SECURITIES & EXCHANGE COMMISSION EDGAR FILING

CAPSTONE COMPANIES, INC.

Form: 10-Q

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2019

__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: 000-28831

CAPSTONE COMPANIES, INC.

(Exact name of Registrant as specified in its charter)

Florida	**84-1047159**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441
(Address of principal executive offices)

(954) 252-3440
(Issuer's Telephone Number)

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 past 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. [X] Yes [__] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, smaller reporting company, or 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 [_]	Accelerated filer [_]
Non-accelerated filer [_]	Smaller reporting company [x]
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 [X] No

The number of shares outstanding of each of the issuer’s classes of common stock, as of August 2, 2019, is as follows: 46,806,505 shares of Common Stock, $0.0001 par value per share. The issuer’s common stock is quoted on the OTCQB Venture Market of the OTC Markets Group, Inc. under the trading symbol “CAPC.”

CAPSTONE COMPANIES, INC.
Quarterly Report on Form 10-Q
Three Months and Six Months Ended June 30, 2019
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CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

		June 30, 2019 (Unaudited)		December 31, 2018
Assets:				
Current Assets:				
Cash	$	1,232,921	$	3,822,359
Accounts receivable, net		2,770,235		64,511
Inventories		-		27,497
Prepaid and other		351,678		243,876
Income tax refundable		220,207		220,207
Total Current Assets		**4,575,041**		**4,378,450**
Property and Equipment:				
Computer equipment and software		53,819		51,195
Machinery and equipment		196,067		170,567
Furniture and fixtures		6,828		6,828
Less: Accumulated depreciation		(174,822)		(152,870)
Total Property & Equipment		**81,892**		**75,720**
Other Non-current Assets:				
Deposit		62,693		102,805
Goodwill		1,936,020		1,936,020
Total Other Non-current Assets		**1,998,713**		**2,038,825**
Total Assets	**$**	**6,655,646**	**$**	**6,492,995**
Liabilities and Stockholders' Equity:				
Current Liabilities:				
Accounts payable and accrued liabilities	$	1,055,935	$	461,446
Deferred rent incentive		58,678		108,844
Income tax payable		11,694		11,694
Total Current Liabilities		**1,126,307**		**581,984**
Long Term Liabilities:				
Deferred tax liabilities		-		12,000
Total Long Term Liabilities		-		**12,000**
Total Liabilities		**1,126,307**		**593,984**
Commitments and Contingencies				
Stockholders' Equity:				
Preferred Stock, Series A, par value $.001 per share, authorized 6,666,667 shares, issued -0- shares		-		-
Preferred Stock, Series B-1, par value $.0001 per share, authorized 3,333,333 shares, issued -0- shares		-		-
Preferred Stock, Series C, par value $1.00 per share, authorized 67 shares, issued -0- shares		-		-
Common Stock, par value $.0001 per share, authorized 56,666,667 shares, issued 46,832,364 shares at June 30, 2019 and 47,046,364 shares at December 31, 2018		4,684		4,704
Additional paid-in capital		7,078,411		7,092,219
Accumulated deficit		(1,553,756)		(1,197,912)
Total Stockholders' Equity		**5,529,339**		**5,899,011**
Total Liabilities and Stockholders' Equity	**$**	**6,655,646**	**$**	**6,492,995**

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

CAPSTONE COMPANIES , INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30, 2019	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
Revenues, net	$ 3,407,822	$ 2,103,206	$ 6,386,624	$ 6,163,374
Cost of sales	(2,673,711)	(1,742,486)	(5,025,926)	(4,783,384)
Gross Profit	734,111	360,720	1,360,698	1,379,990
Operating Expenses:				
Sales and marketing	35,395	115,547	227,270	478,608
Compensation	382,317	369,749	757,165	744,858
Professional fees	82,803	142,900	240,606	291,786
Product development	94,534	123,766	179,763	290,332
Other general and administrative	157,552	166,676	321,263	340,965
Total Operating Expenses	752,601	918,638	1,726,067	2,146,549
Operating Loss	(18,490)	(557,918)	(365,369)	(766,559)
Other Income (Expense), Net	7,986	147,290	(2,475)	147,290
Loss Before Tax (Benefit)	(10,504)	(410,628)	(367,844)	(619,269)
(Benefit) for Income Tax	-	(59,000)	(12,000)	(77,000)
Net Loss	$ (10,504)	$ (351,628)	$ (355,844)	$ (542,269)
Net Loss per Common Share				
Basic	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)
Diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted Average Shares Outstanding				
Basic	46,928,935	47,046,364	46,906,092	47,046,364
Diluted	46,928,935	47,046,364	46,906,092	47,046,364

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

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock Series A		Preferred Stock Series B		Preferred Stock Series C		Common Stock		Additional Paid-In	Accumulated	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Capital	Deficit	Equity
Balance at December 31, 2018	-	$ -	-	$ -	-	$ -	47,046,364	$ 4,704	$ 7,092,219	$ (1,197,912)	$ 5,899,011
Stock options for compensation	-	-	-	-	-	-	-	-	11,025	-	11,025
Repurchase of shares	-	-	-	-	-	-	(45,470)	(3)	(8,612)	-	(8,615)
Net (Loss)	-	-	-	-	-	-	-	-	-	(345,340)	(345,340)
Balance at March 31, 2019	-	-	-	-	-	-	47,000,894	4,701	7,094,632	(1,543,252)	5,556,081
Stock options for compensation	-	-	-	-	-	-	-	-	11,025	-	11,025
Repurchase of shares	-	-	-	-	-	-	(168,530)	(17)	(27,246)	-	(27,263)
Net (Loss)	-	-	-	-	-	-	-	-	-	(10,504)	(10,504)
Balance at June 30, 2019	-	$ -	-	$ -	-	$ -	46,832,364	$ 4,684	$ 7,078,411	$ (1,553,756)	$ 5,529,339
(Unaudited)											
Balance at December 31, 2017	-	$ -	-	$ -	-	$ -	47,046,364	$ 4,704	$ 7,005,553	$ (186,854)	$ 6,823,403
Stock options for compensation	-	-	-	-	-	-	-	-	28,875	-	28,875
Net (Loss)	-	-	-	-	-	-	-	-	-	(190,641)	(190,641)
Balance at March 31, 2018	-	-	-	-	-	-	47,046,364	4,704	7,034,428	(377,495)	6,661,637
Stock options for compensation	-	-	-	-	-	-	-	-	28,874	-	28,874
Net (Loss)	-	-	-	-	-	-	-	-	-	(351,628)	(351,628)
Balance at June 30, 2018	-	$ -	-	$ -	-	$ -	47,046,364	$ 4,704	$ 7,063,302	$ (729,123)	$ 6,338,883
(Unaudited)											

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

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (355,844)	$ (542,269)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,951	18,266
Stock based compensation expense	22,050	57,750
Provision (benefit) for deferred income tax	(12,000)	18,000
Increase (decrease) in accrued sales allowance	(191,468)	41,645
(Increase) decrease in accounts receivable, net	(2,514,256)	2,302,602
(Increase) other receivables	-	(78,250)
Decrease in inventories	27,497	132,318
(Increase) in prepaid and other	(107,802)	(548,017)
(Increase) decrease in deposits	40,112	(696)
Increase (decrease) in accounts payable and accrued liabilities	594,489	(1,222,828)
(Decrease) in deferred rent incentive	(50,166)	-
(Decrease) in income tax payable	-	(613,088)
(Increase) in income tax refundable	-	(346,912)
Net cash used in operating activities	(2,525,437)	(781,479)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(28,123)	(125,723)
Net cash used in investing activities	(28,123)	(125,723)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of Shares	(35,878)	-
Net cash used in financing activities	(35,878)	-
Net Decrease in Cash	(2,589,438)	(907,202)
Cash at Beginning of Period	3,822,359	3,668,196
Cash at End of Period	$ 1,232,921	$ 2,760,994
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ -	$ 865,000

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of accounting policies for Capstone Companies, Inc. ("CAPC", "Capstone" or the "Company"), a Florida corporation, and its wholly-owned subsidiaries is presented to assist in understanding the Company's consolidated financial statements. The accounting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been consistently applied in the preparation of the consolidated financial statements.

Organization and Basis of Presentation

The condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position as of June 30, 2019 and results of operations and cash flows for the three months and six months ended June 30, 2019 and 2018. All material intercompany accounts and transactions are eliminated in consolidation. These condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) relating to interim financial statements and in conformity with U.S. GAAP. Certain information and note disclosures have been condensed or omitted in the condensed financial statements pursuant to SEC rules and regulations, although the Company believes that the disclosures made herein are adequate to make the information not misleading. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”).

The operating results for any interim period are not necessarily indicative of the operating results to be expected for any other interim period or the full fiscal year.

Nature of Business

Since the beginning of fiscal year 2007, the Company has been primarily engaged in the business of developing, marketing and selling home LED products through national and regional retailers in North America and in certain overseas markets. The Company’s products are targeted for applications such as home indoor and outdoor lighting and have different functionalities to meet consumer’s needs. The Company has developed a smart interactive mirror for residential use as a variant line for its lighting products, which product should be ready for market introduction in late 2019. The development of the smart interactive mirror is part of the Company’s strategic effort to find new product lines to replace or supplement existing products that are nearing or at the end of their product life cycle. These products are offered either under the Capstone brand or licensed brands.

The Company’s products are typically manufactured in China by contract manufacturing companies.

The Company’s operations consist of one reportable segment for financial reporting purposes: Lighting Products.

Accounts Receivable

For product revenue, the Company invoices its customers at the time of shipment for the sales value of the product shipped. Accounts receivable are recognized at the amount expected to be collected and are not subject to any interest or finance charges. The Company does not have any off-balance sheet credit exposure related to any of its customers. As of June 30, 2019 and December 31, 2018, accounts receivable serves as collateral when the Company borrows against its credit facilities.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will recognize an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and consideration of other factors such as industry conditions, the current business environment and the Company's historical payment experience. An allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available.

As of June 30, 2019 and December 31, 2018, management has determined that accounts receivable are fully collectible. As such, management has not recorded an allowance for doubtful accounts.

The following table summarizes the components of Accounts Receivable, net:

	June 30, 2019	December 31, 2018
Trade Accounts Receivables at period end	$ 2,943,661	$ 429,405
Reserve for estimated marketing allowances, cash discounts and other incentives	(173,426)	(364,894)
Total Accounts Receivable, net	**$ 2,770,235**	**$ 64,511**

The following table summarizes the changes in the Company's reserve for marketing allowances, cash discounts and other incentives which is included in net accounts receivable:

	June 30, 2019	December 31, 2018
Balance at beginning of the period	$ (364,894)	$ (194,061)
Accrued allowances	-	(191,468)
Reversal of prior year accrued allowances	-	1,749
Expenditures	191,468	18,886
Balance at period-end	**$ (173,426)**	**$ (364,894)**

Marketing allowances include the cost of underwriting an instant rebate coupon or a target markdown allowance on a specific product. Cash discounts represent discounts offered to the retailer off outstanding accounts receivable in order to initiate early payment.

Inventories

The Company's inventory, recorded at lower of cost (first-in, first-out) or net realizable value, consists of finished goods for resale by Capstone.

Prepaid Expenses

The Company's prepaid expenses consist primarily of deposits on inventory purchases for future orders as well as prepaid insurance, trade show and subscription expense.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Lease incentives are amortized utilizing the straight-line method over the life of the lease.

Earnings Per Common Share

Basic earnings per common share are computed by dividing net income(loss) by the weighted average number of shares of common stock outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. For calculation of the diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and warrants using the treasury stock method. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. During the six months ended June 30, 2019, 156,667 stock options expired. At June 30, 2019 and 2018, the total number of potentially dilutive common stock equivalents excluded from the diluted earnings per share calculation was 813,334 and 783,335, respectively.

Basic weighted average shares outstanding is reconciled to diluted weighted shares outstanding as follows:

	3 months ended June 30, 2019	3 months ended June 30, 2018
Basic weighted average shares outstanding	46,928,935	47,046,364
Dilutive options	-	-
Diluted weighted average shares outstanding	**46,928,935**	**47,046,364**

	6 months ended June 30, 2019	6 months ended June 30, 2018
Basic weighted average shares outstanding	46,906,092	47,046,364
Dilutive options	-	-
Diluted weighted average shares outstanding	**46,906,092**	**47,046,364**

Revenue Recognition

The Company generates revenue from developing, marketing and selling consumer lighting products through national and regional retailers. The Company's products are targeted for applications such as home indoor and outdoor lighting and have different functionalities. Capstone currently operates in the consumer lighting products category in the Unites States and in certain overseas markets. These products may be offered either under the Capstone brand or licensed brands.

A sales contract occurs when the customer-retailer submits a purchase order to buy a specific product, a specific quantity, at an agreed-fixed price, within typically a six-month shipping window, from a specific location and on agreed payment terms. The selling price in all of our customers' orders has been previously negotiated and agreed to including any applicable discount prior to receiving the customer's purchase order. The stated unit price in the customer's order has already been determined and is fixed at the time of invoicing.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company recognizes product revenue when the Company’s performance obligations as per the terms in the customers purchase order have been fully satisfied, specifically, when the specified product and quantity ordered has been manufactured and shipped pursuant to the customers requested ship window, when the sales price as detailed in the purchase order is fixed, when the product title and risk of loss for that order has passed to the customer, and collection of the invoice is reasonably assured. This means that the product ordered and to be shipped has gone through quality assurance inspection, customs and commercial documentation preparation, the goods have been delivered, title transferred to the customer and confirmed by a signed cargo receipt or bill of lading. Only at the time of shipment when all performance obligations have been satisfied will the judgement be made to invoice the customer and complete the sales contract.

The Company may enter into a licensing agreement with globally recognized companies, that allows the Company to market products under a licensed brand to retailers for a designated period of time, and whereby the Company will pay a royalty fee, typically a percentage of licensed product revenue to the licensor in order to market the licensed product.

The Company expenses license royalty fees and sales commissions when incurred and these expenses are recognized during the period the related sale is recorded. These costs are recorded within sales and marketing expenses.

The following table disaggregates net revenue by major source:

	For the 3 Months Ended June 30, 2019			For the 3 Months Ended June 30, 2018		
	Capstone Brand	License Brands	Total Consolidated	Capstone Brand	License Brands	Total Consolidated
Lighting Products- U.S.	$ 3,307,382	$ -	$ 3,307,382	$ 1,693,480	$ 264,472	$ 1,957,952
Lighting Products-International	100,440	-	100,440	31,080	114,174	145,254
Total Revenue	**$ 3,407,822**	**$ -**	**$ 3,407,822**	**$ 1,724,560**	**$ 378,646**	**$ 2,103,206**

	For the 6 Months Ended June 30, 2019			For the 6 Months Ended June 30, 2018		
	Capstone Brand	License Brands	Total Consolidated	Capstone Brand	License Brands	Total Consolidated
Lighting Products- U.S.	$ 5,985,009	$ -	$ 5,985,009	$ 1,841,781	$ 3,859,253	$ 5,701,034
Lighting Products-International	401,615	-	401,615	196,974	265,366	462,340
Total Revenue	**$ 6,386,624**	**$ -**	**$ 6,386,624**	**$ 2,038,755**	**$ 4,124,619**	**$ 6,163,374**

We provide our customers with limited rights of return for non-conforming product warranty claims. As a policy, the Company does not accept product returns from customers, however occasionally as part of a customer's in store test for new product, we may receive back residual inventory.

Our payment terms may vary by the type of customer, the customer's credit standing, the location where the product will be picked up from and for international customers, which country their corporate office is located. The term between invoicing date and when payment is due may vary between 30 days and 90 days depending on the customer type. In order to ensure there are no payment issues, overseas customers or new customers may be required to provide a deposit or full payment before the order is delivered to the customer.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company selectively supports retailer's initiatives to maximize sales of the Company's products on the retail floor or to assist in developing consumer awareness of new products launches, by providing marketing fund allowances to the customer. The Company recognizes these incentives at the time they are offered to the customers and records a credit to their account with an offsetting charge as either a reduction to revenue, increase to cost of sales, or marketing expenses depending on the type of sales incentives. Sales reductions for anticipated discounts, allowances and other deductions are recognized during the period the related revenue is recorded.

During the six months ended June 30, 2019 and 2018, Capstone determined that $0 and $1,749, respectively of previously accrued allowances were no longer required.

Warranties

The Company provides the end user with limited rights of return as a consumer assurance warranty on all products sold, stipulating that the product will function properly for the warranty period. The warranty period for all products is one year from the date of consumer purchase

Certain retail customers may receive an off-invoice based discount such as a defective/warranty allowance, that will automatically reduce the unit selling price at the time the order is invoiced. This allowance will be used by the retail customer to defray the cost of any returned units from consumers and therefore negate the need to ship defective units back to the Company. Such allowances are charged to cost of sales at the time the order is invoiced.

For those customers that do not receive a discount off-invoice, the Company recognizes a charge to cost of sales for anticipated non-conforming returns based upon an analysis of historical product warranty claims and other relevant data. We evaluate our warranty reserves based on various factors including historical warranty claims assumptions about frequency of warranty claims, and assumptions about the frequency of product failures derived from our reliability estimates. Actual product failure rates that materially differ from our estimates could have a significant impact on our operating results. Product warranty reserves are reviewed each quarter and recognized at the time we recognize revenue.

The following table summarizes the changes in the Company's product warranty liabilities which are included in accounts payable and accrued liabilities in the accompanying June 30, 2019 and December 31, 2018 balance sheets:

	June 30, 2019	December 31, 2018
Balance at the beginning of the period	$ 212,495	$ 328,279
Amount accrued	206,633	59,981
Expenditures	(196,994)	(175,765)
Balance at period-end	**$ 222,134**	**$ 212,495**

Advertising and Promotion

Advertising and promotion costs, including advertising, public relations, and trade show expenses, are expensed as incurred and included in sales and marketing expenses. Advertising and promotion expense was $14,549 and $72,732 for the three months and $186,006 and $77,650 for the six months ended June 30, 2019 and 2018, respectively.

Product Development

Our research and development team is located in Hong Kong working with our designated factories, and is responsible for the design, development, testing, and certification of new product releases. Our engineering efforts support product development across all products, as well as product testing for specific overseas markets. All research and development costs are charged to results of operations as incurred.

Product development expenses were $94,534 and $123,766, respectively for the three months and $179,763 and $290,332, respectively for the six months ended June 30, 2019 and 2018.

Shipping and Handling

The Company's shipping and handling costs are included in sales and marketing expenses and are recognized as an expense during the period in which they are incurred and amounted to $8,347 and $7,505 for the three months and $16,213 and $33,856 for the six months ended June 30, 2019 and 2018, respectively.

Accounts Payable and Accrued Liabilities

The following table summarizes the components of accounts payable and accrued liabilities as of June 30, 2019 and December 31, 2018, respectively:

	June 30, 2019	December 31, 2018
Accounts payable	$ 734,186	$ 221,568
Accrued warranty reserve	222,134	212,495
Accrued compensation, benefits, commissions and marketing expenses	99,615	27,383
Total accrued liabilities	321,749	239,878
Total	**$ 1,055,935**	**$ 461,446**

Income Taxes

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions and certain other jurisdictions.

The Company accounts for income taxes under the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 740 *Income Taxes*. ASC 740 requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company and its U.S. subsidiaries file consolidated income tax returns.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

Tax regulations within each jurisdiction are subject to the interpretation of the relaxed tax laws and regulations and require significant judgement to apply. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities generally for a period commencing from 3 years from the later of each return due date or date filed.

If the Company were to subsequently record an unrecognized tax benefit, associated penalties and tax related interest expense would be recorded as a component of income tax expense.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of ASC 718 *Compensation- Stock Compensation*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values.

ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expenses over the requisite service periods in the Company's condensed consolidated statements of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

In conjunction with the adoption of ASC 718, the Company adopted the straight-line single option method of attributing the value of stock-based compensation expense.

The Company accounts for forfeitures as they occur.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis, including those related to revenue recognition, product warranty obligations, valuation of inventories, tax related contingencies, valuation of stock-based compensation, other contingencies and litigation, among others. The Company generally bases its estimates on historical experience, agreed obligations, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Historically, past changes to these estimates have not had a material impact on the Company’s financial statements. However, circumstances could change, and actual results could differ materially from those estimates.

Recent Accounting Standards

To be Adopted in a Future Period

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment,* which requires an entity to perform a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit’s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 will be effective for the Company’s fiscal year beginning after December 15, 2019, and subsequent interim periods. The Company is currently evaluating the impact of the adoption of ASU 2017-04 will have on the Company’s consolidated financial statements.

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. Where it is determined that a new accounting pronouncement affects the Company’s financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company’s financials properly reflect the change.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK AND ECONOMIC DEPENDENCE

Financial instruments that potentially subject the Company to credit risk consist principally of cash and accounts receivable.

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements.

Cash

The Company at times has cash with its financial institution in excess of Federal Deposit Insurance Corporation ("FIDC") insurance limits. The Company places its cash with high credit quality financial institutions which minimize these risks.

Accounts Receivable

The Company grants credit to its customers, substantially all of whom are retail establishments located throughout the United States and their international locations. The Company typically does not require collateral from customers. Credit risk is limited due to the financial strength of the customers comprising the Company's customer base and their dispersion across different geographical regions.

The Company monitors exposure of credit losses and maintains allowances for anticipated losses considered necessary under the circumstances.

Major Customers

The Company had one customer who comprised 95% of net revenue during the six months ended June 30, 2019 and two customers who comprised of 52% and 45% of net revenue during the six months ended June 30, 2018. The loss of these customers would adversely impact the business of the Company.

For the six months ended June 30, 2019 and 2018, approximately 6% and 8%, respectively, of the Company's net revenue resulted from international sales.

	Net Revenue % For the Six Months ended June 30,		Gross Accounts Receivable As of June 30,	Gross Accounts Receivable As of December 31,
	2019	2018	2019	2018
Customer A	95%	45%	$ 2,741,944	$ 402,294
Customer B	3%	52%	201,096	-
Total	98%	97%	$ 2,943,040	$ 402,294

Major Vendors

The Company had one vendor from which it purchased 98% and 92% of merchandise sold during the period ended June 30, 2019 and 2018, respectively. The loss of this vendor could adversely impact the business of the Company.

	Purchases % For the Six Months ended June 30,		Accounts Payable As of June 30,	Accounts Payable As of December 31,
	2019	2018	2019	2018
Vendor A	98%	92%	$ 719,711	$ 63,594
Total	98%	92%	$ 719,711	$ 63,594

NOTE 3 – NOTES PAYABLE

Sterling National Bank and Subsequent Events

On September 8, 2010, in order to fund increasing accounts receivables and support working capital needs, Capstone secured a Financing Agreement from Sterling Capital Funding (now called Sterling National Bank), located in New York, New York, whereby Capstone receives funds for assigned retailer shipments. The assignments provide funding for an amount up to 85% of net invoices submitted.

There is a base management fee equal to 0.30% of the gross invoice amount. The interest rate of the loan advance is 0.25% above Sterling National Bank's Base Rate which at time of closing was 7%. As of June 30, 2019 and December 31, 2018, the interest rate on the loan was 7.50% and 7.25%, respectively. The amounts borrowed under this agreement are due on demand and collateralized by substantially all the assets of Capstone.

Processing fees associated with the agreement for the three months were $9,734 and $3,170 and $20,228 and $20,699 for the six months ended June 30, 2019 and 2018, respectively.

On July 20, 2018, Sterling National Bank expanded the credit line up to $10,000,000 of which $2,000,000 had been allocated as a Capstone expansion working capital line.
On July 18, 2019, Sterling National Bank renewed the credit line up to $7,500,000 to June 30, 2020. Additional expansion of the line will be reviewed as the need arises.

As of June 30, 2019 and December 31, 2018, there was no balance due to Sterling National Bank.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has operating lease agreements for offices and showroom facilities in Fort Lauderdale, Florida and in Hong Kong, expiring at varying dates. The Company's principal executive offices was located at 350 Jim Moran Blvd., Suite 120, Deerfield Beach, Florida 33442, which is located in Broward County. As of the date of this report, the Company's principal executive offices are located at 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441.

Effective February 1, 2017, the Company renewed the lease for 3 years ending January 31, 2020, with a base annual rent of $92,256 and with a total rent expense of $281,711 through the term of the agreement. Under the lease agreement, Capstone was responsible for a portion of common area maintenance charges and any other utility consumed in the leased premises.

On May 15, 2018, the Company entered into a lease agreement with the previous landlord to provide for a premises relocation, lease termination and new sublease agreement. Under the agreement the Company relocated its principal executive offices located at 350 Jim Moran Blvd, Suite 120, Deerfield Beach, Florida 33442 to 4,694 square feet of office space on the second floor of 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441. The original lease terminated on the relocation date, being July 1, 2018, and the parties proceeded under the terms of the new sublease which expires on January 31, 2020. The base annual rent in the new sublease remains at the same rate as the previous agreement until January 31, 2020. At the expiration of the new sublease, the Company has the option to accept the prime lease with another 3 years renewal and with an option to renew for an additional 5-year period. It is not reasonably certain that the Company will be able to exercise the option. If the Company decides to further extend the sublease after January 31, 2020, the Company will be subject to the terms and conditions of the prime lease. The base monthly rent was $7,312 to January 31, 2019 and then base rent will be $7,514 until January 31, 2020 which includes an estimate for portion of the common area maintenance.

For consideration for the lease amendment, the Company received a rate abatement from the landlord, effective May 1, 2018 and for four months to September 1, 2018. The landlord delivered the relocation premises in a “turnkey” condition with requested renovations made at no expense to the Company. As further consideration, the existing landlord agreed to pay the Company $150,000 incentive to vacate the existing premises on completion of the relocation, which was fully paid as of December 31, 2018 and is being amortized over the life of the lease amendment resulting in the recognition of lease incentive income of $870 per month.

On May 9, 2019, per the terms of the lease agreement, the current landlord was notified of the Company’s intent to take over the prime lease. This request is currently being reviewed by the property owner.

Capstone International Hong Kong Ltd, (CIHK), entered into a lease agreement for office space at 303 Hennessy Road, Wanchai, Hong Kong. The original agreement which was effective from February 17, 2014 has been extended various times. The lease was renewed for (12) months ending May 16, 2018 with a base annual rate of $54,193 paid in equal monthly installments. On April 24, 2018, the Company further extended the lease for (3) months ending August 16, 2018 with a base rate increase of $225 per month. This agreement has been further extended until August 16, 2019 with a base monthly rate of $5,006. A further six month extension to the lease agreement is being prepared by the landlord.

CIHK entered into a six (6) month rental agreement effective from December 1, 2016 for a showroom space at 3F, Wing Kin Industrial Building, 4-6 Wing Kin Road, Kwai Chung, NT, Hong Kong. This agreement has been extended various times. The current lease expires August 16, 2019 with a base monthly rent of $1,290. A further six month extension to the lease agreement is being prepared by the landlord.

The Company's rent expense for the three months ended June 30, 2019 and 2018 amounted to $21,510 and $34,273 respectively and $42,774 and $75,767 for the six months ended June 30, 2019 and 2018, respectively. The decreased rent in the period resulted from the $8,383 per month office move incentive that has been amortized over the life of the lease that ends January 31, 2020. The Company did not record a right to use asset and liability under ASC 842 due to the short term length of its current leases.

Consulting Agreements

On July 1, 2015, the Company entered into a consulting agreement with George Wolf, whereby Mr. Wolf was paid $10,500 per month through December 31, 2015 increasing to $12,500 per month from January 1, 2016 through December 31, 2017. A bonus compensation of $10,000 was paid in the month of January 2017 related to 2016 sales performance.

On January 1, 2017, the agreement was amended, whereby Mr. Wolf was paid $13,750 per month from January 1, 2017 through December 31, 2017. Bonus compensation of $15,000 was paid on December 22, 2017 related to 2017 sales performance.

On January 1, 2018, the agreement was further amended, whereby Mr. Wolf will be paid $13,750 per month from January 1, 2018 through December 31, 2018.

On January 1, 2019, the agreement was further amended, whereby Mr. Wolf will be paid $13,750 per month from January 1, 2019 through December 31, 2020.

The agreement can be terminated upon 30 days' notice by either party. The Company may, in its sole discretion at any time after December 31, 2015 convert Mr. Wolf to a full-time Executive status. The annual salary and term of employment would be equal to that outlined in the consulting agreement.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (continued)

Employment Agreements

On February 5, 2018, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach will be paid $301,521 per annum. The initial term of this new agreement began February 5, 2018 and ends February 5, 2020. The parties may extend the employment period of this agreement by mutual consent with approval of the Company's Board of Directors, but the extension may not exceed two years in length. This Employment Agreement replaced a prior Employment Agreement, dated February 6, 2016 and ended February 5, 2018. Under this prior Employment Agreement, Mr. Wallach received an annual base salary of $287,163.

On February 5, 2018, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton will be paid $191,442 per annum. The initial term of this new agreement began February 5, 2018 and ends February 5, 2020. The parties may extend the employment period of this agreement by mutual consent with approval of the Company's Board of Directors, but the extension may not exceed one year in length. This Employment Agreement replaced a prior Employment Agreement, dated February 5, 2016 and ended February 5, 2018. Under the prior Employment Agreement, Mr. McClinton received an annual base salary of $191,442.

There is a common provision in both Mr. Wallach and Mr. McClinton's employment agreements: If the officer's employment is terminated by death or disability or without cause, the Company is obligated to pay to the officer's estate or the officer, as the case may be an amount equal to accrued and unpaid base salary as well as all accrued but unused vacation days through the date of termination. The Company will also pay sum payments equal to (a) the sum of twelve (12) months base salary at the rate the Executive was earning as of the date of termination and (b) the sum of "merit" based bonuses earned by the Executive during the prior calendar year of his termination. Any payments owed by the Company shall be paid from a normal payroll account on a bi-weekly basis in accordance with the normal payroll policies of the Company. The amount owed by the Company to the Executive, from the effective Termination date, will be paid out bi-weekly over the course of the year but at no time will be no more than twenty (26) installments. The Company will also continue to pay the Executive's health and dental insurance benefits for 12 months starting at the Executives date of termination. If the Executive had family health coverage at the time of termination, the additional family premium obligation would remain theirs and will be reduced against the Executive's severance package. The employment agreements have an anti-competition provision for 18 months after the end of employment.

Directors Compensation

On May 31, 2019 the Company approved that effective on June 1, 2019, each independent director, namely Jeffrey Guzy and Jeffrey Postal, will each receive $750 per calendar month, as a Form 1099 compensation, for their continued services as directors of the Company. This compensation will be additional to the stock option grants awarded for their participation on the Audit Committee and Compensation and Nominating Committee.

On May 31, 2019, the Company also approved that the independent directors would be offered effective from June 1, 2019, the opportunity to participate as a non-employee in the Company's Health Benefit Plan, subject to compliance with all plan participation requirements and on acceptance into the plan the director will be responsible to pay 100% of their plans participation cost.

Licensing Agreements

Under a February 4, 2015 Licensing Agreement with a floorcare company, Company markets home lighting products under the licensed brand of the floorcare company, to discount retailers, warehouse clubs, home centers, on-line retailers and other retail distribution channels in the U.S., Canada and Mexico. The initial term of the agreement is for 3 years. The Licensing Agreement does not have a guaranteed royalty stipulation.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (continued)

On December 29, 2016, the Company finalized the first amendment to the February 4, 2015 Licensing Agreement with the floorcare company in which the initial term was extended through February 3, 2020 and additional renewal terms and periods were also finalized. During this initial extended period through February 3, 2020, if the Company achieves net sales of $5,000,000, then the Licensing Agreement would automatically be extended 2 years until February 3, 2022 and if during this second extended period the Company achieves net sales of $5,000,000, then the Licensing Agreement would automatically be further extended 2 years until February 3, 2024. This license amendment also added an additional product category.

On April 12, 2018, the Company finalized the second amendment to the February 4, 2015 Licensing Agreement in which the license was further expanded to add an additional product category.

Royalty expense related to this Licensing Agreement for the three months ended June 30, 2019 and 2018, was $0 and $14,288 and $0 and $156,496 for the six month period ended June 30, 2019 and 2018, respectively.

On January 9, 2017, the Company finalized a Licensing Agreement with a globally recognized battery company that allowed the Company to market under the licensed brand, a specific product to a specific retailer in the warehouse club distribution channel. This agreement expired on December 31, 2018.

Royalty expense related to this Licensing Agreement with the battery company for the three months ended June 30, 2019 and 2018, was $0 and $2,786, respectively and $0 and $29,841 for the six months ended June 30, 2019 and 2018, respectively.

Public Relations Agreement

On September 27, 2018, the Company executed a public relations services agreement with Max Borges Agency, (“MBA”), a full – service public relations and communications agency with offices in Miami and San Francisco. The Company entered into the Agreement to obtain assistance from a nationally recognized firm, specializing in the development of, product branding, marketing and launching of technology products. The MBA agreement was effective on October 1, 2018 with a minimum 180 days term, which either party can cancel with 60 days’ advanced notice in writing on or after the 120th day of the effective date. MBA will receive a monthly fee of $11,250 and $476 subscription fee due on the first of each month.

On February 25, 2019, the MBA agreement was temporarily paused and on April 17, 2019, both Company’s agreed to restart the engagement effective May 1, 2019 with the same statement of work as originally agreed.

Legal Matters

Cyberquest, Inc

As previously reported in prior reports under the Exchange Act, on September 27, 2018, Company settled a legal action to access corporate records and validate issuance of shares of preferred stock in the 1998 acquisition of Cyberquest, Inc. by a predecessor of the Company. Both parties to this action filed a Joint Stipulation and Order for Dismissal with Prejudice with the U.S. district Court in Dallas, Texas, thereby ending this dispute in *Cyberquest, Ltd. v. Capstone Companies, Inc*.

NOTE 5 - STOCK TRANSACTIONS

Options

In 2005, the Company authorized the 2005 Equity Plan that made available shares of common stock for issuance through awards of options, restricted stock, stock bonuses, stock appreciation rights and restricted stock units.

On May 2, 2017, the Company’s Board of Directors amended the Company’s 2005 Equity Incentive Plan to extend the Plan’s expiration date from December 31, 2016 to December 31, 2021.

NOTE 5 – STOCK TRANSACTIONS (continued)

On August 29, 2018, the Company granted 100,000 stock options each to two directors of the Company for their participation as members of the Audit Committee and Nominating and Compensation Committee, and 10,000 stock options to the Company Secretary. The Director options have a strike price of $.435 with an effective date of August 6, 2018 and will vest on August 5, 2019 and have a term of 5 years. The Company Secretary options have a strike price of $.435 with an effective date of August 6, 2018 and will vest on August 5, 2019 and have a term of 10 years.

On May 31, 2019, the Company granted 100,000 stock options each to two directors of the Company for their participation as members of the Audit Committee and Nominating and Compensation Committee, and 10,000 stock options to the Company Secretary. The Director options have a strike price of $.435 with an effective date of August 6, 2019 and will vest on August 5, 2020 and have a term of 5 years. The Company Secretary options have a strike price of $.435 with an effective date of August 6, 2019 and will vest on August 5, 2020 and have a term of 10 years.

As of June 30, 2019, there were 813,334 stock options outstanding and 603,334 stock options vested. The stock options have a weighted average expense price of $.435.

For the three-month period ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of $11,025 and $28,875, respectively and $22,050 and $57,750 for the six month period ended June 30, 2019 and 2018, respectively.

Such amounts are included in compensation expense in the accompanying consolidated statements of operations. A further compensation expense expected to be $4,240 will be recognized for these options in 2019.

Stock options were issued under Section 4(a)(2) and Rule 506(b) of Regulation D under the Securities Act of 1933.

Adoption of Stock Repurchase Plan

On August 23, 2016, the Company's Board of Directors authorized the Company to implement a stock repurchase plan for up to $750,000 worth of shares of the Company's outstanding common stock. The stock purchases can be made in the open market, structured repurchase programs, or in privately negotiated transactions. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number and value of the shares which are repurchased will be at the discretion of management and will depend on a number of factors including the price of the Company's common stock, market conditions, corporate developments and the Company's financial condition. The repurchase plan may be discontinued at any time at the Company's discretion.

On December 21, 2016, the Company's Board of Directors approved an extension of the Company's stock repurchase plan through December 31, 2017, subject to an earlier termination at the discretion of the Company's Board of Directors.

On February 13, 2017, as authorized under the Company's stock repurchase plan, the Company repurchased 1,000,000 shares of Company common stock from Involve, LLC., under the Option Agreement dated June 27, 2016, at an exercise price of $.15 per share.

On May 1, 2017, as authorized under the Company's stock repurchase plan, the Company repurchased 666,667 shares of Company common stock from Involve, LLC., under the Option Agreement dated June 27, 2016, at an exercise price of $.15 per share.

On May 2, 2017, the Company's Board of Directors authorized at the Company's discretion to either retain repurchased shares in the treasury or to retire the repurchased shares and these shares were retired on June 1, 2017.

On December 15, 2017, the Company's Board of Directors approved an extension of the Company's stock repurchase plan for up to $750,000 through June 30, 2018.

NOTE 5 – STOCK TRANSACTIONS (continued)

On August 29, 2018, the Company's Board of Directors approved a further extension of the Company's stock repurchase plan through August 31, 2019. The Board of Directors also approved an increase of the maximum amount of aggregate funding available for possible stock repurchases under the stock repurchase program from $750,000 to $1,000,000 during the renewal period.

On August 29, 2018, the Company's Board authorized and directed the Company's management to establish a trading account at a brokerage firm for the Company to conduct open market purchases of the Company's Common Stock in accordance with the terms and conditions of the Company's current stock repurchase program and to fund said account from available cash of the Company but not to exceed such amount that would cause the Company to be unable to pay its bonafide debts.

On December 19, 2018, Company entered into a Purchase Plan pursuant to Rule 10b5-1 under the Exchange Act, with Wilson Davis & Co., Inc., a registered broker-dealer. Under the Purchase Plan, Wilson Davis & Co., Inc will make periodic purchases of up to an aggregate of 750,000 shares at prevailing market prices, subject to the terms of the Purchase Plan. For the three months and six months ended March 31, 2019 and June 30, 2019, respectively, the Company repurchased 45,470 and 168,530, of the Company's Common Stock, at a cost of $8,615 and $27,263, respectively. As of June 30, 2019, a total of 214,000 common shares have been repurchased at a total cost of $35,878.

On May 31, 2019, the Company's Board of Directors approved a further extension of the Company's stock repurchase plan through August 31, 2020. The Board of Directors also approved that the maximum amount of aggregate funding available for possible stock repurchases under the stock repurchase program remained at $1,000,000 during the renewal period.

NOTE 6 - INCOME TAXES

As of December 31, 2018, the Company had utilized all net operating loss carry forwards for income tax reporting purposes that were previously available to be offset against future taxable income through 2034. An operating loss carry forward of approximately $861,000 is available to the Company indefinitely and up to 80% of the operating loss can be used against future taxable income.

The net deferred tax (liability)benefit as of June 30, 2019 and December 31, 2018 was $0 and $(12,000), respectively, and is reflected in long-term liabilities in the accompanying consolidated balance sheets.

The condensed consolidated statement of operations shows an effective rate of 0% and 14% for the three months ended June 30, 2019 and June 30, 2018, respectively.

The condensed consolidated statement of operations shows an effective rate of 3% and 12% for the six months ended June 30, 2019 and June 30, 2018, respectively.

The income tax provision (benefit) for the three months ended June 30, 2019 and 2018 consists of:

	2019	2018
Current:		
Federal	$ -	$ (53,000)
State	-	(15,000)
Deferred:		
Federal	-	8,500
State	-	500
Income Tax (Benefit)	$ -	$ (59,000)

NOTE 6 - INCOME TAXES (continued)

The income tax provision (benefit) for the six months ended June 30, 2019 and 2018 consists of:

	2019	2018
Current:		
Federal	$ -	$ (74,000)
State	-	(21,000)
Deferred:		
Federal	(11,340)	17,000
State	(660)	1000
Income Tax (Benefit)	$ (12,000)	$ (77,000)

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

This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Commission on April 1, 2019.

Special Note Regarding Forward Looking Statements

This Form 10-Q quarterly report contains forward-looking statements that are contained principally in the sections describing our business and financial condition and results as well as in "Risk Factors," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned "Risk Factors" in our latest annual report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the SEC. In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" and similar expressions (including the negative and variants of such words). Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to various risks and uncertainties. Given these uncertainties, a reader of this Form 10-Q quarterly report should not place undue reliance on these forward-looking statements. Forward looking statements include statements about:

§ Our anticipation about consumer responses to existing and new product lines;
§ Our expectation about consumer demand for our existing and new products;
§ Our belief about future trends in our industry, including predictions about maturation of product lines and need to develop new product lines;
§ Our belief or expectation about our ability to compete in our industry and grow our business; and
§ Our expectations about future business and financial results and product development.

Forward-looking statements represent our estimates and assumptions only as of the date of this Form 10-Q quarterly report. One should read this Form 10-Q quarterly report and the documents that we reference herein and filed as exhibits to this Form 10-Q quarterly report completely and with the understanding that our actual future results may be materially different from what we expect or current results. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

The Company is a "penny stock" company under Commission rules and the public stock market price for our Common stock is impacted by the lack of significant institutional investor and primary market maker support. Investment in our Common Stock is highly risky and should only be considered by investors who can afford to lose their investment and do not require on demand liquidity. Potential investors should carefully consider risk factors our SEC filings of the Company.

Use of Certain Defined Terms. Except as otherwise indicated by the context, the following terms have the stated meanings.

(1) "Capstone Lighting Technologies, L.L.C." or "CLTL" is a wholly owned subsidiary of Capstone Companies, Inc.
(2) "Capstone International Hong Kong Ltd" or "CIHK" is a wholly owned subsidiary of Capstone Companies, Inc. and a Hong Kong registered Company.
(3) "Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of CAPC, may also be referred to as "CAPI" or "Capstone".
(4) "Capstone Companies, Inc.," a Florida corporation, may also be referred to as "we," "us" "our," "Company," or "CAPC". Unless the context indicates otherwise, "Company" includes in its meaning all of Capstone Companies, Inc. Subsidiaries.
(5) "China" means People's Republic of China.
(6) "W" means watts.

(7) References to "33 Act" or "Securities Act" means the Securities Act of 1933, as amended.
(8) References to "34 Act" or "Exchange Act" means the Securities Exchange Act of 1934, as amended.
(9) "SEC" or "Commission" means the U.S. Securities and Exchange Commission.
(10) "Subsidiaries" means Capstone Industries, Inc. ("CAPI"), Capstone International H.K Ltd., ("CIHK"), and Capstone Lighting Technologies, Inc. ("CLTL").
(11) Any reference to fiscal year in this Annual Report on Form 10-K means our fiscal year, ending December 31 st.
(12) "LED" or "LED's" means a light-emitting diode component(s) which can be assembled into light bulbs or can be used in lighting fixtures.
(13) "OEM" means "original equipment manufacturer."

(14) “Connected Surfaces” or “Connected Products” means smart home devices with embedded sensors that provide communication and data transfer between the Connected Surface and internet-enabled systems of the Company or associated third parties. Connected Surfaces may permit internet access for defined functions. Our smart interactive mirror is a Connected Product.

We may use "FY" to mean "fiscal year" and "Q" to mean fiscal quarter in this Report.

Overview of our Business

The Company is a public holding company with its Common Stock, $0.0001 par value per share, ("Common Stock") quoted on the OTCQB Venture Market exchange of The OTC Markets Group, Inc. and, since July 6, 2012, quoted under the trading symbol "CAPC." The Company was incorporated on September 18, 1986, under the name “Freedom Funding, Inc.” With the acquisition of Capstone Industries, Inc., a Florida corporation, on September 13, 2006, we adopted our current business line and in July 2012 adopted our current corporate name. We conduct our business through operating subsidiaries.

The following discussion and analysis provides an introduction to our Company, its current strategy and customers and summarizes the significant factors affecting: (i) our consolidated results of operations for the three months and six months ended June 30, 2019 compared with the same period in 2018 and (ii) financial liquidity and capital resources.

The Company is engaged in the business of developing, marketing, manufacturing and selling consumer products through national and regional retailers in North America and in certain overseas markets. The primary operating subsidiary is Capstone Industries, Inc., a Florida corporation located in the principal executive offices of the Company, ("CAPI"). Capstone International Hong Kong, Ltd., or "CIHK", was established to expand the Company's product development, engineering and factory resource capabilities in Hong Kong. Capstone's products have been to date targeted for applications such as home indoor and outdoor lighting. The Company's current product portfolio consists of stylish, innovative and easy to use consumer LED lighting products. The Company's products are currently sold under the CAPI brand name, Capstone Lighting®, as well as under nationally recognized licensed brands-named *Hoover®* Home LED. LEDs are now mainstream in consumer lighting products, and, as such, the Company believes that the component and production costs of LED lighting products will continue to lower due to technological and production developments, which should allow the Company to compete through its innovations in design and functions that capitalize on products utilizing LED. The Company's focus has been in the integration of LED into most commonly used lighting products in today's home. We continue to make key investments to ensure that we provide quality LED lighting products. The Company understands and strives to couple well made products with superior customer service. Customer service is a vital part of consumer loyalty. Capstone believes that it is positioned well to participate in these expanded product categories designed to fuel the Company's future growth.

Like many consumer product companies, our product lines periodically need updating or revision to attract consumers. Product lines typically follow a cycle of introduction, peak consumer demand and declining consumer demand. We need to introduce new product lines or updated product lines from time to time to sustain or grow consumer demand for our products.

The Company seeks to deliver strong, consistent business results and increasing shareholder returns by providing innovative products on a global basis that make consumer's lives simpler and safer while delivering revenue growth to the Company's retail partners. Whereas the Company's strengths have been demonstrated through the successful executions of its strategic initiatives which have focused on LED lighting products, it believes it is well positioned to exploit categories outside LED lighting that also benefit from these strengths of the Company's management team. Creating and exploiting niche consumer product categories within our industry focus, through advanced design and low-cost manufacturing, are the core competencies of the Company.

The Company oversees and controls the manufacturing of its products, which are currently made in China by original equipment manufacturers ("OEM's") and sold through three wholly-owned operating subsidiaries: CAPI, CIHK and CLTL. Capstone believes it has commercially favorable payment terms with its OEM's, which terms helps support any instances of the Company's growth. The Company's direct import business model requires that product shipments meet minimum order quantity or "MOQ" full container loads from OEM's factories directly to retail customers' shipping brokers. This business model avoids pitfalls resulting from slow moving and obsolete product inventories. The Company's products are built to fill backlog orders and are typically not warehoused for domestic replenishment programming. CIHK periodically evaluates its contract manufacturers' ability to determine the best manufacturing arrangement for our Company. Additionally, all manufacturers must meet rigorous compliance, security and equipment evaluation audits to ensure competitive pricing for the highest quality products. The Company explores alternative manufacturing sources in China and elsewhere in the Pacific Rim as part of its periodic supply chain strategic planning, but the Company has not allocated as of the date of this Form 10-Q report any production to alternative manufacturing sources.

Strategy

The Company's focus in recent years has been in the integration of LEDs into most commonly used lighting products in today's home. The LED market, now in its fifth to sixth year of mainstream availability, has stabilized. LEDs are now mainstream in consumer lighting products. The Company believes that the component and production costs of LED lighting products will continue to lower due to technological and production developments.

Over the last two years there has been significant LED price erosion, which has substantially driven unit sales, as homeowner's convert to LED, but at the same time has commoditized other LED consumer products. The LED category is maturing and is no longer the innovative "must have" consumer product as in previous years.

Capstone's success has been in its ability to identify emerging product categories where Capstone's management experience can be fully leveraged. We demonstrated this when the Company entered the LED lighting category. Our branding and product strategies delivered the Company to a well-respected market position delivering year-over-year growth through 2017. The Company's low-cost manufacturing and operations have provided an advantage in delivering great products affordably.

As management recognized that the growth of the LED category was maturing in 2017, we sought a business opportunity that would prove equal to or greater than the LED business. While we currently continue to develop new LED products, the revenue potential has been lessened and our new looking forward strategy was timely in the effort to update and revise product lines to meet changing consumer demands.

Our expectation is that the new portfolio appeals to a much larger audience, with more relevant products that will hopefully benefit from management's proven abilities in the areas of low-cost production and operations. The new Connected Surfaces portfolio is designed to tap into consumer's ever-expanding connected lifestyles prevalent today. The products will have both touch screen and voice interfacing, internet access and an operating system capable of running downloadable applications. The average selling prices will be comparable to that of tablets and smartphones, expected retails to start at $500.00 per unit, with the goal to deliver consumer value for middle income homes. Whereas, during the day your smartphone/tablet keeps you connected, whether it is work or personal, now when entering your home, Capstone's new Connected Surfaces products will enable users the same level of connectivity in a more relaxed manner that does not require being tethered to these devices.

The Company competes in competitive consumer product market channels that can be affected by volatility from a number of general business and economic factors, such as consumer confidence, employment levels, credit availability and commodity costs. Demand for the Company's products is highly dependent on economic drivers such as consumer spending and discretionary income. While we believe that the markets for LED home products will remain competitive during fiscal 2019, we are endeavoring to maintain our revenue stream in the lighting business segment by continuing to introduce new innovative LED products. The first of these new LED products was launched in the retail marketplace during the first quarter of 2019.

Connected Surface product line is a new product initiative. We do not have sufficient operating history with the new Connected Surface product line to validate our expectations about this new product's market potential.

Our Growth Strategy

The Company's looking forward strategy requires continued expansion of our product development and engineering, manufacturing base marketing and distribution of a broadened portfolio of consumer electronic products. The Company will seek new revenue opportunities through the introduction of its "Connected Surfaces" portfolio into expanded channels of distribution including E-Commerce and others that the Company has not previously focused on. The Company also intends to leverage our existing valuable customer base and strong relationships to achieve organic growth initiatives with this new category.

As is true with any product expansion effort, we may encounter unexpected market penetration, technology development and competition as well as unanticipated changes in consumer demand due to technological innovations and these unforeseen factors could impact the success of our product expansion efforts. Further, connected devices for smart homes is a very competitive market that attracts not only consumer product companies like our company, but also attracts large established technology companies, home security companies and start-up companies with innovative technologies. We need to develop products that offer consumers an attractive product option to varied product and technology offerings from competitors. We need to develop products with consumer appeal in order counter the significantly greater resources, financial and technological, of many competitors in connected devices for the smart home market.

Organic Growth Strategy

We intend to pursue various initiatives to execute our organic growth strategy, which is designed to enhance our market presence, expand our customer base and be an industry leader in new product development. Key elements of our organic growth strategy include:

Connected Surfaces. Historically, LED lighting products have been our core business. The Capstone Lighting and *Hoover®* Home LED brands combined, have sold millions of LED lighting products over the recent years and as a result the Company holds a well-respected position in the retail lighting category. While consistently launching successful lighting programs, the Company has determined that it needs to diversify and expand its core focus in order to continue to meet revenue growth initiatives. The Company has refocused its development and marketing initiatives and is determined to build on its success with a broader product portfolio beyond lighting products only. Critical to this strategy, the Company has developed and launched in January 2019 at the Consumer Electronics Show (CES), a major industry trade show, a new line of "Connected Surfaces" products. We intend to expand the new line of "Connected Products" for the next several years. Our current product roadmap outlines plan for product introductions through 2020 and this will continue to expand as product acceptance validates our objectives. We believe this program will leverage existing relationships with our current retail partners and contribute organic growth for the Company.

The Company acknowledges that smart homes will become more mainstream over the next several years and will present growth opportunities for our company and its Connected Surfaces portfolio. The growth of smart homes will also attract competitors who may elect to compete directly against our smart home products. A variety of companies around the world have entered or may enter the smart home industry.

We continue to make investments to ensure that we provide quality, useful products. Additionally, the Company continues to enhance its customer service support. The year 2019 will also mark a vastly expanded commitment to social media marketing. This will play a vital role in expanding our lifestyle brands and will also serve to establish creditability with the Company's growing consumer base. This effort will focus on creating a more extensive and aggressive social media presence through use of third-party social media like *Facebook*, *Twitter*, *YouTube* and *Instagram* as well as measures to increase our "ranking" in search engines. Since our Internet and social media marketing has recently commenced, we do not have a sufficient operating history to judge the effectiveness of our Internet and social media marketing efforts.

Pursuit and achievement of all of these objectives are subject to adequate cash flow from operations and available, affordable funding as well as putting the demands of existing operations ahead of efforts at expansion of products or exploitation of new technologies.

Perceived or Essential Strengths

Capstone believes that the following competitive strengths have and will continue to serve as a foundation for its business strategy.

In North America, the Company is recognized as an innovator and highly efficient, low-cost manufacturer in several lighting product niches. Capstone believes that its personal relationships with retail customers combined with its innovative product offerings, strong marketing support and the high level of integrity embedded within the company, will allow the Company to successfully launch the new "Connected Surfaces" category and expand its portfolio in the Home Lighting category.

The Company believes its multiple brand strategy is important in maintaining differentiation in the marketplace and maybe considered in future Connected Surfaces products. Capstone Lighting®, *Hoover®* Home LED and Duracell® have proven successful in the past in meeting expectations at point of sale and licensing, and once again, within the Connected Surfaces program may be part of our looking forward strategy.

Capstone's core executive team has been working together for over three decades and has successfully built and managed other consumer product companies. Operating Management's experience in hardline product manufacturing and marketing prepared the Company for its entry into the LED market. From a market perspective, Capstone's branding strategy was focused on establishing multiple trusted brands allowing for a broader reach into various channels. Capstone Lighting® (2008), *Hoover®* Home LED (2015) and Duracell ® (2017) have contributed to expanding the Company's retail position.

Product Quality: We offer quality products allowing consumers to maximize the benefits of adopting innovative lifestyle products. We design, manufacture and sell quality and reliable products across all of our brands with functional advantages that are cost competitive. We achieve this, in part, through a combination of sourcing quality components, stringent manufacturing quality control and conducting rigorous third-party product testing. To deliver cost-competitive products, we are investing in product advancements, leveraging purchasing volume, capitalizing on strategic vendor relationships and migrating high-volume products to our proprietary manufacturing process.

The Company's product characteristics are designed to satisfy the following:

- To make everyday tasks or usage simpler and more enjoyable for consumers;
- While continuing to focus on increased profit margins, the products must be affordable to win at the point of sale and deliver increased revenues for retail partners;
- The products must represent significant value when compared with items produced or marketed by competitive consumer product companies; and
- Wherever feasible, the products must be unique to the market whether this be accomplished though design techniques, added functionality or some proprietary innovation.

Authoritative Knowledge*:* We invest in employees and manufacturers with extensive knowledge, understanding and experience of technology, and regulatory environments that enables us to continue to provide superior quality products and service for our customers. Our management team has demonstrated its ability to drive organic growth.

With respect to the Company's goal of sustained profitability, the challenge has been and remains to achieve greater profit margins from our product lines by either innovative products that induce consumers to pay a higher purchase price or increased efficiencies in producing and selling products that sustain attractive pricing. This challenge confronts many consumer product companies. Capstone believes that appropriate use of OEM capabilities in innovation and production coupled with design that appeals to consumers are critical factors in meeting this challenge, especially for a smaller or niche competitor.

Due to the manufacturing, design and engineering capabilities with the Company's OEM contract manufacturers, and the lower unit costs in China, Capstone believes that it is more economical and efficient to continue to manufacture certain products in China and have them shipped to the United States rather than to have such products produced in North America. While this resource is available to and used by large numbers of U.S. companies, including our competitors, the Company believes this Chinese manufacturing resource gives the Company the level of innovation, production cost and quality that allows Capstone to be competitive with larger competitors in the United States. However, as design technologies can influence the degree of hand labor in building its future products, the Company expects the advantages it has realized by manufacturing solely in China to be challenged.

The U.S federal government has recently imposed tariffs on certain Chinese imports. Currently the Company's products are sourced in China and are impacted by the recently imposed tariffs. Future U.S. policy changes that maybe implemented, including further increased tariffs could have a negative consequence on the Company's financial performance depending how the changes influence many factors, including business and consumer sentiment.

Management's efforts to mitigate the impact of these added costs include a variety of activities, including the evaluation of alternative OEM manufacturing in Thailand, Vietnam and Taiwan. We have not committed to using any alternative manufacturing sources.

The Company's CIHK's operations in Hong Kong include personnel experienced in engineering and design, product development and testing, product sourcing, international logistics and quality control. These associates work with our OEM's factories to develop and prototype new product concepts and to ensure products meet consumer product regulations and rigorous quality control standards. All products are tested before and during production by Company personnel. This team also provides extensive product development, quality control and logistics support to our factory partners to ensure on time shipments.

Perceived Weaknesses.

Capstone believes that its competitive weaknesses are: (1) it does not possess the business, marketing and financial resources of its larger competitors; (2) the Company is actively building its new Social Media marketing programming and its e-commerce development but does not yet have a prominent social media presence or own e-commerce capabilities; (3) it sells a niche consumer product that is sensitive to a drop in consumer discretionary spending and general economic conditions affecting consumer confidence; (4) its current products lines are focused on consumer LED lighting; (5) profitability may be limited by attainable profit margins from consumer lighting products as markets mature; (6) Capstone does not have the large internal research and development capability of its largest competitors; (7) Capstone operates with a limited number of employees who are dedicated to executive management, sales and marketing or administrative support; (8) we rely on foreign OEM's for product production; (9) our international purchases can become more expensive if the U.S. Dollar weakens against the foreign currencies and (10) as we currently manufacture our products in China, the increased U.S. tariffs imposed on Chinese manufactured goods may negatively impact demand and/or increase the cost for our products at retail, which could negatively impact our business.

Products and Customers

The Company has expanded its product portfolio through the introduction of more indoor and outdoor lighting programs under the "Capstone Lighting®", *Hoover*® Home LED and Duracell ® brands and include the following products that are reported under one segment: Lighting Products:

- Connected Surfaces – Smart Mirror, which will be ready for market in late 2019
- LED Under Cabinet Lights
- LED Vanity Mirror
- LED Gooseneck Lantern
- LED Dual Mode Security Light
- LED Solar Patio Lights
- LED Motion Sensor Lights
- LED Motion Sensor Light with Air Purifier
- LED Wall Utility Lights
- CPC Power Failure Bulbs
- Wireless Remote-Control Outlets
- Wireless Remote-Controlled LED Accent Lights.

These product offerings encompass solutions for various residential lighting applications for interior and outdoor use.

Such product expansion involves the inherent risk of increased operating and marketing costs without a corresponding increase in operational revenues and profits. Further, some product lines may fall out of favor with consumers before we can recoup product and market development costs. While the Company makes significant investments into the 2019 Connected Surfaces portfolio, it is reasonable to expect to post losses while building the market for a new category of products which were launched at the 2019 CES. Expense categories, including molds, prototyping, engineering, advertising, public relations, tradeshows and social media platforms will all be incurred for six to nine months before shipments and related revenues occur.

The Company has established product distribution relationships with numerous leading international, national and regional retailers, including but not limited to: Amazon, Bunnings, Costco Wholesale, Home Depot, Sam's Club-Walmart, the Container Store and Firefly Buys. These distribution channels may sell the Company's products through the Internet as well as through retail storefronts and catalogs/mail order. The Company believes it has developed the scale, manufacturing efficiencies, and design expertise that serves as the foundation for aggressive pursuit of niche product opportunities in our largest consumer domestic and international markets. While Capstone has traditionally generated the majority of its sales in the U.S. market, urbanization, rising family incomes and increased living standards abroad have spurred a perceived demand for small consumer appliances internationally. To capture this perceived market opportunity, the Company has continued its international sales by leveraging relationships with our existing global retailers and by strengthening our international product offerings. CIHK assists the Company in placing products into foreign market channels as well. The Company has introduced Capstone brands to markets outside the U.S., including Australia, France, Iceland, Japan, Mexico, New Zealand, South Korea, Spain, Taiwan, Thailand and the United Kingdom. International sales for the six months ended June 30, 2019 were $401.6 thousand or 6.3% of net revenue as compared to $462.3 thousand or 7.5% in the same period 2018. The Company's performance depends on a number of assumptions and factors. Critical to growth are the economic conditions in the markets that we serve, as well as success in the Company's initiatives to distinguish its brands from competitors by design, quality, and scope of functions and new technology or features.

The Company's products are subject to general economic conditions that impact discretionary consumer spending on non-essential items. Capstone believes it will maintain its presence in the lighting category because of our operational experience~~,~~ and the quality reputation of its products, business relationships with Capstone's retailers and the aggressive product development strategies currently in place. Such continued progress depends on a number of assumptions and factors, including ones mentioned in "Risk Factors" below. Critical to growth are economic conditions in the markets that foster greater consumer spending as well as success in the Company's initiatives to distinguish its brands from competitors by design, quality, and scope of functions and new technology or features. The Company's ability to fund the pursuit of our goals remains a constant, significant factor.

The Company believes that it will provide retailers with a broader and more diversified portfolio of consumer products across product categories, which should add diversity to the Company's revenues and cash flows sources. Within the selection of products offered, Capstone seeks to service the needs of a wide range of consumers by providing products to satisfy their different interests, preferences and budgets. The Company believes in its ability to serve retailers with an array of branded products and quickly introduce new products to continue to allow Capstone to further penetrate its existing customer bases, while also attracting new customers. The Company's primary, perceived challenge is creating sustained consumer demand for its products in a growing number of markets and attaining sustained profitability, which challenge is complicated by the cost of new product development and costs of penetrating new markets.

An extensive product line, especially new product line, increases the investment in product development and, as such, increases operating overhead.

With the Company's lighting products and recently launched “Connected Surfaces” category, Capstone has developed a comprehensive product offering for its niche in the retail industry for consumer lighting. Within the selection of products offered, Capstone seeks to service the needs of a wide range of consumers by providing products to satisfy their different interests, preferences and budgets. The Company believes in its ability to serve retailers with a broad array of innovative connected products and quickly introduce new products to continue to allow Capstone to further penetrate this developing market.

Tariffs. The current U.S. administration has implemented certain tariffs that directly affect the Company's competitiveness. While all companies in certain industries are affected equally, the appeal for these products to consumers may be negatively impacted when retail prices are increased due to higher duty rates. The Company has seen promotional schedules cut back and retailers have expressed concerns for possible pricing adjustments that would not be known to them in advance to products being shipped. Capstone's business model insulates the Company from paying duties as its retail partners are the importers of record. The obvious unknown is the final impact of tariffs to the landed costs. Accordingly, retailers have demonstrated caution in their promotional planning schedules and will continue to do so until the U.S. administration has clarified its position enabling importers to calculate estimated landed costs.

Tariffs and trade restrictions imposed or threatened by the current U.S. administration has provoked and may provoke future trade and tariff retaliation by other countries. A "trade dispute" of this nature or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. economy or certain sectors thereof and, thus, to adversely impact our businesses.

Sales and Marketing

We continue to make investments to expand our sales, marketing, technical applications support and distribution capabilities to sell our product portfolio. We also continue to make investments to promote and build market awareness of the products and brands we offer. Our sales within the U.S. are primarily made by our in-house sales team and our independent sales agencies. Our independent sales agencies are paid a commission based upon sales made in their respective territories. Our sales agencies are recruited, trained and monitored by us directly. We will utilize an agency as needed to help us provide service to our retail customers as required. The sales agency agreements are generally one (1) year agreements, which automatically renew on an annual basis, unless terminated by either party on 30 days’ prior notice. Our international sales to divisions of U.S. based retailers are made by our in-house sales team. Other international sales are made by our Hong-Kong based CIHK office staff.

The Company actively promotes its products to retailers and distributors at North American trade shows, such as the Consumer Electronics Show (“CES”) or the International Hardware Show, but also relies on the retail sales channels to advertise its products directly to the end user consumers through various promotional activities.

In order for continued sales growth in the retail market, the Company is focused on expanding the product portfolio currently offered into new innovative electronic categories that will also allow the Company to expand into different retail departments and channels of distribution.

The Company is also focused on establishing an on-line presence in order to support retail customers requirements and to further support the introduction of the "Connected Surfaces" launch with the ability to ship direct to consumer

In 2019 we have an expanded social media department and enhanced social media campaign strategy. This is part of our effort to establish an enhanced on-line marketing and e-commerce presence. We currently have a presence on the following social media platforms:

FACEBOOK[1]: https://www.facebook.com/capstoneindustries and https://www.facebook.com/capstoneconnected
INSTAGRAM[2]: https://www.instagram.com/capstoneconnected
PINTEREST[3]: https://www.pinterest.com/capstoneconnected
LINKEDIN[4]: https://www.linkedin.com/company/6251882
[1] Facebook is a registered trademark of Facebook, Inc.
[2] Instagram is a registered trademark of Instagram.
[3] Pinterest is a registered trademark of Pinterest
[4] LinkedIn is a registered trademark of LinkedIn Corporation

We have just initiated the effort to establish an on-line presence and we may experience unexpected need to invest more money in promoting an on-line presence and to revise our approach to establishing an on-line presence. Our efforts may require the need to engage outside consultants for technical or strategic marketing efforts. We have not engaged "brand promoters" or "celebrity" sponsors who use Twitter, Instagram, YouTube and other Social Media platforms to promote products to their followers. We are evaluating the impact of our current efforts prior to considering additional methods of promoting an on-line presence. The e-commerce initiative has not reached a point where we can project its impact on our product sales.

Focus on International Growth: The Company is pursuing increased international product sales through retailers. This effort is through CIHK for products that fall outside Capstone's branded categories but are innovative and preferably exclusive to CIHK. This should allow for quicker revenue expansion as time consuming product and brand development efforts are the responsibility of the foreign retailer. International expansion entails additional marketing and distribution costs, additional regulatory costs and burdens and competition from foreign competitors. These factors may limit our ability to expand international sales. This effort has not reached a point where we can judge its potential impact on product sales.

Competitive Conditions

The consumer lighting products and small electronics businesses are highly competitive, both in the United States and on a global basis, as large manufacturers with global operations compete for consumer acceptance and, increasingly, limited retail shelf space. Competition is influenced by technological innovation, brand perceptions and changing consumer preferences, product quality and performance, value perception and customer service and price. The Company's principal lighting competitors in the U.S. are Energizer, Feit Electric and Jasco (GE). The Company believes private-label sales by large retailers has some impact on the market in some parts of the world as many national retailers such as Costco, Home Depot, Target and Sam's/Wal-Mart offer lighting as part of their private branded product lines. Many of the Company's competitors have greater resources and capabilities, including greater brand recognition, research and development budgets and broader geographical market share and reach. Competitors with greater resources could undermine Capstone's expansion efforts by marketing campaigns targeting our expansion efforts or by product pricing that under cuts our pricing. Moreover, if one or more of the Company's competitors were to merge, the change in the competitive landscape could adversely affect our customer distribution channel.

With trends and technology continually evolving, Capstone will continue to invest and rapidly develop new products that are competitively priced with consumer centric features and benefits easily articulated to influence point of sale decision making. Success in the markets we serve depends upon product innovation, pricing, retailer support, responsiveness, and cost management. The Company continues to invest in developing the technologies and design critical to competing in our markets. Our ability to invest is limited by operational cash flow and funding from third parties, including members of management and the Board of Directors.

Research, Product Development, and Manufacturing Activities

The Company's research and development department based in Hong Kong designs and engineers many of the Company's products, with collaboration from its third-party manufacturing partners. We outsource the manufacture and assembly of our products to a number of contract manufacturers overseas. Our research and development focus includes efforts to:

- develop product with increasing technology and functionality with enhanced quality and performance, and at a very competitive cost.
- solidify new manufacturing relationships with contract manufacturers in Thailand and Vietnam.

CIHK establishes strict engineering specifications and product testing protocols with the Company's contract manufacturers and ensure that their factories adhere to all Regional Labor and Social Compliance Laws. These contract manufacturers purchase components that we specify and provide the necessary facilities and labor to manufacture our products. We leverage the strength of the contract manufacturers and allocate the manufacturing of specific products to the contract manufacturer best suited to the task. Quality control and product testing is conducted at the contract manufacturers facility and also at third party testing laboratories overseas.

Capstone's research and development team enforces its proprietary manufacturing expertise by maintaining control over all outsourced production and critical production molds. In order to ensure the quality and consistency of the Company's products manufactured overseas, Capstone uses globally recognized certified testing laboratories such as United Laboratories (UL) or Intertek (ETL) to ensure all products are designed and tested to adhere to each country's individual regulatory standards. The Company also employs quality control inspectors who examine and test products to Capstone's specification(s) before shipments are released. CIHK office capabilities were expanded to include product development, project management, sourcing management, supply chain logistics, factory compliance auditing, and quality enforcement for all supplier factories located in Hong Kong and mainland China.

To successfully implement Capstone's business strategy, the Company must improve its current products and develop new product segments with innovative imbedded technologies to meet consumer's growing expectations.

Capstone will invest in more technical and innovative product categories. These costs are expensed when incurred and are included in the operating expenses.

Raw Materials

The principal raw materials used by Capstone are sourced in China, as the Company orders product exclusively through contract manufacturers in the region. These contract manufacturers purchase components based on the Company's specifications and provide the necessary facilities and labor to manufacture the Company's products. Capstone allocates the production of specific products to the contract manufacturer the Company believes is more experienced to produce the specific product. In order to ensure the consistent quality of Capstone's products, quality control procedures have been incorporated at each stage of the manufacturing process, ranging from the inspection of raw materials through production and delivery to the customer. These procedures are additional to the manufacturers' internal quality control procedures and performed by Company staff.

- Raw Materials – Components and supplies are subject to sample inspections upon arrival at the contract manufacturer, to ensure the correct specified components are being used in production.
- Work in Process – Our quality control team conducts quality control tests at different points during the product stages of our manufacturing process to ensure that quality integrity is maintained.
- Finished Goods – Our team performs tests on finished and packaged products to assess product safety, integrity and package compliance.

Raw materials used in manufacturing include plastic resin, copper, led bulbs, batteries, and corrugated paper. Prices of materials have remained lower and competitive in the last year as a result of lower oil prices and the strengthening U.S. dollar. CAPC believes that adequate supplies of raw materials required for its operations are available at the present time. CAPC, cannot predict the future availability or prices of such materials. These raw materials are generally available from a number of different sources, and the prices of those raw materials are susceptible to currency fluctuations and price fluctuations due to transportation, government regulations, price controls, economic climate, or other unforeseen circumstances. In the past, CAPC has not experienced any significant interruption in availability of raw materials. We believe we have extensive experience in manufacturing and have taken positions to assure supply and to protect margins on anticipated sales volume. CIHK is responsible for developing and sourcing finished products from Asia in order to grow and diversify our product portfolio. Quality testing for these products is performed both by CIHK and by our globally recognized third party quality testing laboratories.

Section 1502 of Title XV of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* requires SEC-reporting companies to disclose annually whether any conflict minerals are necessary to the functionality or production of a product. Based on our inquiries to our manufacturers, we do not believe as of the date of such inquiries that any conflict minerals are used in making our products.

Distribution and Fulfillment

Since January 2015, the Company has transferred its U.S. domestic warehousing and distribution needs to a third-party warehousing facility situated in Anaheim, California. The warehouse operator provides full inventory storage, packaging and logistics services including direct to store and direct to consumer shipping capabilities that electronically interface to our existing operations software. The warehouse operator provides full ERP (Enterprise Resource Planning), Inventory Control and Warehouse Management Systems. These fulfillment services can be expanded to the east coast in Charleston, South Carolina, if the Company needed to establish an east coast distribution point. This relationship, if required, will allow us to fully expand our U.S. distribution capabilities and services.

As the Company moves into the e-commerce and on-line consumer marketplace, the Company will need to contract with a specialized fulfillment service which provides secured payment processing capability combined with an efficient quick response fulfilment and logistics service, at a very competitive cost.

Royalties

We have, from time to time, entered into agreements whereby we have agreed to pay royalties for the use of nationally recognized licensed brands on Company product offerings. Royalty expense incurred under such agreements is expensed at the time of shipment.

Royalty expenses related to such agreements for the three months ended June 30, 2019 and 2018 were $0 and $17,074 respectively, and $0 and $186,337 respectively, for the six months ended June 30, 2019 and 2018. The decrease of $186,337 for the period is a direct result of no licensed products being shipped in the period. The Duracell® license which had been granted for a specific product promotion, expired at the end of fiscal year 2018.

Hoover® Home LED licensed products also experienced no sales in 2019, as the Company transitioned new product launches into the Capstone Lighting brands

Seasonality

Sales for household products and electronics are seasonally influenced. Certain gift products cause consumers to increase purchases during key holiday winter season of the fourth quarter, which requires increases in retailer inventories during the third quarter. In addition, natural disasters such as hurricanes and tornadoes can create conditions that drive increased needs for portable power and power failure light sales. Historically, the lighting products had seasonally lower sales during the first quarter due to the Chinese New Year holiday as factories are closed and shipments are halted during this period.

Intellectual Property

CAPC subsidiary, CAPI, owns a number of U.S. trademarks and patents which CAPC considers of substantial importance and which are used individually or in conjunction with other CAPC trademarks and patents. These include the following trademarks: Exclusive license and sub-license to Power Failure Technology; Capstone Power Control, Timely Reader, Pathway Lights, and 10 LED - Eco-i-Lite Power Failure Light, 5 LED - Eco-i-Lite Power Failure Light, 3 LED - Eco-i-Lite Power Failure Light, 3 LED Slim Line Eco-i-Lite Power Failure Light, LED Induction Charged Headlight. We also have a number of patents pending; Puck Light (cookie), Puck Light Base, Multi-Color Puck Lights, LED Dual Mode Solar Light, Integrated Light Bulb (Coach Light), LED Gooseneck Lantern, Spotlights, Security Motion Activated Lights, Under Cabinet Lighting and Bathroom Vanity Light. CAPC periodically prepares patent and trademark applications for filing in the United States and China. CAPC will also pursue foreign patent protection in foreign countries if deemed necessary. CAPC's ability to compete effectively in the Home Lighting categories depends in part, on its ability to maintain the proprietary nature of its technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements, licensing, and cross-licensing agreements. CAPC owns a number of patents, trademarks, trademark and patent applications and other technology which CAPC believes are significant to its business. These intellectual property rights relate primarily to lighting device improvements and manufacturing processes.

While the Company may license third party technologies for its products, or may rely on other companies for design, engineering and testing, the Company believes that its oversight of design and function of its products and its marketing capabilities are significant factors in the ability of the Company to sell its products.

Value of Patents.

The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country. Issued patents or patents based on pending patent applications or any future patent applications may not exclude competitors or may not provide a competitive advantage to us. In addition, patents issued or licensed to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. The validity and breadth of claims in technology patents involve complex legal and factual questions and, therefore, the extent of their enforceability and protection is highly uncertain.

Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. We cannot assure shareholders that our competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us. We will assess any loss of these rights and determine whether to litigate to protect our intellectual property rights on a case by case basis.

We rely on trademark, trade secret, patent, and copyright laws to protect our intellectual property rights. We cannot be sure that these intellectual property rights will be effectively utilized or, if necessary, successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights, or, where appropriate, license intellectual property rights from others to support new product introductions. There can be no assurance that we can acquire licenses under patents belonging to others for technology potentially useful or necessary to us and there can be no assurance that such licenses will be available to us, if at all, on terms acceptable to us. Moreover, there can be no assurance that any patent issued to or licensed by us will not be infringed or circumvented by others or will not be successfully challenged by others in lawsuits. We do not have a reserve for litigation costs associated with intellectual property matters. The cost of litigating intellectual property rights claims may be beyond our financial ability to fund. We do not have reserves for litigation costs.

As is customary in the retail industry, many of our customer agreements requires us to indemnify our customers for third-party intellectual property infringement claims. Such claims could harm our relationships with customers and might deter future customers from doing business with us. With respect to any intellectual property rights claims against us or our customers, we may be required to cease manufacture of the infringing product, pay damages and expend significant Company resources to defend against the claim and or seek a license.

Information Technology

The efficient operation of our business is dependent on our information technology systems. We rely on those systems to manage our daily operations communicate with our customers and maintain our financial and accounting records. In the normal course of business, we receive information regarding customers, associates, and vendors. Since we do not collect significant amounts of valuable personal data or sensitive business data from others, our internal computer systems are under a light to moderate level of risk from hackers or other individuals with malicious intent to gain unauthorized access to our computer systems. Cyberattacks are growing in number and sophistication and are an ongoing threat to business computer systems, which are used to operate the business on a day to day basis. Our computer systems could be vulnerable to security breaches, computer viruses, or other events. The failure of our information technology systems, our inability to successfully maintain our information or any compromise of the integrity or security of the data we generate from our systems or an event resulting in the unauthorized disclosure of confidential information or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, results of operations, product development and make us unable or limit our ability to respond to customers' demands.

We have incorporated into our data network various on and off site data backup processes which should allow us to mitigate any data loss events, however our information technology systems are vulnerable to damage or interruption from:

- hurricanes, fire, flood and other natural disasters;
- power outages
- internet, telecommunications or data network failure.

Environmental Regulations

We believe that the Company is in compliance with environmental protection regulations and will not have a material impact on our financial position and results of operations.

Working Capital Requirements and Financing

In order to more effectively support retailers in the U.S. domestic markets, so that retailers can quickly replenish their stock and reduce the impact of lost sales as a result of stock outages, the Company, as needed, strategically increases its inventory levels held in its leased Anaheim, California warehouse. Combined with investment in new product molds, product testing and outside certifications, package design work, and further expansion of its design and engineering capabilities in CIHK, the Company may require additional working capital to fund these strategic projects.

The Company's ability to maintain sufficient working capital is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on the Company's working capital, ability to obtain financing, and its operations in the future. However, achieving expected results as accomplished in 2017 and 2016, increased working capital, provided the Company with liquidity and allowed for the repayment of all outstanding bank notes and old related party loans.

Continued product expansion are critical requirements to ensure the Company's continued revenue growth. Such projects are never held back because of funding shortfalls. The Company allocated funds for such projects and if necessary certain members of the Company's senior management and Board of Directors have supplemented the cash flow needs as required through short term, unsecured loans.

On September 8, 2010, in order to support working capital needs, Capstone secured a Financing Agreement from Sterling Capital Funding (now called Sterling National Bank), located in New York City, whereby Capstone receives funds for assigned retailer shipments. The assignments provide funding for an amount up to 85% of net invoices submitted. There is a base management fee equal to 0.45% of the gross invoice amount. The interest rate of the loan advance is .25% above Sterling National Bank's Base Rate which at the time of closing was 6.25%.

As of June 30, 2019, the base management fee is now equal to 0.30% and the banks base loan interest rate was 7.50 %. The amounts borrowed under this agreement are due on demand and secured by a right to set-off on or against any of the following (collectively as "Collateral"): all accounts including those at risk, all reserves, instruments, documents, notes, bills and chattel paper, letter of credit rights, commercial tort claims, proceeds of insurance, other forms of obligations owing to Sterling National Bank, bank and other deposit accounts whether or not reposed with affiliates, general intangibles (including without limitation all tax refunds, contract

rights, trade names, trademarks, trade secrets, customer lists, software and all other licenses, rights, privileges and franchises), all balances, sums and other property at any time to our credit or in Sterling National Bank's possession or in the possession of any Sterling Affiliates, together with all merchandise, the sale of which resulted in the creation of accounts receivable and in all such merchandise that may be returned by customers and all books and records relating to any of the foregoing, including the cash and non-cash proceeds of all of the foregoing.

The Sterling National Bank credit facility over the years has been a major contributing factor that has allowed the Company to increase its revenue and expand its account receivables. For the three months ended June 30, 2019 and 2018, the processing fees associated with the agreement were $9,733 and $3,169, respectively and $20,228 and $20,699 for the six months ended June 30, 2019 and 2018, respectively.

On July 20, 2018, to support the Company’s future needs, Sterling National Bank expanded the credit line up to $10,000,000 of which $2,000,000 was allocated as a Capstone expansion working capital line.

On July 18, 2019, Sterling National Bank renewed the credit line up to $7,500,000 to June 30, 2020. Additional expansion of the line will be reviewed as the need arises.

As of June 30, 2019 and December 31, 2018, there was no balance due to Sterling National Bank.

The Company's liquidity and cash requirements are discussed more fully in the Management's Discussion and Analysis of Financial Condition and Results of Operations, below.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies during the six months ended June 30, 2019 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2018. The Company adopted ASC 842 which had no material effect on the Company’s condensed financial statements.

CONSOLIDATED OVERVIEW OF RESULTS OF OPERATIONS

Net Revenues

Revenue is derived from sales of our residential LED lighting products. These products are directed towards consumer home LED lighting for both indoor and outdoor applications. Revenue is subject to both quarterly and annual fluctuations and is impacted by the timing of individually large orders as well as delays or sometimes advancements to the timing of shipments or deliveries. We recognize revenue upon shipment of the order to the customer, when all performance obligations have been completed and title has transferred to the customer and in accordance with the respective sale’s contractual arrangements. Each contract on acceptance will have a fixed unit price. The majority of our sales are to the U.S. market which in 2018 represented 90% of revenues and 94% in the six months ended June 30, 2019. We expect the U.S. market to continue to be the major source of revenue for the Company. We also derive a portion of our revenue from overseas sales. All of our revenue is denominated in U.S. dollars.

Cost of Goods Sold

Our cost of goods sold consists primarily of purchased products from contract manufacturers, associated duties and inbound freight. In addition, our cost of goods sold also include inventory adjustments, warranty claims/reserves and freight allowances. We source our manufactured products based on customer orders.

Gross Profit

Our gross profit has and will continue to be affected by a variety of factors, including average sales price for our products, product mix, promotional allowances, our ability to reduce product costs and fluctuations in the cost of our purchased components.

Operating Expenses

Operating expenses include sales and marketing expenses, consisting of licensed brand royalties, sales representatives' commissions, advertising and trade show expense and costs related to employee's compensation. In addition, operating expense include charges relating to accounting, legal, insurance and stock-based compensation.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018
(In Thousands)

	June 30, 2019		June 30, 2018	
	Dollars	% of Revenue		% of Revenue
Net Revenue	$ 3,408	100.0%	$ 2,103	100.0%
Cost of sales	(2,674)	(78.5)%	(1,742)	(82.8)%
Gross Profit	**734**	**21.5%**	**361**	**17.2%**
Operating Expenses:				
Sales and marketing	35	1.0%	115	5.5%
Compensation	382	11.2%	370	17.6%
Professional fees	83	2.4%	143	6.8%
Product development	95	2.9%	124	5.9%
Other general and administrative	158	4.6%	167	7.9%
Total Operating Expenses	**753**	**22.1%**	**919**	**43.7%**
Operating Loss	**(19)**	**(0.6)%**	**(558)**	**(26.5)%**
Other Income (Expense)				
Miscellaneous Income (expense), net	8	0.3%	147	7.0%
Interest expense	-	-%	-	-%
Total Other Income (Expense)	**8**	**0.3%**	**147**	**7.0%**
Loss Before Tax Benefit	(11)	(0.3)%	(411)	(19.5)%
Benefit for Income Tax	-	-%	(59)	(2.8)%
Net Loss	**$ (11)**	**(0.3)%**	**$ (352)**	**(16.7)%**

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018
(In Thousands)

	June 30, 2019		June 30, 2018	
	Dollars	**% of Revenue**	**Dollars**	**% of Revenue**
Net Revenue	$ 6,387	100.0%	$ 6,163	100.0%
Cost of sales	(5,026)	(78.7)%	(4,783)	(77.6)%
Gross Profit	**1,361**	**21.3%**	**1,380**	**22.4%**
Operating Expenses:				
Sales and marketing	227	3.5%	479	7.8%
Compensation	757	11.9%	745	12.1%
Professional fees	241	3.8%	292	4.7%
Product development	180	2.8%	290	4.7%
Other general and administrative	321	5.0%	341	5.5%
Total Operating Expenses	**1,726**	**27.0%**	**2,147**	**34.8%**
Operating Loss	**(365)**	**(5.7)%**	**(767)**	**(12.4)%**
Other Income (Expense)				
Miscellaneous Income (expense), net	(3)	(0.1)%	148	2.4%
Interest expense	-	-%	-	-%
Total Other Income (Expense)	**(3)**	**(0.1)%**	**148**	**2.4%**
Loss Before Tax Benefit	(368)	(5.8)%	(619)	(10.0)%
Benefit for Income Tax	(12)	(0.2)%	(77)	(1.2)%
Net Loss	**$ (356)**	**(5.6)%**	**$ (542)**	**(8.8)%**

Net Revenues

For the three months ended June 30, 2019, net revenues were approximately $3.4 million, an increase of $1.3 million or 62.0% from $2.1 million in the three months ended June 30, 2018.

The Capstone Lighting program generated all of the $3.4 million of revenue in the second quarter 2019, of which approximately $3.0 million was for the newly launched battery powered LED product, compared to $1.7 million of LED products in 2018, an increase of $ 1.7 million. In the same period 2018, licensed products accounted for $378.6 thousand or 18% of total revenue but had $0 sales in 2019.

The Duracell® license has no revenue in 2019, as it expired on December 31, 2018.

For the six months ended June 30, 2019, net revenues were approximately $6.4 million, an increase of $223 thousand or 3.6% from $6.2 million in the six months ended June 30, 2018.

The Capstone Lighting program generated all of the $6.4 million of revenue for the period, of which approximately $5.7 million was the newly launched battery powered LED product, compared to $2.0 million of Capstone Lighting products in 2018, an increase of $4.4 million. In the same period 2018, licensed products accounted for $4.1 million or 67% of total revenue but had $0 sales in 2019.

The Company had one customer who comprised 95% of net revenue during the six months ended June 30, 2019 and two customers who comprised 52% and 45% of net revenue during the six months ended June 30, 2018.

For the three months ended June 30, 2019 and 2018 international sales were approximately $100 thousand and $145 thousand, respectively and $402 thousand and $462 respectively, for the six months ended June 30, 2019 and 2018. All of the international sales in the first six months 2019 were for the Capstone brand as compare to 43% in 2018.

To support Capstone LED products in the second quarter 2019, the Company invested approximately $504 thousand towards 2019 promotional marketing funds, to be used by the retailer to promote the LED product expansion. This was a $87 thousand increase compared to $417 thousand in the same period 2018. For the six months ended June 30, 2019 and 2018, the Company invested $1.294 million and $443 thousand respectively, towards marketing funds, an increase of $851 thousand or 192% compared to 2018.

The following table disaggregates revenue by major source:

	For the Three Months Ended June 30, 2019			For the Three Months Ended June 30, 2018		
	Capstone Brand	Licensed Brands	Total Consolidated	Capstone Brand	Licensed Brands	Total Consolidated
LED Consumer Products- US	$ 3,307,382	$ -	$ 3,307,382	$ 1,693,480	$ 264,472	$ 1,957,952
LED Consumer Products-International	100,440	-	100,440	31,080	114,174	145,254
Total Revenue	**$ 3,407,822**	**-**	**3,407,822**	**$ 1,724,560**	**$ 378,646**	**$ 2,103,206**
% of Total Revenue	**100%**	**-%**	**100%**	**82%**	**18%**	**100%**

The following table disaggregates revenue by major source:

	For the Six Months Ended June 30, 2019			For the Six Months Ended June 30, 2018		
	Capstone Brand	Licensed Brands	Total Consolidated	Capstone Brand	Licensed Brands	Total Consolidated
LED Consumer Products- US	$ 5,985,009	$ -	$ 5,985,009	$ 1,841,781	$ 3,859,253	$ 5,701,034
LED Consumer Products-International	401,615	-	401,615	196,974	265,366	462,340
Total Revenue	**$ 6,386,624**	**-**	**6,386,624**	**$ 2,038,755**	**$ 4,124,619**	**$ 6,163,374**
% of Total Revenue	**100%**	**-%**	**100%**	**33%**	**67%**	**100%**

Gross Profit and Cost of Sales

Gross profit for the three months ended June 30, 2019 and 2018, was approximately $734.1 thousand, and $360.7 thousand, respectively, an increase of $373.4 thousand or 103.5%. Gross Profit as a percent of revenue was 21.5% in the second quarter 2019 as compared to 17.2% in 2018.

Gross profit for the six months ended June 30, 2019 and 2018, was approximately $1.361 million, and $1.380 million, respectively, a slight reduction of $19 thousand or 1.4%. Gross Profit as a percent of revenue for the six month period 2019 and 2018, was 21.3% and 22.3%, respectively.

The increased marketing fund allowances of $851 thousand, had the impact of reducing the Gross Profit by 9.3% of revenue in the six months ended June 30, 2019 when compared to June 30, 2018.

Operating Expenses

Sales and Marketing Expenses

For the three months ended June 30, 2019, and 2018, sales and marketing expenses were $35.4 thousand and $115.5 thousand respectively, a reduction of $80.1 thousand or 69.4%. During the quarter with the no revenue for Duracell® and Hoover® branded products, royalty expense for the three months in 2019 and 2018 were $0 and $17.1 thousand, respectively. In 2018 we incurred $72.4 of trade show expense related to the National Hardware Show which did not occur in 2019. The promotion expense increased by $14.3 thousand for the services of the Max Borgess marketing solutions which did not occur in 2018.

For the six months ended June 30, 2019, and 2018, sales and marketing expenses were $227.3 thousand and $478.6 thousand respectively, a reduction of $251.3 thousand or 52.5%. Total royalty expenses for the six months in 2019 and 2018 were $0 and $186.3 thousand, respectively. Sales commissions were also reduced from $97.8 thousand in 2018 to $0 thousand in 2019. However, part of these savings were offset with an increase in Advertising and Promotional expense of $37.8 thousand which did not occur in 2018.

Compensation Expenses

For the 3 months ended June 30, 2019, and 2018, compensation expenses were approximately $382.3 thousand and $369.7 thousand respectively, an increase of $12.6 thousand or 3.4%.

For the 6 months ended June 30, 2019, and 2018, compensation expenses were approximately $757.2 thousand and $744.9 thousand respectively, an increase of $12.3 thousand or 1.65%.

Professional Fees

For the 3 months ended June 30, 2019, and 2018, professional fees were approximately $82.8 thousand and $142.9 thousand respectively, a reduction of $60.1 thousand or 42.0%.

For the 6 months ended June 30, 2019, and 2018, professional fees were approximately $240.6 thousand and $291.8 thousand respectively, a reduction of $51.2 thousand or 17.5 %. In 2018, legal expenses were higher as we incurred $62 thousand of legal fees to dispute the CyberQuest case through arbitration.

Product Development Expenses

For the 3 months ended June 30, 2019 and 2018, product development expenses were approximately $94.5 thousand and $123.8 thousand, respectively, a decrease of $29.3 thousand or 23.6%. During the second quarter 2019 the Company invested $60.1 thousand in software and hardware development for the Connected Surfaces project, an increase of $21 thousand as compared to $39.1 thousand in 2018. However, prototype and sample development expense was $4.6 thousand in 2019 compared to $38.8 thousand in 2018, a reduction of $34.2 thousand, as samples were not required for the 2019 International Hardware Show.

For the 6 months ended June 30, 2019, product development expenses were approximately $179.8 thousand as compared to $290.3 thousand, in 2018, a decrease of $110.5 thousand or 38.1%. During the period the Company invested $107.4 thousand in software and hardware development for the Connected Surfaces project compared to $112.6 thousand in 2018 when the project initially started. Prototype, sample development and product testing expense was $11.6 thousand in 2019 compared to $98.1 thousand in 2018 a reduction of $86.5 thousand or 91.4% as samples were not required for the 2019 International Hardware Show.

Other General and Administrative Expenses

For the 3 months ended June 30, 2019 and 2018, other general and administrative expenses were approximately $157.6 thousand and $166.7 thousand, respectively, a decrease of $9.1 thousand or 5.5%. Rent expenses was $21.5 thousand in 2019 as compared to $34.3 thousand in 2018, a reduction of $12.8 thousand as a result of a rent incentive received from the landlord for moving into new corporate offices.

For the 6 months ended June 30, 2019 and 2018, other general and administrative expenses were approximately $321.3 thousand and $341.0 thousand, a decrease of $19.7 thousand or 5.8%. Rent expenses was $42.8 thousand in 2019 compared to $75.8 thousand in 2018, a reduction of $33.0 thousand or 43.6% resulting from the rent incentive received from the landlord for moving into new corporate offices. During the period the Company invested $11.9 thousand in the Connected Surfaces website which was not incurred in 2018.

Total Operating Expenses

For the 3 months ended June 30, 2019 total operating expenses were $752.6 thousand or 22.1% of revenue as compared to $918.6 thousand or 43.7% of revenue in 2018, a decrease of $166 thousand or 18.1%.

For the 6 months ended June 30, 2019 total operating expenses were $1.73 million or 27.0% of revenue as compared to $2.15 million or 34.8% of revenue in 2018, a decrease of $420.5 or 19.6%.

Operating Loss

For the 3 months ended June 30, 2019 the operating loss was $18.5 thousand compared to a loss of $557.9 thousand in 2018, a reduction of $539.4 thousand or 96.7%.

For the 6 months ended June 30, 2019 the operating loss was $365.4 thousand compared to a loss of $766.6 thousand in 2018, a decrease of $401.2 thousand or 52.3%.

Other Income (Expense), Net

For the 3 months ended June 30, 2019, and 2018, other income (expense), net was $8.0 thousand as compared to $147.3 thousand in 2018.

For the 6 months ended June 30, 2019, and 2018, other income (expense), net was $2.5 thousand as compared to $147.3 thousand in 2018.

Benefit for Income Tax

For the 3 months ended June 30, 2019 the benefit for income tax was estimated at $0 thousand compared to a benefit of $59.0 thousand in the same period 2018.

For the 6 months ended June 30, 2019 the benefit for income tax was estimated at $12.0 thousand compared to a benefit of $77.0 thousand in the same period 2018.

Net Loss

For the 3 months ended June 30, 2019 the net loss was approximately $10.5 thousand compared to a net loss of $351.6 thousand in the same period 2018. That is an improved performance of $341.1 thousand in the three month period as compared to 2018.

For the 6 months ended June 30, 2019 the net loss was approximately $355.8 thousand compared to a net loss of $542.3 thousand in the same period 2018. That is an improved performance of $186.5 thousand in the six month period as compared to 2018.

In summarizing the financial performance in the second quarter 2019, Gross Sales were $3.9 million in 2019 compared to $2.5 million in 2018, an increase of $1.4 million or 56%. However, the net income and overall results were impacted in the quarter as the Company continued to invest substantial additional expense to support managements strategic objectives and to promote revenue growth in the future, namely:

- $504 thousand for 2019 marketing funds and promotional allowances.
- $12 thousand for Smart Mirror marketing services
- $60 thousand in continued development of the Connected surfaces software.

In total $576 thousand of strategic funds were expensed in the quarter.

In summarizing the financial performance for the six months ended June 30, 2019, Gross Sales were $7.7 million compared to $6.6 million in 2018, an increase of $1.1 million or 16.3%. Net income and overall results were impacted in the period resulting from the Company's continued investment to support managements strategic objectives, namely:

- $1.3 million for 2019 marketing funds and promotional allowances.
- $35 thousand for Smart Mirror marketing services
- $107 thousand in continued development of the Connected surfaces software.

In total $1.442 million of strategic funds were expensed in the six months ended June 20, 2019 which negatively impacted the overall net income performance in the period. We would note however, that this strategic investment was financed through operating cash flow and did not result in the incurrence of any debt or interest.

Off-Balance Sheet Arrangements

The Company does not have material off-balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.

Contractual Obligations

There were no material changes to contractual obligations for the 6 months ended June 30, 2019.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balances as of June 30, 2019 and December 31, 2018 was $1.2 million and $3.8 million, respectively, a reduction of $2.6 million. The Company also had additional borrowing availability under the bank agreement of approximately $3.3 million.

On July 18, 2019, Sterling National Bank renewed the credit line up to $7,500,000 to June 30, 2020. Additional expansion of the line will be reviewed as the need arises.

As of June 30, 2019, and December 31, 2018 the Sterling Bank loan balance for both periods was $0.

As of June 30, 2019, and December 31, 2018, the notes payable to related parties for both periods was $0.

Cash flow from operations are primarily dependent on our net income adjusted for non-cash expenses and the timing of collections of receivables, level of inventory and payments to suppliers.

Summary of Cash Flows	For the Three Months ended June 30, 2019	2018
In thousands		
Net cash used in:		
Operating Activities	$ (2,525)	$ (781)
Investing Activities	(28)	(126)
Financing Activities	(36)	-
Net decrease in cash and cash equivalents	**$ (2,589)**	**$ (907)**

As of June 30, 2019, the Company's working capital was approximately $3.4 million. Current assets were $5.6 million and current liabilities were $2.2 million.

Cash Flows provided by Operating Activities

Cash used in operating activities in the six months ended June 30, 2019 was approximately $2.5 million compared with approximately $781 thousand used in the same period 2018. The cash usage in the period resulted from the net loss of approximately $356 thousand, $191 thousand decrease in accrued sales allowances and $2.5 million increase in the accounts receivable balance, resulting from the increased revenue. This was partially offset by $594 thousand increase in accounts payable.

Cash Flows used in Investing Activities

Cash used in investing activities for both the six months ended June 30, 2019 and 2018 was $28 thousand and $126 thousand, respectively. The Company invested in molds for the launch of new products. CIHK has negotiated favorable payment terms with our OEM manufacturers to reduce the amounts of upfront cash required when initiating new product line projects.

Cash Flows used in Financing Activities

Cash used in financing activities for the six months ended June 30, 2019 and 2018, was approximately $36 thousand and $0, respectively. During the period the Company has repurchased 214,000 shares to date at a cost of $36 thousand.

At the period end, the Company was in compliance with the terms pursuant to existing credit facilities. .Based on past performance and current expectations, Management believes that our cash on hand, our availability under the line of credit and anticipated cash flows from operations will be adequate to meet the Company's cash needs for our daily operations and capital expenditures for at least the next 12 months. With our working capital position, we believe that we have the ability to continue to invest in further development of our products.

Directors and Officers Insurance: The Company currently operates with Directors and Officers insurance and the Company believes the coverage is adequate to cover likely liabilities under such a policy.

Exchange Rates

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in U.S. dollars. Our factories are located in mainland China and the exchange rate fluctuations between the U.S. dollar and Chinese Yuan have been relatively stable at approximately RMB 6.87 to U.S. $1.00. Operating expenses of the Hong Kong office are paid in either Hong Kong dollars or U.S. dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been relatively stable at approximately HK $7.81 to U.S. $1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. While exchange rates have been stable for several years, we cannot assure you that the exchange rate between the United States, Hong Kong and Chinese currencies will continue to be stable and exchange rate fluctuations may have a material effect on our business, financial condition or results of operations.

Impact of Inflation: The Company's major expense has been the cost of selling and marketing product lines to customers in North America. That effort involves mostly sales staff traveling to make direct marketing and sales pitches to customers and potential customers, trade shows around North America and visiting China to maintain and seek to expand distribution and manufacturing relationships and channels. Although labor costs are starting to increase, the Company expects purchasing costs to remain stable with the Chinese manufacturers. However the tariff trade dispute between the U.S. and China and with the implementation of higher import tariffs into the U.S., it is expected that consumer retail prices will increase to offset the higher import duties which could adversely impact the demand for Company products.

Country Risks: Changes in foreign, cultural, political and financial market conditions could impair the Company's international manufacturing operations and financial performance.

The Company's manufacturing is currently conducted in China. Consequently, the Company is subject to a number of significant risks associated with manufacturing in China, including:

- The possibility of expropriation, confiscatory taxation or price controls;
- Adverse changes in local investment or exchange control regulations;
- Political or economic instability, government nationalization of business or industries, government corruption, and civil unrest;
- Legal and regulatory constraints;
- Tariffs and other trade barriers, including trade disputes between the U.S. and China;
- Political or military conflict between the U.S. and China, or between U.S. and North Korea, resulting in adverse or restricted access by U.S.-based companies to Chinese manufacturing and markets.

Currency: Currency fluctuations may significantly increase our expenses and affect the results of operations, especially where the currency is subject to intense political and other outside pressures.

Interest Rate Risk: The Company did not have significant interest rate risk during the period ended June 30, 2019.

Credit Risk: The Company has not experienced significant credit risk, as most of our customers are long-term customers with superior payment records. Our managers monitor our receivables regularly and our Direct Import Programs are shipped to only the most financially stable customers or advance payments before shipment are required for those accounts less financially secure.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019. As of the date of this Report, Stewart Wallach is our Chief Executive Officer and James Gerald McClinton is our Chief Financial Officer and Chief Operating Officer.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, 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 and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.
- Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2019. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 Internal Control-Integrated Framework. Based on their assessment, management concluded that, as of June 30, 2019, the Company's internal control over financial reporting is effective based on those criteria. Based on that evaluation, our management concluded that our internal control over financial reporting, as of June 30, 2019, was effective at the reasonable assurance level that: (1) our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Because the Company is a smaller reporting company, this annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm.

Changes in internal controls over financial reporting.

There are no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the six months ended June 30, 2019, that has materially affected or are reasonable likely to materially affect, our internal control over financial reporting.

The certifications of our Chief Executive Officer and Chief Financial Officer attached as Exhibits 31 and 32 and to this Report include information concerning our disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information incorporated by reference to our annual report on Form 10-K for the fiscal year ended December 31, 2018, for a more complete understanding of the matters covered by such certifications.

Inherent Limitations on Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. Internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal control are met. Further, the design of internal control must reflect the fact that there are resource constraints, and the benefits of the control must be considered relative to their costs. While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company, have been detected.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not a party to any other pending or threatened legal proceedings and, to the best our knowledge, no such action by or against us has been threatened. From time to time, we are subject to legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions or settlements may occur in such routine lawsuits, we believe that the final disposition of such routine lawsuits will not have material adverse effect on its financial position, results of operations or status as a going concern.

The previously reported legal proceeding between Cyberquest, Ltd. and the Company was settled on September 27, 2018.

Other Legal Matters. To the best of our knowledge, none of our Directors, officers or owners of record of more than five percent (5%) of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

Item 1A. Risk Factors.

There have been no material changes in reported risk factors from the information reported in our Annual Report on Form 10-K for the year ended December 31, 2018, except as described in this quarterly report on Form 10-Q.

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

On May 31, 2019, the Company granted 100,000 stock options each to two directors of the Company for their participation as members of the Audit Committee and Nominating and Compensation Committee, and 10,000 stock options to the Company Secretary. The Director options have a strike price of $.435 with an effective date of August 6, 2019 and will vest on August 5, 2020 and have a term of 5 years. The Company Secretary options have a strike price of $.435 with an effective date of August 6, 2019 and will vest on August 5, 2020 and have a term of 10 years. Options were issued under an exemption under Section 4(a)(2) and Rule 506(b) of Regulation under the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

The Company has no information to disclose that was required to be in a report on Form 8-K during the period covered by this report but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

Item 6. Exhibits

The following exhibits are filed as part of this Report on Form 10-Q or are incorporated herein by reference.

EXHIBIT #	EXHIBIT TITLE
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350,
32.2	Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350,

SIGNATURES

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

Capstone Companies, Inc.

Dated: August 14, 2019

/s/ Stewart Wallach	
Stewart Wallach Principal Executive Officer	Chief Executive Officer
/s/James G. McClinton	
James G. McClinton Principal Financial Executive and Accounting Officer	Chief Financial Officer and Chief Operating Officer

Exhibit 31.1
Section 302 Certifications

I, Stewart Wallach, certify that:

1.I have reviewed this quarterly report on Form 10-Q of Capstone Companies, 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 small business issuer as of, and for, the periods presented in this report;

4.The small business issuer's other certifying officer 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 14, 2019

/s/ Stewart Wallach
Stewart Wallach
CEO, Director
(Principal Executive Officer)

Exhibit 31.2
Section 302 Certifications

I, James G. McClinton, certify that:

1.I have reviewed this quarterly report on Form 10-Q of Capstone Companies, 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 small business issuer as of, and for, the periods presented in this report;

4.The small business issuer's other certifying officer 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 14, 2019

/s/ James G. McClinton
James G. McClinton,
Chief Financial Officer,
Chief Operating Officer, Director
(Principal Financial Executive and Accounting Officer)

Exhibit 32.1

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 Capstone Companies, Inc. ("Company") on Form 10-Q for the period ended June 30, 2019, filed with the Securities and Exchange Commission (the "Report"), I, Stewart Wallach, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

IN WITNESS WHEREOF, the undersigned has signed this statement on this 14 th day of August, 2019.

/s/ Stewart Wallach
Stewart Wallach
CEO, Director
(Principal Executive Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to §18 U.S.C. Section 1350. It is deemed furnished and not filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Capstone Companies, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

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 Capstone Companies, Inc. ("Company") on Form 10-Q for the period ended June 30, 2019, filed with the Securities and Exchange Commission (the "Report"), I, James G. McClinton, Chief Financial Officer and Chief Operating Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

IN WITNESS WHEREOF, the undersigned has signed this statement on this 14 th day of August, 2019.

/s/ James G. McClinton
James G. McClinton
Chief Financial Officer,
Chief Operating Officer, Director
(Principal Financial Executive and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to §18 U.S.C. Section 1350. It is deemed furnished and not filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Capstone Companies, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.