

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## TOMI Environmental Solutions, Inc.

**Form: 10-Q**

**Date Filed: 2018-11-14**

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 **September 30, 2018**

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**

(I.R.S. 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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 5, 2018, the registrant had 124,290,418 shares of common stock outstanding.

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that such forward looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Form 10-Q, except for historical information, may be deemed forward-looking statements. You can generally identify forward-looking statements as statements containing the words "will," "would," "believe," "expect," "estimate," "anticipate," "intend," "estimate," "assume," "can," "could," "plan," "predict," "should" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section "Risk Factors" in our most recent Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. Except as required by law, we undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

TOMI ENVIRONMENTAL SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

	September 30, 2018 (Unaudited)	December 31, 2017
Current Assets:		
Cash and Cash Equivalents	\$ 3,177,145	\$ 4,550,003
Accounts Receivable - net	2,284,828	1,835,949
Inventories (Note 3)	3,069,148	3,518,884
Deposits	185,893	-
Prepaid Expenses	373,568	270,419
Total Current Assets	<u>9,090,582</u>	<u>10,175,255</u>
Property and Equipment – net (Note 4)	648,384	712,822
Other Assets:		
Intangible Assets – net (Note 5)	1,271,401	1,548,532
Deposits	11,395	4,700
Total Other Assets	<u>1,282,796</u>	<u>1,553,232</u>
Total Assets	<u>\$ 11,021,761</u>	<u>\$ 12,441,309</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts Payable	\$ 1,052,618	\$ 751,730
Accrued Expenses and Other Current Liabilities (Note 10)	396,313	267,136
Accrued Interest (Note 6)	17,667	80,000
Customer Deposits	1,245	3,062
Deferred Rent	-	781
Convertible Notes Payable, net of discount of \$31,833 at September 30, 2018 (Note 6)	5,268,167	-
Total Current Liabilities	<u>6,736,010</u>	<u>1,102,709</u>
Convertible Notes Payable, net of discount of \$55,625 at December 31, 2017 (Note 6)	-	5,944,375
Total Long-Term Liabilities	<u>-</u>	<u>5,944,375</u>
Total Liabilities	<u>6,736,010</u>	<u>7,047,084</u>
Commitments and Contingencies	-	-
Shareholders' Equity:		
Cumulative Convertible Series A Preferred Stock; par value \$0.01 per share, 1,000,000 shares authorized; 510,000 shares issued and outstanding at September 30, 2018 and December 31, 2017	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 September 30, 2018 and December 31, 2017	-	-
Common stock; par value \$0.01 per share, 200,000,000 shares authorized; 124,290,418 and 122,049,958 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively.	1,242,904	1,220,499
Additional Paid-In Capital	42,930,773	42,139,675
Accumulated Deficit	(39,893,026)	(37,971,049)
Total Shareholders' Equity	<u>4,285,751</u>	<u>5,394,225</u>
Total Liabilities and Shareholders' Equity	<u>\$ 11,021,761</u>	<u>\$ 12,441,309</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Sales, net	\$ 1,947,570	\$ 1,030,095	\$ 4,506,508	\$ 3,508,748
Cost of Sales	912,466	389,170	1,961,935	1,318,021
Gross Profit	<u>1,035,104</u>	<u>640,925</u>	<u>2,544,573</u>	<u>2,190,727</u>
Operating Expenses:				
Professional Fees	78,684	72,197	270,856	738,918
Depreciation and Amortization	153,572	145,760	468,778	453,834
Selling Expenses	368,733	319,807	1,004,393	870,287
Research and Development	129,924	79,747	372,234	128,512
Equity Compensation Expense (Note 7)	-	(20,597)	12,685	223,300
Consulting Fees	19,711	63,293	93,089	180,405
General and Administrative	598,679	696,028	1,999,485	2,078,252
Other	-	(319,388)	-	(319,388)
Total Operating Expenses	<u>1,349,303</u>	<u>1,036,848</u>	<u>4,221,520</u>	<u>4,354,121</u>
Loss from Operations	<u>(314,199)</u>	<u>(395,923)</u>	<u>(1,676,947)</u>	<u>(2,163,394)</u>
Other Income (Expense):				
Amortization of Debt Discounts	(7,851)	(1,688)	(23,792)	(2,582)
Induced Conversion Costs	-	-	(57,201)	-
Interest Income	1,893	585	4,842	1,221
Interest Expense	(53,000)	(60,000)	(168,878)	(131,256)
Total Other Income (Expense)	<u>(58,958)</u>	<u>(61,103)</u>	<u>(245,029)</u>	<u>(132,617)</u>
Net Loss	<u>\$ (373,158)</u>	<u>\$ (457,025)</u>	<u>\$ (1,921,977)</u>	<u>\$ (2,296,010)</u>
Loss Per Share of Common Stock				
Basic and Diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Basic and Diluted Weighted Average Shares of Common Stock Outstanding	<u>124,290,418</u>	<u>121,567,328</u>	<u>123,333,468</u>	<u>121,144,339</u>

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**  
**(UNAUDITED)**

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2017	510,000	\$ 5,100	122,049,958	\$ 1,220,499	\$ 42,139,675	\$ (37,971,049)	\$ 5,394,225
Equity Compensation Expense					13,590		13,590
Common Stock Issued for Services Provided			362,500	3,625	33,875		37,500
Conversion of Notes Payable and Accrued Interest into Common Stock			1,877,960	18,780	686,432		705,212
Induced Conversion Costs					57,201		57,201
Net Loss for the Nine Months Ended September 30, 2018						(1,921,977)	(1,921,977)
Balance at September 30, 2018	<u>510,000</u>	<u>\$ 5,100</u>	<u>124,290,418</u>	<u>\$ 1,242,904</u>	<u>\$ 42,930,773</u>	<u>\$ (39,893,026)</u>	<u>\$ 4,285,751</u>

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

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

	Nine Months Ended	
	September 30,	
	2018	2017
<b>Cash Flow From Operating Activities:</b>		
Net Loss	\$ (1,921,977)	\$ (2,296,010)
Adjustments to Reconcile Net Loss to		
Net Cash Used In Operating Activities:		
Depreciation and Amortization	468,778	453,834
Amortization of Debt Discount	23,792	2,582
Equity Compensation Expense	13,590	221,808
Value of Equity Issued for Services	37,500	38,100
Induced Conversion Costs	57,201	-
Bad Debt Expense	64,434	163,882
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Accounts Receivable	(513,312)	(245,985)
Inventory	449,736	(583,291)
Prepaid Expenses	(103,149)	(174,253)
Deposits on Merchandise	(185,893)	147,010
Deposits	(6,695)	-
Increase (Decrease) in:		
Accounts Payable	300,888	613,769
Accrued Expenses	129,117	(51,355)
Accrued Interest	(57,122)	20,000
Deferred Rent	(781)	(5,820)
Customer Deposits	(1,817)	(22,632)
Net Cash Used in Operating Activities	<u>(1,245,650)</u>	<u>(1,718,361)</u>
<b>Cash Flow From Investing Activities:</b>		
Purchase of Property and Equipment	(27,579)	(8,398)
Costs Incurred from Construction In Progress	(99,629)	-
Net Cash Used in Investing Activities	<u>(127,208)</u>	<u>(8,398)</u>

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED**  
**(UNAUDITED)**

	Nine Months Ended	
	September 30,	
	2018	2017
<b>Cash Flow From Financing Activities:</b>		
Proceeds from Exercise of Warrants	-	48,750
Proceeds from Convertible Notes	-	6,000,000
Net Cash Provided by Financing Activities	-	6,048,750
Increase (Decrease) In Cash and Cash Equivalents	(1,372,858)	4,321,991
Cash and Cash Equivalents - Beginning	4,550,003	948,324
Cash and Cash Equivalents – Ending	<u>\$ 3,177,145</u>	<u>\$ 5,270,315</u>
<b>Supplemental Cash Flow Information:</b>		
Cash Paid For Interest	<u>\$ 226,000</u>	<u>\$ 111,256</u>
Cash Paid for Income Taxes	<u>\$ 800</u>	<u>\$ 800</u>
<b>Non-Cash Investing and Financing Activities :</b>		
Establishment of discount on convertible debt	<u>\$ -</u>	<u>\$ 61,904</u>
Reclassification of demo equipment from inventory to property and equipment	<u>\$ -</u>	<u>\$ 210,154</u>
Conversion of Convertible Note Payable and Accrued Interest into Common Stock	<u>\$ 705,212</u>	<u>\$ -</u>

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

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

**NOTE 1. DESCRIPTION OF BUSINESS**

TOMI Environmental Solutions, Inc. ("TOMI", the "Company", "we", "our" and "us") is a global provider of disinfection and decontamination essentials through its premier Binary Ionization Technology® (BIT™) platform, under which it manufactures, licenses, services and sells its SteraMist™ brand of products, including SteraMist™ BIT™, a hydrogen peroxide-based mist and fog.

Invented under a defense grant in association with the Defense Advanced Research Projects Agency (DARPA) of the U.S. Department of Defense, BIT™ is registered with the U.S. Environmental Protection Agency ("EPA") and uses a low percentage hydrogen peroxide as its only active ingredient to produce a fog composed mostly of a hydroxyl radical (:OH ion), known as ionized Hydrogen Peroxide ("iHP™"). Represented by the SteraMist™ brand of products, iHP™ produces a germ-killing aerosol that works like a visual non-caustic gas.

TOMI's products are designed to service a broad spectrum of commercial structures, including, but not limited to, hospitals and medical facilities, bio-safety labs, pharmaceutical facilities, meat and produce processing facilities, universities and research facilities, vivarium labs, all service industries including cruise ships, office buildings, hotel and motel rooms, schools, restaurants, military barracks, police and fire departments, and athletic facilities. TOMI products are also used in single-family homes and multi-unit residences.

TOMI's mission is to help its customers create a healthier world through its product line in its divisions (Healthcare, Life Sciences, TOMI Service Network and Food Safety) and its motto is "innovating for a safer world" for healthcare and life.

**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 financial 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, 2017 and notes thereto which are included in the Annual Report on Form 10-K previously filed with the SEC on March 29, 2018. The Company follows the same accounting policies in the preparation of interim reports. The results of operations for the interim periods covered by this Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

***Principles of Consolidation***

The accompanying condensed consolidated financial statements include the accounts of TOMI and its wholly-owned subsidiary, TOMI Environmental Solutions, Inc., a Nevada corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

***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.

### ***Use of Estimates***

The preparation of condensed 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 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 accounts receivable, inventory, 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.

### ***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.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and convertible debt. All these items were determined to be Level 1 fair value measurements.

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximated fair value because of the short maturity of these instruments. The recorded value of convertible debt approximates its fair value as the terms and rates approximate market rates (See Note 6).

### ***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. At times, these deposits may be in excess of insured limits.

### ***Accounts Receivable***

Our accounts receivable are typically from credit worthy customers or, for certain international customers, are supported by pre-payments. For those customers to whom we extend credit, we perform periodic evaluations of them and maintain allowances for potential credit losses as deemed necessary. We have a policy of reserving for doubtful accounts based on our best estimate of the amount of potential credit losses in existing accounts receivable. We periodically review our accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Bad debt expense for the three and nine months ended September 30, 2018 was approximately \$0 and \$64,000, respectively. Bad debt expense for the three and nine months ended September 30, 2017 was approximately \$103,000 and \$164,000, respectively.

At September 30, 2018 and December 31, 2017, the allowance for doubtful accounts was \$325,000 and \$500,000, respectively.

As of September 30, 2018, three customers accounted for 47% of accounts receivable. One customer accounted for 32% of net revenue for the three months ended September 30, 2018 and one customer accounted for 16% of net revenue for the nine months ended September 30, 2018.

As of December 31, 2017, two customers accounted for 24% of accounts receivable. Three customers accounted for 39% of net revenue for the three months ended September 30, 2017 and two customers accounted for 24% of net revenue for the nine months ended September 30, 2017.

#### ***Inventories***

Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories consist primarily of finished goods. At September 30, 2018 and December 31, 2017, we did not have a reserve for slow-moving or obsolete inventory.

#### ***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. Leasehold improvements are amortized using the straight-line method over the lives of the respective leases or service lives of the improvements, whichever is shorter.

#### ***Accounts Payable***

As of September 30, 2018, and December 31, 2017, one vendor accounted for approximately 58% and 45% of total accounts payable, respectively.

For the three and nine months ended September 30, 2018, one vendor accounted for 80% and 76% of cost of goods sold, respectively. For the three and nine months ended September 30, 2017, one vendor accounted for 72% and 69% of cost of goods sold, respectively.

#### ***Accrued Warranties***

Accrued warranties represent the estimated costs, if any, that will be incurred during the warranty period of our products. We make an estimate of expected costs that will be incurred by us during the warranty period and charge that expense to the consolidated statement of operations at the date of sale. Our manufacturer assumes the warranty against product defects for one year from date of sale, which we extend to our customers upon sale of the product. We assume responsibility for product reliability and results. As of September 30, 2018, and December 31, 2017, our warranty reserve was \$5,000.

#### ***Income Taxes***

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits that are, on a more likely than not basis, not expected to be realized in accordance with Accounting Standards Codification ("ASC") guidance for income taxes. Net deferred tax benefits have been fully reserved at September 30, 2018 and December 31, 2017. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

## Leases

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, we recognize rent expense on a straight-line basis over the non-cancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Company takes possession of or controls the physical use of the property. Deferred rent is included in other liabilities on the consolidated balance sheet.

We record landlord allowances and incentives received as deferred rent based on their short-term or long-term nature. These landlord allowances are amortized over the reasonably assured lease term as a reduction of rent expense. Additionally, payments made by us and reimbursed by the landlord for improvements deemed to be lessor assets have no impact on the Statements of Income. We consider improvements to be a lessor asset if all of the following criteria are met:

- the lease specifically requires the lessee to make the improvement;
- the improvement is fairly generic;
- the improvement increases the fair value of the property to the lessor; and
- the useful life of the improvement is longer than the lease term.

## Net Loss Per Share

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

Potentially dilutive securities as of September 30, 2018 consisted of 9,814,805 shares of common stock from convertible debentures, 26,375,611 shares of common stock issuable upon exercise of outstanding warrants, 320,000 shares of common stock issuable upon outstanding options and 510,000 shares of common stock issuable upon conversion of outstanding shares of Preferred A stock ("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 September 30, 2017 consisted of 11,111,100 shares of common stock from convertible debentures, 35,691,411 shares of common stock issuable upon exercise of outstanding warrants, 200,000 shares of common stock issuable upon outstanding options and 510,000 shares of common stock issuable upon conversion of outstanding shares of Preferred A stock ("Convertible Series A Preferred Stock"). Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

Diluted net loss per share is computed similarly to basic net loss per share except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential shares of common stock had been issued and if such additional shares were dilutive. Options, warrants, preferred stock and shares associated with the conversion of debt to purchase approximately 37.0 million and 47.5 million shares of common stock were outstanding at September 30, 2018 and 2017, respectively, but were excluded from the computation of diluted net loss per share due to the anti-dilutive effect on net loss per share.

	Three Months Ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)
Net loss	\$ (373,158)	\$ (457,025)
Adjustments for convertible debt - as converted		
Interest on convertible debt	53,000	60,000
Amortization of debt discount on convertible debt	7,851	1,688
Net loss attributable to common shareholders	<u>\$ (312,307)</u>	<u>\$ (395,337)</u>
Weighted average number of shares of common stock outstanding:		
Basic and diluted	<u>124,290,418</u>	<u>121,567,328</u>
Net loss attributable to common shareholders per share:		
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

	Nine Months Ended September 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Net loss	\$ (1,921,977)	\$ (2,296,010)
Adjustments for convertible debt - as converted		
Interest on convertible debt	168,878	131,256
Amortization of debt discount on convertible debt	23,792	2,582
Net loss attributable to common shareholders	<u>\$ (1,729,307)</u>	<u>\$ (2,162,172)</u>
Weighted average number of shares of common stock outstanding:		
Basic and diluted	<u>123,333,468</u>	<u>121,144,339</u>
Net loss attributable to common shareholders per share:		
Basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

### **Revenue Recognition**

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred, or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment.

#### *Disaggregation of Revenue*

The following table presents our revenues disaggregated by revenue source.

#### *Net Revenue*

#### *Product and Service Revenue*

	Three Months Ended September 30, (Unaudited)	
	2018	2017
SteraMist Product	\$ 1,613,000	\$ 792,000
Service and Training	335,000	238,000
Total	<u>\$ 1,948,000</u>	<u>\$ 1,030,000</u>

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
SteraMist Product	\$ 3,723,000	\$ 2,713,000
Service and Training	784,000	796,000
Total	<u>\$ 4,507,000</u>	<u>\$ 3,509,000</u>

## Revenue by Geographic Region

	Three Months Ended September 30, (Unaudited)	
	2018	2017
United States	\$ 1,754,000	\$ 755,000
International	194,000	275,000
Total	\$ 1,948,000	\$ 1,030,000

  

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
United States	\$ 3,545,000	\$ 2,497,000
International	962,000	1,012,000
Total	\$ 4,507,000	\$ 3,509,000

Product revenue includes sales from our standard and customized equipment, solution and accessories sold with our equipment. Revenue is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

Service and training revenue include sales from our high-level decontamination and service engagements, validation of our equipment and technology and customer training. Service revenue is recognized as the agreed upon services are rendered to our customers in an amount that reflects the consideration we expect to receive in exchange for those services.

### *Costs to Obtain a Contract with a Customer*

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses. These costs include our internal sales force compensation program and certain partner sales incentive programs as we have determined annual compensation is commensurate with annual sales activities.

### *Contract Balances*

As of September 30, 2018, and December 31, 2017 we did not have any unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

### *Arrangements with Multiple Performance Obligations*

Our contracts with customers may include multiple performance obligations. We enter into contracts that can include various combinations of products and services, which are primarily distinct and accounted for as separate performance obligations.

### *Significant Judgments*

Our contracts with customers for products and services often dictate the terms and conditions of when the control of the promised products or services is transferred to the customer and the amount of consideration to be received in exchange for the products and services.

### ***Equity Compensation Expense***

We account for equity compensation expense in accordance with FASB ASC 718, "Compensation—Stock Compensation." Under the provisions of FASB ASC 718, equity compensation expense is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period.

On July 7, 2017, our shareholders approved the 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and performance units/shares. Up to 5,000,000 shares of common stock are authorized for issuance under the 2016 Plan. Shares issued under the 2016 Plan may be either authorized but unissued shares, treasury shares, or any combination thereof. Provisions in the 2016 Plan permit the reuse or reissuance by the 2016 Plan of shares of common stock for numerous reasons, including, but not limited to, shares of common stock underlying canceled, expired, or forfeited awards of stock-based compensation and stock appreciation rights paid out in the form of cash. Equity compensation expense will typically be awarded in consideration for the future performance of services to us. All recipients of awards under the 2016 Plan are required to enter into award agreements with the Company at the time of the award; awards under the 2016 Plan are expressly conditioned upon such agreements. For the year ended December 31, 2017, the Company issued 200,000 shares of common stock out of the 2016 Plan. In addition, for the nine months ended September 30, 2018, the Company issued 300,000 shares of common stock out of the 2016 Plan.

### ***Concentrations of Credit Risk***

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We maintain cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation limit of \$250,000 at times during the year.

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

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived 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. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the three and nine months ended September 30, 2018 and 2017.

### ***Advertising and Promotional Expenses***

We expense advertising costs in the period in which they are incurred. Advertising and promotional expenses included in selling expenses for the three and nine months ended September 30, 2018 were approximately \$44,000 and \$156,000, respectively. Advertising and promotional expenses for the three and nine months ended September 30, 2017, were approximately \$11,000 and \$39,000, respectively.

### ***Research and Development Expenses***

We expense research and development expenses in the period in which they are incurred. For the three and nine months ended September 30, 2018, research and development expenses were approximately \$130,000 and \$372,000, respectively. For the three and nine months ended September 30, 2017, research and development expenses were approximately \$80,000 and \$129,000, respectively.

## Shipping and Handling Costs

We include shipping and handling costs relating to the delivery of products directly from vendors to the Company in cost of sales. Other shipping and handling costs, including third-party delivery costs relating to the delivery of products to customers, are classified as a general and administrative expense. Shipping and handling costs included in general and administrative expense were approximately \$52,000 and \$143,000 for the three and nine months ended September 30, 2018, respectively. Shipping and handling costs included in general and administrative expense were approximately \$32,000 and \$84,000 for the three and nine months ended September 30, 2017, respectively.

## Business Segments

We currently have one reportable business segment due to the fact that we derive our revenue primarily from one product. A breakdown of revenue is presented in "Revenue Recognition" in Note 2 above.

## Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, to replace the existing revenue recognition criteria for contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date*, to defer the effective date of ASU No. 2014-09 to interim and annual periods beginning after December 15, 2017. We adopted ASUs No. 2014-09 and 2015-14 on January 1, 2018 on a modified retrospective basis, which did not impact our beginning accumulated deficit and additional paid-in capital.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. ASU No. 2016-02 also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. ASU No. 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We currently expect to adopt ASU No. 2016-02 on January 1, 2019. We will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. We intend to elect the available practical expedients upon adoption. Upon adoption, we expect the consolidated balance sheet to include a right of use asset and liability related to substantially all of our lease arrangements. We are continuing to assess the impact of adopting ASU No. 2016-02 on our financial position, results of operations and related disclosures and have not yet concluded whether the effect on our consolidated financial statements will be material.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to simplify the accounting for the income tax effects from share-based compensation, the accounting for forfeitures and the accounting for statutory income tax withholding, among others. In particular, ASU No. 2016-09 requires all income tax effects from share-based compensation to be recognized in the consolidated statement of operations when the awards vest or are settled, permits accounting for forfeitures as they occur, and permits a higher level of statutory income tax withholding without triggering liability accounting. Adoption of ASU No. 2016-09 is modified retrospective, retrospective and prospective, depending on the specific provision being adopted. We adopted ASU No. 2016-09 on January 1, 2017, which did not impact our beginning accumulated deficit and additional paid-in capital.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify the test for goodwill impairment by removing Step 2. An entity will, therefore, perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform a qualitative assessment to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Adoption of ASU No. 2017-04 is prospective. We have not yet selected an adoption date, and ASU No. 2017-04 will have a currently undetermined impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting*, to provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU No. 2017-09 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Adoption of ASU No. 2017-09 is prospective. We adopted ASU No. 2017-09 on January 1, 2018, which did not impact our consolidated financial statements upon adoption.

## NOTE 3. INVENTORIES

Finished goods inventory at September 30, 2018 and December 31, 2017 was \$3,069,148 and \$3,518,884, respectively.

## NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

	September 30, 2018 (Unaudited)	December 31, 2017
Furniture and fixtures	\$ 91,216	\$ 91,216
Equipment	1,192,293	1,192,293
Vehicles	60,703	56,410
Computer and software	136,604	113,319
Leasehold improvements	15,554	15,554
Construction in Progress	99,629	-
	<u>1,595,999</u>	<u>1,468,792</u>
Less: Accumulated depreciation	<u>947,616</u>	<u>755,969</u>
	<u>\$ 648,384</u>	<u>\$ 712,822</u>

For the three and nine months ended September 30, 2018, depreciation was \$61,195 and \$191,647, respectively. For the three and nine months ended September 30, 2017, depreciation was \$53,383 and \$176,703, respectively.

## NOTE 5. INTANGIBLE ASSETS

Intangible assets consist of patents and trademarks related to our Binary Ionization Technology. We amortize the patents over the estimated remaining

lives of the related patents. The trademarks have an indefinite life. Amortization expense was \$92,377 and \$277,131 for the three and nine months ended September 30, 2018 and 2017, respectively.

Definite life intangible assets consist of the following:

	<u>September 30, 2018 (Unaudited)</u>	<u>December 31, 2017</u>
Intellectual Property and Patents	\$ 2,848,300	\$ 2,848,300
Less: Accumulated Amortization	<u>2,016,899</u>	<u>1,739,768</u>
Intangible Assets, net	<u>\$ 831,401</u>	<u>\$ 1,108,532</u>

Indefinite life intangible assets consist of the following:

Trademarks	\$ 440,000	\$ 440,000
Total Intangible Assets, net	<u>\$ 1,271,401</u>	<u>\$ 1,548,532</u>

Approximate amortization over the next five years is as follows:

Twelve Month Period Ending September 30,	Amount
2019	\$ 370,000
2020	370,000
2021	92,000
2022	-
2023	-
	<u>\$ 832,000</u>

#### NOTE 6. CONVERTIBLE DEBT

In March and May 2017, the Company closed a private placement transaction in which it issued to certain accredited investors unregistered senior callable convertible promissory notes (the "Notes") and three-year warrants to purchase an aggregate of 999,998 shares of common stock at an exercise price of \$0.69 per share in exchange for aggregate gross proceeds of \$6,000,000. The Notes bear interest at a rate of 4% per annum. \$5,300,000 in principal was originally scheduled to mature on August 31, 2018 and \$700,000 in principal was originally scheduled to mature on November 8, 2018, unless earlier redeemed, repurchased or converted. The Notes are convertible at the option of the holder into common stock at a conversion price of \$0.54 per share. Subsequent to September 1, 2017, we may redeem the Notes that are scheduled to mature on August 31, 2018 at any time prior to maturity at a price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest as of the redemption date. Prior to November 8, 2018, we may redeem the Notes that are scheduled to mature on such date at any time prior to maturity at a price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest as of the redemption date. Interest on the Notes is payable semi-annually in cash on February 28 and August 31 of each year, beginning on August 31, 2017. Interest expense related to the Notes for the three and nine months ended September 30, 2018 was \$53,000 and \$168,878, respectively. Interest expense related to the Notes for the three and nine months ended September 30, 2017 was \$60,000 and \$131,256, respectively.

The warrants were valued at \$62,559 using the Black-Scholes pricing model with the following assumptions: expected volatility: 104.06%–111.54%; expected dividend: \$0; expected term: 3 years; and risk-free rate: 1.49%–1.59%. The Company recorded the warrants' relative fair value of \$61,904 as an increase to additional paid-in capital and a discount against the related Notes.

The debt discount is being amortized over the life of the Notes using the effective interest method. Amortization expense for the three and nine months ended September 30, 2018 was \$7,851 and \$23,792, respectively. Amortization expense for the three and nine months ended September 30, 2017 was \$1,688 and \$2,582, respectively.

In February and March 2018, we extended the maturity date of the Notes—we extended the maturity dates for \$5,300,000 of principal on the Notes to April 1, 2019 and \$700,000 in principal of the Notes to June 8, 2019. No additional consideration was paid or accrued by the Company. The stated rate of the Notes was unchanged, and the estimated fair value of the new debt approximates its carrying amount (principal plus accrued interest at the date of the modification). We determined that the modification of these Notes is not a substantial modification in accordance with ASC 470-50, "Modifications and Extinguishments".

In May 2018, we offered a noteholder the option to convert its Note at a reduced conversion price of \$0.46. The noteholder accepted and converted at such price. Pursuant to the terms of the conversion offer, an aggregate of \$700,000 of principal and \$5,212 of accrued interest outstanding under the Note were converted into 1,877,960 shares of common stock. The Company recognized an induced conversion cost of \$57,201 related to the conversion.

Convertible notes consist of the following at:

	September 30, 2018 (Unaudited)	December 31, 2017
Convertible notes	\$ 5,300,000	\$ 6,000,000
Initial discount	(57,106)	(61,904)
Accumulated amortization	25,274	6,279
Convertible notes, net	<u>\$ 5,268,167</u>	<u>\$ 5,944,375</u>

#### **NOTE 7. SHAREHOLDERS' EQUITY**

Our board of directors may, without further action by our shareholders, 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***

Our authorized Convertible Series A Preferred Stock, \$0.01 par value, consists of 1,000,000 shares. At September 30, 2018 and December 31, 2017, there were 510,000 shares issued and outstanding. 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.

##### ***Convertible Series B Preferred Stock***

Our authorized Convertible Series B Preferred Stock, \$1,000 stated value, 7.5% cumulative dividend, consists of 4,000 shares. At September 30, 2018 and December 31, 2017, there were no shares issued and outstanding, respectively. Each share of Convertible Series B Preferred Stock may be converted (at the holder's election) into two hundred shares of our common stock.

##### ***Common Stock***

During the nine months ended September 30, 2017, the Company issued 249,824 shares of common stock valued at \$38,100 for professional services rendered, of which the Company issued 200,000 shares that were valued at \$32,000 and issued to our board of directors.

In August 2017, warrants to purchase 375,000 and 600,000 shares of common stock were exercised, which resulted in gross proceeds to the Company of \$18,750 and \$30,000, respectively.

During the nine months ended September 30, 2018, we issued 362,500 shares of common stock valued at \$37,500 to members of our board of directors (see Note 9).

In May 2018, we issued 1,877,960 shares of common stock in connection with the conversion of \$ 705,212 of principal and accrued interest outstanding under a Note (see Note 6).

## Stock Options

In January 2018, we issued options to purchase an aggregate of 100,000 shares of common stock to our Chief Operating Officer, valued at \$11,780. The options have an exercise price of \$0.12 per share and expire in January 2023. The options were valued using the Black-Scholes model using the following assumptions: volatility: 146%; dividend yield: 0%; zero coupon rate: 2.27%; and a life of 5 years.

In January 2018, we issued options to purchase an aggregate of 20,000 shares of common stock to our scientific advisory board members, valued at \$1,810 in total. The options have an exercise price of \$0.10 per share and expire in January 2028. The options were valued using the Black-Scholes model using the following assumptions: volatility: 147%; dividend yield: 0%; zero coupon rate: 2.41%; and a life of 10 years.

The following table summarizes stock options outstanding as of September 30, 2018 and December 31, 2017:

	September 30, 2018 (Unaudited)		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	200,000	\$ 0.76	200,000	\$ 0.76
Granted	120,000	\$ 0.12	—	—
Exercised	—	—	—	—
Outstanding, end of period	<u>320,000</u>	<u>\$ 0.52</u>	<u>200,000</u>	<u>\$ 0.76</u>

Options outstanding and exercisable by price range as of September 30, 2018 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	2.27	20,000	\$ 0.05
\$ 0.10	20,000	9.33	20,000	\$ 0.10
\$ 0.12	100,000	4.27	100,000	\$ 0.12
\$ 0.27	40,000	6.26	40,000	\$ 0.27
\$ 0.55	100,000	7.35	100,000	\$ 0.55
\$ 2.10	40,000	1.26	40,000	\$ 2.10
	<u>320,000</u>	<u>5.30</u>	<u>320,000</u>	<u>\$ 0.52</u>

## Stock Warrants

In March and May of 2017, in connection with the issuance of the Notes, we issued three-year warrants to purchase up to an aggregate of 999,998 shares of common stock at an exercise price of \$0.69 per share (see Note 6).

On June 30, 2017, we issued warrants to purchase up to 15,000 shares of common stock at an exercise price of \$0.10 per share to the members of the Scientific Advisory Board with a term of five years, which vested upon issuance. The Company utilized the Black-Scholes method to fair value the warrants received by the members of the Scientific Advisory Board at \$1,400 with the following assumptions: volatility, 150%; expected dividend yield, 0%; risk free interest rate, 1.83%; and a life of 5 years. The grant date fair value of each share underlying the warrant was \$0.09.

During the first and second quarter of 2017, we recognized approximately \$23,000 in equity compensation expense for the vested and unvested portion of a warrant issued to a former employee pursuant to his agreement with the Company. In September 2017, the employee resigned from his position with the Company and the unvested portion of his warrant was terminated. For the three months ended September 30, 2017, we reversed the equity compensation expense for the accrued but unvested portion of his warrant of \$22,000.

In June 2017, we modified the terms of outstanding warrants to purchase 4,000,000 shares of common stock. Pursuant to a settlement agreement, the term of the warrants was increased by 2 years and the exercise price was modified to \$0.12 per share (decrease of \$0.03 per share). Pursuant to ASC 718, the modified terms of the warrants resulted in approximately \$196,000 in incremental equity compensation expense for the nine months ended September 30, 2017. We utilized the Black-Scholes method to fair value the warrants under the original and modified terms with the following range of assumptions: volatility, 81%-97%; expected dividend yield, 0%; risk free interest rate, 1.28%; and a life of 0.33 - 2.33 years, respectively. The grant date fair value of each share of common stock underlying the warrant was \$0.01 and \$0.06, respectively.

In July 2017 we issued a warrant to purchase 250,000 shares of common stock to the CEO at an exercise price of \$0.10 per share pursuant to his employment agreement with the Company. The warrant was valued at approximately \$23,000 and has a term of 5 years. We utilized the Black-Scholes method to fair value the warrant received by the CEO with the following assumptions: volatility, 153%; expected dividend yield, 0%; risk free interest rate, 1.90%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrant was \$0.09.

The following table summarizes the outstanding common stock warrants as of September 30, 2018 and December 31, 2017:

	September 30, 2018 (Unaudited)		December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	35,501,411	\$ 0.33	37,076,413	\$ 0.31
Granted	-	-	4,774,998	0.24
Exercised	-	-	(975,000)	0.05
Expired	(9,125,800)	(0.30)	(5,375,000)	0.13
Outstanding, end of period	<u>26,375,611</u>	<u>\$ 0.34</u>	<u>35,501,411</u>	<u>\$ 0.33</u>

Warrants outstanding and exercisable by price range as of September 30, 2018 were as follows:

Outstanding Warrants			Average Weighted Remaining Contractual Life in Years	Exercisable Warrants	
Exercise Price	Number			Number	Weighted Average Exercise Price
\$ 0.10	265,000		3.78	265,000	\$ 0.10
\$ 0.12	7,500,000		2.53	7,500,000	\$ 0.12
\$ 0.17	10,000		4.07	10,000	\$ 0.17
\$ 0.27	250,000		3.25	250,000	\$ 0.27
\$ 0.29	10,125,613		2.05	10,125,613	\$ 0.29
\$ 0.30	3,300,000		0.42	3,300,000	\$ 0.30
\$ 0.32	250,000		3.00	250,000	\$ 0.32
\$ 0.33	75,000		0.01	75,000	\$ 0.33
\$ 0.42	250,000		2.75	250,000	\$ 0.42
\$ 0.50	250,000		2.50	250,000	\$ 0.50
\$ 0.55	100,000		2.33	100,000	\$ 0.55
\$ 0.69	999,998		1.47	999,998	\$ 0.69
\$ 1.00	3,000,000		1.59	3,000,000	\$ 1.00
	<u>26,375,611</u>		<u>2.24</u>	<u>26,375,611</u>	<u>\$ 0.34</u>

There were no unvested warrants outstanding as of September 30, 2018.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

### *Lease Commitments*

In September 2014, we entered into a lease agreement for office and warehouse space in Frederick, Maryland. As part of the lease agreement, we received a rent holiday in the first 5 months of the lease. The lease also provided for an escalation clause pursuant to which the Company was subject to an annual rent increase of 3%, year over year. The term of the lease expired on January 31, 2018 and has been extended on a month-to-month basis.

In April 2018, we entered into a 10-year lease agreement for a new 9,000-square-foot facility that contains office, warehouse, lab and research and development space in Frederick, Maryland. The lease agreement commences on December 1, 2018 and provides for annual rent of \$143,460, contains an escalation clause that increases the rent 3% year over year, a landlord tenant improvement allowance of \$405,000 and additional landlord work as discussed in the lease agreement

Approximate minimum annual rents under the lease are as follows:

Twelve Month Period Ending September 30,	Amount
2019	\$ 120,000
2020	146,000
2021	150,000
2022	155,000
2023	159,000
Thereafter	915,000
	<u>\$ 1,645,000</u>

### *Legal Contingencies*

We may become a party to litigation in the normal course of business. In the opinion of management, there are no legal matters involving us that would have a material adverse effect upon our financial condition, results of operations or cash flows. In addition, from time to time, we may have to file claims against parties that infringe on our intellectual property.

### *Product Liability*

As of September 30, 2018, and December 31, 2017, there were no claims against us for product liability.

## NOTE 9. CONTRACTS AND AGREEMENTS

### *Manufacturing Agreement*

In November 2016, we entered into a manufacturing and development agreement with RG Group Inc. The agreement does not provide for any minimum purchase commitments and is for a term of two years with provisions to extend. The agreement also provides for a warranty against product defects for one year.

As of September 30, 2018, and December 31, 2017, balances due to RG Group, Inc. accounted for approximately 58% and 45% of total accounts payable, respectively. For the three and nine months ended September 30, 2018, RG Group, Inc. accounted for 80% and 76% of cost of goods sold, respectively. For the three and nine months ended September 30, 2017, RG Group, Inc. accounted for 72% and 69% of cost of goods sold, respectively.

## Agreements with Directors

In December 2017, we increased the annual board fee to directors to \$40,000, to be paid in cash on a quarterly basis, with the exception of the audit committee chairperson, whose annual fee we increased to \$45,000, also to be paid in cash on a quarterly basis. The board fee also includes the issuance of 75,000 shares of common stock on an annual basis. For the nine months ended September 30, 2018, we issued an aggregate of 362,500 shares of common stock that were valued at \$37,500 to members of our board of directors.

## Other Agreements

In June 2015, we launched the TOMI Service Network ("TSN"). The TSN is a national service network composed of existing full-service restoration industry specialists that have entered into licensing agreements with us to become Primary Service Providers ("PSPs"). The licensing agreements grant protected territories to PSPs to perform services using our SteraMist™ platform of products and also provide for potential job referrals to PSPs whereby we are entitled to referral fees. Additionally, the agreement provides for commissions due to PSPs for equipment and solution sales they facilitate to other service providers in their respective territories. As part of these agreements, we are obligated to provide to the PSPs various training, ongoing support and facilitate a referral network call center. As of September 30, 2018, we had entered into 78 licensing agreements in connection with the launch of the TSN. The licensing agreements contain fixed price minimum equipment and solution orders based on the population of the territories granted pursuant to the licensing agreements. The nature and terms of our TSN agreements may represent multiple deliverable arrangements. Each of the deliverables in these arrangements typically represent a separate unit of accounting.

## NOTE 10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following at:

	September 30, 2018 (Unaudited)	December 31, 2017
Commissions	\$ 132,666	\$ 115,506
Payroll and related costs	147,023	43,484
Director fees	41,250	27,750
Accrued warranty	5,000	5,000
Other accrued expenses	70,374	75,396
Total	<u>\$ 396,313</u>	<u>\$ 267,136</u>

## NOTE 11. ACCRUED WARRANTY

Our manufacturer assumes warranty against product defects for one year from the sale to customers, which we extend to our customers upon sale of the product. We assume responsibility for product reliability and results. The warranty is generally limited to a refund of the original purchase price of the product or a replacement part. We estimate warranty costs based on historical warranty claim experience.

The following table presents warranty reserve activities at:

	September 30, 2018 (Unaudited)	December 31, 2017
Beginning accrued warranty costs	\$ 5,000	\$ -
Cost of warranty claims	-	-
Settlement of warranty claims	(3,045)	(5,731)
Provision for product warranty costs	3,045	10,731
Ending accrued warranty costs	<u>\$ 5,000</u>	<u>\$ 5,000</u>

**NOTE 12. CUSTOMER CONCENTRATION**

The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue, or whose accounts receivable balances individually represented 10% or more of the Company's accounts receivable.

As of September 30, 2018, three customers accounted for 47% of accounts receivable. One customer accounted for 32% of net revenue for the three months ended September 30, 2018 and one customer accounted for 16% of net revenue for the nine months ended September 30, 2018.

As of December 31, 2017, two customers accounted for 24% of accounts receivable. Three customers accounted for 39% of net revenue for the three months ended September 30, 2017 and two customers accounted for 24% of net revenue for the nine months ended September 30, 2017.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC. In addition to our historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Form 10-Q, particularly in Part II, Item 1A, "Risk Factors."

### Overview

TOMI Environmental Solutions, Inc. ("TOMI", "we" and "our") is a global provider of disinfection and decontamination essentials through our premier Binary Ionization Technology® (BIT™) platform, under which we manufacture, license, service and sell our SteraMist™ brand of products, including SteraMist™ BIT™, a hydrogen peroxide-based mist and fog.

In response to the 2001 Anthrax spore attacks, the United States Defense Advanced Research Projects Agency ("DARPA") and a leading defense company, Titan Corporation, developed BIT™ to defend against chemical and biological agents under a DARPA grant. In June 2005, L-3 Communications, Inc. ("L-3") a leading defense company, acquired the technology through the acquisition of Titan Corporation. In 2011, TOMI recognized the importance of this disruptive and innovative technology and, after two years of negotiations, in April 2013, won the right to purchase the technology from L-3. Subsequently, we began the long process of registering BIT™ with the Environmental Protection Agency ("EPA"), using good laboratory practice testing, as a hospital-healthcare disinfectant. TOMI introduced SteraMist™ to the commercial market in June 2013, using our inherited and pre-existing EPA mold label. In June 2015, we successfully registered SteraMist™ BIT™ as a hospital-healthcare disinfectant for use as a misting/fogging agent, at which time it became the first EPA-registered hospital-healthcare and general disinfectant registered solution and technology disinfection system on the market.

TOMI's cold plasma technology produces ionized Hydrogen Peroxide (iHP™), a mist/fog consisting of Reactive Oxygen Species, mainly hydroxyl radicals ("OH"). The technology converts TOMI's BIT™ solution, a low-percentage hydrogen peroxide solution, the only active ingredient of BIT™, to OH by passing it through an atmospheric cold plasma arc.

### Markets

TOMI's SteraMist™ products are designed to address multiple industries with various needs. Presently, our operations are organized into four main divisions based on our current target industries: Hospital-Healthcare, Life Sciences, TOMI Service Network and Food Safety.

TOMI is committed to global customer satisfaction and client retention in all of our divisions. Our core values are a commitment to reducing harmful pathogens and combating public health threats worldwide, which are evidence by our motto of "Innovating for a Safer World®".

### Regulation and Registrations

Under United States federal guidelines, TOMI is required to register with the EPA and certain state regulatory authorities as a seller of our solution and technology. In June 2015, SteraMist™ BIT™ was registered with the EPA as a hospital-healthcare disinfectant for use as a misting/fogging agent. SteraMist™ BIT™ holds EPA registrations both as a hospital-healthcare and general disinfectant (EPA Registration 90150-2) and for mold control and air and surface remediation (EPA Registration 90150-1). In February 2016, we expanded our label with the EPA to include *Clostridium difficile* spores (C. diff), Methicillin-resistant *Staphylococcus aureus* (MRSA), and influenza virus H1N1. In August 2017, our EPA label was further expanded to include efficacy against *Salmonella* and Norovirus. As of January 2017, our product line was one of 53 published on the EPA's "Registered Antimicrobial Products Effective against *Clostridium difficile* Spores", the EPA's K List, and in December 2017, SteraMist™ earned publications on EPA Lists G, L and M, which pertain to norovirus, Ebola, and avian influenza (H5N1), respectively. Since 2016, the SteraMist™ BIT™ EPA-registered label has been accepted in all 50 U.S. states, which registrations we continue to maintain.

We have expanded our SteraMist™ BIT™ Technology beyond the initial chemical and biological warfare applications to the killing of problem and resistant microorganisms (including spores) in a wide variety of commercial settings. SteraMist™ BIT™ is designed to provide fast-acting biological six-log kill, which is a 99.9999% kill, and work in hard-to-reach areas, while leaving no residue or noxious fumes.

All of our SteraMist™ products are fully validated to comply with good manufacturing practice standards, have received Conformité Européene marks in the European Economic Area and are approved by Underwriters Laboratory. Our solution is manufactured at an EPA-registered solution blender and our products are manufactured in an ISO 9001 certified facility.

## **Products**

We now offer our customers a wide range of innovative products designed to be easily incorporated into current disinfection and decontamination procedures. Further, we offer equipment installations, qualifications, and maintenance and are structured to address iHP® service disinfection and decontamination needs globally.

## **Divisions**

### *Hospital-Healthcare*

In 2018, TOMI launched the E-Z SteraMist™ Disinfection Cart, an all-in-one cart that houses our handheld point-and-spray SteraMist™ Surface Unit and all accompanying supplies. Our product is designed to make the terminal cleaning of patient rooms easier and faster than traditional manual cleans. We believe that our E-Z SteraMist™ Disinfection Cart will allow our customers within the Hospital-Healthcare industry to address the growing concern regarding the level of hospital acquired infections (“HAIs”) and multiple drug resistant organisms.

### *Life Sciences*

TOMI's SteraMist™ Environment System, SteraMist™ Complete Room System, SteraMist™ Select Surface Unit, iHP™ implementation to decontamination chambers and cage washers, and our iHP® Service Division, are designed to provide a complete room solution to address the regulatory inspections of disinfecting/decontaminating and validations processes within the life sciences industry.

### *TOMI Service Network*

The TOMI Service Network (“TSN”) division is a network comprised of professionals who are exclusively licensed and trained to use SteraMist™ products. TSN sells, trains and services professional remediation companies in the use of SteraMist™. These companies specialize in mold abatement, water damage (including damage from black and grey water) and fire damage, as well as professional specialists that are certified and practice in the area of forensic restoration. Currently, TSN is comprised of 83 such companies throughout the United States and Canada. TSN members use SteraMist™ as a standalone service or incorporate our products into their existing business. TOMI derives a continuous revenue stream from our TSN customers through recurring purchases of our BIT™ solution.

### *Food Safety*

TOMI recently launched a Food Safety division. Food safety is quickly becoming one of our largest targeted markets, as we believe it presents the potential for substantial growth, particularly in light of the implementation of rules in the United States under the U.S. Food and Drug Administration (“FDA”) Food Safety Modernization Act and in Canada under the Safe Food for Canadians Act and the Safe Food for Canadians Regulations, the latter two of which will become effective in January 2019. In part due to this increased focus on concerns over food safety in North America and globally, in general, we recently submitted to the EPA and FDA a request to expand our current labels from the treatment of food processing machinery, restaurants and food contact areas where food has been removed to include direct food contact and growing crops applications.

Initially, we intend to target the following segments, with an initial emphasis on the profitable organic market:

- Growing crops
- Transportation of produce and food storage
- Food processing

In each area, our main goal is to prevent or minimize food decay without utilizing harsh chemicals that leave toxic residues.

In the crops' application, we are targeting crops grown indoors, in particular, including high value crops such as vegetables grown in greenhouses and medical cannabis, the latter of which represents a rapidly expanding market. Additionally, with the help of partners, we have explored and obtained positive preliminary results from the application of SteraMist™ to a particular disease that afflicts mushrooms.

We believe that the treatment of truck trailers and containers to prevent pathogen cross-contamination between cargo is a high priority market based on its volume and potential. Recently, we treated certain rooms utilized by a large global distributor for apple storage and successfully demonstrated a clear pathogen reduction.

Food processing premises (including industrial kitchens) and equipment both require constant sanitation to prevent the spread of foodborne illnesses. We continue to seek to identify opportunities to apply our SteraMist™ products within this segment.

As reported in an article published in the International Journal of Food Microbiology by the United States Department of Agriculture ("USDA") and Public Health Dept. of Harvard University, research has shown that SteraMist™ is effective in reducing harmful microbes, such as Escherichia coli, Salmonella Typhimurium, and Listeria innocua, that are found on the surfaces of tomatoes, spinach leaves, and cantaloupe rinds. SteraMist™ has also reduced harmful pathogens on chicken breasts and eggs, as demonstrated by research from the Department of Poultry Science at the University of Arkansas and published in the Journal of Applied Poultry Science.

TOMI and a corporate partner have continued agricultural testing with the USDA to determine the efficacy of SteraMist™ against viral threats to honey bees and hives. Initial results from such testing suggest that SteraMist™ may be effective in inactivating such viral threats. Additionally, in the third quarter of 2018, TOMI partnered with a major global agricultural seed distributor to begin testing the efficacy of SteraMist™ against common viral, fungal and bacterial threats to corn seeds and other large and small seeds. While such testing continues, to the extent the results indicate efficacy, we intend to pursue available opportunities within the seed development industry.

#### **Recent Events**

In 2017, TOMI trained and contracted independent manufacturing representatives for our Life Sciences division, and in 2018, we focused on hiring a direct sales team and contracting independent manufacturing representatives for our Hospital-Healthcare division. We continue to build our international presence and recently added distributors and representatives in Asia, Australia, Europe and South America.

In January 2018, we appointed our new Chief Operating Officer, Elissa Shane, who had previously served us in other roles for several years, and in September 2018, we announced the appointment of Dr. Lim Boh Soon to our board of directors.

Since early 2017, we have further advanced our intellectual property portfolio. We hold a variety of intellectual property both domestically and internationally-registered design and utility patents, and registered trademarks, both word and image, with some marks registered across four separate classes. TOMI continues to renew a total of twenty-one (21) patents and seven (7) trademarks. Since 2017, TOMI has added a total of sixteen (16) patents and fifteen (15) trademarks and we are waiting for acceptance of eight (8) additional patents and six (6) additional registered trademarks.

## Highlights

In August 2018, we announced that SwedishAmerican, a division of UW Health, recently purchased a significant number of SteraMist™ disinfection units for use throughout its hospital in Rockford, Illinois. Given SwedishAmerican Hospital's satisfaction with the purchase of the first SteraMist™ Surface Unit, it determined that expanding use of SteraMist™ hospital-wide with a purchase of an additional 10 SteraMist™ units would allow the hospital to disinfect additional departments to proactively reduce the transference of harmful pathogens in a variety of spaces. Planned use sites for the newly purchased systems include Intensive Care Units, inpatient beds, the emergency department and the continued use and expansion in operating rooms.

In September 2018, we announced the addition of our first U.S. Department of Veterans Affairs hospital to a growing list of U.S. hospitals. The protocol TOMI implemented for this facility will use one gallon of BIT™ solution per operating room, and the facility will be treating eight operating rooms nightly, in addition to using the handheld units in patient rooms and waiting areas.

We continue to participate in a large study ("SHIELD study") that compares hospital manual cleans to a SteraMist™ clean. The study is being conducted at three Los Angeles Public Health Hospitals, LAC-USC Medical Center, UCLA Olive View Medical Center and Harbor-UCLA Medical Center. Early study details have demonstrated progress and more recent data shows that there is a significant decrease in the transference of HAIs in the rooms that used SteraMist™ for their terminal clean, as compared to the manual clean rooms. Further results will be released as obtained from each of the lead investigators.

The positive results to date from the SHIELD study have led to a partnership with MaxAir, a purifying respiratory protection helmet. This high-tech helmet will be worn by hospital Environmental Service employees and outside service providers during TOMI's hospital terminal clean. TOMI has developed a terminal clean protocol of approximately one hour in connection with our MaxAir partnership. TOMI has also recently partnered with MaxAir's national sales team, which regularly sells to the infection disease/safety market in the healthcare industry. TOMI and MaxAir have partnered and hired manufacturing sales representatives, sales groups and companies to sell and promote SteraMist™ along with MaxAir. TOMI will manage the orders and logistics of training and supplies to the end users. We believe this partnership will enable us to penetrate the United States healthcare market more effectively.

In September 2018, we manufactured, delivered and installed an iHP™ Complete Room system for a Life Science U.S. customer, and permanently installed 20 applicators spread among four separate suites and controlled by panels mounted in a single location. Further, in September 2018, we implemented into a decontamination chamber and validated an iHP™ Complete Room system for a well-renowned university .

We continue to see demand in the life science and academic marketplace, both domestically and internationally for our technology. Many of our platinum Life Science customers include Bristol-Myers Squibb, Merck, Novartis, Pfizer, Medimmune and Emergent.

During 2018, we have added 13 new members to our TSN network, which brings the total number of TSN contracts to 83 domestic companies. In July 2018, we announced the expansion of our TSN network into Canada with the addition of our first Canada-based service provider, and we recently added a second Canada-based member during the third quarter of 2018.

We have partnered with the Global BioRisk Advisory Council ("GBAC") to use SteraMist™ as one of the training technologies taught in its certification classes and used during decontamination of everyday crises and forensic restoration scenes.

In September 2018, TOMI launched the Forensic Restoration Service Team ("FRST"), a TOMI-certified forensic restoration and crime clean network. The network is comprised of service providers who are certified and specialize in forensic restoration, mass casualty cleanup, crime scene cleanup, suicide cleanup, unattended death cleanup, hoarding and bio-recovery. Participating FRST members will receive specialized training and certifications by GBAC. Currently, we have two certified FRST forensic restoration professional's members.

Recently, the World Health Organization (“WHO”) identified SteraMist™ as the only “Disinfecting solution and technology” in its 2016–2017 “WHO compendium of innovative health technologies for low-resource settings”. As part of its selection process, the 562 technologies were evaluated by 35 internal WHO staff and 87 external reviewers, who presented no conflict of interest. Once the evaluations were received and compiled, a total of 39 prototypes and 29 commercially available products were selected and are presented in the compendium in order to illustrate certain innovative technologies that can empower healthcare workers and might support people and patients to have a healthier life.

### ***Critical Accounting Policies and Estimates***

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The estimation process requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. Actual results could differ materially from our estimates.

The SEC defines critical accounting policies as those that are, in management’s view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. We consider the following policies to be critical to an understanding of our condensed consolidated financial statements and the uncertainties associated with the complex judgments made by us that could impact our results of operations, financial position and cash flows.

#### *Revenue Recognition*

We recognize revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred, or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment.

#### Disaggregation of Revenue

Product revenue includes sales from our standard and customized equipment, solution and accessories sold with our equipment. Revenue is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

Service and training revenue includes sales from our high-level decontamination and service engagements, validation of our equipment and technology and customer training. Service revenue is recognized as the agreed upon services are rendered to our customers in an amount that reflects the consideration we expect to receive in exchange for those services.

#### Costs to Obtain a Contract with a Customer

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses. These costs include our internal sales force compensation program and certain partner sales incentive programs as we have determined annual compensation is commensurate with annual sales activities.

#### Contract Balances

As of September 30, 2018, and December 31, 2017, we did not have any unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

### Arrangements with Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. We enter into contracts that can include various combinations of products and services, which are primarily distinct and accounted for as separate performance obligations.

### Significant Judgments

Our contracts with customers for products and services often dictate the terms and conditions of when the control of the promised products or services is transferred to the customer and the amount of consideration to be received in exchange for the products and services.

### *Fair Value Measurement*

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.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and convertible debt. 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 approximated fair value because of the short maturity of these instruments. The recorded value of 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. At times, these deposits may be in excess of insured limits.

### *Accounts Receivable*

Our accounts receivable are typically from credit worthy customers or, for certain international customers, are supported by pre-payments. For those customers to whom we extend credit, we perform periodic evaluations of them and maintain allowances for potential credit losses as deemed necessary. We have a policy of reserving for doubtful accounts based on our best estimate of the amount of potential credit losses in existing accounts receivable. We periodically review our accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

### *Inventories*

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventories consist primarily of finished goods . At September 30, 2018 and December 31, 2017, we did not have a reserve for slow-moving or obsolete inventory.

### *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. Leasehold improvements are amortized using the straight-line method over the lives of the respective leases or service lives of the improvements, whichever is shorter.

### *Accrued Warranties*

Accrued warranties represent the estimated costs, if any, that will be incurred during the warranty period of our products. We make an estimate of expected costs that will be incurred by us during the warranty period and charge that expense to the consolidated statement of operations at the date of sale. Our manufacturer assumes warranty against product defects for one year from date of sales, which we extend to our customers. We assume responsibility for product reliability and results.

### *Income Taxes*

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized, in accordance with Accounting Standards Codification ("ASC") guidance for income taxes. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

### *Leases*

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, we recognize rent expense on a straight-line basis over the non-cancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Company takes possession of or controls the physical use of the property. Deferred rent is included in other liabilities on the consolidated balance sheet.

We record landlord allowances and incentives received as deferred rent based on their short-term or long-term nature. These landlord allowances are amortized over the reasonably assured lease term as a reduction of rent expense. Additionally, payments made by us and reimbursed by the landlord for improvements deemed to be lessor assets have no impact on the Statements of Income. We consider improvements to be a lessor asset if all of the following criteria are met:

- the lease specifically requires the lessee to make the improvement;
- the improvement is fairly generic;
- the improvement increases the fair value of the property to the lessor; and
- the useful life of the improvement is longer than the lease term.

### *Loss Per Share*

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

### *Equity Compensation Expense*

We account for equity compensation expense in accordance with FASB ASC 718, "Compensation—Stock Compensation." Under the provisions of FASB ASC 718, equity compensation expense is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period.

On July 7, 2017, our shareholders approved the 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and performance units/shares. Up to 5,000,000 shares of common stock are authorized for issuance under the 2016 Plan. Shares issued under the 2016 Plan may be either authorized but unissued shares, treasury shares, or any combination thereof. Provisions in the 2016 Plan permit the reuse or reissuance by the 2016 Plan of shares of common stock for numerous reasons, including, but not limited to, shares of common stock underlying canceled, expired, or forfeited awards of stock-based compensation and stock appreciation rights paid out in the form of cash. Equity compensation expense will typically be awarded in consideration for the future performance of services to us. All recipients of awards under the 2016 Plan are required to enter into award agreements with the Company at the time of the award; awards under the 2016 Plan are expressly conditioned upon such agreements. For the year ended December 31, 2017, we issued 200,000 shares of common stock out of the 2016 Plan. In addition, for the nine months ended September 30, 2018, we issued 300,000 shares of common stock out of the 2016 Plan.

### *Concentrations of Credit Risk*

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We maintain cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation limit of \$250,000 at times during the year.

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

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived 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. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the three and nine months ended September 30, 2018 and 2017.

### *Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to replace the existing revenue recognition criteria for contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date*, to defer the effective date of ASU No. 2014-09 to interim and annual periods beginning after December 15, 2017. We adopted ASU Nos. 2014-09 and 2015-14 on January 1, 2018 on a modified retrospective basis, which did not impact our beginning accumulated deficit and additional paid-in capital.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. ASU 2016-02 also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We currently expect to adopt ASU 2016-02 on January 1, 2019. We will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. We intend to elect the available practical expedients upon adoption. Upon adoption, we expect the consolidated balance sheet to include a right of use asset and liability related to substantially all of our lease arrangements. We are continuing to assess the impact of adopting ASU 2016-02 on our financial position, results of operations and related disclosures and have not yet concluded whether the effect on our consolidated financial statements will be material.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to simplify the accounting for the income tax effects from share-based compensation, the accounting for forfeitures and the accounting for statutory income tax withholding, among others. In particular, ASU No. 2016-09 requires all income tax effects from share-based compensation to be recognized in the consolidated statement of operations when the awards vest or are settled, permits accounting for forfeitures as they occur, and permits a higher level of statutory income tax withholding without triggering liability accounting. Adoption of ASU No. 2016-09 is modified retrospective, retrospective and prospective, depending on the specific provision being adopted. We adopted ASU No. 2016-09 on January 1, 2017, which did not impact our beginning accumulated deficit and additional paid-in capital.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify the test for goodwill impairment by removing Step 2. An entity will, therefore, perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform a qualitative assessment to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Adoption of ASU No. 2017-04 is prospective. We have not yet selected an adoption date, and ASU No. 2017-04 will have a currently undetermined impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting*, to provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU No. 2017-09 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Adoption of ASU No. 2017-09 is prospective. We adopted ASU No. 2017-09 on January 1, 2018, which did not impact our consolidated financial statements upon adoption.

#### *Financial Operations Overview*

Our financial position as of September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018 (Unaudited)	December 31, 2017
Total shareholders' equity	\$ 4,286,000	\$ 5,394,000
Cash and cash equivalents	\$ 3,177,000	\$ 4,550,000
Accounts receivable, net	\$ 2,285,000	\$ 1,836,000
Inventories	\$ 3,069,000	\$ 3,519,000
Deposits	\$ 186,000	\$ -
Current liabilities	\$ 6,736,000	\$ 1,103,000
Long-term liabilities	\$ -	\$ 5,944,000
Working capital	\$ 2,355,000	\$ 9,073,000

During the nine months ended September 30, 2018, our liquidity positions were affected by the following:

- Net cash used in operations of approximately \$1,246,000.

**Results of Operations for the Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017**

	Three Months Ended September 30, (Unaudited)	
	2018	2017
Revenues, Net	\$ 1,948,000	\$ 1,030,000
Gross Profit	\$ 1,035,000	\$ 641,000
Total Operating Expenses <sup>(1)</sup>	\$ 1,349,000	\$ 1,037,000
Loss from Operations	\$ (314,000)	\$ (396,000)
Total Other Income (Expense)	\$ (59,000)	\$ (61,000)
Net Loss	\$ (373,000)	\$ (457,000)
Basic Net Loss per Share	\$ (0.00)	\$ (0.00)
Diluted Net Loss per Share	\$ (0.00)	\$ (0.00)

(1) Includes approximately \$0 and (\$20,597) in non-cash equity compensation expense for the three months ended September 30, 2018 and 2017, respectively.

**Net Revenue**

*Sales*

Revenue was approximately \$1,948,000 and \$1,030,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$918,000, or 89%, in the current year period.

The increase in sales in the current year period was attributable to large equipment orders from new customers, and steady repeat solution orders from our existing customer base.

*Product and Service Revenue*

	Three Months Ended September 30, (Unaudited)	
	2018	2017
SteraMist Product	\$ 1,613,000	\$ 792,000
Service and Training	335,000	238,000
Total	\$ 1,948,000	\$ 1,030,000

Revenue by Geographic Region

	Three Months Ended September 30, (Unaudited)	
	2018	2017
United States	\$ 1,754,000	\$ 755,000
International	194,000	275,000
Total	\$ 1,948,000	\$ 1,030,000

*Cost of Sales*

Cost of sales was approximately \$912,000 and \$389,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$523,000, or 134%, in the current year period. The primary reason for the increase in cost of sales is attributable to the increase in revenue and the related product mix in the current year period as compared to the prior year period.

*Professional Fees*

Professional fees were approximately \$79,000 and \$72,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of approximately \$7,000, or 10%, in the current year period. Professional fees are comprised mainly of legal, accounting and financial consulting fees.

*Depreciation and Amortization*

Depreciation and amortization were approximately \$154,000 and \$146,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$8,000, or 5%, in the current year period.

*Selling Expenses*

Selling expenses were approximately \$369,000 and \$320,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$49,000, or 15%, in the current year period. The increase in selling expenses is attributable to higher salaries due to increases in headcount and marketing and advertising costs incurred in the current year period as compared to the prior year period. Selling expenses represent selling salaries and wages, trade show fees, commissions, advertising and marketing expenses.

*Research and Development*

Research and development expenses were approximately \$130,000 and \$80,000 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$50,000, or 63%, in the current year period. The primary reason for the increase is attributable to current and ongoing studies and testing of our product in connection with hospital terminal cleans. Research and development expenses mainly include costs incurred in generating and supporting research on improving, extending and applying our patents in the field of mechanical cleaning and decontamination.

*Equity Compensation Expense*

Equity compensation expense, which consists of non-cash charges, was \$0 and (\$21,000) for the three months ended September 30, 2018 and 2017, respectively.

*Consulting Fees*

Consulting fees were approximately \$20,000 and \$63,000 for the three months ended September 30, 2018 and 2017, respectively, a decrease of approximately \$43,000, or 68%, in the current year period. The decrease in the current year period is due to increased consulting fees incurred in the prior year period in connection with the expansion of our EPA label.

### General and Administrative Expense

General and administrative expense was approximately \$599,000 and \$696,000 for the three months ended September 30, 2018 and 2017, respectively, a decrease of \$97,000, or 14%, in the current year period. The primary reason for the decrease is attributable to lower payroll costs for the current year period. General and administrative expense includes salaries and payroll taxes, rent, insurance expense, utilities, office expense and product registration costs.

### Other Income and Expense

Amortization of debt discount was approximately \$8,000 and \$1,700 during the three months ended September 30, 2018 and 2017, respectively. Amortization of debt discount in the three months ended September 30, 2018 consisted of the amortization of debt discount on the \$5,300,000 principal amount of unregistered senior callable convertible promissory notes (the "Notes") issued in March and May 2017. The debt discount was amortized over the life of the Notes utilizing the effective interest method.

Interest income was approximately \$1,900 and \$600 for the three months ended September 30, 2018 and 2017, respectively.

Interest expense was approximately \$53,000 and \$60,000 for the three months ended September 30, 2018 and 2017, respectively. Interest expense for the three months ended September 30, 2018 and 2017 consisted of the interest incurred on the \$5,300,000 principal amount of Notes issued in March and May 2017.

### Net Loss

Net loss was approximately \$373,000 and \$457,000 for the three months ended September 30, 2018 and 2017, respectively, a decrease of \$84,000, or 18%, in the current year period. The primary reasons for the decrease in net loss are attributable to:

- Higher revenue and gross profit of approximately \$918,000 and \$394,000, respectively, offset by;
- Higher operating expenses of approximately \$312,000.

### Results of Operations for the Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
Revenues, Net	\$ 4,507,000	\$ 3,509,000
Gross Profit	\$ 2,545,000	\$ 2,191,000
Total Operating Expenses <sup>(1)</sup>	\$ 4,222,000	\$ 4,354,000
Loss from Operations	\$ (1,677,000)	\$ (2,163,000)
Total Other Income (Expense)	\$ (245,000)	\$ (133,000)
Net Loss	\$ (1,922,000)	\$ (2,296,000)
Basic Net Loss per Share	\$ (0.02)	\$ (0.02)
Diluted Net Loss per Share	\$ (0.02)	\$ (0.02)

(1) Includes approximately \$13,000 and \$223,000 in non-cash equity compensation expense for the nine months ended September 30, 2018 and 2017, respectively.

## Net Revenue

### Sales

Revenue was approximately \$4,507,000 and \$3,509,000 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$998,000, or 28%, in the current year period.

The increase in sales in the current year period was attributable to large equipment orders from new customers, and steady repeat solution orders from our existing customer base.

### Product and Service Revenue

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
SteraMist Product	\$ 3,723,000	\$ 2,713,000
Service and Training	784,000	796,000
Total	\$ 4,507,000	\$ 3,509,000

### Revenue by Geographic Region

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
United States	\$ 3,545,000	\$ 2,497,000
International	962,000	1,012,000
Total	\$ 4,507,000	\$ 3,509,000

### Cost of Sales

Cost of sales was approximately \$1,962,000 and \$1,318,000 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$644,000, or 49%, in the current year period. The primary reason for the increase in cost of sales is attributable to the increase in revenue and the related product mix in the current year period as compared to the prior year period.

### Professional Fees

Professional fees were approximately \$271,000 and \$739,000 for the nine months ended September 30, 2018 and 2017, respectively, a decrease of approximately \$468,000, or 63%, in the current year period. The decrease is attributable to professional fees incurred in the prior year period in connection with our increased efforts to protect and strengthen our intellectual property and our lawsuit with Astro Pak Corporation, which we settled in July 2017. Professional fees are comprised mainly of legal, accounting and financial consulting fees.

### Depreciation and Amortization

Depreciation and amortization were approximately \$469,000 and \$454,000 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$15,000, or 3%, in the current year period.

### *Selling Expenses*

Selling expenses were approximately \$1,004,000 and \$870,000 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$134,000, or 15%, in the current year period. The increase in selling expenses is attributable to higher salaries due to increases in headcount and marketing and advertising costs incurred in the nine months ended September 30, 2018 as compared to the prior year period. Selling expenses represent selling salaries and wages, trade show fees, commissions, advertising and marketing expenses.

### *Research and Development*

Research and development expenses were approximately \$372,000 and \$129,000 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$243,000, or 188%, in the current year period. The primary reason for the increase is attributable to current and ongoing studies and testing in connection with our product related to more effective and quicker hospital terminal cleans. Research and development expenses mainly include costs incurred in generating and supporting research on improving, extending and applying our patents in the field of mechanical cleaning and decontamination.

### *Equity Compensation Expense*

Equity compensation expense, which consists of non-cash charges, was approximately \$13,000 and \$223,000 for the nine months ended September 30, 2018 and 2017, respectively, a decrease of \$210,000, or 94%, in the current year period. The decrease in equity compensation expense relates to a one-time charge of \$196,000 incurred in the prior year period in connection with the modification of warrants.

### *Consulting Fees*

Consulting fees were approximately \$93,000 and \$180,000 for the nine months ended September 30, 2018 and 2017, respectively, a decrease of approximately \$87,000, or 48%, in the current year period. The decrease in consulting fees relates to a one-time fee that was incurred in the prior year period with no such charge in the current period.

### *General and Administrative Expense*

General and administrative expense was approximately \$1,999,000 and \$2,078,000 for the nine months ended September 30, 2018 and 2017, respectively, a decrease of \$79,000, or 4%, in the current year period. General and administrative expense includes salaries and payroll taxes, rent, insurance expense, utilities, office expense and product registration costs.

### *Other Income and Expense*

Amortization of debt discount was approximately \$24,000 and \$3,000 during the nine months ended September 30, 2018 and 2017, respectively. Amortization of debt discount in the nine months ended September 30, 2018 consisted of the amortization of debt discount on the \$5,300,000 principal amount of Notes issued in March and May 2017. The debt discount was amortized over the life of the Notes utilizing the effective interest method.

Induced conversion costs of approximately \$57,000 for the nine months ended September 30, 2018 were incurred in connection with the conversion of \$700,000 convertible note payable

Interest income was approximately \$5,000 and \$1,000 for the nine months ended September 30, 2018 and 2017, respectively.

Interest expense was approximately \$169,000 and \$131,000 for the nine months ended September 30, 2018 and 2017, respectively. Interest expense for both the current and prior year periods consisted of the interest incurred on the \$5,300,000 principal amount of Notes issued in March and May 2017.

## Net Loss

Net loss was approximately \$1,922,000 and \$2,296,000 for the nine months ended September 30, 2018 and 2017, respectively, a decrease of \$374,000, or 16%, in the current year period. The primary reasons for the decrease in the net loss are attributable to:

- Higher revenue and gross profit of approximately \$998,000 and \$354,000, respectively;
- Lower operating expenses of approximately \$132,000, offset by;
- Higher interest expense of approximately \$38,000; and
- Induced conversion costs of approximately \$57,000.

## Liquidity and Capital Resources

As of September 30, 2018, we had cash and cash equivalents of approximately \$3,177,000 and working capital of approximately \$2,355,000. Our principal capital requirements are to fund operations, invest in research and development and capital equipment, and the continued costs of public company filing requirements. We have historically funded our operations through debt and equity financings.

In September 2016, our common stock was up-listed to the OTCQX Best Market. We intend to apply to further up-list our common stock to a national securities exchange in the future. Due to the applicable qualitative and quantitative standards required to successfully list on a national securities exchange, we may need to raise additional capital in order to meet such benchmarks. If we fail to satisfy the applicable listing standards of a national securities exchange, we may be unable to successfully list our common stock on such an exchange.

In March and May 2017, we raised gross proceeds of \$6,000,000 through a private placement of the Notes. We issued the Notes in tranches of \$5,300,000 and \$700,000, respectively, which originally were scheduled to mature on August 31, 2018 and November 8, 2018, respectively, unless earlier redeemed, repurchased or converted. The Notes are convertible at any time by the holder into common stock at a conversion price of \$0.54 per share. We may redeem the Notes at any time prior to maturity at a price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest as of the redemption date. Interest on the Notes is payable semi-annually in cash on February 28 and August 31 of each year at a rate of 4 percent per annum. In addition, we issued three-year warrants to purchase up to an aggregate of 999,998 shares of common stock at an exercise price of \$0.69 per share. Currently, we are using the proceeds from the private placement for research and development, international product registration, expansion of our internal sales force, marketing, public relations, expansions of our EPA label and for working capital and general corporate purposes. In February and March 2018, we and the holders of the Notes extended the maturity date of the \$5,300,000 principal amount of Notes to April 1, 2019 and the \$700,000 principal amount of Notes to June 8, 2019.

In May 2018, one of the noteholders with a principal balance of \$700,000 agreed to convert its Note into shares of common stock at a conversion price of \$0.46 per share.

For the nine months ended September 30, 2018 and 2017, we incurred losses from operations of approximately \$1,677,000 and \$2,163,000, respectively. Cash used in operations was approximately \$1,246,000 and \$1,718,000 for the nine months ended September 30, 2018 and 2017, respectively.

Our revenues can fluctuate due to the following factors, among others:

- Ramp up and expansion of our internal sales force and manufacturers' representatives;
- Length of our sales cycle;
- Expansion into new territories and markets; and
- Timing of orders from distributors.

We could incur additional operating losses and an increase of costs related to the continuation of product and technology development and administrative activities.

Management has taken and will endeavor to continue to take a number of actions designed to improve our results of operations and the related cash flows generated from operations in order to strengthen our financial position, including the following:

- Expansion of our label with the EPA to further our product registration internationally;
- Continued expansion of our internal sales force and manufacturer representatives in an effort to drive domestic revenue in all hospital-healthcare verticals;
- Continued expansion of our internal sales force and manufacturer representatives in an effort to drive global revenue in the life science verticals;
- Expansion of international distributors; and
- Continued growth of TSN and new growth in the food safety market including pre- and post-harvest.

We believe that our existing balance of cash and cash equivalents and amounts expected to be provided by operations will provide us with sufficient financial resources to meet our cash requirements for operations, working capital and capital expenditures over the next twelve months. However, in the event of unforeseen circumstances, unfavorable market developments or unfavorable results from operations, there can be no assurance that the above actions will be successfully implemented, and our cash flows may be adversely affected. While we have reduced the length of our sales cycle, it may still exceed 4–6 months and it is possible we may not be able to generate sufficient revenue in the next twelve months to cover our operating and compliance costs. We may also need to raise additional debt or equity financing to execute on the commercialization of our planned products. We cannot make any assurances that management's strategies will be effective or that any additional financing will be completed on a timely basis, on acceptable terms or at all. Our inability to successfully implement our strategies or to complete any other financing may mean that we would have to significantly reduce costs and/or delay projects, which would adversely affect our business, customers and program development, and would adversely impact us.

#### *Operating Activities*

Cash used in operating activities was approximately \$1,246,000 and \$1,718,000 for the nine months ended September 30, 2018 and 2017, respectively. Cash used in operating activities decreased in the current year period approximately \$472,000 as compared to the prior year period primarily due to a decrease in our inventory.

#### *Investing Activities*

Cash used in investing activities was approximately \$127,000 and \$8,000, respectively, for the nine months ended September 30, 2018 and 2017. The increase of approximately \$119,000 is due to the costs incurred in connection with our construction in progress.

#### *Financing Activities*

Cash provided by financing activities was \$0 for the nine months ended September 30, 2018.

Cash provided by financing activities for the nine months ended September 30, 2017 consisted of the \$6,049,000 in aggregate gross proceeds received from the issuance of the Notes and the exercise of warrants.

#### ***Recently Issued Accounting Pronouncements***

See Note 2 to the Condensed Consolidated Financial Statements contained in Item 1 above.

#### ***Off-Balance Sheet Arrangements***

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company as defined by Rule 405 under the Securities Act of 1933, as amended, and Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are not required to disclose the information required by this Item 3 pursuant to Item 305(e) of Regulation S-K.

**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of September 30, 2018, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) under the Exchange Act during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on Effectiveness of Controls and Procedures***

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows. Regardless of the outcome, any litigation could have an adverse impact on us due to defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors.

While, as a smaller reporting company, we are not required to provide the information required by this Item 1A, you should carefully review and consider the risk factors contained in our other reports and periodic filings with the SEC, including without limitation the risk factors contained under the caption "Item 1A—Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

The documents listed in the Exhibit Index of this Form 10-Q are incorporated herein by reference.

**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: November 14, 2018

By: /s/ Halden S. Shane

\_\_\_\_\_  
Halden S. Shane  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2018

By: /s/ Nick Jennings

\_\_\_\_\_  
Nick Jennings  
(Principal Financial Officer and Principal Accounting  
Officer)

**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
<a href="#">31.1</a>	Certification of Halden S. Shane, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
<a href="#">31.2</a>	Certification of Nick Jennings, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
<a href="#">32.1#</a>	Certification of Halden S. Shane, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
<a href="#">32.2#</a>	Certification of Nick Jennings, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

+ Indicates a management contract or compensatory plan.

# This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act.

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Halden S. Shane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 control 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):
  - (i) 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
  - (a) 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.

Dates: November 14, 2018

/s/ HALDEN S. SHANE

Halden S. Shane

Chief Executive Officer

(Principal Executive Officer)

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**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Nick Jennings, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 control 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):

(i) 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

(a) 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.

Dates: November 14, 2018

/s/ NICK JENNINGS

Nick Jennings,  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

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**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 September 30, 2018, as filed with the Securities and Exchange Commission on November 14, 2018 (the "Report"), I, Halden S. Shane, Chief Executive Officer of the Company, certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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: November 14, 2018

/s/ HALDEN S. SHANE  
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Halden S. Shane  
Chief Executive Officer  
(Principal Executive Officer)

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**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 September 30, 2018, as filed with the Securities and Exchange Commission on November 14, 2018 (the "Report"), I, Nick Jennings, Chief Financial Officer of the Company, certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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: November 14, 2018

/s/ NICK JENNINGS

Nick Jennings

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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