptly issue credit memoranda or otherwise adjust each Purchased Account upon accepting returns or granting allowances with respect thereto. We shall cooperate with you in the adjustment of Buyer Claims for Payment Admin Accounts, but we retain the right to adjust Buyer Claims on NOW Risk Accounts directly with the Buyer upon such terms as we in our discretion may deem advisable. You agree to provide us via our Online System with an explanation and supporting documentation for any credit memo or other account adjustment you provide to a Buyer.
16. **CHARGE-BACKS.** We will maintain sub-accounts for each Buyer for which there are Purchased Accounts or Payment Admin Accounts and may at any time charge-back to your account for a Buyer the amount of: (a) any NOW Risk Account with that Buyer that is not paid in full when due for any reason other than Credit Risk; (b) any NOW Risk Account with that Buyer that is not paid in full when due because of an act of force majeure, civil strife, or war or other political risk; (c) any Purchased Account subject to any Buyer Claims from that Buyer; and (d) any Purchased Account with that Buyer in respect of which there is a breach of any representation or warranty made by you or a breach of any of your obligations in Section 8 hereof. We shall immediately charge to a Buyer's sub-account under your account any deduction taken by that Buyer. A charge-back does not constitute a reassignment of an Account, but you may request that an Account that has been charged back be reassigned to you and we may at our sole discretion make that reassignment to you, provided that such reassignment does not comprise or otherwise limit our ability to collect from that Buyer on other Accounts owned by us or otherwise compromise our position. We will take charge-backs related to accounts with a particular Buyer, and will apply amounts received from a particular Buyer, only to the sub-account related to that Buyer, and charge-backs related to accounts with a different Buyer or payments received from the different Buyer will only be taken and applied with respect to the sub-account maintained for that Buyer.

17. **HANDLING AND COLLECTING ACCOUNTS; POWER OF ATTORNEY.** You acknowledge that, pursuant to Section 9-318 of the UCC, you do not retain any legal or equitable interest in any of the Purchased Accounts. As owner of the Purchased Accounts, we have the sole and exclusive right to (a) bring suit, or otherwise enforce collection, in your name or ours, (b) modify the terms of payment, (c) settle, compromise, or release, in whole or in part, any amounts owing, and (d) issue credits in your name or ours. To the extent applicable, you waive any and all claims and defenses based on suretyship. You agree that you will not deposit any checks or other items received from Buyers for whom unpaid Purchased Accounts exist, even if that payment relates to a Payment Admin Account with such a Buyer or does not relate to a Purchased Account with that Buyer. **Any checks, cash, notes, or other documents or instruments, proceeds, or property you receive with respect to the Purchased Accounts shall be held by you in trust for us (“Trust Funds”), separate from your own property, and immediately turned over to us with proper endorsements.** You acknowledge that failure to turn over Trust Funds in a timely basis may constitute theft. We may endorse your name or ours on any such check, draft, instrument, or document. Without limiting the generality of the foregoing, you hereby appoint NOW as your agent and attorney-in-fact, with full authority in the place and stead of Seller and in the name of Seller or otherwise, from time to time in our discretion to take any action and to execute any instrument which we may deem necessary or advisable to obtain payment of Purchased Accounts (but NOW shall not be obligated to and shall have no liability to Seller or any other Person for failure to do so). This appointment and power of attorney, being coupled with an interest, shall be irrevocable.
18. **STATEMENT OF ACCOUNT.** After the end of each month, we will provide you, via our Online System, certain reports reflecting Purchased Accounts, Payment Admin Accounts, amounts paid, fees and charges, and all other financial transactions between NOW and you and between NOW and Buyers who are account debtors on Purchased Accounts and Payment Admin Accounts during that month (“Reports”). The Reports provided to you each month will include a Statement of Account reflecting transactions in three sections: Accounts Receivable, Seller Position Account, and a Statement of Funds reflecting transactions. Each statement, report, or accounting rendered or issued by us to you shall be deemed conclusively accurate and binding on you, absent manifest error, unless within thirty (30) days after the date we notify you that the report is ready you notify us to the contrary, setting forth with specificity the reasons why you believe such statement, report, or accounting is inaccurate, as well as what you believe to be correct amount(s) therefor and your computation thereof. Your failure to access our Online System shall not relieve you of the responsibility to review such statements, and your failure to do so shall nonetheless bind you to whatever our records report.
19. **GRANT OF SECURITY INTEREST.** As security for the payment and performance of all of the Obligations, you hereby assign and grant to us a continuing security interest in all of your right, title, and interest in and to all of the following types and items of your property, whether now owned or existing or hereafter created or arising and wherever located (herein collectively the “Collateral”): (a) Purchased Accounts, (b) all Account Related Property in respect of each Purchased Account, and (c) all Books and Records that evidence or relate to or evidence any of the foregoing. The foregoing security interest, to the extent that it is granted in any Purchased Account and Account Related Property in respect of such Purchased Account, is in addition to and not in lieu of the ownership interest obtained by us in respect of all Purchased Accounts and Account Related Property in respect of such Purchased Accounts pursuant to Applicable Law (including Section 9-102(a)(72)(D) of the UCC), it being the intent hereof that you sell, grant and convey to us, and we acquire from you, absolute title and full ownership rights with respect to all of the Purchased Accounts and Account Related Property in respect of such Purchased Accounts.

20. **PERFORMANCE AND COMPLIANCE.** We shall have no obligation to perform, in any respect, any contracts relating to any of your Accounts. You agree to comply with all Applicable Law to perfect our security interest in the Collateral, and to execute such documents as we may require to effectuate the foregoing and to implement this Agreement. You irrevocably authorize us to file financing statements, and all amendments and continuations with respect thereto, in order to create, perfect, or maintain our security interest in the Collateral, and you hereby ratify and confirm any and all financing statements, amendments, and continuations with respect thereto heretofore and hereafter filed by us pursuant to the foregoing authorization. With respect to such security interest, we will have all rights afforded under the UCC, any other Applicable Law, and in equity. You shall not grant or assign, or suffer to exist, any security interest in or other Lien upon any of the Collateral other than in favor of us and statutory Liens that may attach to any Collateral under any Applicable Law in the ordinary course of your business so long as any such statutory Lien is at all times junior and subordinate in priority to the security interests granted by you to us in the Collateral.
21. **SELLER LINE OF CREDIT.** In order for us to approve the purchase of Accounts from you by which you may now or in the future incur Obligations or other indebtedness to us, we will establish a line of credit for you (the "Seller Credit Line") in an amount equal to or greater than the total amount of all Purchased Accounts that we expect to be outstanding at any one time. We may at our cost, but will have no duty to, secure credit insurance or credit guarantees in connection with the any Accounts or Seller Credit Line at any time. You agree to provide such additional information as may be necessary for us to obtain the Seller Credit Line, insurance, or guarantees. We may increase, reduce, or cancel the Seller Credit Line at any time in our sole discretion, in which case we will notify you of such change; provided, however, that our failure to notify you of a change in the Seller Credit Line in no way alters our right to make or the effectiveness of such changes. Should we elect in our discretion to purchase from you Accounts in an aggregate amount outstanding at any time that is greater than the Seller Credit Line, that election will not be deemed to be a change in the Seller Credit Line.
22. **BOOKS AND RECORDS; EXAMINATIONS; AUDITS.** You shall provide to us any financial information required in this Agreement within fifteen (15) days after the end of period covered by the report. You shall reflect our ownership of the Purchased Accounts therein. "Books and Records" means your accounting and financial records (whether maintained in paper, computer, or electronic media), data, tapes, discs, or other media, and all programs, files, records, and procedure manuals relating thereto, wherever located. You shall send to us electronically at least monthly a copy from your accounting system of the Buyer file for Purchased Accounts and Payment Admin Accounts, and invoice file reflecting Purchased Accounts and Payment Admin Accounts with each Buyer. You further authorize us to make, from time to time, any business and personal credit or other inquiries we consider necessary to review the Application or continue to provide services under this Agreement. You also authorize any Person or credit reporting agency to compile information to answer those credit inquiries and to furnish such information to us.

23. **FEES AND OTHER CHARGES.** For our services hereunder, you will pay us the fees as set forth in Schedule 2 of this Agreement as adjusted annually as described in this Section 23. We will notify you at least thirty (30) days prior if there are to be any changes in the fees. For each Purchased Account, you will pay us a transaction fee as reflected on Schedule 2 that includes a cost of funds and risk fee, as it may be modified by us from time to time as our system-wide cost of funds and risk increase. If we elect to deduct such additional fees, those fees will be applied pro-rata for all Sellers system-wide. The annual membership fee will be paid at the beginning of each Contract Year. The transaction fees will be charged as transactions with respect to Purchased Accounts are entered. For Accounts arising from the sales to Buyers located outside of the United States of America you will pay us an additional fee that is the greater of (a) the international surcharge listed in Schedule 2, and (b) the country fee as listed in the Country Fee Schedule posted on our Online System from time-to-time. Certain high-risk Buyers, domestic and international, may incur an additional charge, of which you will be advised either at the time credit is requested or renewed or posted on your list of Buyer credit lines on our Online System.
24. **TAXES.** Any tax, fee or other charge of any governmental authority imposed on or arising from any transactions between us, any sales made by you, or any Inventory relating to such sales, is your sole responsibility (other than income and franchise taxes imposed on us which are not related to any specific transaction between us). If we are required to withhold or pay any such tax, fee or other charge, or any interest or penalties thereon, you hereby indemnify and hold us harmless therefrom and we shall charge your account with the full amount thereof.
25. **SUCCESSORS AND ASSIGNS; ASSIGNMENT OF AGREEMENT.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that you may not assign this Agreement or any of your rights, powers or privileges hereunder, in whole or in part, without our prior express written consent (which may be given or withheld in our absolute discretion) and any attempted assignment in violation of this provision shall be void and of no force and effect. We have advised you, and you hereby acknowledge, consent and agree, that we may (a) transfer, sell and assign to Small Business Credit Cooperative, Inc., a Georgia non-profit corporation ("SBCC"), all of our right, title and interest in, to and under this Agreement, including all of the Obligations, the Purchased Accounts, the Liens granted to us hereunder, and all remedies, powers and privileges hereunder (collectively, the "Assigned Assets") and (b) delegate to SBCC the performance of all of our covenants and undertakings under this Agreement. From and after the transfer, sale, assignment and delegation to it, SBCC shall be deemed to be a party to this Agreement in the place and stead of NOW, and NOW shall no longer have any obligations hereunder to you; all references herein to "us," "we" or "NOW" shall be understood to mean SBCC and its successors and assigns; SBCC may grant a security interest in all of SBCC's right, title and interest in and to the Assigned Assets; to or in favor of one or more Persons (or collateral agents for such Persons) that are SBCC's funding sources and that provide funding to SBCC to facilitate its purchase of the Purchased Accounts (each such Person and each collateral agent for such Person, is called a "Funding Source"); and SBCC may, in its discretion at any time, with or without notice to you and without your consent, transfer, sell and assign all of its right, title and interest in and to the Assigned Assets to a Person who shall thereupon become substituted for SBCC and in its place and stead, with SBCC thereupon having no further liability hereunder. In no event shall any claims that you may have under this Agreement be made against any Person other than a Person who at the time of the assertion of such claim is the present owner and holder of all right, title and interest in and to the Assigned Assets; and in no event shall any Person that holds a security interest in the Assigned Assets to secure payment of any indebtedness owed by the owner of such Assigned Assets have any liability or responsibility to you hereunder, even after the date on which the holder of such security interest may become the owner of the Assigned Assets as result of enforcement of its security interest therein. In the event of any assignment to SBCC, we may be engaged by SBCC as servicing agent and, if so, you will be authorized to interact with us and to utilize the Online System as provided herein, as if we had not assigned the Assigned Assets to SBCC; provided, however, that you will ultimately be authorized and directed to take direction with respect to the Assigned Assets from any Person whom either we or SBCC has identified as one of SBCC's funding sources. We have advised you, and you hereby acknowledge, consent and agree, that we may transfer, sell, and assign to a funding source other than SBCC (an "Other Funding Source") all of our right, title and interest in, to and under this Agreement, including all of the Obligations, the Purchased Accounts, the Liens granted to us hereunder, and all remedies, powers and privileges hereunder (collectively, the "Assigned Assets"), and delegate to the Other Funding Source the performance of all of our covenants and undertakings under this Agreement. In the event we make such transfer, sale, or assignment to an Other Funding Source, such Other Funding Source shall have the all of the rights and privileges otherwise afforded to SBCC in this Section 25.

**26. EVENTS OF DEFAULT; REMEDIES UPON DEFAULT.** The occurrence of any one or more of the following events or conditions shall constitute an “Event of Default” hereunder and shall entitle us to exercise any or all of the rights and remedies specified herein, in any other agreement between us, or otherwise available to us under Applicable Law: (a) any Insolvency Proceeding is commenced by or against you; (b) any representation or warranty made by you in this Agreement shall prove to be false in any material respect or you breach any covenant contained in this Agreement, including covenants set forth in any attachment or other addendum to this Agreement; (c) you fail to pay any of the Obligations when due; (d) any breach or default shall have occurred under any other agreement or arrangement between us; or (e) any guarantor of the whole or any part of the Obligations shall become insolvent, revoke or attempt to revoke its guaranty or dispute its liability thereunder. After the occurrence and during the continuance of an Event of Default, we may terminate this Agreement without notice to you (whereupon all of the Obligations will become immediately due and payable as provided in Section 2 hereof), demand payment of any and all of the Obligations (provided that all of the Obligations shall become immediately due and payable, without notice or demand, if an Event of Default occurs under clause (a) of this Section 26), and exercise all rights and remedies available to us under this Agreement or Applicable Law, including the right to collect from and settle Buyer Claims with Buyers in respect of Purchased Accounts owed by such Buyers. We shall continue to have a security interest in and access to all Collateral. Furthermore, as may be necessary to administer and enforce our rights in the Accounts and any other Collateral, or to facilitate the collection or realization thereof, we may use (at your expense) your personnel, supplies, equipment, computers and space, at your place of business or elsewhere, and to open and inspect any mail delivered to you and to remove therefrom any checks or other items of payment that constitute proceeds of any of the Collateral. We may without advertisement, sell, lease or otherwise dispose of any or all of the Collateral, at public or private sale, for cash, on credit, or otherwise in our discretion, and we may bid or become purchasers at any such sale, free from any right of redemption, which is hereby expressly waived by you. If notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) business days-notice constitutes reasonable notice. The cash proceeds resulting from the exercise of any of the foregoing rights, after deducting all charges, costs, and expenses, including attorneys’ fees, will be applied by us to the payment or satisfaction of the Obligations, whether due or to become due, in such order as we may elect. You remain liable to us for any deficiencies. With respect to Purchased Accounts, you hereby confirm that we are the owners thereof, and that our rights of ownership permit us to deal with this property as owner and you confirm that you have no interest therein. We shall be entitled to any form of equitable relief that may be appropriate without having to establish any inadequate remedy at law or other grounds other than to establish that our Accounts or the Collateral are subject to being improperly used, moved, dissipated, or withheld from us. If we deem it necessary to seek equitable relief, including injunctive or receivership remedies, as a result of any Event of Default, you waive any requirement that we post or otherwise obtain or procure any bond. Alternatively, if we, in our discretion elect to do so, we may procure and file with the court a bond in an amount up to and not greater than \$1,000 notwithstanding any common or statutory law requirement to the contrary. Upon our posting of such bond, we shall be entitled to all benefits as if such bond was posted in compliance with Applicable Law. We shall have no duty to undertake to collect (or make further efforts to collect) any Account, including those concerning which we receive information from a Buyer that Buyer Claims exist or those concerning which we have received information that causes us to conclude that there is little likelihood of recovery. If we undertake to collect from or enforce an obligation of a Buyer or other Person obligated on Collateral and ascertain that the possibility of collection is outweighed by the likely costs and expenses that will be incurred, we may at any such time cease any further collection efforts and such action shall be considered commercially reasonable. You agree to reimburse us for all costs associated with collecting unpaid Obligations, including without limitation attorneys’ fees, and the fees of other parties, including accountants, field examiners, and collection agencies. All of the rights, remedies, powers and privileges conferred upon us hereunder shall be deemed to be conferred upon and be exercisable by each Funding Source in connection with the repayment of loans or other extensions of credit to us by such Funding Source.

27. **INDEMNIFICATION.** You agree to indemnify, defend, and hold us and our employees, officers, directors, and agents, harmless from and against, and reimburse us for: (a) all claims (including claims made by third parties), losses, damages, liabilities or expenses (including attorneys' fees) arising out of this Agreement, (b) all costs and expenses (including attorneys' fees), that we may incur in administering or enforcing this Agreement, preparing any documents prepared in connection herewith, or in protecting, preserving, or enforcing any Lien or other right granted by you to us or arising under Applicable Law, whether or not a suit is brought; (c) the actual costs, including photocopying, travel, attorneys' fees, and expenses incurred in complying with any subpoena or other legal process attendant to any litigation in which you or we are a party; (d) all reasonable costs and expenses, including attorneys' fees, which we may incur in connection herewith, or in connection with any federal or state insolvency proceeding commenced by or against you, including those (i) arising out the automatic stay, (ii) seeking dismissal or conversion of the bankruptcy case, or (iii) opposing confirmation of any reorganization or liquidation plan filed in any such case. Notwithstanding the foregoing, you are not required to indemnify us for actions or omission by us or by our employees, officers, directors or agents that are grossly negligent or deliberately, knowingly or willfully taken in breach of this Agreement or Applicable Law. The foregoing indemnification shall survive any termination of this Agreement.
28. **ATTORNEYS' FEES.** agree that we shall be entitled to recover any attorneys' fees and costs that may be incurred by us in connection with any action, suit or other proceeding arising out of or related to this Agreement or any act or failure to act hereunder or as a result of any Event of Default.
29. **CONFIDENTIALITY; PROPRIETARY INTEREST.** You will at all times keep confidential and protect and conserve all our Confidential Information. You will not disclose any of our Confidential Information to any Person except as required by Applicable Law. NOW will at all times keep confidential and protect and preserve all your Confidential Information. NOW will not disclose any of your Confidential Information to any Person except as required by Applicable Law. If you receive a password from us to access any of our databases or services, you will (i) keep the password confidential, (ii) not allow any Person to use the password or gain access to our databases or services, (iii) be liable for any actions taken by any user of the password, and (iv) promptly notify us if you believe that our databases or services or your information has been compromised by the use of the password. You have no interest whatsoever, including copyright interests, franchise interests, license interests, patent rights, property rights, or other interest in any services, software, systems, models, or hardware we provide. Nothing in this Agreement will be construed as granting you any patent rights or patent license in any patent that we may obtain with respect to our services, software, systems, models, or hardware. "Confidential Information" means all information that is proprietary to either party and to which the other party obtains knowledge of or access to as a result of the relationship created by this Agreement or other agreements between us.

30. **MISCELLANEOUS.** This Agreement, and all attendant documentation (including all attachments, exhibits, addenda, and the Application), as the same may be amended or supplemented from time to time, constitutes the entire agreement between us with regard to the subject matter hereof, and supersedes any prior or contemporaneous agreements or understandings, whether written or oral, regarding the same subject matter. Our failure or delay in exercising any right or remedy hereunder will not constitute a waiver thereof or bar us from exercising any of our rights or remedies at any time. Section headings are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement.
31. **ONLINE GUIDE.** The NOW Seller Service Guide, as supplemented and amended from time to time (the "Guide") has been furnished to you via our Online System concurrently with the signing of this Agreement, and by your signature below you acknowledge the existence thereof. The Guide provides information on Credit Approval processes and accounting procedures and other information specified in this Agreement. The procedures for electronic transmission of credit requests and invoices are covered in the Guide. From time to time, we may provide you with amendments, additions, modifications, revisions, or supplements to the Guide via publication on our Online System, which will be operative for transactions between us. All information and exhibits contained in the Guide, on any screen accessed by you, and on any print-outs, reports, statements, or notices received by you are, and will be, our exclusive property and are not to be disclosed to, or used by, anyone other than you, your employees, or your professional advisors, in whole or in part, unless we have consented in writing.
32. **THIRD PARTY BENEFICIARIES.** We shall be permitted to deliver to each Funding Source a copy of any information we deliver or otherwise make available to you pursuant to this Agreement and any information that you have provided to us, and each Funding Source shall be a third party beneficiary of and under this Agreement. Except as expressly provided in this Section 32, no Person who is not a party hereto shall be deemed a beneficiary of any of the provisions of this Agreement.



33. **CONSTRUCTION.** The word “including” means “including without limitation.” All references to our “discretion” shall be understood to mean our sole and absolute discretion. All amounts to be paid by us to you hereunder, or to be paid by you to us hereunder, and all amounts to be paid in respect of any Account shall be paid in U.S. dollars. If any provision of this Agreement is contrary to, prohibited by, or otherwise deemed invalid or unenforceable under Applicable Law, such provision will be inapplicable and deemed omitted to such extent, but the remainder of the provisions hereof will not be invalidated thereby and will be given effect so far as possible, and the invalidity or unenforceability of that provision will not affect any of the remaining provisions.
34. **NOTICES.** Your notices to us shall be made by (i) email to the Official Email address listed on Cover Page, (ii) such other Official Email as has been entered into our Online System, or (iii) by posting a notice on our Online System. . You agree to notify us promptly of any changes in your address. Our notices to you shall be made by (i) email to the Official Email address listed on Cover Page, (ii) such other Official Email as has been entered into our Online System, or (iii) by posting a notice on our Online System.
35. **CONTACTING BUYERS.** You authorize us to contact any Buyers who are account debtors under Purchased Accounts if we determine that such contact is necessary to obtain information about any transaction between you and such Buyer, whether or not an Event of Default exists.
36. **LIMITATIONS ON LIABILITY.** You acknowledge that our transaction fees and other fees for the services provided by us to you hereunder are very small in relation to the Purchase Price and, consequently, our willingness to provide such services is induced by the following limitation of liability. Therefore, in addition to any other limitations on our liability that may be provided elsewhere, our liability under this Agreement, whether to you or any other Person and regardless of the basis therefor, shall not exceed, in the aggregate, the unpaid Purchase Price reflected on your Statement of Account at the time notice of such breach is first given to us, in writing. Under no circumstances shall we be liable for any incidental, special, consequential, punitive or exemplary damages, including loss of goodwill, loss of profit, or any other losses associated therewith, whether we did or did not have any reason to know of a loss that may result from any general or particular requirement of yours. We make no other warranty, express or implied, regarding our services, and nothing contained in this Agreement will constitute such a warranty. We will not be liable for any failure or delay in our performance of this Agreement if such failure or delay arises for reasons beyond our control and without our fault or negligence. Our relationship shall be that of seller and purchaser of Accounts, and neither party is or shall be deemed a fiduciary of or to the other **except to the extent that you will be deemed to owe us a fiduciary duty and serve as our trustee with respect to all payments you receive on Accounts from Buyers in violation of the notice of assignment provided in Section 8.**
37. **BANKRUPTCY.** This Agreement shall be deemed to be one of financial accommodation and shall not be assumable in any bankruptcy case without our express written consent and may be suspended in the event a petition in bankruptcy is filed by or against you.

38. **NOTICE TO EMPLOYEES.** You acknowledge that you have fully informed each of your employees involved in maintaining Books and Records relating to Accounts of (i) the duty to accurately provide information pertaining to and in the submission of offering Accounts to us for sale and that such obligations with respect thereto are non-delegable and that each of your principals has been fully informed that he or she shall remain fully responsible for the accuracy of all such information delivered to us regardless of who is delegated the responsibility to provide us such information, and (ii) the duties imposed by this Agreement.
39. **COOPERATION.** If any Collateral includes property that requires a method of perfection different from that under Article 9 of the UCC, you hereby agree that we are authorized to take such action as may be required to duly perfect our Liens, and that you will cooperate with us in that regard.
40. **DISCLOSURE OF IDENTITY.** You agree that we may identify you as a Seller, to banks and funding or financing sources, investors, auditors, lawyers, and other advisors. We may include data about our transactions with you in aggregate reporting and for analytical purposes; however, we agree to hold specific information about you (other than your name, industry, and location), in confidence, except for information provided to a Person that is providing funding for you, providing credit insurance or other credit protection on your Buyers, auditors or other advisors reviewing our books and records, rating agencies, or where we are compelled to do so by Applicable Law or legal process.
41. **AMENDMENTS.** We may propose amendments or additions to this Agreement, and, if we do so, we will inform you of any such proposed change in a periodic statement or other notice. You will be deemed to have agreed to this change if you do not object to the same by written notice to us within thirty (30) days of your receipt thereof.
42. **EXECUTION.** This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which, taken together, shall constitute one and the same agreement. Delivery of the various documents and instruments comprising this Agreement may be accomplished by facsimile transmission, and such a signed facsimile transmission shall constitute a signed original. This Agreement may be executed electronically pursuant to the Uniform Electronic Transactions Act.
43. **JURY TRIAL WAIVER.** IN RECOGNITION OF THE HIGHER COSTS AND DELAY WHICH MAY RESULT FROM A JURY TRIAL, THE PARTIES HERETO WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION (A) ARISING HEREUNDER, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

44. **GOVERNING LAW; VENUE.** This Agreement and all transactions contemplated hereunder or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the State of Georgia (without giving effect to its conflict of law rules), provided that if you are located in a state different than the State of Georgia, we shall be entitled to apply the internal laws of the State in which you are located (i.e., where you are incorporated, authorized to do business, or physically located) if such laws are more favorable to us with respect to any portion of this Agreement, including the waiver of jury trial provision contained in Section 43. You agree that we may elect to apply the law of such state in order to make any provision hereof enforceable. Either party shall be entitled to require that any controversy or claim arising out of or relating to the Agreement, or any breach thereof, be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules. The arbitration proceeding shall be conducted before one neutral arbitrator, who shall be a member of the State Bar of Georgia actively engaged in the practice of law for at least twenty (20) years. The arbitrator will have the authority to award any remedy or relief that a Georgia court could order or grant, including specific performance, issuance of an injunction, or imposition of sanctions for abuse or frustration of the arbitration process. The arbitrator shall have no authority to decide claims on a class action basis. The arbitration can decide only our or your claim and may not consolidate or join the claims of other Persons who may have similar claims. You and we agree that this Agreement involves interstate commerce and that, notwithstanding the above choice of law provisions, any arbitration shall be governed by the Federal Arbitration Act.
45. **ADDITIONAL REMEDIES.** Notwithstanding the foregoing, we shall be entitled to institute suit in order to obtain provisional relief in the form of prejudgment remedies, including replevin, self-help repossession, garnishment, attachment, foreclosure, or the like without being held to have waived our right to compel arbitration on all remaining issues and in such event any claim that you may wish to assert shall remain subject to arbitration. .

**Schedule 1: Remittance address to be placed on invoices**

[\*] [Or such other remittance address as NOWaccount may specify]

**NOWaccount Merchant Services Agreement**

**Schedule 2: Schedule of Fees and Other Charges (Per Section 23)**

<b>Immediate Payment Processing Option</b>	
Base Transaction Fee for Invoices with up to “Net 30 Day” Payment Terms* Applied to Total Value of Invoice	3.00%
Surcharge for Invoices with up to “Net 45 Day” Payment Terms* Applied to Total Value of Invoice	0.50%
Surcharge for Invoices with up to “Net 60 Day” Payment Terms* Applied to Total Value of Invoice	1.00%
Surcharge for Invoices with up to “Net 90 Day” Payment Terms* Applied to Total Value of Invoice	2.00%
Surcharge for Invoices with up to “Net 120 Day” Payment Terms* Applied to Total Value of Invoice (special credit approval required)	3.00%
Minimum Transaction Fee Applied to Each Invoice (A transaction is a credit request followed by an invoice settlement. A credit request alone, or a settlement without a credit request, counts as a transaction.)	\$ 5
<b>Surcharge for International Buyers</b> (Immediate Payment and Guaranteed Payment processing options) Applied to Total Value of Invoice	1.00%
<b><u>Traditional Payment Processing Option N/A</u></b>	
<b><u>Other Charges</u></b>	
ACH Payment Fee	Free
Wire Transfer Fee Applied per Payment (where Client requests funds via wire transfer rather than ACH)	\$ 25
Exception Handling (including payments received without invoice submitted)	\$ 50
Annual NOW Network Membership Fee	\$ 750

***\*Note: The Payment Terms are the maximum stated payment terms shown on the invoice, not the time it takes a buyer to pay.***

**Schedule 3: Buyers from Client whose accounts may be Purchased Accounts**

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

I, Tom J. Berman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 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: October 5, 2020

*/s/ Tom J. Berman*

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Tom J. Berman  
President

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**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 June 30, 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: October 5, 2020

*/s/ Leandro Vera*

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Leandro Vera  
Chief Financial Officer

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**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 June 30, 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: October 5, 2020

*/s/ Tom J. Berman*

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Tom J. Berman  
President

Date: October 5, 2020

*/s/ Leandro Vera*

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Leandro Vera  
Chief Financial Officer

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