

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

TOMI Environmental Solutions, Inc.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2013**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-09908

TOMI ENVIRONMENTAL SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Florida

59-1947988

(State or other jurisdiction of
incorporation or organization) (IRS Employer Identification No.)

9454 Wilshire Blvd., Penthouse, Beverly Hills, CA 90212

(Address of principal executive offices) (Zip Code)

(800) 525-1698

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 15, 2013, the registrant had 75,595,819 shares of common stock outstanding.

FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2013

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

**TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET**

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 23,903	\$ 73,424
Accounts Receivable	94,765	215,657
Funds in Escrow - Restricted	3,318,978	-
Prepaid expenses	4,154	5,400
Total Current Assets	<u>3,441,800</u>	<u>294,481</u>
Property and equipment, net	59,895	47,906
Security deposits	500	500
Total Assets	<u>\$ 3,502,195</u>	<u>\$ 342,887</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 182,060	\$ 225,487
Accrued officer's compensation	10,000	5,000
Escrow Liability	3,318,978	-
Loans Payable - Officer	8,907	3,988
Total Current Liabilities	<u>3,519,945</u>	<u>234,475</u>
Commitments and Contingencies		
Stockholders' Equity (Deficiency):		
Cumulative Convertible Series A Preferred Stock; par value \$0.01; 1,000,000 shares authorized; 510,000 shares issued and outstanding at March 31, 2013 and December 31, 2012	5,100	5,100
Cumulative Convertible Series B Preferred Stock; \$1,000 stated value; 7.5 % cumulative dividend, 4,000 shares authorized; none issued and outstanding at March 31, 2013 and December 31, 2012	-	-
Common Stock; par value \$0.01; 200,000,000 shares authorized; 75,569,569 and 75,455,585 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	755,695	754,555
Additional paid-in capital	13,021,926	12,956,535
Accumulated deficit	<u>(13,800,471)</u>	<u>(13,607,778)</u>
Total Stockholders' Equity (Deficiency)	<u>(17,750)</u>	<u>108,412</u>
Total Liabilities and Stockholders' Equity (Deficiency)	<u>\$ 3,502,195</u>	<u>\$ 342,887</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

	For the Quarter Ended	
	March 31, 2013	March 31, 2012
Net revenue	\$ 39,165	\$ 65,229
Cost of sales	33,370	31,743
Gross profit	<u>5,795</u>	<u>33,486</u>
Costs and Expenses:		
Professional fees	109,129	83,596
Other general and administrative expenses	86,302	46,803
Debt Extinguishment	-	(43,900)
Total Costs and Expenses	<u>195,431</u>	<u>86,499</u>
Loss from operations	<u>(189,636)</u>	<u>(53,013)</u>
Other Income (Expense):		
Amortization of debt discount	-	(6,272)
Interest expense	(3,057)	(9,195)
Finance charges related to convertible debt	-	(23,995)
Total Other Income (Expense)	<u>(3,057)</u>	<u>(39,462)</u>
Net Loss	<u>\$ (192,693)</u>	<u>\$ (92,475)</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Basic and diluted weighted average number of common shares outstanding	<u>75,493,465</u>	<u>64,851,482</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	For the Quarter Ended	
	March 31, 2013	March 31, 2012
Operating Activities:		
Net loss	\$ (192,693)	\$ (92,475)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	9,711	8,299
Amortization of debt discount	-	6,272
Finance charges in connection with convertible debt	-	23,995
Common Stock, options and warrants issued for services	46,532	21,038
Changes in operating assets and liabilities:		
Decrease in Accounts Receivable	120,892	-
Decrease in miscellaneous receivable	-	3,007
Decrease (Increase) in prepaid expenses and other current assets	1,246	(3,562)
(Decrease) in Accounts Payable and Accrued Liabilities	(43,427)	(42,692)
Increase in accrued officer's compensation	5,000	-
Net cash (used in) operating activities	<u>(52,739)</u>	<u>(76,118)</u>
Investing Activities:		
Capital expenditures	(21,700)	(25,346)
Net cash (used in) investing activities	<u>(21,700)</u>	<u>(25,346)</u>
Financing Activities:		
Cash Overdraft	-	(1,309)
Proceeds from the sale of Common Stock	19,999	35,000
Proceeds from loan payable - officer	4,919	32,440
Proceeds from convertible notes payable	-	100,000
Payments of notes payable	-	(2,157)
Escrow Funds - Restricted	(3,318,978)	-
Escrow Liability	3,318,978	-
Net cash provided by financing activities	<u>24,918</u>	<u>163,974</u>
Net increase (decrease) in cash and cash equivalents	(49,521)	62,510
Cash and cash equivalents at beginning of period	73,424	-
Cash and cash equivalents at end of period	<u>\$ 23,903</u>	<u>\$ 62,510</u>
Cash paid during the period for:		
Interest expense	\$ 3,057	\$ 3,026
Income taxes	\$ -	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For the Quarter Ended

	March 31, 2013	March 31, 2012
Supplemental Disclosure of Cash Flow Information:		
Non-Cash Financing Activities:		
Common stock issued for payment of accrued expenses	\$ -	\$ 3,000
Payment of accrued expenses by former director applied against additional paid in capital	\$ -	\$ 27,000

See accompanying notes to unaudited condensed consolidated financial statements.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As discussed in the Quarterly Report on Form 10-Q, "Company," "we," "us," "our," and "TOMI" refer to TOMI Environmental Solutions, Inc.

NOTE 1. DESCRIPTION OF BUSINESS

TOMI Environmental Solutions, Inc. is a global decontamination and infectious disease control company, providing green energy-efficient environmental solutions for indoor surface decontamination through sales and licensing of our premier platform of Hydrogen Peroxide aerosols, Ultra-Violet Ozone Generators and Ultra-Violet Germicidal Irradiation ("UVGI") products and technologies.

Our products are designed to service a broad spectrum of commercial structures including medical facilities, office buildings, hotel and motel rooms, schools, restaurants, meat and produce processing facilities, military barracks, and athletic facilities. Our products and services have also been used in single-family homes and multi-unit residences.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The Company incurred net losses of \$192,693 and \$92,475 for the three months ended March 31, 2013 and 2012, respectively. In addition, the Company had a working capital deficiency of \$78,145 and a stockholders' deficit of \$17,750 at March 31, 2013. These factors raise substantial doubt about the Company's ability to continue as a going concern. During the quarter ended March 31, 2013, the Company raised \$19,999 in net proceeds from the sale of common stock. There can be no assurance that the Company will be able to raise additional capital.

The Company plans on funding operations and liquidity needs from licensing arrangements, debt financing and sales of its common stock and notes convertible into common stock. There can be no assurance that additional funds required for continued operations during the next year or thereafter will be generated from our operations.

Should the Company seek additional funds from external sources such as debt or additional equity financings or other potential sources, there can be no assurance that such funds will be available on terms acceptable to the Company or that they will not have a significant dilutive effect on the Company's existing stockholders. The inability to generate cash flow from operations or to raise sufficient capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business.

Accordingly, the Company's existence is dependent on management's ability to develop profitable operations and resolve its liquidity problems. The accompanying unaudited consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Basis of Presentation

The interim unaudited condensed consolidated financial statements included herein, presented in accordance with generally accepted accounting principles utilized in the United States of America ("GAAP"), and stated in U.S. dollars, have been prepared by the Company, without an audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2012 and notes thereto which are included in the Form 10-K previously filed with the SEC on April 1, 2013. The Company follows the same accounting policies in the preparation of interim reports.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of TOMI Environmental Solutions, Inc. (a Florida Corporation) (TOMI-Florida), and its wholly-owned subsidiary, TOMI Environmental Solutions, Inc. (a Nevada Corporation) (TOMI-Nevada). The Company's 55% owned subsidiary, TOMI Environmental-China (TOMI-China), has been dormant since its formation in April 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the accompanying unaudited condensed consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable, fair values of financial instruments, intangible assets, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of our assets and liabilities.

Reclassification of Accounts

Certain reclassifications have been made to prior-year comparative financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or financial position.

Fair Value Measurements

The authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance describes a fair value hierarchy based on the levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's financial instruments include cash and equivalents, accounts receivable, restricted funds in escrow, accounts payable and accrued expenses, loans payable and escrow liability. All these items were determined to be Level 1 fair value measurements.

The carrying amounts of cash and equivalents, accounts receivable, restricted funds in escrow, accounts payable and accrued expenses, loans payable and escrow liability approximated fair value because of the short maturity of these instruments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand held at financial institutions and other liquid investments with original maturities of three months or less.

Property and Equipment

We account for property and equipment at cost less accumulated depreciation. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally three to five years. Depreciation for equipment, furniture and fixtures and vehicles commences once placed in service for its intended use.

Income (Loss) Per Share

The computation of basic income (loss) per share is based on the weighted average number of common shares outstanding during the periods presented. Diluted income (loss) per common share is computed based on the weighted average number of common shares outstanding plus the dilutive effect of common stock equivalents. For the three months ended March 31, 2013 and 2012, diluted loss per common share is the same as basic loss per common share because the effect of any potentially dilutive securities outstanding would be anti-dilutive and has, therefore, been excluded from the computation. For the three months ended March 31, 2013, there were common stock equivalents of 510,000 shares of Convertible Series A Preferred Stock outstanding at a conversion rate of one common share for every preferred share (510,000 common shares), warrants exercisable into 8,475,000 common shares, and 330,000 options (exercisable into 330,000 common shares). For the three months ended March 31, 2012, there were common stock equivalents of 510,000 shares of Convertible Series A Preferred Stock outstanding at a conversion rate of one common share for every preferred share (510,000 common shares), 80,000 options (exercisable into 80,000 common shares), warrants exercisable into 975,000 shares of common stock and convertible debt convertible into 3,500,000 shares of common stock.

Revenue Recognition

For revenue from services and product sales, the Company recognized revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB No. 104), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB No. 101). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) service has been rendered or delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the services rendered or products delivered and the collectibility of those amounts. Provisions for discounts to customers, and allowance, and other adjustments will be provided for in the same period the related sales are recorded.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

We account for stock-based compensation in accordance with Financial Accounting Standards Board ("FASB"), ASC 718, Compensation- "Stock Compensation." Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period. The Company currently has one active stock-based compensation plan, TOMI Environmental Solutions, Inc. Stock Option and Restricted Stock Plan (the "Plan"). The Plan calls for the Company, through a committee of its Board of Directors, to issue up to 2,500,000 shares of restricted common stock or stock options. The Company generally issues grants to its employees, consultants, and board members. Stock options are granted with an exercise price equal to the closing price of its common stock on the date of the grant with a term no greater than 10 years. Generally, stock options vest over two to four years. Incentive stock options granted to shareholders who own 10% or more of the Company's outstanding equity securities are granted at an exercise price that may not be less than 110% of the closing price of the Company's common stock on the date of grant and have a term no greater than five years. On the date of a grant, the Company determines the fair value of the stock option award and recognizes compensation expense over the requisite service period, which is generally the vesting period of the award. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. As of March 31, 2013, the Company had 80,000 stock options outstanding and 1,336,250 common shares issued under the Plan.

Advertising and Promotional Expenses

The Company expenses advertising costs in the period in which they are incurred. For the three months ended March 31, 2013 and 2012, advertising and promotional expenses were \$0.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02 gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset impaired. If based on its qualitative assessment an entity concludes that it is more likely than not that the fair value of an indefinite lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. ASU 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

NOTE 3. FUNDS IN ESCROW - RESTRICTED

Funds in escrow represents funds received in connection with the Company's private placement of its securities. These funds are restricted until the closing of such private placement (see Note 11). A related escrow liability has been established until the closing of the private placement.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Furniture and fixtures	\$ 42,026	\$ 42,026
Equipment	149,907	128,207
Vehicles	88,687	88,687
	<u>280,620</u>	<u>258,920</u>
Less: Accumulated depreciation	220,725	211,014
	<u>\$ 59,895</u>	<u>\$ 47,906</u>

For the three months ended March 31, 2013 and 2012, depreciation was \$9,711 and \$5,522, respectively.

NOTE 5. INTANGIBLE ASSETS

Definite life intangible assets consist of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Intellectual property and trademarks	\$ 111,100	\$ 111,100
Less: Accumulated Amortization and Impairment Loss	111,100	111,100
	<u>\$ -</u>	<u>\$ -</u>

The Company's definite life intangible assets were being amortized over their estimated useful lives of ten years. At December 31, 2012 the Company determined that the fair value of the intangible assets was impaired. Accordingly, an impairment charge of \$69,439 was recorded on the Company's definite-life intangibles, reducing the carrying value of these intangible assets to \$0.

NOTE 6. NOTES AND LOANS PAYABLE

Loans Payable- Related Party

Loans payable to the Company's Chief Executive Officer bear interest at 5% per annum and are payable on demand.

NOTE 7. SHAREHOLDERS' EQUITY (DEFICIENCY)

The Company's Board of Directors may, without further action by the Company's stockholders, from time to time, direct the issuance of any authorized but unissued or unreserved shares of preferred stock in series and at the time of issuance, determine the rights, preferences and limitations of each series. The holders of such preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of our common stock. Furthermore, the Board of Directors could issue preferred stock with voting and other rights that could adversely affect the voting power of the holders of our common stock.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. SHAREHOLDERS' EQUITY (DEFICIENCY) *(Continued)*

Convertible Series A Preferred Stock

The Company has authorized 1,000,000 shares of Convertible Series Preferred Stock, \$0.01 par value. At March 31, 2013 and December 31, 2012, there were 510,000 shares issued and outstanding, respectively. The Convertible Series A Preferred Stock is convertible at the rate of one share of common stock for one share of Convertible Series A Preferred Stock.

Common Stock

During the quarter ended March 31, 2013, the Company issued 37,359 shares of common stock valued at \$6,037 for services rendered and sold 76,625 shares of common stock to a private investor for \$19,999.

Stock Options

The Company issued 20,000 options valued at \$3,000 to a director in January 2013. The options have an exercise price of \$0.15 per share. The options expire in January 2023. The options were valued using the Black-Scholes model using the following assumptions: volatility: 343%; dividend yield: 0%; zero coupon rate: 0.25%; and a life of 10 years. The Company also issued 250,000 options valued at \$37,495 to a consultant in January 2013. The options have an exercise price of \$0.15 and expire in January 2018. The options were valued using the Black-Scholes model with the following assumptions: volatility: 343%; dividend yield: 0%; zero coupon rate: 0.25%; and a life of 5 years. The following table summarizes stock options outstanding as of March 31, 2013:

	March 31, 2013	
	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2013	60,000	\$ 1.42
Granted	270,000	.15
Outstanding, March 31, 2013	330,000	\$.38

Options outstanding and exercisable by price range as of March 31, 2013 were as follows:

Outstanding Options		Average Weighted Remaining Contractual Life in Years	Exercisable Options	
Range	Number		Number	Weighted Average Exercise Price
\$ 0.05	20,000	8.00	20,000	\$ 0.05
\$ 0.15	270,000	5.12	270,000	\$ 0.15
\$ 2.10	40,000	6.75	40,000	\$ 2.10

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. SHAREHOLDERS' EQUITY (DEFICIENCY) *(Continued)*

Stock Warrants

The following table summarizes the outstanding common stock warrants as of March 31, 2013:

	March 31, 2013	
	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2013	8,475,000	\$ 0.14
Granted	-	-
Exercised	-	-
Outstanding, March 31, 2013	8,475,000	\$ 0.14

Warrants outstanding and exercisable by price range as of March 31, 2013 were as follows:

Outstanding Warrants		Average Weighted Remaining Contractual Life in Years	Exercisable Warrants	
Range	Number		Number	Weighted Average Exercise Price
\$ 0.05	975,000	4.75	975,000	\$ 0.05
\$ 0.15	7,500,000	4.55	7,500,000	\$ 0.15

NOTE 8. RELATED PARTY

In February 2011, the Company entered into a new employment agreement with its CEO that provides for a base salary of \$20,000 per annum, subject to CPI adjustments, incentive performance bonuses equal to 12% of the Company's annual GAAP earnings for the years 2011 through 2015 and discretionary bonuses, as well as expense reimbursements and certain employee benefits. The agreement terminates December 31, 2015.

As of March 31, 2013 and December 31, 2012, the Company has accrued \$10,000 and \$5,000 respectively, for unpaid wages under the employment agreement.

NOTE 9. DEBT EXTINGUISHMENT

During the quarter ended March 31, 2012 a vendor of the Company forgave indebtedness in the amount of \$43,900 in exchange for certain of the Company's test equipment that has no carrying value on the Company's books.

NOTE 10. COMMITMENTS AND CONTINGENCIES

On January 2, 2013 the Company entered into an Environmental Advisory Services Agreement ("the EAS Agreement"). The EAS Agreement calls for an initial retainer payment of \$15,000 cash and the issuance of 250,000 common stock purchase options. The Company valued the options at \$37,495 using the Black-Scholes model (see Note 7) and charged this amount to expense in the quarter ended March 31, 2013. Additional payments of \$12,500 and 250,000 options and 500,000 options are due upon the achievement of certain milestones, none of which have been met at March 31, 2013. The EAS Agreement also provides for reimbursement of travel and other expenses.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. SUBSEQUENT EVENTS

Private Placement

In April, 2013 the Company sold 165 Units of its securities. Each Unit is comprised of (i) one 10% senior secured callable convertible promissory note, par value \$25,000 (each, a "Note") and (ii) one warrant (each, a "Warrant") to purchase 37,500 shares of the Company's common stock (the "Common Stock"). The Note shall be secured by the Company's intellectual property such as the Patents, royalties, receivables of the Company and all equipment except for the new equipment acquired with the proceeds from any future financing that is initially secured by this new equipment. The purchase price of a Unit was \$25,000, resulting in gross proceeds to the Company of \$4,125,000. The Note also calls for the establishment of a sinking fund. Net proceeds amounted to \$3,629,100 after expenses of offering totaling \$495,900. In addition, the Placement Agent received 825,000 common stock purchase warrants with an initial exercise price of \$.30 per share and expiring July 31, 2018. The Company purchased the L-3 assets (see below) for \$3,500,000 out of the net proceeds of this offering.

Interest is payable on the Notes at a rate of 10% per annum, compounded annually, and payable in arrears on July 31st and January 31st. The Notes mature and become due and payable on July 31, 2015 (the "Maturity Date"). At the option of each Note holder, the principal amount of the Note (plus accrued but unpaid interest) is convertible into shares of Common Stock (the "Note Shares") at any time prior to the Maturity Date at an initial conversion price of \$0.29 (which may be subject to certain adjustments as set forth in the Notes). The Notes will rank senior to all other unsecured debt of the Company.

The Warrants are exercisable into shares of Common Stock (the "Warrant Shares") at an initial exercise price of \$0.30 (which may be subject to certain adjustments as set forth in the Warrants). The Warrants will expire on July 31, 2018.

Asset Acquisition

On April 15, 2013 the Company completed the acquisition of binary ionization technology and related patents and other assets consisting of personal property and inventory related to implementation of the Binary Ionization Technology related to these patents from L-3 Applied Technologies, Inc. ("L-3"), for \$3,500,000 in cash. All of these assets are pledged as collateral for the convertible notes issued as described above.

Other

In April 2013 the Company issued 26,250 shares of common stock valued at \$4,333 to Harold Paul as payment for legal services rendered.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

In this report references to "TOMI" "we," "us," and "our" refer to TOMI Environmental Solutions, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

General

TOMI Environmental Solutions, Inc. is positioned as a global bacteria, viral, mold decontamination and infectious disease control company, providing green energy-efficient environmental solutions for indoor surface and air decontamination through sales, service and licensing of our platform of SteraMist Binary Ionization Technology ("BIT") hydrogen peroxide aerosols, Ultra-Violet Ozone Generators and Ultra-Violet Germicidal Irradiation ("UVGI") products and technologies.

Our effort to offer products and services which combat bacterial and viral outbreaks in hospitals was in 2011 enhanced by the addition of a newly developed line of fixed and portable units owned and manufactured by L-3 Communications ("L-3"). This technology is Binary Ionization Technology ("BIT") and is sold under the brand name of SteraMist. SteraMist utilizes a patented hydrogen peroxide activated aerosolized fog technique, BIT, and was designed by L-3 as a cost-effective method to control the spread of infectious diseases including neutralizing bio-terrorism pathogens such as Anthrax.

We believe that reducing Healthcare Associated Infections ("HAIs"), which are the fourth leading cause of death in the United States and cost the healthcare system approximately \$40 billion annually, provide significant opportunities for our products. Ten percent of inpatients contract infections from hospitals, resulting in more than 2,000,000 illnesses and over 100,000 deaths per annum. According to published studies, generic hospital cleaning procedures leave between 30%-60% of microorganisms depending upon the process. TOMI's products safely and effectively kill 99.9999% of all known pathogens as a part of its service to healthcare facilities such as hospitals for the decontamination of bacteria and other pathogens within these facilities. In comparison to most of its competitors, the SteraMist product has a higher kill level, leaves no residue, is not effected by humidity, has a shorter treatment time and converts to oxygen and water.

Other vertical industry applications for SteraMist in no particular order are: the Professional Remediation Industry, first responders, food safety industry, athletics, hospitality industry, transportation, education, entertainment, homeland defense, and various branches of the military.

Our SteraMist and other products are currently being used in a broad spectrum of commercial structures including medical facilities, office buildings, hotels, schools, pharmaceutical companies, clean rooms, remediation companies, military barracks, and athletic facilities. The products and services that we offer have are also being used in single-family homes and multi-unit residences.

We intend to generate and support research on other surface and air remediation solutions including hydroxyl radicals and other Reactive Oxygen Species ("ROS") and to form business alliances with major remediation companies, construction companies and corporations specializing in disaster relief in North America, South America, Central America, Europe, the Middle East and the Far East to assist in expanding our sales.

The Company began sales to international locations during the third quarter of 2010. In February 2012, the Company entered into a Sales and Distribution Agreement covering Latin America and the Caribbean and subsequently sold its first SteraMist unit in Latin America in March 2012 and repeated orders in the third quarter of 2012.

In April 2012, we completed our first sale in Panama arising from this new agreement. We also made continued aerosol solution sales under our ongoing program with Sinai Hospital in Baltimore, Maryland, Northwest Hospital in Randallstown, Maryland. SteraMist is also being used by Baptist Hospital in Little Rock, Arkansas, and Geisenger Medical Center in Danville, Pennsylvania. Our decontamination system is currently being tested in two other major U.S. hospitals.

The Company recently completed an official pilot study at the request of Panama Social Security Program (CSS), successfully remediating biological/bacterial colonies. As a result, the Company was engaged to expand this program in multiple Panamanian hospitals.

We continue to pursue complementary business opportunities in manufacturing Reactive Oxygen Species related products, testing labs and other indoor air treatment and maintenance products.

When we complete the sale of equipment to customers, our services usually include providing initial and ongoing training to customer employees.

In 2011, we made our first sale of a SteraMist hydrogen peroxide aerosol unit to a major metropolitan hospital that is now expanding its program to use this equipment for additional rooms and facilities.

Business Outlook

TOMI's business growth objective is to be "The Global Leader in Decontamination and Infectious Disease Control" by developing and acquiring a premier platform of Hydrogen Peroxide aerosols, UV Ozone Generators and other green UVGI products and technologies. We also intend to generate and support research on other air remediation solutions including hydroxyl radicals and other Reactive Oxygen Species ("ROS") and to form business alliances with major remediation companies, construction companies and corporations specializing in disaster relief along with expanding our sales in North America, South America, Central America and the Far East.

Critical Accounting Policies and Estimates

Refer to our Form 10-K filed with SEC on April 1, 2013.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, which updated the guidance in ASC Topic 820, Fair Value Measurement. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, and early application is not permitted. ASU 2011-04 is not expected to have a material impact on the Company's financial position or results of operations.

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02 gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset impaired. If based on its qualitative assessment an entity concludes that it is more likely than not that the fair value of an indefinite lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. ASU 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

Results of Operations for the Three Months March 31, 2013 Compared to the Three Months Ended March 31, 2012

During the quarter ended March 31, 2013, we had net revenue of \$39,165 as compared to net revenue of \$65,229 for the quarter ended March 31, 2012. This decrease in revenue was entirely attributable to a falloff in sales while L-3 Applied Technologies, Inc., the supplier of the primary product we sold, SteraMist, and the Company concluded final negotiations selling the intellectual property underlying the SteraMist line and certain personal property pertaining to the line to the Company. That sale was completed in April 2013 at which time TOMI took over the SteraMist line for all but military sales.

Our net loss from operations for the quarter ended March 31, 2013 was \$189,636 as compared to a net loss for the quarter ended March 31, 2012 of \$53,013, an increase of \$136,623. The substantial change was due to an increase in general and administrative expenses and professional fees offset by a one-time debt extinguishment of \$43,900 in 2012.

Liquidity and Capital Resources

The condensed consolidated financial statements contained in this Interim Report have been prepared on a "going concern" basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have an immediate and urgent need for additional capital. For the reasons discussed herein, there is a significant risk that we will be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

We plan on funding operations and our liquidity needs from licensing and sales arrangements, structured similarly to our current Licensing and Sales Agreement that have profit margins from sale of equipment, licensing of equipment, and recurring income from solution sales.

We also intend to continue to raise equity capital through the sale of restricted stock and notes convertible into common stock.

Our liquid assets consist of cash and cash equivalents.

Contractual Obligations

None.

Off-Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None.

ITEM 4. CONTROLS AND PROCEDURES

We have established a set of disclosure controls and procedures designed to ensure that information required to be disclosed by us in our reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls have also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. We believe our disclosure controls and internal controls are effective for the three months ended March 31, 2013.

We do not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be 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. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Because of 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. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We did not implement any changes in controls during the three months ended March 31, 2013.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material proceedings or threatened proceedings as of the date of this filing.

ITEM 1A. RISK FACTORS.

See discussion contained in 10-K filed with the Commission on March 30, 2012.

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

On January 2, 2013 the Company entered into an Environmental Advisory Services Agreement ("the EAS Agreement"). The EAS Agreement calls for an initial retainer payment of \$15,000 cash and the issuance of 250,000 common stock purchase options. Additional payments of \$12,500 and 250,000 options and 500,000 options are due, plus travel and other expenses.

In January 2013 the Company granted 20,000 stock options to a director. The options have an exercise price of \$.15 per share and expire January 1, 2023.

In March 2013 we sold 76,625 shares for \$19,999.

In April 2013 we issued 26,250 shares in exchange for legal services rendered.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

Part I: Exhibits

31.1 Principal Executive Officer Certification

31.2 Principal Financial Officer Certification

32.1 Section 1350 Certification

Part II: Exhibits

None.

SIGNATURES

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

TOMI ENVIRONMENTAL SOLUTIONS, INC.

Date: May 13, 2013

By: /s/ Halden Shane

Halden Shane
Principal Executive Officer
Principal Financial and Accounting Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Halden S. Shane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 of TOMI Environmental Solutions, Inc.;
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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer 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 registrant's board of directors (or persons performing the equivalent functions):
 - (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.

Dated: May 13, 2013

/s/ HALDEN S. SHANE

Halden S. Shane
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Halden S. Shane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 of TOMI Environmental Solutions, Inc.;
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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer 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 registrant's board of directors (or persons performing the equivalent functions):
 - (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.

Dated: May 13, 2013

/s/ HALDEN S. SHANE

Halden S. Shane
Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of TOMI Environmental Solutions, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on May 13, 2013 (the "Report"), I, Halden S. Shane, Chairman of the Board, Chief Executive Officer (Principal Executive Officer), and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 13, 2013

/s/ HALDEN S. SHANE

Halden S. Shane
Chairman of the Board, Chief Executive Officer
Principal Financial Officer