

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### C-Bond Systems, Inc.

### Speculative Buy

John Nobile

April 28, 2021

### CBNT \$0.03 — (OTC)

	<u>2019A</u>	<u>2020A</u>	<u>2021E</u>	<u>2022E</u>
Revenues (thousand)	\$603	\$658	\$2,000	\$4,000
Earnings (loss) per share	\$(0.08)	\$(0.03)	\$(0.03)*	\$(0.01)

52-Week range	\$0.25 – \$0.01	Fiscal year ends:	December
Common shares out as of 4/12/21	237.0 million	Revenue per share (TTM)	\$0.00
Approximate float	136.2 million	Price/Sales (TTM)	NMF
Market capitalization	\$7 million	Price/Sales (FY2022)E	1.5X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2022)E	NMF

\* Excludes \$2.8 million or \$(0.01) per share of deemed dividends.

C-Bond Systems, Inc., headquartered in Houston, Texas, is engaged in the implementation of proprietary nanotechnology applications and processes to enhance the strength, functionality and sustainability of brittle material systems. The company's primary focus is on the multi-billion-dollar glass and window film industry with target markets in the US and internationally.

#### Key investment considerations:

*We are maintaining coverage of C-Bond Systems, Inc. with a Speculative Buy rating.*

*Since the start of the COVID-19 pandemic in the US, C-Bond has taken meaningful steps to adapt to the changing business environment and grow its business. These steps have resulted in sales of the company's disinfection products contributing 38% to total sales in 2020. Despite the adverse effect of the pandemic, CBNT's sales of NanoShield increased over 80% in 2020 and prospects for future sales of the product look promising.*

*Some of the company's recent highlights include entering into an exclusive, nationwide distribution agreement with Quip Laboratories and entering into a distribution agreement with Duraent Life Sciences, a distributor of critical-to-life products in India for use of MB-10 Tablets. CBNT also entered into a supply agreement with a large overseas conglomerate to sell NanoShield and expanded its distribution network for NanoShield through a distribution agreement with a leading distributor of preventative maintenance chemicals and equipment to the professional installer channel in the automotive dealer and aftermarket segments.*

*For 2021, we project revenue to more than double to \$2 million as sales of the company's NanoShield, BRS and disinfection products continue to gain market acceptance. We project a loss of \$(0.03) per share (excludes \$(0.01) per share of deemed dividends) compared to a loss of \$(0.03) per share in 2020. While our revenue projection is unchanged, our net loss projection widened to \$(0.03) per share.*

*For 2022, we project a loss of \$(0.01) per share on revenue doubling to \$4 million. Our forecast reflects strong sales of the company's NanoShield product.*

*C-Bond reported (4/19/21) 4Q20 revenues increased 61% to \$301,000 from \$187,000. C-Bond reported a loss of \$(0.01) per share. We projected 4Q20 revenue of \$400,000 and a loss of \$(0.01) per share.*

***\*Please view our disclosures on pages 16 - 18.***

## ***Recommendation***

### **We are maintaining coverage of C-Bond Systems, Inc. with a Speculative Buy rating.**

Since the start of the COVID-19 pandemic in the US, C-Bond has taken meaningful steps to adapt to the changing business environment and grow its business. These steps have resulted in sales of the company's disinfection products contributing 38% to total sales in 2020. Despite the adverse effect of the pandemic, CBNT's sales of NanoShield increased over 80% in 2020 and prospects for future sales of the product look promising.

Some of the company's recent highlights include entering into an exclusive, nationwide distribution agreement with Quip Laboratories and entering into a distribution agreement with Duraent Life Sciences, a distributor of critical-to-life products in India for use of MB-10 Tablets. CBNT also entered into a supply agreement with a large overseas conglomerate to sell NanoShield and expanded its distribution network for NanoShield through a distribution agreement with a leading distributor of preventative maintenance chemicals and equipment to the professional installer channel in the automotive dealer and aftermarket segments.

The market potential for C-Bond's NanoShield product is significant with windshields being the number one vehicle insurance claim and the US having over 272 million registered vehicles.

The outlook for C-Bond's BRS system is promising given its ability to increase glass and flexural strength by up to 250%.

Since the company's launch of disinfection products, C-Bond's stock has traded as high of \$0.18, but has since fallen to current levels. We believe the stock should appreciate in value with continued significant increases in quarterly sales.

## ***Significant Developments***

*Allison Tomek Promoted to President* – On March 15, 2021, C-Bond Systems announced it has promoted Allison Tomek to President and added her as a member of its Board of Directors. She joined C-Bond Systems in March 2018 as Vice President of Corporate Communications and Corporate Secretary and will continue to report to Scott R. Silverman, the company's Chairman and CEO.

Tomek has over 20 years of experience in various leadership roles including corporate communications, investor relations, corporate governance, business development, and strategic planning, including Senior Vice President of Investor Relations for PositiveID Corporation and Applied Digital Solutions. She was also the Director of Investor Relations and Corporate Communications at Andrx Corporation.

*C-Bond Systems Retains Andrew R. Barron to Initiate a Strategic Technology Development Project: "Self-Healing Glass" for the Automotive Sector* - On February 10, 2021, C-Bond Systems announced that it retained Professor Andrew R. Barron to initiate a strategic technology development project: "self-healing glass" for the automotive sector. The objective of the development will be to create a new Nano-liquid chemical solution that repairs visible chips and cracks in windshield glass to reduce replacements and simplify repairs.

C-Bond and Professor Barron are launching the development of a new liquid that can be applied to a windshield that flows into cracks at the Nano-scale and provides an active bond after being exposed to a heat source, thus reforming the glass rather than filling it with a resin, which is how windshields are currently repaired. A major problem with resin repair is that it relies on the bonding between the resin and the glass and the strength of the resin to replace the strength of the glass. The bonding of a typical resin to glass requires a highly clean surface, which is difficult to ensure, and thus, subsequent failure ordinarily occurs at the glass-resin interface.

Professor Barron is the founder and director of the Energy Safety Research Institute (ESRI) at Swansea University in the United Kingdom and the Sêr Cymru Chair of Low Carbon Energy and Environment. Educated at Imperial College (London), Professor Barron has held posts at Rice University, University of Texas at Austin, and Harvard University. He is the author of over 500 publications, 50 Patents, 8 books, and is the recipient of numerous awards including the Star of Asia International Award, Humboldt Senior Scientist Research Award, and the first Welch Foundation Norman Hackerman Award.

*C-Bond Systems' MB-10 Tablets Receive EPA Label Use Designation for Transportation Applications in the Fight Against COVID-19* - On January 19, 2021, C-Bond Systems announced that its EPA registered MB-10 Tablets® have received usage designation from the EPA for transportation applications.

MB-10 Tablets are safe for hard, non-porous surfaces such as glass, plastics, sealed fiberglass, consoles, A/C, door handles, seating and seat belts, LED/LCD screens and electronics, and a wide range of metal materials, without leaving a residue or odor. MB-10 Tablets, which are applied using a commercially available sprayer, effectively disinfect in minutes and provide protection that is safe for skin contact and pets.

MB-10 Tablets are included on the EPA's List N for use against human coronavirus SARS-CoV-2, which causes COVID-19. Through an exclusive, nationwide distribution agreement with Quip Laboratories, Inc., C-Bond has rights to sell MB-10 Tablets within the verticals it serves, namely transportation. That includes automotive distributors, rental car companies, fleets, public transportation, ride sharing, and more. The company is also selling MB-10 Tablets through international distribution partners.

*C-Bond Receives Initial Purchase Order in Excess of \$100,000 for MB-10 Tablets and other Disinfection Products* - On December 15, 2020, C-Bond Systems announced it received a purchase order in excess of \$100,000 for MB-10 Tablets and other disinfection products from Duraent Life Sciences, LLP, a distributor of critical-to-life products to the health care industry in India. This is the initial purchase order under the company's previously announced \$1 million supply agreement with Duraent which has agreed to purchase an additional \$900,000 of the company's disinfection products in 2021 to maintain exclusivity in India.

## ***Business***

C-Bond Systems, Inc., headquartered in Houston, Texas, is engaged in the implementation of proprietary nanotechnology applications and processes to enhance the strength, functionality and sustainability of brittle material systems. The company's primary focus is on the multi-billion-dollar glass and window film industry with target markets in the US and internationally.

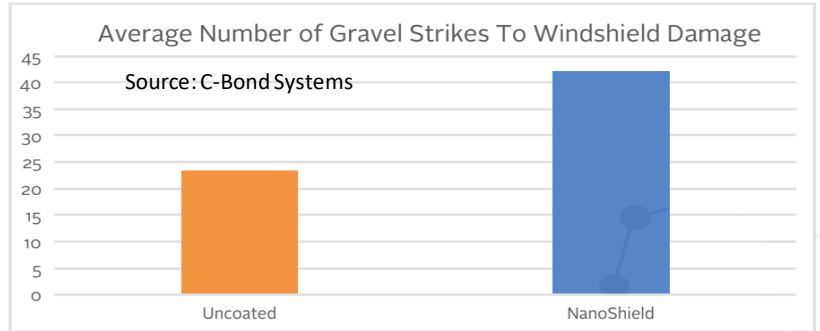
The company operates in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellent solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions, ballistic resistant film systems and disinfection products. As a result of the COVID-19 pandemic, the company created partnerships to distribute disinfection related products which it began to sell in 2Q20.

The company's nanotechnology product, C-Bond™, is designed to significantly increase the strength of glass, enhance glass flexibility, and improve its structural integrity. Although the product is scalable across various target segments and industry verticals, the company is focused on automotive glass, including windshields, and architectural glass. Other glass segments such as electronics, including display glass, and glass packaging, including bottles, may be targeted in the future.

The company's C-Bond technology enables ordinary glass to dissipate energy by permeating the glass surface and detecting microscopic flaws and defects that are randomly distributed over the glass surface. C-Bond works by locating and repairing surface imperfections that weaken the glass composite structure. C-Bond is engineered to maintain the original glass design integrity while increasing its mechanical performance.

### C-Bond Transportation Solutions

*C-Bond NanoShield™* - is a patented nanotechnology vehicle windshield glass strengthening and hydrophobic (water repellent) system. NanoShield is a spray on, squeegee off solution that is designed to improve windshield safety and performance by increasing windshield chip and crack resistance and improving windshield visibility in wet weather conditions providing extended driver reaction time. Certified test labs have shown NanoShield to decrease windshield damage from chips and cracks by up to 80% (see chart above). A pilot study with a global car rental firm across several thousand vehicles showed an 84% reduction in glass costs. C-Bond intends to create new markets and channels in the automotive windshield aftermarket segment, including fleets, automotive dealers, and service providers.



**80% Improvement in Chip and Crack Resistance**

The company also markets a suite of products that protect, clean and disinfect both the interior and exterior of vehicles and other forms of transportation including aircraft and trains. C-Bond's MB-10 tablets offer a safe, easy and effective way to disinfect a vehicle's interior using an EPA registered disinfectant for use against human coronavirus SARS-CoV-2.

### C-Bond Safety Solutions

*C-Bond BRS* – is a patented nanotechnology that increases the structural integrity of glass and provides ballistic resistant protection that conforms to third-party laboratory standards such as the National Institute of Justice (research, development and evaluation agency of the US Department of Justice) Level I, Level II, and Level IIA, and Underwriter Laboratories (UL) 752 ballistic standards. The C-Bond BRS system includes a proprietary security film product and C-Bond's carbon nanotube technology film mounting solution. Carbon nanotubes are the strongest material on the planet, 100 times stronger than steel, and 10,000 times smaller than the diameter of one human hair.

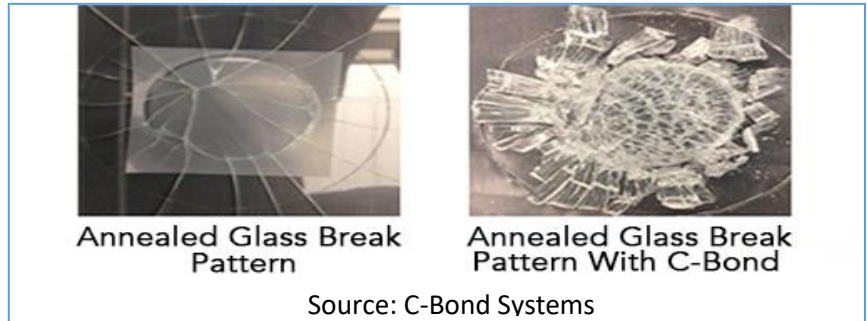
The C-Bond BRS system increases glass and flexural strength by up to 250%. The product is targeted to police, fire, emergency services, schools, airports, and mass transit government buildings due to the utility of ballistic resistant glass protection in their respective fields. The C-Bond BRS system seeks to combine simplicity and affordability with a one-way capability (the ability to shoot-out but prevent shooting in) ballistic protection as compared to other costlier ballistic resistant material (polycarbonate and glass laminate) products.

The company also markets FN Nano, a photocatalytic coating that reduces the spread of pathogens in public and healthcare facilities.

*C-Bond Secure (formerly known as C-Bond I)* – is a patented, non-toxic, water-based nanotechnology solution designed to significantly increase the strength of glass and improve the performance properties of window film-to-glass products. C-Bond Secure includes a glass strengthening primer and window film mounting solution. The product is designed to improve the performance of window film-to-glass products by reducing glass breakage from impact and stress environments and fill voids on the glass surface preventing the trapping of moisture and impurities that impede cure time and adhesion between the glass and any succeeding window film product.

C-Bond Secure, which is formulated to provide an enhanced slip agent and reduced fogging to its core glass strengthening product, is intended to replace C-Bond I as the industry standard for the installation of window film.

The glass strengthening primer increases glass strength and flexibility by up to 100% while the window film mounting solution increases film-to-glass adhesion by up to 100% and reduces film-to-glass cure time by up to 75%. This nanotechnology improves the chances that no large shards/pieces will escape the immediate area of broken glass which can result in serious laceration or personal injury (see picture at right).



C-Bond Systems, Inc. has an 8,300+ square foot manufacturing facility located in Houston, Texas, that is dedicated to the commercialization and development of its products. The company primarily relies on Madico, Inc., for its window film product, and Gelest, Inc., for its chemical products.

### *Intellectual Property*

C-Bond's intellectual property (IP) portfolio is what drew the company's current CEO, Scott Silverman, to the company approximately two years ago. An October 2019 assessment of C-Bond's IP portfolio by an independent IP valuation firm placed a \$33.7 million value on C-Bond's nanotechnologies and included an assessment of the company's developed technology for future applications including solar panels, bottling, and consumer electronics.

To date, the company has filed, licensed and/or acquired a total of 22 individual patents and patent applications spanning core and strategic nanotechnology applications and processes. C-Bond intends to continue to expand its patent portfolio.

The company owns five provisional US patents and licenses, five US patents, and 12 foreign patents on a non-exclusive basis from William Marsh Rice University (Rice University). Pursuant to an agreement in 2016 between C-Bond and Rice University, Rice University has granted a non-exclusive license to C-Bond in nanotube-based surface treatment for strengthening glass and related materials under Rice's intellectual property rights, to use, make, distribute, offer and sell the licensed products specified in the agreement. In consideration, the company paid a one-time non-refundable license fee of \$10,000 and royalty payments of 5% of net sales of the licensed products during the term of the agreement.

### *Industry Overview*

C-Bond operates in the glass and window film industries. The overall glass product manufacturing industry in the US was expected to have generated sales of approximately \$25.7 billion in 2020 and is projected to grow to approximately \$28.4 billion by 2025 according to IBISWorld. The largest portion of sales in this market comes from the construction industry (IBISWorld estimates 31.1% of industry sales). The automotive assembly and auto replacement market generates an estimated 4.3% of demand for glass and glass products in the US, principally for windshields, lights, and mirrors. Assuming this percentage of overall sales remains constant, the construction industry should generate approximately \$8.8 billion in glass sales by 2025 and the automotive glass market in the US should generate approximately \$1.2 billion.

In 2019, the global window film market was valued at \$9.8 billion and is projected to reach \$14.2 billion by 2027, growing at a compound annual growth rate (CAGR) of 4.8% from 2020 to 2027 according to the research firm Grandview Research. Increasing demand for films in residential and commercial applications is expected to spur market growth over the forecast period. Grandview Research observed that the aerospace industry utilizes window film to enhance the strength and rigidity of windows. Safety and security films (like C-Bond BRS) are increasingly gaining importance because of their ability to protect windows in case of unexpected natural calamities, break-ins, and vandalism while maintaining the external appearance. Data Bridge Market Research projects a bullet resistant glass market of \$19.8 billion by 2027 for a CAGR of 16.1%.



**End Markets**

The company is targeting the large automotive windshield market with its NanoShield product. The global automotive glass market generated sales of approximately \$9.2 billion in 2019 and is projected to grow at a CAGR of approximately 8.4% to \$11.4 billion by 2026 according to the research and consulting firm Global Market Insights.

Vehicle windshields are the number one insurance claim in the US representing 30% of all automotive claims. There are over 272 million registered vehicles in the US making the market potential for C-Bond’s NanoShield product significant.

Helping to drive the use of windshield strengthening products should be the added time and expense required to replace some of the high-tech windshields being produced today. Advanced driver assistance systems (ADAS) offer features such as lane-keeping assistance, automatic emergency braking, and collision avoidance which are integrated into windshields.

According to an article in The New York Times,<sup>1</sup> ADAS windshields can cost more than \$1,600 and take several hours to replace. A windshield without ADAS features can typically be replaced in about one hour at a cost of approximately \$300. The economic viability of C-Bond’s NanoShield product is illustrated in the chart at right.

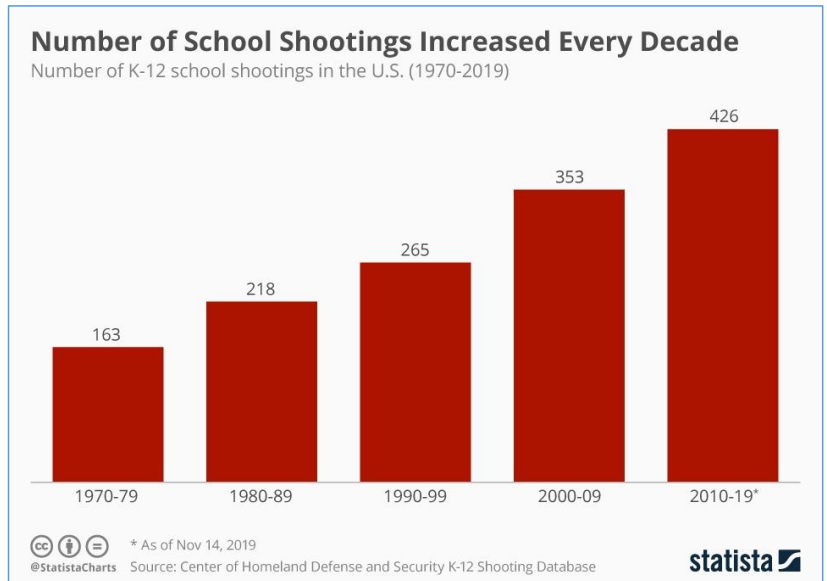
Solution	C-Bond Systems	Replacement Windshield Market	OEM Windshield Market
Technology Solution	C-Bond	After Market Windshield	New Windshield
Application	Spray and wipe; aftermarket or OEM	Remove & Install	Design Manufacturing
Cost	\$5.00 - \$40 <i>(individual applications)</i>	\$300-\$1600	\$500-\$1200
Added Strength Improvement	Reduces repair/replacement as much as 80%	None	None
Optical Improvement	Improves Visibility	None	None
Longevity	12 months	Lifetime	Lifetime

Source: Company Presentation, October 2019

The New York Times article reported that approximately 10% of windshield repairs at the auto glass replacement company Safelite, were for windshields with ADAS and that percentage should go up in the future given that all the top automakers have voluntarily committed to making automatic emergency braking systems standard equipment in all vehicles by 2022.

C-Bond is targeting applications for its BRS product to the police, fire, and emergency service organizations, and schools, airports, and mass transit government buildings due to the need for ballistic resistant glass protection in these respective fields.

Of particular importance is the need for greater safety in the public and private school systems. There are almost 100,000 public schools and 35,000 private schools in the US according to the US Department of Education.



While the number of school shootings fluctuates every year, Statista cited numbers by the Center of Homeland Defense and Security by decade showing a clear upward trend (see chart above). In the 1970s, 163 shootings were counted. That number had increased to more than 400 over the past decade.

1. Quain, John R. (February 7, 2019). “When the Windshield Helps Drive the Car, a Repair Isn’t So Simple”. The New York Times

**Competition / Competitive Advantages**

The company believes it faces no direct competition in the windshield glass strengthening space. C-Bond’s NanoShield faces competitors in the hydrophobic or water repellent space including Rain-X, AquaPel, and Diamond Fusion. The company believes these products do not provide chip or crack resistance and have hydrophobic properties that degrade sooner than C-Bond’s NanoShield.

C-Bond BRS faces competition from alternative bullet proof or bullet resistant glass products in the market. Alternative bullet proof solutions use materials that are expensive, thick and heavy, often require reframing and retrofit of the existing structure, and yellow and discolor over time. The company claims its C-Bond BRS system allows for increased safety and security at affordable costs.

C-Bond I and its replacement C-Bond Secure face competition from alternative window film mounting products in the market; however, all these products have ingredients similar to a soap and water mix which provides no structural benefit. The industry standard solution most commonly used to apply window film products to glass is a mixture containing commonly available baby shampoo or dishwashing soap and water. C-Bond I offers the same slip properties while also strengthening the glass and improving film adhesion.

**Commercial Market Strategy**

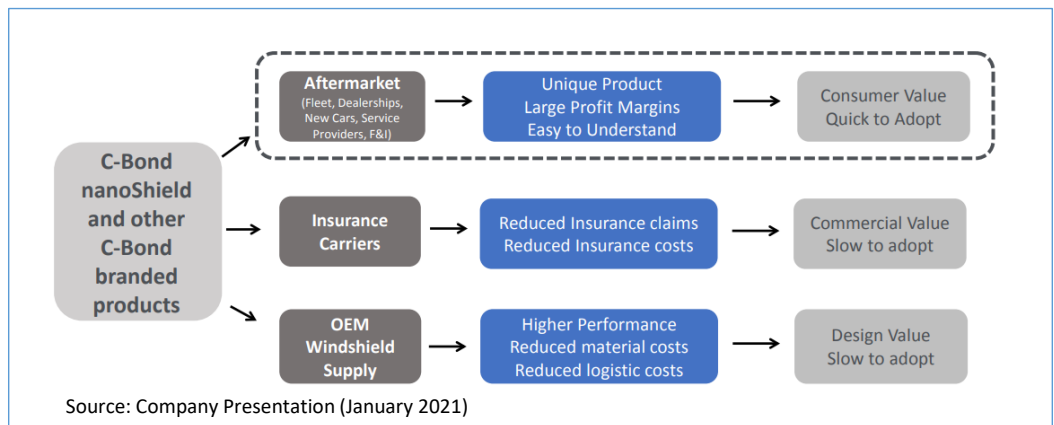
The company aims to provide its product offerings on a global basis at a lower cost and be adaptive to changing market conditions.

C-Bond utilizes a distributor model to reach potential customers. C-Bond’s 56 distributors sell the company’s products in the US and internationally in Brazil, Columbia, the United Kingdom, the Netherlands, Australia, Canada, and the UAE. The company’s industry partners help in generating growth, supporting commercialization activities, providing more developed business networks, and access to supply and demand channels, as well as supplementing CBNT’s limited financial resources.

The company’s initial focus is on the transportation glass industry with its NanoShield product. C-Bond launched its NanoShield product in January 2018 through distributors, warranty companies and F&I (finance and insurance) companies. A pilot study with a global car rental firm across several thousand vehicles showed an 84% reduction in glass costs.

The commercialization process the company is taking for its NanoShield and other C-Bond branded products is illustrated in the diagram on the right.

The company’s C-Bond BRS product is targeted to police, fire,



emergency services, schools, corporate security, airports, mass transit and government buildings while its C-Bond I or C-Bond Secure product is usable with any window film manufacturer’s product. Future markets for these products are anticipated through international expansion (Australia, EU Middle East, and Mexico), packaging and bottling, solar, greenhouses, electronics and displays, and the light-weighting of glass for vehicles.

## ***Economic Outlook***

In April 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 6% for 2021 and 4.4% for 2022. In January 2021, the IMF predicted GDP growth of 5.5% for 2021 and 4.2% for 2022. The 2021 upward revision primarily reflects additional fiscal policy support in a few large economies and an anticipated vaccine-powered recovery in 2H21.

The IMF revised its economic growth estimate for the US to an increase of 6.4% for 2021 and 3.5% for 2022. In January 2021, the IMF projected US economic growth of 5.1% for 2021 and 2.5% for 2022.

The third estimate of US GDP growth (released on March 25, 2021) showed the US economy increased at an annual rate of 4.3% in 4Q20, down from the 33.4% increase reported in 3Q20. The 4Q20 US GDP estimate primarily reflects increases in exports, business investment, consumer spending, housing investment and inventory investment, partially offset by a decrease in government spending.

## ***Projections***

2021 Forecast - We project revenue to more than double to \$2 million as sales of the company's NanoShield, BRS and disinfection products continue to gain market acceptance. We project a net loss of \$6.8 million or \$(0.03) per share (excludes \$2.8 million or \$(0.01) per share of deemed dividends) compared to a loss of \$4.4 million or \$(0.03) per share in 2020. While our revenue projection is unchanged, our net loss projection widened to \$6.8 million from a previous forecast of \$4.9 million due primarily to higher compensation costs.

We project gross margins of 71.2% compared to 63.2% in 2020. Compensation and related benefits should increase to \$6.4 million from \$3.7 million. R&D, professional fees, and general and administrative expenses should increase to \$40,000, \$600,000, and \$800,000, respectively, as the company grows its business.

We project an operating loss of \$6.4 million and project the company paying no taxes due to its net operating loss carryforwards (approximately \$6.4 million at December 31, 2020).

In 2021, we project \$1.4 million cash used in operations primarily from a cash loss. Cash used in operations should more than offset proceeds from the sale of common and preferred stock. We project cash to decrease by \$65,000 to \$258,000 at the end of 2021.

2022 Forecast - We project revenue to double to \$4 million driven primarily by strong NanoShield sales growth. We project the net loss narrowing to \$2.9 million or \$(0.01) per share from our projected loss of \$6.8 million or \$(0.03) per share (excludes \$2.8 million or \$(0.01) per share of deemed dividends) in 2021.

We project gross margins expanding to 76.9% from an estimated 71.2% in 2021. Compensation and related benefits should decrease to \$4 million from \$6.4 million. We project R&D, professional fees, and general and administrative expenses of \$80,000, \$800,000, and \$1.1 million, respectively, to support sales growth.

We project an operating loss of \$2.9 million and project the company paying no taxes due to its net operating loss carryforwards.

In 2022, we project \$353,000 cash provided by operations from a cash loss of \$214,000 being more than offset by a \$566,000 decrease in working capital. The decrease in working capital is primarily due to an increase in accounts payable and accruals. We anticipate cash increasing by \$353,000 to \$611,000 at the end of 2022.



**4Q20 and FY20 Financial Results**

4Q20 - Total revenues increased 61% to \$301,000 from \$187,000. C-Bond reported a net loss of \$3.3 million or \$(0.01) per share versus a net loss of \$1.4 million or \$(0.01) per share. Results for 4Q20 included \$1.5 million or \$(0.01) per share of preferred stock and deemed dividends. Excluding this item, the 4Q20 net loss would have been \$1.8 million or \$(0.01) per share. We projected 4Q20 revenue of \$400,000 and a net loss of \$1.2 million or \$(0.01) per share.

Gross profit increased 9.9% to \$166,000 from \$151,000 while gross margins decreased to 55.1% from 80.7%.

Compensation and related benefits increased by 91.4% to \$1.5 million from \$787,000. Research and development expenses decreased to \$3,000 from \$7,000. Professional fees decreased to \$142,000 from \$304,000. General and administrative fees increased to \$309,000 from \$109,000. The increase in revenue was more than offset by higher operational expenses resulting in an operating loss of \$1.8 million versus \$1.1 million in 4Q19.

Interest expense decreased to \$19,000 from \$172,000.

FY20 - Total revenues increased 9.1% to \$658,000 from \$603,000. C-Bond reported a net loss of \$6 million or \$(0.03) per share versus a net loss of \$7.2 million or \$(0.08) per share. Results for 2020 included \$1.5 million or \$(0.01) per share of preferred stock and deemed dividends. Excluding this item, the 2020 net loss would have been \$4.4 million or \$(0.03) per share.

The increase in revenue was primarily due to an increase in NanoShield sales of \$98,000 and an increase in the sale of disinfection products of \$250,000 in the company's Safety Solutions division. These increases were partly offset by a decrease in sales of ballistic-resistant glass protection systems and window film solutions of \$275,000. The decrease in sales of ballistic-resistant glass protection systems and multi-purpose glass protection systems was primarily due to a decrease in both domestic and international sales resulting from the shutdown of economies caused by COVID-19. These decreases were offset by the sale of disinfection products which consisted primarily of hand sanitizer and MB-10 tablets and related products.

Gross profit decreased 13.5% to \$416,000 from \$481,000 due to gross margins decreasing to 63.2% from 79.7% in 2019.

Compensation and related benefits decreased by 30.2% to \$3.7 million from \$5.4 million due primarily to a decrease in stock-based compensation. Research and development expenses decreased to \$17,000 from \$31,000 due primarily to a decrease in the use of contracted development services due a lack of working capital and business adversely impacted by the COVID-19 pandemic. Professional fees decreased to \$547,000 from \$986,000 reflecting reduced legal and consulting fees, offset in part by an increase in investor relations fees. General and administrative fees increased to \$588,000 from \$462,000 due primarily to an increase in bad debt expense offset in part by a decrease in travel expense.

Derivative expense was \$91,000 versus 570,000 in 2019. The company recognized a gain on debt extinguishment of \$878,000 versus \$31,000. Interest expense increased to \$751,000 from \$343,000.

Liquidity – As of December 31, 2020, C-Bond had \$323,000 cash, a current ratio of 0.3X, and \$556,000 of total debt (\$521,000 short-term).

In 2020, the company had a cash loss of \$2.2 million and a \$454,000 decrease in working capital that resulted in \$1.8 million cash used in operations. The decrease in working capital was primary the result of an increase in accrued compensation. Offsetting cash used in operations was \$2 million cash provided by financing activities (primarily from equity financing). Cash increased by \$246,000 to \$323,000 as of December 31, 2020.

On November 14, 2018, the company entered into a Revolving Credit Facility Loan and Security Agreement and a Secured Promissory Note with BOCO Investments, LLC. Subject to and in accordance with the terms and conditions of the loan agreement and the note, the lender agreed to lend to C-Bond \$400,000 (the maximum loan amount). C-Bond should have repaid all principal, interest and other amounts outstanding on or before November 14, 2020. The outstanding principal advanced to company pursuant to the loan agreement bears interest at the rate of 12% per annum.

As of December 31, 2020 and 2019, the company did not meet the minimum asset amount covenant as defined in the loan agreement, failed to timely pay interest payments due, and has violated other default provisions. Accordingly, the note balance due of \$400,000 has been reflected as a current liability on the balance sheet.

In April 2020, the company entered into a Paycheck Protection Program Promissory Note (PPP note) with respect to a loan of \$156,000. The PPP loan matures on April 28, 2022 and bears interest at a rate of 1% per annum. The PPP Loan is payable in 18 equal monthly payments of approximately \$9,000 commencing November 1, 2020 and may be prepaid at any time prior to maturity with no prepayment penalties. The company may apply to have the loan forgiven pursuant to the terms of the PPP note if certain criteria are met.

As of December 31, 2020, the company's Series A preferred stock was fully redeemed, the Series B preferred stock had a balance of \$429,000, and the Series C preferred stock had a balance of \$1.3 million.

Subsequent to December 31, 2020, CBNT entered into a subscription agreement with an accredited investor whereby the investor agreed to purchase 2,500 shares of the company's Series C Convertible Preferred Stock for \$250,000, or \$100 per share. The company recorded a non-cash deemed dividend of approximately \$2.8 million related to the beneficial conversion feature arising from the issuance of Series C Preferred Stock.

In January 2021, the Board of Directors of CBNT agreed to satisfy \$295,000 of accrued compensation owed to its executive officers through a Liability Reduction Plan where management agreed to accept 295 shares of CBNT Series B convertible preferred stock in settlement of accrued compensation. The company recorded non-cash stock-based compensation of approximately \$3.5 million related to the beneficial conversion feature arising from the issuance of Series B Preferred Stock.

From January to April 2021, the company issued a total of approximately 6.2 million shares of its common stock for various services.

In March 2021, the company agreed to grant restricted stock awards for an aggregate of 2.5 million common shares of CBNT.

## ***Risks***

In our view, these are the principal risks underlying the stock.

Going concern – As of December 31, 2020, C-Bond had a net loss of \$4.4 million in 2020, an accumulated deficit, shareholders' deficit, and working capital deficit of \$46 million, \$3.2 million and \$1.4 million, respectively. These factors raise substantial doubt about the company's ability to continue as a going concern.

There can be no assurance that the company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. C-Bond is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. If the company is unable to raise additional capital or secure additional lending in the near future, management expects that it will need to curtail operations.

Global pandemic - A potential disruption of US economic conditions lies in the global spread of COVID-19 that is likely to cause supply chain and demand issues that could adversely impact corporate operating results.

Although the company's facilities are currently open, there has been a material decrease in sales from CBNT's international customers as a result of the COVID-19 pandemic. As a result, the company's international customers have delayed orders and payments of balances due. Accordingly, we anticipate that there will be an adverse impact on CBNT's near-term operations.

Product obsolescence – C-Bond's ability or failure to develop new products based on innovation can affect its competitive position and requires significant investments in time and resources. If the company is unable to create sustainable product differentiation, its growth may be adversely affected.

Heavy reliance on a limited number of significant customers - For the year ended December 31, 2020, three customers accounted for approximately 49.4% of total sales (18.1%, 15.6%, and 15.7%, respectively). A reduction in sales from, or the loss of such customers, would have a material adverse effect on the company's consolidated results of operations and financial condition.

Heavy reliance on collaborative partners – The company relies heavily on collaborative partners such as distributors, manufacturers, and vendors which allows it greater access to funds, research, development and testing resources, and manufacturing, sales and distribution resources. Some of the risks and uncertainties related to the reliance on such collaborations and joint ventures could restrict or limit the company's business operations. The company's partners may terminate a collaborative technology relationship and such termination may require C-Bond to seek other partners or expend substantial resources to pursue these activities independently.

Competition – C-Bond faces competition from companies that have substantially greater capital resources, research and development, manufacturing and marketing resources. While the company believes it has significant competitive benefits offered by its proprietary products, there are competitors that have much longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources. Such competition could materially adversely affect the company's business, operating results or financial condition.

Material weaknesses in internal controls – The company has identified material weaknesses in its internal control over financial reporting which could, if not remediated, result in a material misstatement of its financial statements.

As of December 31, 2020, C-Bond had a lack of multiple levels of management review on complex business, accounting and financial issues, a lack of adequate segregation of duties, a lack of review on the recording of revenue transactions and accounts receivable collectability, and a lack of management review of employee expense reports. While management has undertaken steps to address and remediate the material weaknesses, there can be no assurance that it will be able to successfully remediate the identified material weaknesses.

Liquidity risk - Shares of C-Bond Systems have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 136.2 million shares in the float and the average daily volume is approximately 1.3 million shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

C-Bond Systems, Inc.

Consolidated Balance Sheets  
(in thousands \$)

	2018A	2019A	2020A	2021E	2022E
Cash	129	77	323	258	611
Receivables	91	152	80	111	167
Inventory	9	15	77	96	154
Due from related party	-	-	5	5	5
Prepaid expenses and other	31	19	51	51	51
<b>Total current assets</b>	<b>260</b>	<b>263</b>	<b>536</b>	<b>521</b>	<b>987</b>
Property, plant and equipment, net	57	32	19	10	10
Right of use asset, net	-	70	22	22	22
Security deposit	9	7	7	7	7
<b>Total assets</b>	<b>326</b>	<b>372</b>	<b>584</b>	<b>560</b>	<b>1,026</b>
Notes payable-related party	400	400	-	-	-
Convertible notes payable	-	136	-	-	-
Note payable	-	-	521	121	121
Accounts payable	507	747	795	960	1,539
Accrued expenses	46	127	187	300	480
Derivative liability	-	890	-	-	-
Lease liability	-	47	22	22	22
Accrued compensation	188	352	426	426	426
<b>Total current liabilities</b>	<b>1,142</b>	<b>2,699</b>	<b>1,951</b>	<b>1,829</b>	<b>2,588</b>
Note payable	-	-	35	-	-
Lease liability	-	22	-	-	-
Mandatorily redeemable convertible pfd stock	-	160	-	-	-
Convertible note payable	-	-	-	-	-
<b>Total liabilities</b>	<b>1,142</b>	<b>2,881</b>	<b>1,986</b>	<b>1,829</b>	<b>2,588</b>
<b>Series B conv prf stock</b>	<b>-</b>	<b>108</b>	<b>429</b>	<b>679</b>	<b>679</b>
<b>Series C conv prf stock</b>	<b>-</b>	<b>-</b>	<b>1,336</b>	<b>2,086</b>	<b>2,086</b>
<b>Total stockholders' equity (deficit)*</b>	<b>(815)</b>	<b>(2,617)</b>	<b>(3,167)</b>	<b>(4,033)</b>	<b>(4,327)</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>326</b>	<b>372</b>	<b>584</b>	<b>560</b>	<b>1,026</b>

Source: Company filings and Taglich Brothers' estimates

C-Bond Systems, Inc.

Income Statements for the Fiscal Years Ended  
(in thousands \$)

	<u>2018A</u>	<u>2019A</u>	<u>2020A</u>	<b>2021E</b>	<b>2022E</b>
Sales	382	603	658	<b>2,000</b>	<b>4,000</b>
Cost of sales	<u>83</u>	<u>122</u>	<u>242</u>	<b>576</b>	<b>924</b>
Gross profit	299	481	416	<b>1,424</b>	<b>3,077</b>
Compensation and related benefits	7,824	5,360	3,741	<b>6,400</b>	<b>4,000</b>
Research and development	258	31	17	<b>40</b>	<b>80</b>
Professional fees	1,007	986	547	<b>600</b>	<b>800</b>
General and administrative	<u>479</u>	<u>462</u>	<u>588</u>	<b>800</b>	<b>1,100</b>
Operating income (loss)	(9,268)	(6,358)	(4,477)	<b>(6,416)</b>	<b>(2,904)</b>
Gain (loss) on extinguishment of debt	(383)	31	878	-	-
Other income	-	-	7	-	-
Derivative income (expense)	-	(570)	(91)	-	-
Settlement expense	(200)	-	-	-	-
Interest expense	<u>(53)</u>	<u>(343)</u>	<u>(751)</u>	<b>(400)</b>	<b>(40)</b>
Income before taxes	(9,905)	(7,240)	(4,434)	<b>(6,816)</b>	<b>(2,944)</b>
Income tax (benefit)	-	-	-	-	-
Net income (loss)	<u>(9,905)</u>	<u>(7,240)</u>	<u>(4,434)</u>	<b>(6,816)</b>	<b>(2,944)</b>
Preferred stock dividend	-	-	(1,534)	<b>(2,800)</b>	-
Net income (loss) to common	<u>(9,905)</u>	<u>(7,240)</u>	<u>(5,968)</u>	<b>(9,616)</b>	<b>(2,944)</b>
EPS	<u>(0.14)</u>	<u>(0.08)</u>	<u>(0.03)</u>	<b>(0.04)</b>	<b>(0.01)</b>
Shares Outstanding	68,521	94,236	172,978	<b>249,038</b>	<b>257,050</b>
<u>Margin Analysis</u>					
Gross margin	78.2%	79.7%	63.2%	<b>71.2%</b>	<b>76.9%</b>
Compensation and related benefits	2050.3%	888.7%	568.5%	<b>320.0%</b>	<b>100.0%</b>
Research and development	67.6%	5.1%	2.6%	<b>2.0%</b>	<b>2.0%</b>
Professional fees	263.8%	163.5%	83.1%	<b>30.0%</b>	<b>20.0%</b>
General and administrative	125.4%	76.6%	89.4%	<b>40.0%</b>	<b>27.5%</b>
Operating margin	(2428.9)%	(1054.1)%	(680.4)%	<b>(320.8)%</b>	<b>(72.6)%</b>
<u>Year / Year Growth</u>					
Sales	(5.9)%	58.1%	9.1%	<b>204.0%</b>	<b>100.0%</b>

Source: Company filings and Taglich Brothers' estimates

C-Bond Systems, Inc.

Quarterly Income Statements 2020A - 2022E  
(in thousands \$)

	<u>3/20A</u>	<u>6/20A</u>	<u>9/20A</u>	<u>12/20A</u>	<u>2020A</u>	<u>3/21E</u>	<u>6/21E</u>	<u>9/21E</u>	<u>12/21E</u>	<u>2021E</u>	<u>3/22E</u>	<u>6/22E</u>	<u>9/22E</u>	<u>12/22E</u>	<u>2022E</u>
Sales	61	43	253	301	658	175	375	650	800	<b>2,000</b>	550	850	1,150	1,450	<b>4,000</b>
Cost of sales	<u>16</u>	<u>25</u>	<u>66</u>	<u>135</u>	<u>242</u>	<u>70</u>	<u>124</u>	<u>182</u>	<u>200</u>	<b>576</b>	<u>165</u>	<u>204</u>	<u>265</u>	<u>290</u>	<b>924</b>
Gross profit	45	18	187	166	416	105	251	468	600	<b>1,424</b>	385	646	886	1,160	<b>3,077</b>
Compensation and related benefits	689	917	629	1,506	3,741	4,000	800	800	800	<b>6,400</b>	1,000	1,000	1,000	1,000	<b>4,000</b>
Research and development	2	2	10	3	17	10	10	10	10	<b>40</b>	20	20	20	20	<b>80</b>
Professional fees	137	151	117	142	547	125	125	175	175	<b>600</b>	200	200	200	200	<b>800</b>
General and administrative	<u>105</u>	<u>77</u>	<u>97</u>	<u>309</u>	<u>588</u>	<u>175</u>	<u>175</u>	<u>225</u>	<u>225</u>	<b>800</b>	<u>250</u>	<u>250</u>	<u>300</u>	<u>300</u>	<b>1,100</b>
Operating income (loss)	(888)	(1,129)	(665)	(1,794)	(4,477)	(4,205)	(859)	(742)	(610)	<b>(6,416)</b>	(1,085)	(824)	(635)	(360)	<b>(2,904)</b>
Gain (loss) on extinguishment of debt	-	110	767	1	878	-	-	-	-	-	-	-	-	-	-
Other income	-	8	-	(1)	7	-	-	-	-	-	-	-	-	-	-
Derivative income (expense)	(379)	(365)	653	-	(91)	-	-	-	-	-	-	-	-	-	-
Settlement expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	<u>(241)</u>	<u>(216)</u>	<u>(275)</u>	<u>(19)</u>	<u>(751)</u>	<u>(175)</u>	<u>(125)</u>	<u>(75)</u>	<u>(25)</u>	<b>(400)</b>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<b>(40)</b>
Income before taxes	(1,508)	(1,592)	480	(1,813)	(4,434)	(4,380)	(984)	(817)	(635)	<b>(6,816)</b>	(1,095)	(834)	(645)	(370)	<b>(2,944)</b>
Income tax (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	<u>(1,508)</u>	<u>(1,592)</u>	<u>480</u>	<u>(1,813)</u>	<u>(4,434)</u>	<u>(4,380)</u>	<u>(984)</u>	<u>(817)</u>	<u>(635)</u>	<b>(6,816)</b>	<u>(1,095)</u>	<u>(834)</u>	<u>(645)</u>	<u>(370)</u>	<b>(2,944)</b>
Preferred stock dividend	-	-	(3)	(1,531)	(1,534)	(2,800)	-	-	-	<b>(2,800)</b>	-	-	-	-	-
Net income (loss) to common	<u>(1,508)</u>	<u>(1,592)</u>	<u>477</u>	<u>(3,344)</u>	<u>(5,968)</u>	<u>(7,180)</u>	<u>(984)</u>	<u>(817)</u>	<u>(635)</u>	<b>(9,616)</b>	<u>(1,095)</u>	<u>(834)</u>	<u>(645)</u>	<u>(370)</u>	<b>(2,944)</b>
EPS	<u>(0.01)</u>	<u>(0.01)</u>	<u>0.00</u>	<u>(0.01)</u>	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<b>(0.04)</b>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<b>(0.01)</b>
Shares Outstanding	117,855	143,010	201,625	229,420	172,978	233,000	249,050	257,050	257,050	<b>249,038</b>	257,050	257,050	257,050	257,050	<b>257,050</b>
<u>Margin Analysis</u>															
Gross margin	73.8%	41.9%	73.9%	55.1%	63.2%	60.0%	67.0%	72.0%	75.0%	<b>71.2%</b>	70.0%	76.0%	77.0%	80.0%	<b>76.9%</b>
Compensation and related benefits	1129.5%	2132.6%	248.6%	500.3%	568.5%	2285.7%	213.3%	123.1%	100.0%	<b>320.0%</b>	181.8%	117.6%	87.0%	69.0%	<b>100.0%</b>
Research and development	3.3%	4.7%	4.0%	1.0%	2.6%	5.7%	2.7%	1.5%	1.3%	<b>2.0%</b>	3.6%	2.4%	1.7%	1.4%	<b>2.0%</b>
Professional fees	224.6%	351.2%	46.2%	47.2%	83.1%	71.4%	33.3%	26.9%	21.9%	<b>30.0%</b>	36.4%	23.5%	17.4%	13.8%	<b>20.0%</b>
General and administrative	172.1%	179.1%	38.3%	102.7%	89.4%	100.0%	46.7%	34.6%	28.1%	<b>40.0%</b>	45.5%	29.4%	26.1%	20.7%	<b>27.5%</b>
Operating margin	(1455.7)%	(2625.6)%	(262.8)%	(596.0)%	(680.4)%	(2402.9)%	(229.0)%	(114.2)%	(76.3)%	<b>(320.8)%</b>	(197.3)%	(96.9)%	(55.2)%	(24.8)%	<b>(72.6)%</b>
<u>Year / Year Growth</u>															
Sales	(30.0)%	(72.7)%	47.6%	61.0%	9.1%	186.9%	772.1%	156.9%	165.8%	<b>204.0%</b>	214.3%	126.7%	76.9%	81.3%	<b>100.0%</b>

Source: Company filings and Taglich Brothers' estimates



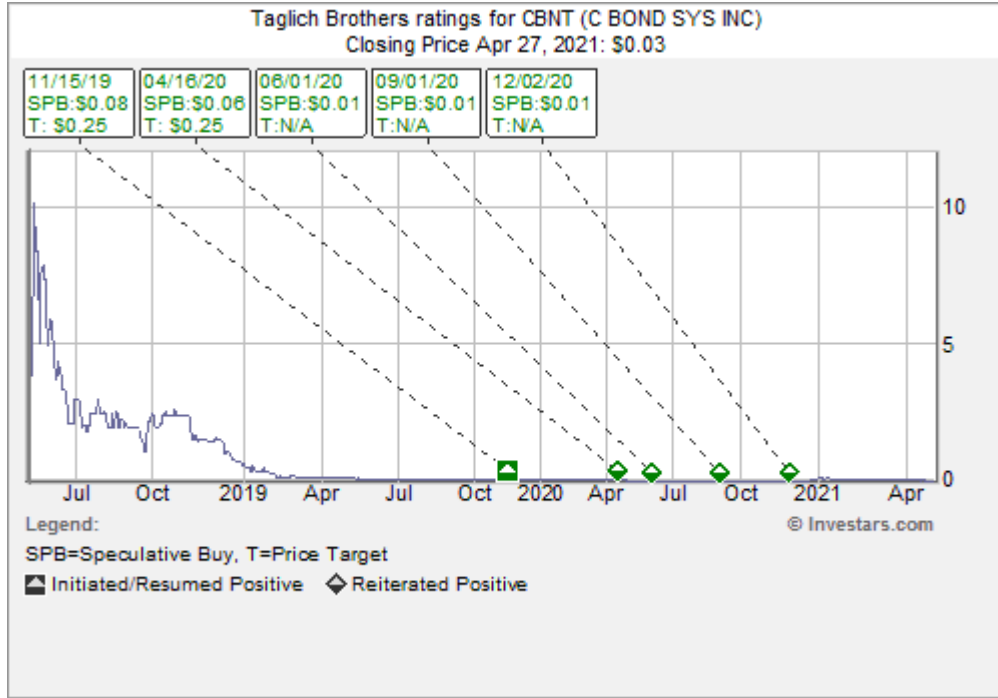
C-Bond Systems, Inc.

Statement of Cash Flows for the Periods Ended  
(in thousands \$)

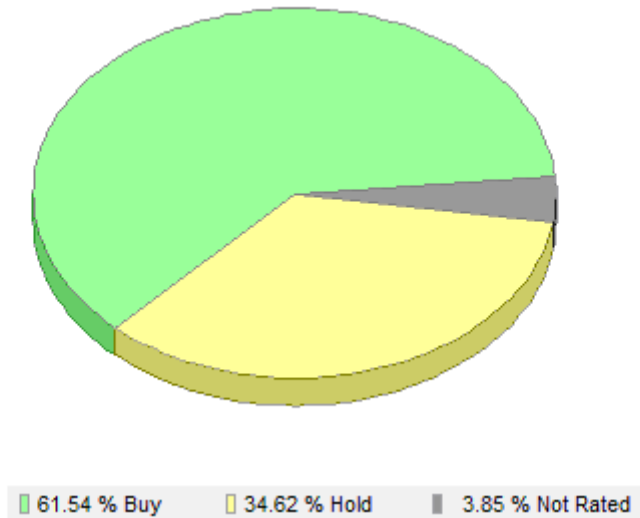
	2018A	2019A	2020A	2021E	2022E
Net income (loss)	(9,905)	(7,241)	(4,434)	(6,816)	(2,944)
Depreciation	34	25	14	10	10
Bad debt expense	(1)	1	202	-	-
Amortization of debt discount	41	161	424	-	-
Accretion of preferred shares	-	-	52	70	70
Stock-based compensation	6,735	3,859	2,108	5,000	2,500
Stock-based professional fees	119	355	133	150	150
Settlement expense	200	-	-	-	-
(Gain) loss on debt extinguishment	380	(31)	(878)	-	-
Derivative expense	-	570	91	-	-
Non-cash fees upon conversion	-	-	3	-	-
Lease costs	-	-	1	-	-
Interest expense related to put premium on conv. debt	-	89	47	-	-
Cash earnings (loss)	(2,397)	(2,212)	(2,237)	(1,586)	(214)
<i>Changes in assets and liabilities</i>					
Receivables	(56)	(62)	(130)	(196)	(156)
Inventory	2	(6)	(62)	(19)	(58)
Prepaid expenses and other	(11)	2	(1)	-	-
Due from related party	-	-	(5)	-	-
Accounts payable	382	240	139	165	303
Accrued expenses	23	89	96	113	180
Accrued compensation	90	635	417	93	297
(Increase) decrease in working capital	429	898	454	156	566
<b>Net cash provided by (used in) operations</b>	<b>(1,968)</b>	<b>(1,314)</b>	<b>(1,783)</b>	<b>(1,430)</b>	<b>353</b>
Cash acquired in recapitalization	187	-	-	-	-
<b>Net cash provided by (used in) investing</b>	<b>187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Proceeds from sale of stock	1,268	780	821	800	-
Proceeds from sale of pfd stock	-	127	1,450	1,000	-
Redemption of pfd stock	-	-	(105)	-	-
Proceeds from exercise of stock options	195	19	-	-	-
Proceeds from notes payable	400	25	156	-	-
Repayment of notes payable	-	(25)	-	(435)	-
Repayment of convertible note payable	(260)	(238)	(393)	-	-
Proceeds from convertible note payable	260	574	100	-	-
<b>Net cash provided by (used in) financing</b>	<b>1,863</b>	<b>1,262</b>	<b>2,029</b>	<b>1,365</b>	<b>-</b>
<b>Net change in cash</b>	<b>82</b>	<b>(51)</b>	<b>246</b>	<b>(65)</b>	<b>353</b>
<b>Cash - beginning of period</b>	<b>46</b>	<b>128</b>	<b>77</b>	<b>323</b>	<b>258</b>
<b>Cash - end of period</b>	<b>128</b>	<b>77</b>	<b>323</b>	<b>258</b>	<b>611</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	3	16
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of \$6,000 (USD) in October 2019 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company pays a monthly monetary fee of \$2,000 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

### **General Disclosures**

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

### **Analyst Certification**

**I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.**

Public companies mentioned in this report:

### **Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Discontinued** – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

---

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.