

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## TOMI Environmental Solutions, Inc.

**Form: 10-Q**

**Date Filed: 2013-08-13**

Corporate Issuer CIK: 314227

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 June 30, 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**

(State or other jurisdiction of  
incorporation or organization)

**59-1947988**

(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 August 5, 2013, the registrant had 78,442,079 shares of common stock outstanding.

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## PART I: FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

**TOMI Environmental Solutions, Inc.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

	June 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,190,132	\$ 73,424
Accounts Receivable	114,729	215,657
Inventories	37,368	-
Deposits on Merchandise	187,882	-
Prepaid Expenses	36,674	5,400
Total Current Assets	<u>1,566,785</u>	<u>294,481</u>
Property and Equipment, net	190,210	47,906
Intangible Assets, net	3,201,345	-
Deferred Financing Costs, net	669,219	-
Security Deposits	2,353	500
Total Assets	<u>\$ 5,629,912</u>	<u>\$ 342,887</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 315,242	\$ 225,487
Accrued Officer's Compensation	15,000	5,000
Common Stock to be Issued	132,686	-
Customer Deposits	24,955	-
Loans Payable - Officer	8,907	3,988
Warranty Liability	10,000	-
Derivative Liability	11,430,075	-
Total Current Liabilities	<u>11,936,865</u>	<u>234,475</u>
Long-Term Liabilities		
Convertible Notes Payable, net of discount of \$4,865,183 at June 30, 2013	8,817	-
Total Long-Term Liabilities	<u>8,817</u>	<u>-</u>
Total Liabilities	<u>11,945,682</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 June 30, 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 June 30, 2013 and December 31, 2012	-	-
Common Stock; par value \$0.01; 200,000,000 shares authorized; 78,081,298 and 75,455,585 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	780,813	754,555
Additional paid-in capital	14,684,722	12,956,535
Accumulated deficit	(21,786,405)	(13,607,778)
Total Stockholders' Equity (Deficiency)	<u>(6,315,770)</u>	<u>108,412</u>
Total Liabilities and Stockholders' Equity (Deficiency)	<u>\$ 5,629,912</u>	<u>\$ 342,887</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

**TOMI Environmental Solutions, Inc.**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(Unaudited)

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net revenue	\$ 172,864	\$ 218,473	\$ 212,029	\$ 283,702
Cost of sales	61,934	126,963	95,304	158,706
Gross profit	110,930	91,510	116,725	124,996
Costs and Expenses:				
Professional Fees	58,782	27,288	167,911	110,884
Depreciation and Amortization	97,630	10,045	107,341	18,344
Consulting Fees	183,877	15,000	183,877	15,000
Other general and administrative expenses	163,574	70,681	240,165	109,185
Debt Extinguishment	-	-	-	(43,900)
Total Costs and Expenses	503,863	123,014	699,294	209,513
Loss from operations	(392,933)	(31,504)	(582,569)	(84,517)
Other Income (Expense) :				
Amortization of Debt Discount	(8,817)	(10,335)	(8,817)	(16,607)
Amortization of Deferred Financing Costs	(61,791)	-	(61,791)	-
Fair Value Adjustment of Derivative Liability	(4,555,537)	-	(4,555,537)	-
Non-cash Finance charges related to convertible debt	(2,868,050)	-	(2,868,050)	(23,995)
Interest Expense - related party	(161)	(1,540)	(161)	(2,753)
Interest Expense	(98,645)	(4,873)	(101,702)	(12,855)
Total Other Income (Expense)	(7,593,001)	(16,748)	(7,596,058)	(56,210)
Net Loss	\$ (7,985,934)	\$ (48,252)	\$ (8,178,627)	\$ (140,727)
Basic and diluted loss per common share	\$ (0.11)	\$ (0.00)	\$ (0.11)	\$ (0.00)
Basic and diluted weighted average number of common shares outstanding	75,935,563	68,027,057	75,715,735	66,774,301

The accompanying notes are an integral part of these condensed consolidated financial statements

**TOMI Environmental Solutions, Inc.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

	For the Six Months Ended	
	June 30, 2013	June 30, 2012
Operating Activities:		
Net loss	(8,178,627)	(140,727)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	107,341	18,344
Amortization of debt discount	8,817	16,606
Amortization of Deferred Finance Fees	61,791	-
Finance charges in connection with convertible debt	2,868,050	23,995
Change in Fair Value of Derivative	4,555,537	-
Common Stock, options and warrants issued for services	107,132	37,915
Changes in operating assets and liabilities:		
Decrease (Increase) in Accounts Receivable	100,928	(176,545)
Decrease in miscellaneous receivable	-	7,370
(Increase) in Inventories	(37,368)	-
(Increase) in Deposits on Merchandise	(187,882)	-
Decrease (Increase) in prepaid expenses and other current assets	(31,274)	2,598
(Increase) in Security Deposits	(1,853)	-
Increase in Accounts Payable and Accrued Liabilities	59,755	5,261
Increase in accrued officer's compensation	10,000	-
Increase in Warranty Liability	10,000	-
Increase in Common Stock to Be Issued	132,686	-
Increase in Customer Deposits	24,955	-
Net cash (used in) operating activities	<u>(390,012)</u>	<u>(205,183)</u>
Investing Activities:		
Capital expenditures	(172,690)	(45,972)
Purchase of intangibles	(3,278,300)	-
Net cash (used in) investing activities	<u>(3,450,990)</u>	<u>(45,972)</u>
Financing Activities:		
Cash Overdraft	-	(1,309)
Proceeds from the sale of Common Stock	666,100	130,000
Proceeds from loan payable - officer	4,919	47,662
Proceeds from convertible notes payable	4,874,000	100,000
Deferred Debt Costs	(587,309)	-
Payments of notes payable	-	(2,157)
Net cash provided by financing activities	<u>4,957,710</u>	<u>274,196</u>
Net increase in cash and cash equivalents	1,116,708	23,041
Cash and cash equivalents at beginning of period	73,424	-
Cash and cash equivalents at end of period	<u>\$ 1,190,132</u>	<u>\$ 23,041</u>
Cash paid during the period for:		
Interest expense	\$ 5,647	\$ 7,370
Income taxes	\$ 933	\$ -

The accompanying notes are an integral part of these condensed consolidated financial statements

**TOMI Environmental Solutions, Inc.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**

	<u>For the Six Months Ended</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
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
Discount on Convertible Debt	\$ 4,874,000	\$ -
Derivative Liability	\$ 6,874,538	\$ -
Common Stock warrants issued as Deferred Finance Costs	\$ 143,701	\$ -
Finders fee accrued	\$ 30,000	\$ -

The accompanying notes are an integral part of these 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 and outdoor surface decontamination through sales, services and licensing of our SteraMist<sup>SM</sup> Binary Ionization Technology® ("BIT<sup>TM</sup>") hydrogen peroxide aerosols, Ultra-Violet Ozone Generators and Ultra-Violet Germicidal Irradiation ("UVGI") products and technologies.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***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.

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.



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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***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.

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

The carrying amounts of cash and equivalents, accounts receivable, accounts payable and accrued expenses, and loans payable approximated fair value because of the short maturity of these instruments. The recorded value of long-term convertible debt approximates its fair value as the terms and rates approximate market rates.

***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.

***Inventories***

Inventories are valued at the lower of cost or market using the first-in, first-out ("FIFO") method. Inventories consist primarily of raw materials of parts and supplies.

***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.

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Deferred Financing Costs***

The Company follows authoritative guidance for accounting for financing costs as it relates to convertible debt issuance cost. These costs are deferred and amortized over the term of the debt period or until redemption of the convertible debentures. Amortization of deferred financing costs amounted to \$61,791 for the six months ended June 30, 2013.

***Loss Per Share***

Basic loss per share is computed by dividing the Company's net loss by the weighted average number of common shares outstanding during the period presented. Diluted loss per share is based on the treasury stock method and includes the effect from potential issuance of common stock such as shares issuable pursuant to the exercise of warrants and conversions of debentures.

Potentially dilutive securities as of June 30, 2013, consisted of 16,806,897 common shares from convertible debentures, 18,685,800 common shares from outstanding warrants, 80,000 common shares from options and 510,000 common shares from convertible Series A preferred stock. Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

Potentially dilutive securities as of June 30, 2012, consisted of 3,500,000 common shares from convertible debentures and 975,000 common shares from outstanding warrants, 80,000 common shares from options and 510,000 common shares from convertible Series A preferred stock. Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

***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) collectability 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 collectability 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.

***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 June 30, 2013, the Company had 80,000 stock options outstanding and 1,336,250 common shares issued under the Plan.

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation ("FDIC") limit of \$250,000 at times during the year.

***Long-Lived Assets Including Acquired Intangible Assets***

The Company will review its intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We will measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

***Advertising and Promotional Expenses***

The Company expenses advertising costs in the period in which they are incurred. For the six months ended June 30, 2013 and 2012, advertising and promotional expenses were \$1,000 and \$0, respectively.

***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. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	June 30, 2013	December 31, 2012
	(Unaudited)	
Furniture and fixtures	\$ 43,026	\$ 42,026
Equipment	299,897	128,207
Vehicles	88,687	88,687
	431,610	258,920
Less: Accumulated depreciation	241,400	211,014
	<u>\$ 190,210</u>	<u>\$ 47,906</u>

For the six months ended June 30, 2013 and 2012, depreciation was \$30,386 and \$12,789, respectively.

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

**NOTE 4. INTANGIBLE ASSETS AND 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"), All of these assets are pledged as collateral for the convertible notes issued as described below in Note 6.

The purchase price allocation is preliminary, pending completion of the full valuation report; however significant changes are not anticipated. The Company intends to have the completed valuation report by year end.

The following sets forth the components of the preliminary purchase price allocation:

<b><u>Purchase Price</u></b>	
Cash payment	\$3,500,000
Estimated warranty expense	\$ 10,000
Total purchase price	\$3,510,000
<b><u>Assets Purchased</u></b>	
Inventory	\$ 71,700
Fixed assets	\$ 150,000
Intangible assets	\$3,288,300
<b><u>Liabilities assumed</u></b>	
Warranty liability	\$ 10,000

The intangible assets purchased consist of Patents and Trademarks. The intangibles are being amortized over the estimated remaining lives of the related patents, which approximate an average of 9 years. Amortization expense was \$76,955 for the quarter ended June 30, 2013. The Company is working with the independent valuation firm to assist in allocating the purchase price associated with the intangibles between the Patents and the Trademarks.

The purchase price allocation will be adjusted if necessary upon the Company receiving the final valuation report from the independent appraisal company.

Definite life intangible assets consist of the following:

	June 30, 2013 (Unaudited)	December 31, 2012
Intellectual property, patents and trademarks	\$ 3,389,400	\$ 111,100
Less: Accumulated Amortization and Impairment Loss	188,055	111,100
	<u>\$ 3,201,345</u>	<u>\$ -</u>

The Company's definite life intangible assets at December 31, 2012 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 during the year ended December 31, 2012 on the Company's definite-life intangibles, reducing the carrying value of these intangible assets to \$0. Amortization expense was \$5,555 for the quarter ended June 30, 2012.

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

**NOTE 5. 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 6. CONVERTIBLE DEBT**

In November 2012 the Company initiated a Private Placement offering a maximum of 240 Units of the Company's securities at a price of \$25,000 per Unit or \$6,000,000. The initial closing of the offering occurred in April 2013 as the bulk of the net proceeds of the offering were to be allocated for the asset purchase from L-3 Applied Technologies, Inc., which agreement was not finalized until April 2013. Each Unit consists of \$25,000 par amount of a 10% Senior Secured Callable Convertible Promissory Note due and payable on July 31, 2015 and 37,500 warrants each of which allows the investor to purchase one share of common stock and expires on July 31, 2018. Interest is payable on the Notes at a rate of 10% per annum, compounded annually, and payable on July 31<sup>st</sup> and January 31<sup>st</sup>. The Notes are 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 Notes call for the establishment of a sinking fund. Within 45 days of each calendar quarter 15% of the Company's reported revenue will be deposited into the Company's escrowed sinking fund account.

As of June 30, 2013 the Company sold 194.96 Units for gross proceeds of \$4,874,000. Net proceeds amounted to \$4,286,690 after expenses of offering totaling \$587,310. In addition the placement agent received 974,800 warrants valued at \$143,700.

The convertible notes are convertible into shares of our common stock at an initial conversion price of \$.29 (which conversion price is subject to adjustment upon the occurrence of events specified in the Convertible Notes, including stock dividends, stock splits, certain fundamental corporate transactions, and certain issuances of common stock by 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 Company evaluated the warrants under ASC 815-40-15 due to the exercise price being adjustable upon certain events occurring. The company determined that the warrants are considered indexed to the Company's own stock and thus meet the scope exception under FASB ASC 815-10-15-74 and are therefore not considered a derivative. The estimated fair value of the warrants, which contain reset provisions, were calculated using the Monte Carlo valuation model. The Company recorded the warrant's relative fair value of \$867,512 as an increase to additional paid in capital and a discount against the related debt.

The Convertible Notes contain a provision whereby the conversion price is adjustable upon the occurrence of certain events, including the issuance of common stock or common stock equivalents at a price which is lower than the current conversion price. Under FASB ASC 815-40-15-5, the embedded conversion feature is not considered indexed to the Company's own stock and, therefore, does not meet the scope exception in FASB ASC 815-10-15 and thus needs to be accounted for as a derivative liability. The fair value of the embedded conversion feature was estimated at \$6,874,538 and recorded as a derivative liability, resulting in an additional discount of \$4,006,488 to the convertible notes and a finance charge of \$2,868,050 included in the statement of operations. The fair value of the embedded conversion feature is estimated at the end of each quarterly reporting period using the Monte Carlo model.

The debt discount is being amortized over the life of the convertible note using the effective interest method.

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

**NOTE 6. CONVERTIBLE DEBT** (Continued)

Inherent in the Monte Carlo Valuation model are assumptions related to expected volatility, remaining life, risk-free rate and expected dividend yield. For the Convertible Notes and Warrants using a Monte Carlo model, we estimate the probability and timing of potential future financing and fundamental transactions as applicable. The assumptions used by the Company are summarized below:

**Convertible Notes**

	<u>June 30, 2013</u>	<u>Inception</u>
Closing stock price	\$ 0.57	\$ 0.13-0.55
Conversion price	\$ 0.29	\$ 0.29
Expected volatility	190%	185%-190%
Remaining term (years)	2.08	2.30-2.09
Risk-free rate	0.38%	0.25%-0.39%
Expected dividend yield	0%	0%

**Warrants**

	<u>June 30, 2013</u>	<u>Inception</u>
Closing stock price	\$ 0.57	\$ 0.13-0.55
Exercise price	\$ 0.30	\$ 0.30
Expected volatility	250%	250%
Remaining term (years)	5.08	5.30-5.09
Risk-free rate	1.42	0.76%-1.40%
Expected dividend yield	0%	0%

Convertible notes consist of the following at June 30, 2013 and December 31, 2012:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Convertible notes	\$ 4,874,000	\$ -
Discount on convertible notes	(4,874,000)	-
Accumulated amortization of discount	8,817	-
Total convertible notes	\$ 8,817	\$ -

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

**NOTE 7. FAIR VALUE**

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012:

	<u>Level 3</u>	<u>Total</u>
<b><u>June 30, 2013:</u></b>		
Derivative Instruments	\$ 11,430,075	\$ 11,430,075
<b><u>December 31, 2012:</u></b>		
Derivative Instruments	\$ -	\$ -

Level 3 financial instruments consist of certain embedded conversion features. The fair value of these embedded conversion features that have exercise reset features are estimated using a Monte Carlo valuation model. The Company adopted the disclosure requirements of ASU 2011-04, "Fair Value Measurements," during the quarter ended March 31, 2012. The unobservable input used by the Company was the estimation of the likelihood of a reset occurring on the embedded conversion feature of the Convertible Notes. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions are based on numerous factors, including the remaining term of the financial instruments and the Company's overall financial condition.

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the period ended June 30, 2013.

	<u>June 30, 2013</u>
Beginning Balance	\$ -
Initial recognition - Derivative liability of embedded conversion feature of the Convertible Notes	6,874,538
Change in fair value	<u>4,555,537</u>
Ending Balance	<u>\$ 11,430,075</u>

Changes in the unobservable input values would likely cause material changes in the fair value of the Company's Level 3 financial instruments. The significant unobservable input used in the fair value measurement is the estimation of the likelihood of the occurrence of a change to the conversion price based on the contractual terms of the financial instruments. A significant increase (decrease) in this likelihood would result in a higher (lower) fair value measurement.

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

**NOTE 8. STOCKHOLDERS' 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.

***Convertible Series A Preferred Stock***

The Company has authorized 1,000,000 shares of Convertible Series A Preferred Stock, \$0.01 par value. At June 30, 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 six months ended June 30, 2013, the Company issued 73,609 shares of common stock valued at \$11,870 for services rendered and sold an aggregate of 2,552,104 shares of common stock for \$666,100.

***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 following table summarizes stock options outstanding as of June 30, 2013:

	June 30, 2013	
	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2013	60,000	\$ 1.42
Granted	20,000	.15
Outstanding, June 30, 2013	80,000	\$ 1.10



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

**NOTE 8. STOCKHOLDERS' EQUITY (DEFICIENCY)** (Continued)

Options outstanding and exercisable by price range as of June 30, 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	7.52	20,000	\$ 0.05
\$ 0.15	20,000	9.52	20,000	\$ 0.15
\$ 2.10	40,000	6.52	40,000	\$ 2.10

**Stock Warrants**

The Company issued 250,000 warrants 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 warrants 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.

During the quarter ended June 30, 2013, the Company issued 7,311,000 warrants in connection with convertible debt units and 974,800 warrants to the placement agent (see Note 6). These warrants have an initial exercise price of \$0.30 per share and expire July 31, 2018.

In June 2013 the Company issued 100,000 warrants with an exercise price of \$.261 per share to a consultant for services. The warrants were valued at \$54,767 using the Black-Scholes model with the following assumptions: volatility, 245%; dividend yield, 0%; zero coupon rate, 0.25%; and a life of 5 years.

The following table summarizes the outstanding common stock warrants as of June 30, 2013:

	June 30, 2013	
	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2013	10,050,000	\$ 0.12
Granted	8,635,800	0.30
Exercised	-	-
Outstanding, June 30, 2013	18,685,800	\$ 0.20

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

**NOTE 8. STOCKHOLDERS' EQUITY (DEFICIENCY)** (Continued)

Warrants outstanding and exercisable by price range as of June 30, 2013 were as follows:

Outstanding Warrants		Average Weighted Remaining Contractual Life in Years	Exercisable Warrants	
Range	Number		Number	Weighted Average Exercise Price
\$ 0.01	1,575,000	4.04	1,575,000	\$ 0.01
\$ 0.05	975,000	4.12	975,000	\$ 0.05
\$ 0.15	7,750,000	4.30	7,500,000	\$ 0.15
\$ 0.261	100,000	4.99	100,000	\$ 0.261
\$ 0.30	8,285,800	5.09	8,285,800	\$ 0.30

**NOTE 9. RELATED PARTY TRANSACTIONS**

***Employment Agreement***

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 June 30, 2013 and December 31, 2012, the Company has accrued \$15,000 and \$5,000 respectively, for unpaid wages under the employment agreement.

***Support and Service Agreement***

Effective April 1, 2013 the Company entered into a Support and Service Agreement ("the Agreement") with Rolyn Companies, Inc. ("Rolyn") under the terms of which Rolyn will provide labor and services support. The Agreement calls for payment to Rolyn of \$20,000 per month in the form of the Company's common stock, based on a share price of \$0.261, regardless of market price, and payment of out of pocket expenses. Either party can terminate the Agreement with 30 days written notice. The Company has recorded \$60,000 support and service expense for the quarter ended June 30, 2013 and a related liability has been reported as common stock to be issued. Certain officers of Rolyn were appointed officers of the Company in June and July 2013.

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

**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 warrants. The Company valued the warrants at \$37,495 using the Black Scholes model (see Note 8) and charged this amount to expense in the quarter ended March 31, 2013. Additional payments of \$12,500 and 250,000 warrants and 500,000 warrants are due upon the achievement of certain milestones, none of which have been met at June 30, 2013. The EAS Agreement also provides for reimbursement of travel and other expenses.

**NOTE 11. COMMON STOCK TO BE ISSUED**

As of June 30, 2013 the Company was obligated to issue 428,003 shares of common stock valued at \$132,686 primarily to certain vendors and consultants.

**NOTE 12. SUBSEQUENT EVENTS**

In July, 2013 the Company sold 4 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 \$200,000. The Note also calls for the establishment of a sinking fund. Net proceeds amounted to \$178,000 after expenses of offering totaling \$22,000. In addition, the Placement Agent received 40,000 common stock purchase warrants with an initial exercise price of \$.30 per share and expiring July 31, 2018.

Interest is payable on the Notes at a rate of 10% per annum, compounded annually, and payable in arrears on July 31<sup>st</sup> and January 31<sup>st</sup>. 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.

**Other**

During the period July 1, 2013 through August 5, 2013, the Company issued an aggregate of 358,834 shares of common stock valued at \$124,076 to various parties as payment for 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

In April 2013 we completed the acquisition of Binary Ionization Technology<sup>®</sup> division ("BIT<sup>™</sup>") from L-3 Applied Technologies, Inc. for \$3,500,000. This technology relates to a disinfection system that applies cold plasma activation to a hydrogen peroxide based aerosol and produces a Reactive Oxygen Species (ROS) mist. BIT<sup>™</sup>, which we had been selling under the name SteraMist<sup>SM</sup> for the past two and one-half years, deactivates organic compounds and quickly and effectively kills viruses, bacteria, spores, molds spores, other fungi and yeast, both in the air and on surfaces. The product is environmentally friendly and leaves no residue or fumes.

The process applies cold plasma activation to a low percentage hydrogen peroxide based solution to create a spray, safe for delicate medical equipment and computer containing a ROS. SteraMist<sup>SM</sup> (BIT<sup>™</sup>) provides fast acting, broad-spectrum decontamination, and leaves no residue or noxious fumes. The environmentally friendly characteristics ensure safety of employees and equipment, while providing maximum decontamination efficacy. BIT<sup>™</sup> has been shown to effectively decontaminate weaponized biological agents like Anthrax and chemical agents such as VX and Mustard gas when applied using properly developed protocols. A summary of BIT<sup>™</sup> capabilities can be found in the DHS "Guide for the Selection of Chemical, Biological, Radiological, and Nuclear Decontamination Equipment for Emergency First Responders" (2nd Edition, March 2007).

As opposed to selling another company's products, TOMI now controls this innovative, patented technology and has the ability to build its client base and expand into other market segments. For example once a hospital customer has purchased one of our portable hand-held or mobile units, or has tried our service they have regularly reordered TOMI's reactive solution for continued applications and have expanded their initial SteraMist<sup>SM</sup>'s program assuring repeat business and an ongoing revenue stream as long as the system is in use.

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 over \$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. It has been estimated that approximately 16% of all discharged patients are readmitted with infections and the healthcare facility is financially penalized. According to published studies, generic hospital cleaning procedures leave behind between 30%-60% of microorganisms depending upon the process. These surface and air pathogens increase the risk of acquiring a HAI. TOMI's Binary Ionization Technology<sup>®</sup> (BIT<sup>SM</sup>) safely and effectively kill 99.9999% or a six-log death of all known pathogens as a part of its sales and 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<sup>SM</sup> products has a quicker and higher kill level, leaves no residue, is green, is not effected by humidity, is not caustic, has a shorter treatment time and converts to oxygen and water.

Other vertical industry applications for SteraMist<sup>SM</sup> in no particular order are: tissue labs, blood banks, clean room, pharmaceutical industry, the Restoration Industry Association, first responders, food safety industry, athletics, hospitality industry, transportation, education, entertainment, homeland defense, and various branches of the military.

Our SteraMist<sup>SM</sup> 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 also been used in single-family homes and multi-unit residences.

The Company intends to generate and support research on other surface and air remediation solutions including hydroxyl radicals and other ROS in our new Research and Development lab located in San Diego, California and to form business alliances with major remediation companies, tissue and blood labs, border protection companies, construction companies and corporations specializing in disaster relief worldwide.

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<sup>SM</sup> unit in Latin America in March 2012 and repeated orders in the third quarter of 2012. Within the next 60 days, TOMI will begin the first contract treating the Panamanian health care system.

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, and St. Mary's in Philadelphia. SteraMist<sup>SM</sup> 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. teaching hospitals, which peer review details pending and will be published shortly.

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 Panamanian government accepted the Company technology as the only decontamination product that can be bought by their hospitals for the next two years and TOMI is engaged to expand this program and make SteraMist<sup>SM</sup> a standard for decontamination in over 41 Panamanian hospitals.

Commencing in March 2013 the Company significantly expanded its operations by entering into an agreement with our alliance partner, Rolyn Companies, Inc., pursuant to which we utilize Rolyn's personnel to provide support services including, accounting support, sales, marketing and shipping. TOMI is also provided with warehouse and office space, functioning as our East Coast hub. TOMI pays Rolyn \$20,000 monthly for these services. As a result, the Company has up to an additional ten personnel handling these functions. We also provide training to our customers and service their facilities as needed.

## **Business Outlook**

TOMI's business growth objective is to be "The Global Leader in Decontamination and Infectious Disease Control" as it develops its recently acquired a premier novel 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 ROS and to form business alliances either by selling licenses and or performing decontamination services with tissue banks, pharmaceutical labs, blood labs, kidney dialysis centers, major remediation companies, construction companies and corporations specializing in disaster relief along with expanding our sales in North America, South America, Central America, Middle East and the Far East.

## **Results of Operations for the Three and Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012**

During the three months ended June 30, 2013 and 2012, we had net revenue of \$172,864 and \$218,473, respectively. During the six months ended June 30, 2013 and 2012, we had total revenue of \$212,029 and \$283,702, respectively. The decrease in revenue for both the three and six month periods was attributable to the fact that L-3 Applied Technologies, Inc. ("L-3"), the supplier of our primary product, SteraMist, shut down operations of that division in the first quarter of 2013 while it was negotiating the final agreement to sell the Company the intellectual property and personal property related to the SteraMist line of products. As a result of that action, the Company did not have sufficient product to fill orders and revenues declined accordingly. Subsequent to the closing of the asset purchase from L-3, TOMI took over control of the entire product line, including manufacturing, assuring an adequate supply.

Professional fees primarily include legal and accounting fees. Professional fees totaled \$58,782 and \$27,288 during the three months ended June 30, 2013 and 2012, respectively. Professional fees totaled \$167,911 and \$110,884 during the six months ended June 30, 2013 and 2012, respectively.

Other general and administrative expenses include salaries and payroll taxes, rent, insurance expense, office expense, printing, trade shows, travel and training and seminars. Other general and administrative expenses were \$163,574 and \$70,681 for the quarters ended June 30, 2013 and 2012, respectively, an increase of \$92,893. This increase is primarily attributable to increased rent for our research and development laboratory, and an increase in trade show participation, additional insurance and \$20,000 per month paid to Rolyn for services and support staff.

Other general and administrative expenses include salaries and payroll taxes, rent, insurance expense, office expense, printing, trade shows, travel and training and seminars. Other general and administrative expenses were \$240,165 and \$109,185 for the six months ended June 30, 2013 and 2012, respectively, an increase of \$130,980. This increase is primarily attributable to increased rent for our research and development laboratory, and an increase in trade show participation, additional insurance and \$20,000 per month paid to Rolyn for services and support staff.

Depreciation and amortization was \$97,630 and \$10,045 for the quarters ended June 30, 2013 and 2012, respectively, or an increase of \$87,585 and \$107,341 and \$18,344 for the six months ended June 30, 2013 and 2012, respectively or an increase of \$88,997. This increase is primarily attributable to amortization expense recognized in the quarter ended June 30, 2013 in connection with our newly acquired patents.

Consulting fees were \$183,877 and \$15,000 for the quarters ended June 30, 2013 and 2012 and six months ended June 30, 2013 and 2012, respectively, or an increase of \$168,877. This increase is primarily attributable to the cost of consultants and other professionals dealing with Federal, State and international regulatory authorities.

### **Liquidity and Capital Resources**

As of July 31, 2013 we had a cash balance of approximately \$ 1,122,000. We have incurred significant net losses since inception, including a net loss of \$8,178,627 for the six months ended June 30, 2013. We have, since inception, consistently incurred negative cash flow from operations. During six months ended June 30, 2013, we incurred negative cash flows from operations of \$390,012. As of June 30, 2013, we had a working capital deficiency of \$10,370,080 and a stockholders' deficiency of \$6,315,770. The increase in working capital deficiency and stockholders' deficiency is directly related to the completion of the private placement in April 2013 in which the Company raised approximately \$5,000,000 in gross proceeds, enabling it to complete the asset purchase from L-3. See Note 6 hereinabove.

During the six months ended June 30, 2013, our operating activities used \$390,012 in cash, an increase of \$184,829 from the comparable prior period due primarily to charges related to convertible debt that has subsequently been extinguished.

During the six months ended June 30, 2013, our investing activities used \$3,450,990 in cash, an increase of \$3,405,018 from the comparable prior period.

Our financing activities generated \$4,957,710, a \$4,683,514 increase from the comparable prior period. The increase in cash provided by financing activities was due primarily to the proceeds from the aforementioned private placement.

### **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 June 30, 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 June 30, 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.

In July, 2013 the Company sold 4 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 \$200,000. The Note also calls for the establishment of a sinking fund. Net proceeds amounted to \$178,000 after expenses of offering totaling \$22,000. In addition, the Placement Agent received 40,000 common stock purchase warrants with an initial exercise price of \$.30 per share and expiring July 31, 2018.

Interest is payable on the Notes at a rate of 10% per annum, compounded annually, and payable in arrears on July 31<sup>st</sup> and January 31<sup>st</sup>. 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.



**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

99.1 Form of Promissory Note

99.2 Form of Common Stock Purchase Warrant

**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: August 12, 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 June 30, 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: August 12, 2013

By: /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 June 30, 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)) 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: August 12, 2013

By:           /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 June 30, 2013, as filed with the Securities and Exchange Commission on August 12, 2013 (the "Report"), I, Halden S. Shane, Chairman of the Board and Chief Executive Officer (Principal Executive 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: August 12, 2013

By: /s/ HALDEN S. SHANE

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

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**

**SENIOR SECURED CONVERTIBLE PROMISSORY NOTE**

\$ \_\_\_\_\_, 2013

FOR VALUE RECEIVED, the undersigned, TOMI ENVIRONMENTAL SOLUTIONS, INC. (TOMZ.OB), a company organized under the laws of the State of Florida (the "Company"), promises to pay to the order of \_\_\_\_\_ or its registered assigns (the "Holder"), the principal sum of \_\_\_\_\_ dollars (\$ \_\_\_\_\_), with interest from the date hereof at the rate of 10% per annum on the unpaid balance hereof until paid.

This Note was issued in connection with the Company's private offering (the "Offering") of units of the Company's securities (the "Units"), each Unit consisting of \$25,000 par value 10% Senior Secured Convertible Promissory Notes maturing July 31, 2015 and warrants to purchase 37,500 shares of the Company's Common Stock until Expiration Date (a "Warrant Share"), pursuant to a Private Placement Memorandum dated March 3, 2013 (the "Memorandum") and is subject to the terms of a Subscription Agreement (the "Subscription Agreement") incorporated therein to which the initial Holder is a party. Capitalized terms used and not otherwise defined herein will have the respective meanings ascribed to such terms in the Memorandum.

1. **Principal.** If not earlier converted pursuant to Section 3(a) hereof, the principal of this Note shall be payable on July 31, 2015 ("Maturity Date"). The Note will rank senior to all debt of the Company. The Note shall be secured by intellectual property such as patents, royalties, and 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 Company will also maintain an escrowed sinking fund to be used solely for the full or partial repayment of the Note's principal as described herein. Within 45 days after the end of each calendar quarter, 15.0% of the Company's reported revenue will be deposited into the Company's escrowed sinking fund account.
2. **Interest.** The Notes will bear interest at a rate of 10.0% per year. Interest will be paid to the person in whose name a note is registered at the close of business on July 31<sup>st</sup> and January 31<sup>st</sup> as the case may be (whether or not the day is a business day), immediately preceding the relevant interest payment date. Interest on the Notes will be computed on a 360-day year comprised of twelve 30-day months and will accrue from the date of the original issuance of the Notes. If any interest payment date falls on a date that is not a business day, such payment of interest (or principal in the case of the Maturity Date or any earlier repurchase date for the Notes) will be made on the next succeeding business day, and no interest or other amount will be paid as a result of any such delay.

If the Note is not paid in full by the Maturity Date, the interest rate payable on the Note shall be adjusted for interest accruable after the Maturity Date from 10% per annum to the lesser of 30% per annum or the maximum statutory rate pursuant to California law and other applicable jurisdiction based on the opinion of legal counsel selected by the Placement Agent.

For purposes herein, an "Event of Default" exists if the Company fails to make a payment required by Section 1 or 2 hereof.

**3. Conversion Events and Mechanics of Conversion.**

(a) Conversion. The Note-holder may convert the principal and unpaid interest into the Company's common stock at any time ("Conversion Event"). The Note's initial Conversion Price is \$0.29 per share at which price each \$25,000 par value can be converted into 86,207 common shares at this price.

(b) Mechanics of Conversion. The Company shall not be obligated to issue certificates evidencing the common stock issuable upon a Conversion Event unless this Note is either delivered to the Company, duly endorsed, at the office of the Company, or the Holder notifies the Company that this Note has been lost, stolen or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with this Note. As soon as practicable after delivery of the Note, or delivery of an agreement and indemnification in the case of a lost Note, the Company shall issue and deliver to the Holder a certificate or certificates for the number of shares of common stock to which the Holder shall be entitled (the "Conversion Shares"), and a check payable to the Holder in the amount equal to the cash amounts payable as a result of a conversion into fractional shares of such common stock. Any Conversion Event shall be deemed to have occurred immediately prior to the close of business on the date of the Conversion Event, and the Holder entitled to receive the common stock issuable upon such conversion shall be treated for all purposes as the record holder of such common stock on such date.

(c) Conversion Price Adjustment. The conversion price of the Note ("Conversion Price" or "CP") is subject to customary adjustment for stock splits, dividends and combinations and as described in the Memorandum and Note and specific adjustments in an event of default.

An event of Principal Payment Default shall occur if after the Maturity Date, the principal of the Note has been not paid in full. An event of Other Payment Default shall occur if, after the date that any interest or sinking fund payment is due, the respective payment has been not paid in full.

Whenever an Event of Other Payment Default continues and has not been remedied within 15 days, a Note Holder may deliver to the Company a request in writing that a part or all of Holder's Notes be converted into the Company's common stock at an adjusted conversion price equal to the common stock's Volume Average Price as reported by Bloomberg ("VWAP") during the 15 days prior to date that the written conversion request was received by the Company.

Whenever an Event of Principal Payment Default continues and has not remedied within 15 days, a Note Holder may deliver to the Company a request in writing that a part or all of Holder's Notes be converted into the Company's common stock at an adjusted conversion price equal to 50% of the common stock's VWAP during the 15 days prior to date that the written conversion request was received by the Company.

If, after a Conversion Event, the Notes have been held for: (i) by a non-affiliate of the Company for more than six months, the Company at its expense shall do whatever is required to issue common shares without restriction and allowing for the public resale of these shares in accordance with Rule 144(d)(1)(i), and (ii) by an affiliate of the Company for more than six months, the Company at its expense shall do whatever is required to issue common shares without restriction and allowing for the public resale of these shares in accordance with Rule 144(d)(1)(i).

The shares of common stock underlying the Note will have anti-dilution protection for stock splits, stock dividends, and/or similar transactions.

If prior to June 30, 2015, the Company issues or grants the right to purchase new common shares at a price less than the existing Conversion Price ("Issue/Grant Price"), the Conversion Price will immediately and permanently become the lesser of (a) 110% of this Issue/Grant Price or (b) the existing Conversion Price.

(d) Fractional Shares. No fractional shares of common stock shall be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company shall pay cash equal to such fraction multiplied by the Conversion Price.

(e) Redemption of the Note before the Due Date. Before June 30, 2013, the Company may, at its option, after 30 days prior notice to both the Note-holder and the Placement Agent during which period a Note-holder may elect to convert any part of the Note, redeem 50% of the Notes outstanding at a redemption price in cash equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest up to the redemption payment date, if the source of the funds used to make this redemption payment is any of the following:

- Sale of the Company's common stock,
- Sale of a license for the use of the patents acquired, and
- Proceeds from the sale of equipment and services.

On or after June 30, 2013, the Company may, at its option, after 60 days prior notice to both the Note-holder and the Placement Agent ("Redemption Notice"), during which period a Note-holder may elect to convert the Note, redeem via wire transfer all or a portion of the Notes at a redemption price in cash equal to the greater of:

- if the previous 6 month Average Daily Trading Value as reported by Bloomberg on the date of notice is less than \$100,000 and the most recent 90 day VWAP is greater than \$0.29, 110% of the principal amount of the notes to be redeemed plus accrued and unpaid interest up to the payment date,
- if the previous 6 month Average Daily Trading Value as reported by Bloomberg on the date of notice is greater than \$100,000, and the most recent 90 day VWAP is greater than \$0.29, 105% of the principal amount of the notes to be redeemed plus accrued and unpaid interest up to the payment date,
- If Redemption Notice occurs before June 30, 2014; 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest up to the payment date plus an amount issued in common shares at the price equal to the VWAP for the 20 trading days prior to the call notice, that results in the note-holder receiving interest and shares equal to an annual 15% non-compounded return on the Principal amount of the note, or
- If Redemption Notice occurs on or after June 30, 2014; 103% of the principal amount of the notes to be redeemed plus accrued and unpaid interest up to the payment date.

4. **Transfer Restrictions**. The Holder shall not transfer the Note (except to its own affiliate, subsidiary, or shareholders) until (a) it has first given written notice to the Company, describing briefly the manner of any such proposed transfer; and (b) (i) the Company has at its expense received from counsel satisfactory to the Company an opinion that such transfer can be made without compliance with the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), and applicable state securities laws, or (ii) a registration statement filed by the Company under the 1933 Act and applicable state securities laws is declared effective by the Securities and Exchange Commission and state securities commissions having jurisdiction.

5. **Currency; Payments**. All references herein to "dollars" or "\$" are to U.S. dollars, and all payments of principal of, and interest on, this Note shall be made in lawful money of the United States of America in immediately available funds. If the date on which any such payment is required to be made pursuant to the provisions of this Note occurs on a Saturday or Sunday or legal holiday observed in the State of California, such payments shall be due and payable on the immediately succeeding date which is not a Saturday or Sunday or legal holiday so observed.

6. **Representations and Warranties of Holder**. Holder hereby represents and warrants that:

(a) Securities Not Registered. Holder is acquiring the Note for its own account, not as an agent or nominee, and not with a view to, or for sale in connection with, any distribution thereof in violation of applicable securities laws. By executing this Note, Holder further represents with respect to the Note that Holder does not have any present contract, undertaking, understanding or arrangement with any person to sell, transfer or grant participations to such persons or any third person.

(b) Access to Information. The Company has made available to Holder the opportunity to ask questions of and to receive answers from the Company's officers, directors and other authorized representatives concerning the Company and its business and prospects, and Holder has been permitted to have access to all information which it has requested in order to evaluate the merits and risks of the purchase of the Note.

(c) Investment Experience. Holder is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the purchase of the Note.



(d) Regulation D. Holder is an "accredited investor" as defined in Rule 501 under the 1933 Act. In the normal course of business, Holder invests in or purchases securities similar to the Note and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the Note.

(e) Unregistered. Holder has been advised that (i) neither the Note nor the common stock issuable upon conversion of the Note has been registered under the 1933 Act or other applicable securities laws, (ii) the common stock issuable upon conversion of the Note may need to be held indefinitely, and Holder must continue to bear the economic risk of the investment in the common stock issuable upon conversion of the Note is subsequently registered under the 1933 Act or an exemption from such registration is available, (iii) when and if the common stock issuable upon conversion of the Note may be disposed of without registration in reliance on Rule 144 promulgated under the 1933 Act, such disposition can be made only in limited amounts in accordance with the terms and conditions of such Rule, and the Company at its expense may require an opinion of counsel to the Company and in form substance and scope reasonably acceptable to the Company to the effect that the common stock may be sold or transferred under an exemption from such registration, and (iv) if the Rule 144 exemption is not available, public sale without registration will require compliance with an exemption under the 1933 Act.

(g) Pre-Existing Relationship. Holder has either (1) a pre-existing personal or business relationship with the Company or any of its officers, directors or controlling persons, or (2) has sufficient business or financial experience or (3) have reviewed the Offering with financial advisors, other than Syndicated Capital, who have sufficient business or financial experience and are unaffiliated with and are not compensated by the Company; in such degree that, directly or indirectly, the Holder could be reasonably assumed to have the capacity to protect his/its own interest in connection with the acquisition of the Note and the common stock into which it converts.

(h) No Advertisement. Holder acknowledges that the offer and sale of the Note or the common stock into which it converts was not accomplished by the publication of any advertisement.

(i) No Review. Holder understands that no arbitration board or panel, court or federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, has passed upon or made any recommendation or endorsement of the common stock into which it converts.

(j) Holder understands that the common stock into which the Note may convert shall bear a restrictive legend in substantially the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED UNDER AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

7. **Survival of Representation and Warranties**. All representations and warranties made by Holder shall survive the earlier of the Due Date and shall remain effective and enforceable until the earlier to occur of the Due Date or the date on which claims based thereon shall have been barred by the applicable statutes of limitation.

8. **Waiver**. The Company expressly waives presentment, protest, demand, notice of dishonor, notice of nonpayment, notice of maturity, notice of protest, presentment for the purpose of accelerating maturity, and diligence in collection.

9. **Attorneys' Fees and Costs.** In the event of any legal proceedings in connection with this Note, all expenses in connection with such legal proceedings of the prevailing party, including reasonable legal fees and applicable costs and expenses, shall be reimbursed by the non-prevailing party upon demand. This provision shall not merge with any enforcement order or judgment on this Note and shall be applicable to any proceeding to enforce or appeal any judgment relating to the Note.

10. **Severability.** If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

11. **Successors and Assigns.** This Note shall inure to the benefit of the Holder and its successors and permitted assigns and shall be binding upon the undersigned and its successors and permitted assigns. As used herein, the term "Holder" shall mean and include the successors and permitted assigns of the Holder.

12. **Governing Law.** The parties acknowledge and agree that this Note and the rights and obligations of all parties hereunder shall be governed by and construed under the laws of the State of California, without regard to conflict of laws principles.

13. **Modification.** This Note may not be modified or amended orally, but only by an agreement in writing signed by the party against whom such agreement is sought to be enforced.

14. **Entire Agreement.** This Note constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any and all prior written or oral agreements and understandings with respect to the matters covered hereby.

TOMI ENVIRONMENTAL SOLUTIONS, INC.  
a Florida corporation

Date

/s/

By:  
Its:  
Address:

Holder:

/s/

By:  
Its:  
Address:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE OFFERED, SOLD, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND ANY APPLICABLE STATE LAWS, (ii) TO THE EXTENT APPLICABLE, RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER THE ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL, IF SUCH OPINION SHALL BE REASONABLY SATISFACTORY TO COUNSEL TO THE ISSUER, THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND APPLICABLE STATE LAW IS AVAILABLE.

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**STOCK PURCHASE WARRANT**  
 To Purchase \_\_\_\_\_ Shares of Common Stock  
 ( \_\_\_\_\_ thousand shares)

No. 2013-

Issue Date: \_\_\_\_\_, 2013

THIS CERTIFIES that, for value received, \_\_\_\_\_ (the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time on or after the date hereof, to subscribe for and purchase, from TOMI ENVIRONMENTAL SOLUTIONS, INC. a Florida corporation (the "Company"), of the fully paid non-assessable shares of the Company's common stock, \$0.01 par value per share ("Common Stock") at an initial purchase price of \$0.30 per share or a lesser price as described in Section 11c, provided that such right will terminate, if not terminated earlier in accordance with the provisions hereof, at 5:00 p.m. (Pacific Time) on July 31, 2018 (the "Expiration Date").

The purchase price and the number of shares for which this warrant (the "Warrant") is exercisable are subject to adjustment, as provided herein and specifically in Section 11.

This Warrant was issued in connection with the Company's private offering (the "Offering") of units of the Company's securities (the "Units"), each Unit consisting of \$25,000 par value 10% Senior Secured Convertible Promissory Notes maturing July 31, 2015 and warrants to purchase 37,500 shares of the Company's Common Stock until Expiration Date (a "Warrant Share"), pursuant to a Private Placement Memorandum dated March 3, 2013 (the "Memorandum") and is subject to the terms of a Subscription Agreement (the "Subscription Agreement") incorporated therein to which the initial Holder is a party. Capitalized terms used and not otherwise defined herein will have the respective meanings ascribed to such terms in the Memorandum.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include TOMI ENVIRONMENTAL SOLUTIONS, INC. and any corporation that shall succeed or assume the obligations of TOMI ENVIRONMENTAL SOLUTIONS, Inc. hereunder.

(b) The term "Warrant Shares" includes (i) the Company's Common Stock and (ii) any other securities into which or for which any of the Common Stock may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities.

(d) The term "Exercise Price" shall be \$0.30 per share or a lesser price per share as described in Section 11c, subject to adjustment pursuant to the terms hereof.

**Number of Shares Issuable upon Exercise.**

1.

Unless sooner terminated in accordance herewith, from and after the date hereof through and including the Expiration Date, the Holder shall be entitled to receive, upon exercise of this Warrant in whole or in part, the number of shares of Common Stock of the Company set forth on the first page of this Warrant, subject to adjustment pursuant hereto, by delivery of an original or fax copy of the exercise notice attached hereto as Exhibit A (the "Notice of Exercise") along with payment to the Company of the Exercise Price.

**Exercise of Warrant.**

2.

(a) The purchase rights represented by this Warrant are exercisable by the registered Holder hereof, in whole at any time or in part from time to time by delivery of the Notice of Exercise duly completed and executed at the office of the Company in California (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder hereof at the address of such Holder appearing on the books of the Company), and upon payment of the Exercise Price of the shares thereby purchased (cash, bank wire transfer, or by certified or official bank check payable to the order of the Company in an amount equal to the Exercise Price of the shares thereby purchased); whereupon the Holder of this Warrant shall be entitled to receive a certificate for the number of Warrant Shares so purchased; provided that the Company will place on each certificate a legend substantially the same as that appearing on this Warrant, in addition to any legend required by any applicable state or federal law. If this Warrant is exercised in part, the Company will issue to the Holder hereof a new Warrant upon the same terms as this Warrant but for the balance of Warrant Shares for which this Warrant remains exercisable. The Company agrees that upon exercise of this Warrant the Holder shall be deemed to be the record owner of the shares issued upon exercise as of the close of business on the date on which this Warrant shall have been exercised as aforesaid. This Warrant will be surrendered at the time of exercise or if lost, stolen, misplaced or destroyed, the Holder will comply with Section 7 below (b) Certificates for shares purchased hereunder shall be delivered to the Holder hereof within a reasonable time after the date on which this Warrant shall have been exercised as aforesaid.

(c) The Company covenants that all Warrant Shares which may be issued upon the exercise of rights represented by this Warrant will, upon exercise of the rights represented by this Warrant, be fully paid and non-assessable and free from all preemptive rights, taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue which shall be paid by the Company in accordance with Section 4 below).

**No Fractional Shares.**

3.

The Company shall not be required to issue fractional Warrant Shares upon the exercise of this Warrant or to deliver Warrant Certificates that evidence fractional Warrant Shares. In the event that a fraction of a Warrant Share would, except for the provisions of this Section 3, be issuable upon the exercise of this Warrant, the Company shall pay to the Holder exercising the Warrant an amount in cash equal to such fraction multiplied by the Per Share Market Value of the Warrant Share.

For purposes of this Warrant, the Per Share Market Value shall be determined as follows: As used herein, "Per Share Market Value" means on any particular date (a) the closing bid price per share of Common Stock on such date on the national securities exchange on which the shares of Common Stock are then listed or quoted, or if there is no such price on such date, then the average of the closing bid and asked prices on the national securities exchange on the date nearest preceding such date, (b) if the shares of Common Stock are not then listed or quoted on a national securities exchange, the average of the closing bid and asked prices for a share of Common Stock in the over-the-counter market, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, at the close of business on such date, or (c) if the shares of Common Stock are not then publicly traded, the fair market value of a share of Common Stock as determined by an appraiser selected in good faith by the Holders of a majority in interest of the Warrants then outstanding.

**4.Charges, Taxes and Expenses.**

Issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder of this Warrant, or in such name or names as may be directed by the Holder of this Warrant; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder of this Warrant, this Warrant, when exercised, shall be accompanied by the Assignment Form attached hereto as Exhibit B (the "Assignment Form") duly executed by the Holder hereof; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Warrant Shares, the Company may require, as a condition thereto, that the transferee execute an appropriate investment representation as may be reasonably required by the Company.

**No Rights as Shareholders.**

5.

This Warrant does not entitle the Holder hereof to any voting rights or other rights as a Shareholder of the Company prior to the exercise hereof.

**Exchange and Registry of Warrant.**

6.

This Warrant is exchangeable, upon the surrender hereof by the registered Holder at the above-mentioned office or agency of the Company, for a new Warrant or Warrants aggregating the total Warrant Shares of the surrendered Warrant of like tenor and dated as of such exchange. The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered Holder of this Warrant. This Warrant may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

**Loss, Theft, Destruction or Mutilation of Warrant.**

7.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor (but with no additional rights or obligations) and dated as of such cancellation, in lieu of this Warrant.

**Saturdays, Sundays, Holidays, etc.**

8.

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

**Cash Distributions.**

9.

No adjustment on account of cash dividends or interest on the Company's Common Stock or Other Securities that may become purchasable hereunder will be made to the Exercise Price under this Warrant.

**Consolidation, Merger or Sale of the Company.**

10.

If the Company is a party to a consolidation, merger or transfer of assets that reclassifies or changes its outstanding Common Stock, the successor corporation (or corporation controlling the successor corporation or the Company, as the case may be) shall by operation of law assume the Company's obligations under this Warrant. Upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets that the holder of a Warrant would have owned immediately after the consolidation, merger or transfer if the holder had exercised the Warrant immediately before the effective date of such transaction. As a condition to the consummation of such transaction, the Company shall arrange for the person or entity obligated to issue securities or deliver cash or other assets upon exercise of the Warrant to, concurrently with the consummation of such transaction, assume the Company's obligations hereunder by executing an instrument so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 10.

**Adjustments in the Exercise Price**

11.

The number of shares and class of capital stock purchasable under this Warrant are subject to adjustment from time to time as set forth in this Section 11.

(a) Adjustment for change in capital stock. If the Company:

- (i) pays a dividend or makes a distribution on its Common Stock, in each case, in shares of its Common Stock;
- (ii) subdivides its outstanding shares of Common Stock into a greater number of shares;
- (iii) combines its outstanding shares of Common Stock into a smaller number of shares;
- (iv) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or
- (v) issues by reclassification of its shares of Common Stock any shares of its capital stock;

then the number and classes of shares purchasable upon exercise of each Warrant in effect immediately prior to such action shall be adjusted so that the holder of any Warrant thereafter exercised may receive the number and classes of shares of capital stock of the Company which such holder would have owned immediately following such action if such holder had exercised the Warrant immediately prior to such action.

For a dividend or distribution the adjustment shall become effective immediately after the record date for the dividend or distribution. For a subdivision, combination or reclassification, the adjustment shall become effective immediately after the effective date of the subdivision, combination or reclassification.

If after an adjustment the Holder, upon exercise of a Warrant, may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company shall in good faith determine the allocation of the adjusted Exercise Price between or among the classes of capital stock. After such allocation, that portion of the Exercise Price applicable to each share of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Warrant. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 11(a), a Warrant may only be exercised in full by payment of the entire Exercise Price currently in effect.

(b) The Company will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 11 and in the taking of all such action as may be necessary or appropriate in order to protect the exercise rights of the Holders of this Warrant against impairment.

(c.) Each Warrant shall be non-redeemable and shall expire July 31, 2018 and entitles its holder to purchase one restricted share of the Company's Common Stock at an initial exercise price of \$0.30 per share, subject to adjustment for stock splits, dividends and combinations described in the Memorandum and Warrant.

Beginning six-months after the issuance of the Warrants and until the Warrants expire, the Warrant Exercise Price ("EP"), subject to being no less than the Floor Price, shall at each month-end be adjusted to the lesser of:

- the existing Exercise Price, or
- an adjusted Exercise Price ("EP") calculated using the following formula:  $EP = SP \times 110\%$

Where SP equals the VWAP of the Company's stock during the most recent six-month period as reported by Bloomberg or its successors.

Where Floor Price is defined as:

Through July 31, 2013: \$0.30

During the period August 1, 2013 through August 31, 2014: \$0.20

During the period September 1, 2014 through July 31, 2018: \$0.10

Whenever an event of either Principal Payment Default or Other Payment Default is occurring: \$0.05

Subject to being no less than the Floor Price, if at the end of 2013 and any subsequent or partial calendar year's VWAP of the Company's Common Stock as reported by Bloomberg is less than \$0.30 per share, the exercise price shall become 80% of the prior month's exercise price or EP before making the monthly six-month adjustment described above.

**Certificate as to Adjustments.**

12.

In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrant, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Exercise Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant agent of the Company (appointed pursuant to Section 16 hereof).

**Reservation of Stock Issuable on Exercise of Warrant.**

13.

The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrant, shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. If the Company has not reserve sufficient shares to accommodate all of its obligations include these Warrants to be converted into authorized common shares and a Warrant holder notifies the Company of this deficiency, then the number of common shares into which this Warrant may be exercised shall increase by 1% per day until the transfer agent has verified in writing that such shares shall have been duly authorized by the Company's Board of Directors and shareholders if required.

**Assignment; Exchange of Warrant.**

14.

Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered Holder hereof (a "Transferor") with respect to any or all of the shares underlying this Warrant. On the surrender for exchange of this Warrant, with the Transferor's duly executed Assignment Form and together with evidence reasonably satisfactory to the Company demonstrating compliance with applicable securities laws, which shall include, without limitation, a legal opinion from the Transferor's counsel that such transfer is exempt from the registration requirements of applicable securities laws, the Company at its expense (but with payment by the Transferor of any applicable transfer taxes) will issue and deliver to or on the order of the Transferor thereof a new Warrant of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Assignment Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of Warrant Shares called for on the face or faces of the Warrant so surrendered by the Transferor; and provided further, that upon any such transfer, the Company may require, as a condition thereto, that the Transferee execute an appropriate investment representation as may be reasonably required by the Company.

**Registration Rights.**

15.

The Company has agreed to register the Warrant Shares in any subsequent registration statement filed by the Company with the SEC, so that Holders shall be entitled to sell the same simultaneously with and upon the terms and conditions as the securities sold for the Company's account are being sold pursuant to any such registration statement, subject to such lock-up provisions as may be proposed by the underwriter of said registration statement (the "Piggyback Registration Right"). There is no guarantee as to a time frame for the filing of such a registration statement.



**Warrant Agent.**

16.

The Company may, by written notice to each Holder of a Warrant, appoint an agent for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 2, exchanging this Warrant pursuant to Section 14, and replacing this Warrant pursuant to Section 7, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

**Notices, etc.**

17.

All notices shall be in writing signed by the party giving such notice, and delivered personally or sent by overnight courier or messenger or sent by registered or certified mail (air mail if overseas), return receipt requested, or by telex, facsimile transmission, telegram or similar means of communication. Notices shall be deemed to have been received on the date of personal, telex, facsimile transmission, telegram or similar means of communication, or if sent by overnight courier or messenger, shall be deemed to have been received on the next delivery day after deposit with the courier or messenger, or if sent by certified or registered mail, return receipt requested, shall be deemed to have been received on the third business day after the date of mailing. Notices shall be sent to the addresses set forth below each party's signature on the Subscription Agreement.

**Notices of Record Date.**

18.

In case,

(a) The Company takes a record of the holders of its Common Stock for the purpose of entitling them to subscribe for or purchase any shares of stock of any class or to receive a dividend, distribution or any other rights; or

(b) There is any capital reorganization of the Company, reclassification of the capital stock of the Company (other than a subdivision or combination of its outstanding shares of Common Stock), or consolidation or merger of the Company with or into another corporation which does not constitute a sale of the Company; or

(c) There is a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, and in any such case, the Company shall cause to be mailed to the Holder, at least 20 business days prior to the date hereinafter specified, a notice stating the date on which (i) a record is to be taken for the purpose of such dividend, distribution or rights, or (ii) such reclassification, reorganization, consolidation, merger, dissolution, liquidation or winding up is to take place and the date, if any is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, dissolution, liquidation or winding up.

**Amendments and Supplements.**

19.

(a) The Company may from time to time supplement or amend this Warrant without the approval of any Holders in order to cure any ambiguity or to be correct or supplement any provision contained herein which may be defective or inconsistent with any other provision, or to make any other provisions in regard to matters or questions herein arising hereunder which the Company may deem necessary or desirable and which shall not materially adversely affect the interest of the Holder. All other supplements or amendments to this Warrant must be signed by the party against whom such supplement or amendment is to be enforced.

(b) Notwithstanding Section 19(a), the Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

**Investment Intent.**

20.

Holder represents and warrants to the Company that Holder is acquiring the Warrants for investment and with no present intention of distributing or reselling any of the Warrants.

**Certificates to Bear Language.**

21.

The Warrants and the Warrant Shares issuable upon exercise thereof shall bear the following legend by which Holder shall be bound:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE."

Certificates for Warrants or Warrant Shares without such legend shall be issued if such Warrants or Warrant Shares are sold pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or if the Company has received an opinion from counsel reasonably satisfactory to counsel for the Company, that such legend is no longer required under the Act.

**Miscellaneous.**

22.

(a) This Warrant shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of laws. The parties submit to the jurisdiction of the Courts of the County of Los Angeles, State of California or a Federal Court empanelled in the State of California for the resolution of all legal disputes arising under the terms of this Warrant, including, but not limited to, enforcement of any arbitration award. The Company and the Holder agree to submit to the jurisdiction of such courts and waive trial by jury.

(b) If any action or proceeding is brought by the Company on the one hand or by the Holder on the other hand to enforce or continue any provision of this Warrant, the prevailing party's costs and expenses, including its reasonable attorney's fees, in connection with such action or proceeding shall be paid by the other party.

(c) In the event that any provision of this Warrant is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision that may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Warrant.

(d) The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof

*Signature page follows*

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**

a Florida corporation

By: /s/

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Halden Shane

Chief Executive Officer