

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

CAPSTONE COMPANIES, INC.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 000-28831

CAPSTONE COMPANIES, INC.

(Exact name of small business issuer as specified in its charter)

Florida

(State or Other Jurisdiction of Incorporation)

84-1047159

(I.R.S. Employer No.)

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

(954) 252-3440

(Small business issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, \$0.0001 PAR VALUE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company Emerging Growth Company

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

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

As of June 30, 2019 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of the registrant's common stock held by non-affiliates was approximately \$3,895,813. Shares of the registrant's common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded from the calculation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of estimated shares outstanding of the Registrant's Common Stock as of March 23, 2020 is 46,328,261

DOCUMENTS INCORPORATED BY REFERENCE

None

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DEFINITIONS:

As used in this Annual Report on Form 10-K, the following terms have the stated meaning or 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 31st.
- (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.

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

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K ("Report") contains "forward-looking statements". Those statements appear in a number of places in this Report and include, without limitation, statements regarding the intent, belief and current expectations of the Company, its directors or its officers, with respect to: Company's future business and financial prospects; the Company's policies regarding investments, dispositions, financings, conflicts of interest and other matters; and trends affecting the Company's financial condition or results of operations. Forward looking statements include words like "expect," "anticipate," "hope," "project," "may," "should," "could," or similar words or variants thereof. Any such forward-looking statement is not a guarantee of future performance and involves several risks and uncertainties. Actual results may differ materially from those results implied in the forward-looking statement as a result of various factors, some factors being beyond the Company's control or ability to foresee. Among the factors that could cause plans, actions and results to differ materially from current expectations are, without limitation: disruption from natural or human causes, including severe weather, accidents, fires, earthquakes, terrorist acts and epidemic or pandemic diseases, such as the COVID-19, which pandemic could result in delays or suspension of product production from China, where our products are made, or otherwise dampen consumer demand for products like our products, which are a discretionary purchase. The accompanying information contained in this Report, including the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Risk Factors" identifies other important factors that could cause such differences. With respect to any such forward-looking statement that includes a statement of its underlying assumptions or bases, the Company cautions that, while it believes such assumptions or bases to be reasonable and has formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be significant or "material" depending on the circumstances. When, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. Further, the Company is a "penny stock" company with no primary market makers. Such a status makes highly risky any investment in the Company securities. The forward-looking statements in this Report are made as of the date hereof, and, unless required by law or regulation, we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

Item 1. Business**Overview**

Capstone Companies, Inc. ("Company" or "CAPC") is a public holding company organized under the laws of the State of Florida. The Company is a leading designer, manufacturer and marketer of consumer inspired products that bridge technological innovations. The Company has global distribution including Australia, Iceland, Japan, Korea, Mexico, North America, South America, Spain, Taiwan and the United Kingdom. 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. The Company has a history of exploiting technologies in areas of induction charging, power failure control, security and home LED lighting products and most recently has entered the electronics market with its introduction of Capstone's Smart Mirrors.

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 sixth to seventh 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 few 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. 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, 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 to develop new product lines, like Smart Mirrors, is believed to be necessary and timely for sustaining or growing revenues.

Our expectation is that the new portfolio appeals to a much larger audience than our traditional LED lighting product line, 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, which is our target market. 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. If we seek to compete in the upscale market for more expensive smart mirrors with varied and enhanced features, we perceive that we would be directly competing with larger competitors and their significantly greater resources. Retail pricing for upscale smart mirrors typically ranges from \$900 to \$2,000.

The Company competes in competitive consumer 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 2020, we are confident in maintaining our revenue stream in the lighting business segment by continuing to introduce new innovative LED products. By working diligently overseas with alternate manufacturers located outside China, particularly in Thailand, we anticipate minimal impact to our selling prices and related margins of profit that could otherwise be impacted by ongoing trade disputes between the United States and China. The pandemic of COVID-19 has impacted the Chinese economy and could, if it continues to spread in China, hamper shipments of products from China, which produces almost all of our products. The impact of COVID-19 on our Chinese product production is not fully known, however our factory partners have been authorized by their local authorities to reopen and their employees are returning to work. A full appreciation of the overall impact of the pandemic on our vital product supply from Chinese sources may not be possible until the second fiscal quarter of fiscal year 2020, however as a result of the production delays in China, customer orders that were planned to be shipped in the second quarter, 2020 have been rescheduled for shipment in the third quarter, 2020. We have identified and had certified a factory in Thailand that started producing orders for the Company in 2020. This will provide the Company with more flexibility in determining which location should produce goods for future orders. With the United States now being impacted by the COVID-19 pandemic we believe the impact of the virus will happen during the first half of this year and view this as a relatively short-term disruption that does not impact our long-term strategy and initiatives.

We continue to make investments to ensure that we provide quality, useful products. Additionally, the Company continues to enhance its customer service support. In 2019, the Company substantially expanded its investment and commitment to social media marketing. With the growing importance of on-line commerce and social media to consumers, this marketing should play a vital role in expanding our lifestyle brands and will also serve to establish credibility 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.

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.

The Company oversees and controls the manufacturing of its products, which are currently made in China and Thailand by OEM contract manufacturers, through three wholly owned operating subsidiaries: CAPI, CIHK and CLTL. The Company's direct import business model requires that shipments meet minimum order quantity or "MOQ" full container loads from its 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 continually evaluates its contract manufacturers' ability to meet the Company's growing needs. Additionally, all manufacturers must meet rigorous compliance, security and equipment evaluation audits to ensure competitive pricing for the highest quality products. Capstone's business practices have allowed development of excellent relationships with its OEM contract manufacturers and has resulted in commercially favorable payment terms, which over the years has greatly contributed to the Company's growth.

History of Our Business

We were incorporated on September 18, 1986 as a Delaware corporation. Our initial public offering under the Securities Act was conducted in 1987. We started as a blank check company. From 1986 until the 2006 acquisition of CAPI, we experienced several changes in management, corporate name, and primary business lines, as well as reincorporation from Delaware to Colorado and then from Colorado to Florida in 2004.

On September 13, 2006, the Company entered into a Stock Purchase Agreement with CAPI. CAPI was incorporated in Florida on May 15, 1996 and is engaged primarily in the business of wholesaling low technology consumer products to distributors and retailers in the United States. Under the Stock Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of CAPI's Common Stock, and recorded goodwill of \$1,936,020.

On April 13, 2012, the Company established a wholly owned subsidiary in Hong Kong, named Capstone International Hong Kong Ltd ("CIHK"), which provides support services such as engineering, new product development, product sourcing, factory certification and compliance, product price negotiating, product testing and quality control and ocean freight logistics for the Company's other subsidiaries. CIHK is also engaged in selling the Company's products internationally.

The Company entered the LED consumer market nine years ago. At that time, it was clear to management that there was a significant opportunity for an innovative low-cost LED product supplier as the lighting industry was on its transition path from traditional lighting technologies to LED.

Capstone was an early innovator in the introduction of lower cost LED lighting products that have distinctive features creating strong consumer appeal. The Company's product lines consisted of decorative lighting, outdoor fixtures, lighting with built-in power failure technology and safety and security. The power failure lighting and security products were initially sold under its wholly-owned subsidiary Capstone Industries brand name through 2015.

Commencing in 2014, Capstone explored and researched branding opportunities that would allow the Company to differentiate from its own Capstone Lighting® brand.

In 2015 the Company secured and launched the North America trademark license for the *Hoover*® brand for LED lighting products. The *Hoover*® name is a 100-year-old household iconic brand name. *Hoover*® is a registered trademark of Techtronic Floor Care Technology Limited.

In the latter part of 2014, the Company concluded that conventional retail was going to undergo significant change in its LED product and vendor selections. Early LED light bulbs were deemed early technologies and were seen by the Company as too expensive. The early LED products did not look like light bulbs and were not marketed effectively in the opinion of the Company. As such, buying an LED light bulb was potentially confusing to the consumer. Over the course of the next year, retail prices for early LED products eroded and negatively impacted the supply chain. Capstone forecasted this outcome and focused its primary marketing approach towards the warehouse club channel where low retail mark-ups circumvented this market condition. The Company was timely in this strategic market entry and benefited from the limited number of vendors competing in this arena at that time. The Company concluded that larger LED bulb suppliers were concerned with protecting established retail price positions and they could not, as such, effectively market their brands in both conventional retail channels and warehouse club channels.

The Company's operations consist of one reportable segment for financial reporting purposes: Lighting Products. Connected Surfaces products were recently introduced, and segment results will be reported in Annual Report for 2020.

Lighting Industry Trends

Demand for the Company's LED lighting products sold at retail is highly dependent on economic drivers, such as consumer spending discretionary income, along with home improvement spending. As a result of higher energy costs and environmental concerns (as shown by U.S. Energy Information Administration studies), consumers seek new technologies to improve product energy efficiency, provide increased lighting functionality and reduce overall energy costs. LED lighting is more efficient than fluorescent lighting and represents significant energy savings for consumers. Encouraged by support from public utility programs, LED lighting has now achieved widespread consumer use.

Technological Maturity

Since the introduction of the first visible LED in the 1960s, the technology has offered an increasingly wide variety of colored lighting, beginning with red and expanding to green, yellow and orange. In the mid-1990's, LEDs became capable of emitting blue light. With the advent of the blue LEDs combined with phosphor technology, LEDs made another technological advancement by emitting white LEDs. This breakthrough enabled LEDs, through its full color spectrum output capabilities, to compete with preferred color temperatures achieved by traditional lighting solutions.

The technological advancement of LED lighting has surpassed traditional lighting performance in terms of brightness, efficiency, lamp life, safety, maintenance reduction and color-rendering. This maturity continues to drive growing market adoption as the technology incorporates other functionalities.

Cost Comparison

Market forces, including competitive pressure, greater manufacturing efficiencies and increased technology adoption among consumers, continue to significantly drive down LED prices. U.S. Environmental Protection Agency 2018 report shows that LED lighting uses 25-80% less energy than traditional incandescent lighting, lasts up to 25 times longer and has significant savings in energy costs. LED use is projected to reduce United States lighting energy consumption by 40% in 2030, worth over \$26 billion of savings at today's energy prices.

Social Responsibility

LED lighting solutions provide a significant opportunity for consumers to meet environmental goals and to significantly reduce energy consumption. LEDs do not contain mercury, unlike fluorescent lighting, which can be harmful to the environment, do not emit ultraviolet radiation, typically do not contain glass and are 100% recyclable.

Our Growth Strategy

The Company's looking forward strategy requires continued expansion of its 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.

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 consequently 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 developed and introduced in January 2019 at the Consumer Electronics Show (CES), a new concept line of "Connected Surfaces" products. The new category was officially launched in January 2020 at CES. The Company intends to expand the new line of "Connected Products" for the next several years. Our current product roadmap outlines plans for product introductions through 2021 and this will continue to expand as consumer product acceptance validates our innovations. We believe this program will leverage existing relationships with our current retail partners and contribute organic growth for the Company.

The Company believes 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.

While our focus of Connected Surface products is the smart home market, smart mirrors are being employed by retailers like Ralph Lauren and Neiman Marcus to allow customers to compare outfits on fitting room smart mirrors. Further, smart mirrors are emerging in fitness industry for interactive workouts at home and at gyms. The automobile industry is also an emerging potential industry for smart mirrors, especially with emerging self-drive, self-park technologies and growing use of interactive surfaces in vehicles. As of the date of this Form 10-K Annual Report, Company's focus in Connected Surfaces products is the smart home industry.

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 expand its "Connected Surfaces" portfolio into 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 through design techniques, added functionality or some proprietary innovation.

Industry 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 products' companies. Due to changing consumer tastes, available disposable income and economic conditions and new technologies, consumer products face an endless challenge of product line maturing and no longer providing reliable or sufficient revenues. The Company's development of Connected Surfaces products is an effort to diversify into an emerging consumer product line and seek to hedge against maturing LED product lines. 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 extensive, modern manufacturing, design and engineering capabilities through the Company's OEM contract manufacturers, and the lower unit costs in China and Thailand, Capstone believes that it is more economical and efficient to continue to manufacture certain products in China and Thailand 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 and Thailand to be challenged.

The economic impact of a pandemic like COVID-19 reveals how an unexpected event in China can potentially disrupt or adversely impact the integrated global economy product supply chain and the need for companies to diversify or provide for alternative product supply. Due to reliance on China, many product companies face the dilemma of unanticipated distributions in key product and component supply chains. The Company faces this challenge and has been reviewing in the past ways to supplement or provide back-up production sources to China. Currently the Company is transitioning its primary source of products from China to Thailand. The Company intends to continue its analysis of developing a more diverse product sourcing strategy. As a small reporting company, the Company has limited resources for independent diversification of production sources and must rely on subcontracting production to existing OEM's. With the United States now being impacted by the COVID-19 pandemic we believe the impact of the virus will happen during the first half of this year and view this as a relatively short-term disruption that does not impact our long-term strategy and initiatives. With the move to a work-from home culture resulting from the pandemic, this may lead to additional business opportunities as consumers become even more dependent on connected products which the Company's new Connected Surfaces product will offer.

The U.S federal government has imposed tariffs on certain Chinese imports. During 2019, the Company's products were sourced in China and were impacted by the imposed tariffs. Future U.S. policy changes that may be 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. While developments in 2020 indicate a possible resolution or partial resolution of existing Chinese-American trade dispute, there is no assurance that a comprehensive or lasting resolution will occur in 2020.

Management's efforts to mitigate the impact of these added costs include the transition of alternative OEM manufacturing into Thailand.

The Company's CIHK's operations in Hong Kong with personnel experienced in engineering and design, product development and testing, product sourcing, international logistics and quality control, work with our OEM 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.

As a result of COVID-19 pandemic, CIHK being in Hong Kong, the personnel have been working remotely from home, but the full extent and impact of the pandemic in China and Hong Kong is uncertain as of the date of this Report.

Perceived Weaknesses

Capstone believes that its competitive weaknesses are: (1) it does not possess the business, marketing and financial resources of 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 and the impact of the Social Media campaign is not certain as of the date of this Report; (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 and long-term revenue prospects of the recent diversification into Connected Surfaces products is uncertain as of the date of this Report; (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 OEM's for product production and these OEM's are primarily located in China, which is being impacted by a pandemic and the full economic impact of the pandemic is uncertain as of the date of this Report; (9) our international purchases can become more expensive if the U.S. Dollar weakens against the foreign currencies; (10) as we currently manufacture our products primarily 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 and (11) we are focused on affordable consumer products in LED lighting and smart home connected mirrors and this product focus may not provide profitability on a long-term basis or at sufficient levels to fund future product development and diversification – both of which may be vital to long term success of the Company.

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
- LED Puck Lights
- LED Vanity Mirror
- LED Gooseneck Lantern
- LED Dual Mode Security Light
- LED Solar Patio Lights
- LED Undercabinet Light Bars
- LED Motion Sensor Lights
- LED Motion Sensor Light with Air Purifier
- LED Wall Utility Lights
- Eco-i-Lites
- Power Failure Indoor Lighting
- 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 Connected Surfaces portfolio, it is reasonable to expect to post losses while building the market for a new category of products which were formally launched at the 2020 CES. Expense categories including molds, prototyping, engineering, advertising, public relations, tradeshow and social media platforms will continue to 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, Costco Wholesale, 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 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 more products into foreign market channels as well. The Company 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 year ended December 31, 2019 were \$1.2 million or 10% of net revenue as compared to \$1.3 million or 10% in fiscal 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. Efforts to expand into new international markets may be adversely impacted in the short term by COVID-19 pandemic.

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 its proven abilities in operational excellence, 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. 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 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. As of the date of this Report, there has not been a resolution of the Chinese-American trade dispute.

Sales and Marketing

Our products are sold nationally and internationally through a direct sales force. The sales force markets the Company's products through numerous retail locations worldwide, including larger retail warehouse clubs, hardware centers and e-commerce websites. Our sales business model has been designed to support "direct import sales" made directly to the retail customer. However, we also offer "domestic sales" programs which will be further expanded in the future.

Direct Import Sales. We currently ship finished products directly to our retail customer from China and Thailand. The sales transaction and title of goods are completed by delivering products to the customers overseas shipping point. The customer takes title of the goods at that point and is responsible for inbound ocean freight and import duties. Direct import sales are made in larger quantities (generally container sized lots) to customers worldwide.

Domestic Sales. The strategy of selling products from a U.S. domestic warehouse enables the Company to provide timely delivery and serve as a domestic supplier of imported goods. With this model the Company imports goods from overseas and is responsible for all related costs including ocean freight, insurance, customs clearance, duties, storage and distribution charges related to such products and therefore such sales command higher sales prices than direct sales. Domestic orders are for a much smaller size and could be as low as a single unit directly to the end consumer if ordered through an online website. In order to support an effective e-commerce business model, we will be required to warehouse adequate inventory levels enabling the Company to ship orders directly to the end consumer expediently.

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 fiscal 2019, the Company had two customers who comprised approximately 83% and 15%, respectively, of net revenue and 36% and 60%, respectively, of net revenues in fiscal 2018. Although we have long established relationships with our customers, we do not have contractual arrangements to purchase a fixed quantity of product annually. A decrease of business or a loss of any of our major customers could have a material adverse effect on our results of operations and financial condition.

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.

Focus on International Growth: The Company will also be aggressively pursuing international business to retail customers outside of North America through CIHK for products that fall outside Capstone's branded categories but are innovative and preferably exclusive to CIHK. Subject to disruption from unanticipated events, like the COVID-19 pandemic, this should allow for quicker revenue expansion as time consuming product and brand development efforts are the responsibility of the retailer.

We enter 2020 with an expanded social media department and enhanced social media campaign strategy. We currently have a presence on the following social media platforms:

FACEBOOK¹: <https://www.facebook.com/capstoneindustries> and <https://www.facebook.com/capstoneconnected>

INSTAGRAM²: <https://www.instagram.com/capstoneconnected>

PINTEREST³: <https://www.pinterest.com/capstoneconnected/>

LINKEDIN⁴: <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

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, 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 reach. Competitors with greater resources could undermine Capstone's expansion efforts by marketing campaigns targeting its expansion efforts or price competition. 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 and software developers. The Company outsources 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.

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 3rd 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 include product development, project management, sourcing management, supply chain logistics, factory compliance auditing, and quality enforcement for all supplier factories located in Hong Kong, China and Thailand.

To successfully implement Capstone's business strategy, the Company must continually 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 currently 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 the Quality Assurance personnel.

- 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 competitive in the last year as a result of stable 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 direct to consumer marketplace, the Company has developed a new website with full order processing capabilities. To complete this project the Company has negotiated contracts for secured credit card processing capability, state sales tax compliance services and order fulfillment and logistics services, 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 fiscal years 2019 and 2018 were \$0 and \$347,784 respectively, a decrease of \$347,784 and the result of \$0 licensed revenue in the period. The Duracell® license which had been granted for a specific product promotion, expired at the end of fiscal 2018 which resulted in reduced revenues as the program started to phase down in early 2018.

Hoover® Home LED licensed products also experienced \$0 revenue in 2019. As the Company will not achieve the stated net sales volume for the renewal period, the License will expire on February 3, 2020.

In 2019 it was the Company's marketing objective to transition existing product lines from licensed product into Capstone Lighting brand which was successfully achieved.

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, Spot Lights, 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.

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 outage
- 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.

Employees

As of December 31, 2019, we employed 8 employees in our U.S. office and 6 employees in our Hong Kong operation. We consider our relations with our employees to be good. None of our employees are covered by a collective bargaining agreement. We have no part-time workers.

The following table sets forth the number of employees by function:

Employee Function	Number of Employees
Executive	3
Sales/Customer Service/Distribution	4
Research & Development/Technology/Product Development	4
Administrative	3
TOTAL	14

Corporate Information

Our principal executive offices are located at 431 Fairway Drive, Suite #200, Deerfield Beach, Florida, USA 33441. Our telephone number is (954)570-8889 and our website is at URL: www.capstonecompaniesinc.com. Our U.S. subsidiaries operate out of our principal executive offices. The Company believes that its current facilities are adequate for conduct of its business.

We file our financial information and other materials required under the Exchange Act electronically with the SEC. These materials can be accessed electronically via the Internet at www.sec.gov. Such materials and other information about the Company are also available through our corporate website.

Government Regulation

Our operations are subject to regulation by federal and state securities authorities as well as various federal, state, foreign and local laws and regulations governing a consumer products company and a for-profit business. We are not subject to any U.S. federal, state or local regulation that poses, in our opinion, any special or unusual burden or obstacle to conducting our business and financial affairs. Our main concern in terms of government regulation is the changing regulatory environment in China and its impact on our ability to access our consumer product manufacturing sources and obtain our consumer products. While the general trend in China has to be conducive to trade and commerce, China is still a single-party nation-state in which the central government has the power to dramatically and immediately change its trade and commercial policies and laws. Political or military conflict between the United States and China, who are rivals for power and influence in Asia and to an increasing extent all along the Pacific Rim as well as being diametrically opposed to one another over the status of Taiwan, could provoke a change in Chinese trade or commercial law that makes it more difficult or expensive for us to obtain consumer products. Such a development would have a serious impact on our ability to compete in the United States in the niche consumer product market.

CIHK is subject to the laws of Hong Kong SAR, which is a part of and subject to governance by China. In light of the specific operational role of CIHK in our company, we do not believe that such regulation poses a significant risk factor in terms of the business and financial condition of the Company.

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 capabilities in Thailand, 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 and provided the Company with liquidity to transition into a new innovative category without creating debt.

Continued investment in product development is a critical requirement 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 historically 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 .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 December 31, 2019, the base management fee is now equal to .30% and the interest rate on the loan was 6.75%. 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 years ended December 31, 2019 and 2018, the processing fees associated with the agreement were \$40,006 and \$45,157, respectively.

As of both Decembers 31, 2019 and 2018, the balance due to Sterling National Bank was \$0.

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 by the bank as the need arises.

The Company's liquidity and cash requirements are discussed more fully in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, below.

Item 1A. Risk Factors.

In addition to other information contained in this Report, the following risk factors should be carefully considered in evaluating our business, because such factors may have a significant impact on our business, operating results, liquidity and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those mentioned in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently consider to be immaterial, may also impact our business, operating results, liquidity and financial condition. If any of the following risks occur, our business, operating results, liquidity and financial condition, and the market price of our common stock, could be materially adversely affected. As a "penny stock," any investment in our Common Stock is highly risky and should only be considered by investors who can afford to lose their entire investment and do not require immediate liquidity.

These risk factors are not the only risks that we or our subsidiaries may face. Additional risks and uncertainties not presently known to us or not currently believed to be important also may adversely affect our business.

The Company's operations could be disrupted by natural or human causes beyond its control

The Company's operations are subject to disruption from natural or human causes beyond its control, including physical risks from hurricanes, severe storms, floods and other forms of severe weather, accidents, fires, earthquakes, terrorist acts and epidemic or pandemic diseases such as the COVID-19, any of which could result in suspension of operations or harm to people or the environment. While all of the Company's operations are located in the United States, the Company participates in a Chinese product supply chain, and if a disease spreads sufficiently to cause a pandemic (or to cause the fear of a pandemic to rise) or governments regulate or restrict the flow of labor or products or impede the travel of Company personnel, the Company's ability to conduct normal business operations could be impacted which could adversely affect the Company's results of operations and liquidity. Most of the Company products are sourced and made in China and a prolonged disruption of Chinese economy by COVID-19 or increased disruption of Chinese economy by COVID-19 could substantially and adversely impact the Company's production of products. Currently, the Company's Chinese suppliers have reopened and building to full production capabilities.

Our operating results are substantially dependent on the acceptance of new products.

Our future success may depend on our ability to deliver innovative, higher performing and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-effective manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we have in some instances experienced delays in completing the development and introduction of new products. Our research and development efforts are aimed at solving increasingly complex problems, and we do not expect that all of our projects will be successful. The successful development, introduction and acceptance of new products depend on a number of factors, including the following:

- achievement of technology solutions required to make commercially viable products;
- the accuracy of our predictions for market requirements;
- our ability to predict, influence and / or reach evolving consumer and technical standards;
- our timely completion of product designs and development;
- our ability to effectively transfer increasingly complex products and technology from development to manufacturing; and
- market acceptance of our new product by retailers and consumers.

If any of these or other similar factors becomes problematic, we may not be able to deliver and introduce new products in a timely or cost-effective manner.

We face significant challenges managing our growth strategy.

Our potential for growth depends significantly on the adoption of our products within the markets we serve and our ability to affect this rate of adoption. In order to manage our growth and business strategy effectively relative to the uncertain pace of adoption, we must continue to:

- expand the capability of information systems to support a more complex business;
- to secure and expand sufficient third-party manufacturing resources, to meet customer demands for price, function and design;
- manage an increasingly complex supply chain that has the ability to supply an increasing number of raw materials and components with the required specifications and quality, and deliver on time to our third-party manufacturing facilities, or our logistics operations;
- expand research and development, sales and marketing, technical support, distribution capabilities and administrative functions;
- manage organization complexity and communication;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers and executives when and as needed;
- attract and retain qualified employees; and
- adequately maintain and adjust, if needed, the operational and financial controls that support our business.

We are also increasingly dependent on information technology to enable us to improve the effectiveness of our operations and to maintain financial accuracy and efficiency. While we intend to focus on managing our costs and expenses, over the long term we expect to invest to support our growth and may have additional unexpected costs. Such investments take time to become fully operational, and we may not be able to expand quickly enough to exploit targeted market opportunities. In connection with our efforts to cost-effectively manage our growth, we rely on contract manufacturers for production capacity. If our contract OEM manufacturers, original design manufacturers ("ODMs") or other service providers do not perform effectively, we may not be able to achieve the expected cost and may incur additional costs to fulfill customer demand. Our operations may also be negatively impacted if any of these contract manufacturers, ODMs or other service providers do not have the financial capability to meet our growing needs. There are also inherent execution risks in starting up a new contract manufacturer factory or expanding production capacity of our existing contract OEM manufacturers or ODMs, or moving production to different contract manufacturers or ODMs, that could increase costs and reduce our operating results.

We operate the executive operations with a relatively small number of personnel. We may have to increase the number of our personnel in the future to handle any growth or expansion of product lines or product categories. Our ability to find and retain qualified personnel when needed by our growth or existing operations will be an important factor in determining our success in coping with growth or efficiently handling existing operational burdens.

If we are unable to effectively develop, manage and expand our sales channels for our products, our operating results may suffer.

As we grow our business and expand into business channels that are different from those in which we have historically operated, those retailers may alter their promotional pricing or inventory strategies, which could impact our targeted sales of these products. If we are unable to effectively penetrate these channels or develop alternate channels to ensure our products are reaching the intended customer base, our financial results may be adversely impacted. In addition, if we successfully penetrate or develop these channels, we cannot guarantee that customers will accept our products.

The markets in which we operate are highly competitive and have evolving technical or consumer requirements.

The markets for our products are highly competitive. In the consumer lighting market, we compete with companies that manufacture and sell traditional lighting products and we compete with companies that make smart mirrors for residential use, we compete with companies that have greater market share, name recognition and technical resources than we do. Competitors continue to offer new products with aggressive pricing. Aggressive pricing actions by our competitors in our businesses could reduce margins if we are not able to reduce costs at an equal or greater rate than the sales price decline.

With the increased demand for consumer LED lighting products, we will continue to face increased competition in the future across our businesses. If the investment in capacity exceeds the growth in demand the LED lighting market is likely to become more competitive with additional pricing pressures. With the emerging and evolving smart mirror market, we face growing competition and rapidly changing product technology and functionalities.

As competition increases, we need to continue to develop new products that meet or exceed the needs of our customers. Therefore, our ability to continually produce smart, efficient and lower cost lighting products that meet the evolving needs of our customers will be critical to our success. Adequate, affordable and available funding is key to our ability to compete in LED lighting and smart mirror markets. Competitors may also try to align with some of our strategic customers. This could lead to lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Any of these developments could have an adverse effect on our business, results of operations or financial condition.

As is true in any consumer product industry, the ability of a company to respond to changing consumer tastes and purchasing habits is key to success in consumer products. Introduction of new products brings the risk of increased development, production and marketing costs as well as that investment failing to produce revenues or profits that justify the investment in new products.

If our products fail to perform or fail to meet customer requirements or expectations, we could incur significant additional costs, including costs associated with the recall of those items.

The manufacture of our products involves complex processes. Our customers specify quality, performance and reliability standards that we must meet. If our products do not meet these standards, we may be required to replace or rework the products. In some cases, our products may contain undetected defects that only become evident after shipment and used by consumers. Even if our products meet standard specifications, our customers may attempt to use our products in applications for which they were not designed resulting in product failures and creating customer satisfaction issues.

If failures or defects occur, they could result in significant losses or product recalls due to:

- costs associated with the removal, collection and destruction of the product;
- payments made to replace product;
- costs associated with repairing the product;
- the write-down or destruction of existing inventory;
- insurance recoveries that fail to cover the full costs associated with product recalls;
- lost sales due to the unavailability of product for a period of time;
- delays, cancellations or rescheduling of order for our products; or
- increased product returns.

A significant product recall could also result in adverse publicity, damage to our reputation and a loss of customer or consumer confidence in our products. While we believe that product liability for consumer electronic products is not significant or widespread, we could face product liability lawsuits or regulatory proceedings by the Consumer Product Safety Commission (CPSC) and could suffer losses from a significant product liability judgment or adverse CPSC finding against us if the use of our products at issue is determined to have caused injury or contained a substantial product hazard to the public.

We provide warranty periods of 1 year on our products. Although we believe our warranty reserves are appropriate, we are making projections about the future reliability of new products and technologies, and we may experience increased variability in warranty claims. Increased warranty claims could result in significant losses due to a rise in warranty expense and costs associated with customer support.

We rely on a number of key OEM's/manufacturers to supply our products

We depend on a number of key OEM's and their suppliers. Although alternative manufacturers with similar manufacturing capabilities are available, qualification and certification of many of these alternative manufacturers could take up to six months or longer to finalize. While we have developed some production capabilities through OEM in Thailand, we remain largely dependent on Chinese OEM's.

Additionally, the inability of our suppliers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours. This risk may increase if an economic downturn negatively affects our OEM's or their suppliers. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent us from meeting customer order requirements. If we were to lose a key supplier, if our key suppliers were unable to support our demand for any reason or if we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.

We rely on arrangements with independent shipping companies for the delivery of our products from vendors and to customers both in the United States and abroad. The failure or inability of these shipping companies to deliver products or the unavailability of shipping or port services, even temporarily, could have a material adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security. The COVID-19 pandemic may negatively impact shipping products, but the full impact of the pandemic is not ascertainable as of the date of this Report.

We depend on a limited number of retail customers for a substantial portion of our revenue, and the loss of, or a significant reduction in purchases by, one or more of these customers could adversely affect our operating results.

We receive a significant amount of our revenue from a limited number of customers. Most of our customer orders are made on a purchase order basis, which does not require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including developing their own product solutions; choosing to purchase from our competitors or incorrectly forecasting end market demand for their products. Retail customers may alter their promotional pricing; increase promotion of competitors' products over our products; or reduce their inventory levels; all of which could negatively impact our financial condition and results of operations. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

Our results may be negatively impacted if customers do not maintain their favorable perception of our brand or licensed brands and products.

Maintaining and continually enhancing the value of the Company's brand or licensed brands is critical to the success of our business. Brand value is based in large part on customer perceptions. Success in promoting and enhancing brand value depends in large part on our ability to provide high-quality products. Brand value could diminish significantly due to a number of factors, including adverse publicity about our products (whether valid or not), a failure to maintain the quality of our products (whether perceived or real), the failure of our products or Capstone to deliver consistently positive consumer experiences. Damage to our brand or licensed brands, reputation or loss of customer confidence in our brands or products could result in decreased demand for our products and have a negative impact on our business, results of operations or financial condition. As a small reporting company, we do not have the resources to easily withstand the failure of established and new product lines.

Global economic conditions could materially adversely impact demand for our products and services.

Our operations and performance depend significantly on economic conditions. Uncertainty about global economic conditions could result in customers postponing purchases of our products in response to tighter credit, unemployment, events like the COVID-19 pandemic, negative financial news and/or declines in income or asset values and other macroeconomic factors, which could have a material negative effect on demand for our products and, accordingly, on our business, results of operations or financial condition.

Additionally, our international sales are subject to variability as our selling prices become less competitive in countries with currencies that are declining in value against the U.S. Dollar and more competitive in countries with currencies that are increasing in value against the U.S. Dollar.

For example, the United States tariffs imposed on Chinese manufactured goods and corresponding tariffs from China in response, may negatively impact demand and/or increase the cost for our products. These tariffs increases with reciprocal increases on U.S. goods imported into China and may provoke a full trade war between China and the U.S. continuing trade conflict could affect our business as we currently produce our products mainly in China. The possibility and full extent of any trade conflicts and such a conflict's impact on our business or growth is uncertain as of the date of the filing of this Report.

Our operations in foreign countries expose us to certain risks inherent in doing business internationally, which may adversely affect our business, results of operations or financial condition.

We have revenue, operations and contract manufacturing arrangement in overseas that expose us to certain risks. Fluctuations in exchange rates may affect our revenue, expenses and results of operations as well as the value of our assets and liabilities as reflected in our financial statements. We are also subject to other types of risks, including the following:

- protection of intellectual property and trade secrets;
- tariffs, customs, trade sanctions, trade embargoes and other barriers to importing/exporting materials and products in a cost effective and timely manner, or changes in applicable tariffs or custom rules;
- rising labor costs or labor unrest;
- difficulties in staffing and managing international operations;
- the burden of complying with foreign and international laws;
- adverse tax consequences;
- the risk that because our brand names may not be locally recognized, we must spend significant amounts of time and money to build brand recognition without certainty that we will be successful; and
- political conflict or trade wars affecting our efforts to conduct business abroad.

Changes in regulatory, geopolitical, social, economic, or monetary policies and other factors may have a material adverse effect on our business in the future or may require us to significantly modify our current business practices. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could also result in an adverse effect on our business and results of operations.

Our results of operations and financial condition could be seriously impacted by security breaches, including cybersecurity incidents.

Failure to effectively prevent, detect and recover from security breaches, including attacks on information technology and infrastructure by hackers; viruses; breaches due to employee error or actions; or other disruptions could result in misuse of our assets, business disruptions, loss of property, and confidential business information. Such attacks could result in unauthorized parties gaining access to at least certain confidential business information. However, to date, we have not experienced any financial impact, changes in the competitive environment or business operations that we attribute to such attacks. Although management does not believe that we have experienced any security breaches or cybersecurity incidents, there can be no assurance that we will not suffer such attacks in the future. We actively manage the risks within our control that could lead to business disruptions and security breaches and have expended significant resources to enhance our control environment, processes, practices and other protective measures. Despite these efforts, as these threats continue to evolve, particularly around cybersecurity, such events could adversely affect our business, financial condition or results of operations.

Our inadequate or expensive funding and financing alternatives.

Our current short-term debt level as of December 31, 2019 and 2018 was \$0 for both years. Our current funding availability consists of cash on hand, the Sterling National Bank financing agreement to fund investment, operations, and private placement note agreements from insiders as needed. If we have a shortfall in revenues without a corresponding reduction to expenses, operating results may suffer. We rely on and we may be unable to raise adequate funding or financing to survive unexpected revenue shortfalls, or to reduce operating expenses quickly enough to offset any such unexpected revenue shortfall from our lack of traditional bank financing. If we are not able to access debt capital markets at competitive rates or terms and conditions, our ability to implement our business plan and strategy will be negatively affected. Limited access to sufficient bank financing, could force us to seek expensive financing or funding, or forms of financing that require issuance of our securities (such as equity credit lines or PIPE financing). Such financing would dilute the position of existing shareholders and put negative pressure on the market price of our Common Stock.

Other adverse consequences could include:

- a significant portion of our cash from operations could be dedicated to the payment of interest and principal on future debt, which could reduce the funds available for operations;
- the level of our future debt could leave us vulnerable in a period of significant economic downturn; and
- We may not be financially able to withstand significant and sustained competitive pressures.

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 pressure.

All of our sales in 2019 were transacted in U.S. dollars. The weakening of the U.S. dollar relative to foreign currencies can negatively impact our operating profits, through higher unit costs. However, as the Company volumes continue to increase, the leveraged buying power has enabled the Company to minimize the impact on costs. The last economic crisis revealed that exchange rates can be highly volatile. Changes in currency exchange rates may also affect the relative prices at which we and our competitors sell products in the same market. There can be no assurance that the U.S. dollar foreign exchange rates will be stable in the future or that fluctuations in such rates will not have a material adverse effect on our business, results of operations, or financial condition.

Litigation could adversely affect our operating results and financial condition.

While the Company is not subject to any significant litigation actions, defending against potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could adversely affect our results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially affect our results of operations and financial condition.

Our business may be impaired by claims that we infringe the intellectual property rights of others.

Litigation between competitors over intellectual property rights can be a common business practice in an industry as a means to protect or gain market share. Litigation to determine the validity of patents or claims by third parties of infringement of patents or other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation results in a determination favorable to us. In the event of an adverse result in such litigation, we could be required to:

- pay substantial damages;
- indemnify our customers;
- stop the manufacture, use and sale of products found to be infringing;
- discontinue the use of processes found to be infringing;
- expend significant resources to develop non-infringing products or processes; or
- obtain a license to use third party technology.

The risk of infringement claims may be greater in emerging products and technologies like smart mirrors.

There can be no assurance that third parties will not attempt to assert infringement claims against us, or our customers, with respect to our products. We have also promised certain customers that we will indemnify them in the event they are sued by our competitors for infringement claims directed to the products we supply. Under these indemnification obligations, we may be responsible for future payments to resolve infringement claims against them. We do not maintain a reserve for intellectual property rights litigation liabilities.

If we fail to adequately protect its intellectual property rights, competitors may manufacture and market similar products, which could adversely affect our market share and results of operations.

We rely on trademark, trade secret, patent and copyright laws to protect our intellectual property rights. In particular, our trademarks are of material importance to our business and are among our most important assets. In 2019, substantially all of our total revenues were from products bearing proprietary trademarks and brand names. Accordingly, our future success may depend, in part, upon the goodwill associated with our trademarks and brand names. We own a number of patents; patent applications and other technology which we believe are significant to our business.

We cannot be sure that these intellectual property rights will be maximized or that they can be successfully asserted. There is a risk that we will not be able to obtain and perfect, or maintain our own intellectual property rights or, where appropriate, license intellectual property rights necessary to support new product introductions. We cannot be certain that these rights, if obtained, will not be invalidated, circumvented or challenged in the future, and we could incur significant costs in connection with legal actions to defend our intellectual property rights.

Even if such rights are obtained in the United States, the laws of some of the other countries in which our products are or may be sold do not protect intellectual property rights to the same extent as the laws of the United States. If other parties infringe our intellectual property rights, they may dilute the value of our brands in the marketplace, which could diminish the value that consumers associate with our brands and harm our sales. The failure to perfect or successfully assert our intellectual property rights could make us less competitive and could have a material adverse effect on our business, operating results, and financial condition.

There may be emerging or new technologies patented by others. These new technologies may be critical to competing in a product niche, especially one like the emerging smart mirrors in smart home industry. We may be unable to license or affordably license new technologies owned by others and critical to competing in the product niche.

If we are unable to attract or retain qualified personnel, our business and product development efforts could be harmed.

To a significant extent, our success will depend on our senior management team, including the Chairman and Chief Executive Officer Mr. Stewart Wallach and other members of the executive team. The loss of any of these individuals could severely harm the business. Our success also depends on our ability to identify, attract, hire, train and retain highly skilled technical, managerial, and sales and marketing personnel. Competition for these individuals is intense, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. The inability to attract and retain such highly skilled personnel could harm our ability to obtain new customers and develop new products and could adversely affect our business and operating results. We do not have key man life insurance.

Our results of operations and financial condition could be materially affected by the enactment of legislation implementing changes in the U.S. or foreign taxation of international business activities or the adoption of other tax reform policies.

On December 22, 2017, the legislation commonly referred to as the Tax Cuts and Jobs Act, or the "Tax Reform Act", was enacted, which contains significant changes to U.S. tax law, including, but not limited to, a reduction in the corporate tax rate and a transition to a new territorial system of taxation. The primary impact of the new legislation on our provision for income taxes was a reduction of the future tax benefits of our deferred tax assets as a result of the reduction in the corporate tax rate. The impact of the Tax Reform Act will likely be subject to ongoing technical guidance and accounting interpretation, which we will continue to monitor and assess. Provisional accounting impacts may change in future reporting periods until the accounting analysis is finalized, which will occur no later than one year from the date the Tax Reform Act was enacted. If we expand the scale of our international business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, results of operations, and financial condition.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the “Exchange Act”, the Sarbanes-Oxley Act of 2002, or the “Sarbanes-Oxley Act”. We expect that the requirements may increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We review and, if necessary, refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, resources, including accounting-related costs and management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Any weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that we will be required to include in our periodic reports that are filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Common Stock.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting because we are small reporting company.

Acts of God or catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a natural disaster, health pandemic, or man-made catastrophic event could cause delays in completing sales, continuing production or performing other critical functions of our business, particularly if a catastrophic event occurred at our OEMs’ locations. Any of these events could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. There may also be secondary impacts that are unforeseeable as well, such as impacts to our customers, which could cause delays in new orders, delays in completing sales or even order cancellations.

Item 1B. Unresolved SEC Staff Letters.

None for the fiscal year ended December 31, 2019.

Item 2. Properties.

The Company has operating lease agreements for offices and showroom facilities in Fort Lauderdale, Florida and in Hong Kong SAR, expiring at varying dates. Neither the Company nor its operating subsidiaries own any real properties or facilities. CAPC and Capstone share principal executive offices and operating facilities. The Company’s new principal executive offices is located at 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441. Those offices were previously located at 350 Jim Moran Blvd., Suite 120, Deerfield Beach, Florida 33442.

Effective November 1, 2019, the Company entered into a new prime operating lease with the landlord "431 Fairway Associates, LLC" ending June 30, 2023, for the Company's executive offices located on the second floor of 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441 with an annualized base rent of \$70,104 and with a base rental adjustment of 3% commencing July 1, 2020 and on July 1st of each subsequent year during the term. Under the lease agreement, Capstone is also responsible for a portion of common area maintenance charges in the leased premises which has been estimated at \$12.00 per square foot on an annualized basis of which the premises is approximately 4,694 square feet.

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. On August 17, 2019, the lease was further extended with a base monthly rate of \$5,100 for six months until February 16, 2020. The Company decided not to renew and allowed this lease to expire.

CIHK entered into a six (6) month rental agreement effective from December 1, 2016 for a showroom and storage 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 lease with a base monthly rent of \$1,290 expired August 16, 2019 and was further renewed for (6) months expiring on February 16, 2020. Effective February 17, 2020, the Company entered into a new six month lease expiring on September 30, 2020, with a base rate of \$1,285 per month.

The Company's rent expense for the year ended December 31, 2019 and 2018 amounted to \$100,616 and \$108,024, respectively.

We believe that the facilities are well maintained, in compliance with environmental laws and regulations, and adequately covered by insurance. We also believe these leased facilities are not unique and could be replaced, if necessary, at the end of the term of the existing leases.

Item 3. Legal Proceedings.

We are not a party to any material pending legal proceedings and, to the best of our knowledge, no such action by or against us has been threatened. From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of 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 our financial position, results of operations or cash flows.

Other Legal Matters

To the best of our knowledge, none of our directors, officers or owner 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 4. Mine Safety Disclosures (Not Applicable).

PART II

Item 5. Market for Registrants Common Equity and Related Stockholder Matters.

The Company's Common Stock is quoted on The OTC Markets Group, Inc.'s QB Venture Market Tier under the trading symbol "CAPC". The Company's Common Stock, \$0.0001 par value, ("Common Stock") commenced quotation on the QB Venture Market Tier on August 22, 2016.

As of March 1, 2020 there were approximately 291 holders of record (excluding OBO/Street Name accounts) of our Common Stock and estimated 46,413,261 outstanding shares of the Common Stock.

Dividend Policy

We have not declared or paid any cash or other dividends on shares of our Common Stock in the last six years, and we presently have no intention of paying any cash dividends on shares of our Common Stock. We do not currently anticipate, based on existing financial performance, to be declaring or paying dividends on any series of our preferred stock in the foreseeable future. Our current policy is to retain earnings, if any, to finance the expansion and development of our business. The future payment of dividends on shares of our Common Stock are at the sole discretion of our board of directors.

Recent Sales of Unregistered Securities

There were no unregistered securities sold during the year ended December 31, 2019. On August 6, 2019, Company granted: stock options to Mr. Guzy and Mr. Postal, who are directors of the Company, each received 100,000 stock option grants for participating in the Audit and Nomination and Compensation Committees for the year 2019-2020; and a stock option to Aimee Brown, Secretary of the Company, for 10,000 stock option grants. The stock options were issued under an exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(b) of Regulation D under that act.

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.

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 bona fide debts.

On December 19, 2018, Company entered into a Rule 10b5-1 Purchase Plan with Wilson Davis & Co., Inc., a registered broker-dealer, (the "Purchase Plan"), which Purchase Plan is made pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, with respect to shares of common stock of the Company. As previously reported, the use of a Rule 10b5-1 purchase plan was authorized by the Company's Board of Directors on August 29, 2018. Under the Purchase Plan, Wilson Davis & Co., Inc., a registered broker dealer, 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. This description of the Purchase Plan does not purport to be complete and is qualified in its entirety by the text of the Purchase Plan, a copy of which is attached as Exhibit 99.1 to the Current Report on Form 8-K, as filed with the Commission on December 24, 2018 and as dated December 18, 2018.

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.

On September 23, 2019 the Company signed a revised stock Purchase Plan to reflect an extension of the plan to repurchase up to an aggregate of 750,000 shares at prevailing market prices, subject to the terms of the Purchase Plan.

As of December 31, 2019 a total of 466,617 of the Company's Common Stock has been repurchased at a total cost of \$71,407.

The following summarizes any purchases of the Common Stock under the stock purchase program in fiscal years 2019 and 2018 :

Fiscal Period	Number of Shares Repurchased	Aggregate Purchase Price
FY 2019	466,617	\$ 71,407
FY 2018	-	-
Total	466,617	\$ 71,407

Item 6. Selected Financial Data. (Not Applicable)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other parts of this Report contain forward-looking statements that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in this Report under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this Report. All information presented herein is based on CAPC's fiscal year 2019 results. Unless otherwise stated, references to particular years or quarters refer to the CAPC's fiscal years ended in December and the associated quarters of those fiscal years. Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Executive Summary

The following discussion is designed to provide a better understanding of our audited consolidated financial statements and notes thereto, including a brief discussion of our business products, key factors that impacted our performance and a summary of operating results. The following discussion should be read in conjunction with our consolidated financial statements included in Item 8 of this Report. Historical results and percentage relationships among any amounts in the consolidated financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview

Capstone Companies, Inc. ("CAPC," "Capstone", "Company," "we" or "us") is a public holding company headquartered in the United States (organized under the laws of the State of Florida) and has its principal executive offices in Broward County, Florida and operating offices in Hong Kong SAR. 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. The Company designs, markets and sells diverse consumer products including LED lighting for indoor and outdoor applications with the primary market being the United States. The latest product introduction to the Company's portfolio is its Connected Surfaces program which is targeted for 2020 distribution. The Company's products are also distributed internationally in Australia, France, Iceland, Japan, Mexico, New Zealand, South Korea, Spain, Taiwan, Thailand, United Kingdom.

Capstone's core executive team has been working together for over three decades and has successfully built and managed other consumer product companies. CIHK resident management team has extensive experience with low cost offshore OEM manufacturing and is led by an industry leader that has provided sourcing and procurement services to such recognized companies as Circuit City and Dicks Sporting Goods. Operating Management's experience in hardline product manufacturing and marketing prepared the Company for its entry into the LED market. The Company entered the LED consumer market ten years ago, at that time there was a significant opportunity for an innovative low-cost LED product supplier as the lighting industry was on its transition path from traditional lighting technologies to LED.

Capstone was early in the introduction of lower cost LED lighting products that had distinctive aspects to create greater appeal to consumers. The Company's lighting product lines through 2019 consist of decorative lighting, indoor and outdoor lighting fixtures. The Company's power failure lighting and security products were initially sold under its wholly – owned subsidiary Capstone Industries' brand name through 2015.

Commencing in 2014, Capstone explored and researched branding opportunities that allowed the Company to differentiate from its own Capstone Lighting® brand. The underlying strategy enabled Capstone to effectively provide product to competing retailers within the same channel.

Through product differentiation and a visibly recognized brand launched in 2015, *Hoover*[®] Home LED became a Capstone success based on anticipated results. The Company secured the North America trademark license for the *Hoover*[®] brand for LED lighting products. The *Hoover*[®] name is a 100-year-old household icon and one of the most trusted brands in America.

The Company maintains and supplies core lighting products and follows a closely defined business strategy to develop and increase market leadership positions in these key product offerings. These product offerings are prioritized based on their capacity to maximize the use of the Company's core competencies and to deliver sustainable long-term growth.

The Company's ongoing strategy is to develop and maintain positions of innovative and technical leadership in its chosen markets and leverage those positions to grow the amount of volume of product sold to those markets. Historically, Capstone sought to find niche product opportunities that may have been overlooked or underexploited by competitors and were open to new concepts by the buying community. This approach sought to improve the odds for the Company to win a profitable niche of the market share.

Consistently management focuses on a variety of key indicators to monitor business health and performance. These indicators include market share, sales, organic sales growth, gross profit margin, operating profit, and net income, as well as measures used to optimize the management of working capital, capital expenditures, cash flow, and return on capital. The monitoring of these indicators, and the Company's corporate governance policies help to maintain business health and strong internal controls. To achieve its business and financial objectives, the Company focuses the organization on initiatives to drive and fund growth. Capstone seeks to capture significant opportunities for growth by identifying and meeting consumer needs within its core product categories, through its focus on innovation and development of successful new products. The investments needed to fund this growth are developed through continuous, Company-wide initiatives to lower costs and increase effective asset utilization through which the Company seeks to become even more effective and efficient throughout its businesses.

Looking forward, the Company expects global macroeconomic and market conditions to remain challenging for its consumer products. The marketplace in which Capstone operates is competitive and in certain markets competition consists of large multi-national companies, some of which may have greater resources than the Company does. While the Company has taken, and will continue to take, measures to address the heightened competitive activity, should these conditions persist, they could adversely affect the Company's future results. The Company believes it is well prepared to meet the challenges ahead due to its, experience operating in challenging environments and continued focus on Capstone's strategic initiatives: effectiveness and efficiency; innovation; and leadership.

Enhancement of shareholder value through a higher market price will require sustained fiscal quarters of profitability combined with greater market support for the Company's stock from market makers and long-term investors. Capstone believes sustained profitability will be required for any such enhanced market support for our Common Stock. Sustained profitability will require products that command higher profit margins and/or increased sales in existing or new markets while maintaining product development and marketing costs.

As is true for any consumer product company, Capstone's financial and business results could be suddenly and adversely affected by changes in consumer purchasing habits, and tastes in any major market, trade barriers and tariff increases between countries and the economic impact of a global pandemic. Further, technological changes can unexpectedly affect such consumer purchasing habits and tastes. The Company seeks to develop and sell products that serve a basic consumer demand.

Principal Factors Affecting Our Financial Performance

There are a number of industry factors that affect our financial performance which include, among others:

- **Overall Demand for Products and Applications.** Our potential for growth depends on the continued adoption of our LED lighting products and the successful introduction of our Connected Surfaces portfolio. The Company's products are characterized as non-essential and economic conditions, especially consumer uncertainty or worries over economic conditions and growth, affect consumer demand. Uncertainty over global economic conditions that may affect the U.S. economy is not conducive to consumer purchases of our category of consumer products. These uncertainties make demand difficult to forecast for us and our customers.
 - **Strong and Constantly Evolving Competitive Environment.** While we have demonstrated our abilities to compete successfully in the retail channels since our inception, competition in the marketplace we serve is strong. Many companies have made significant investments in product development, production equipment and product marketing. Product pricing pressures exist as market participants often initiate pricing strategies to gain or protect market share. To remain competitive, market participants must continuously increase product performance or functionality, reduce costs and develop improved ways to support their customers. To address these competitive measures, we invest in research and development activities to support new product development, sustain low product costs and deliver higher levels of performance and product functionality to differentiate our products in the market.
 - **Profit Margins.** The Company's product planning strategies are driven by the need to deliver sustainable profit margins. This, in conjunction with close management of related marketing costs, are required to sustain or grow the Company's market share.
 - **Technological Innovation and Advancement.** Innovation and advancements in consumer electronic categories continue to create expanded channel opportunities. The smart home category is expected to grow to \$151.4 billion by 2024, a CAGR of 12% since 2018. Household penetration of smart homes was 33.2% in 2019 and is expected to grow to 53.9% by 2023. Through the Company's continual research and development activities, differentiation of its smart home products and their related value to the consumer, a consistent market share expansion is anticipated.
- Affordable Funding.** The Company needs to maintain its historically affordable bank financing to support ongoing product development and new market penetration.

Intellectual Property Issues. Market participants rely on patented and non-patented proprietary information relating to product development and other core competencies of their business. Protection of intellectual property is important. Therefore, steps such as patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. The Company has not created a litigation reserve for intellectual property rights litigation. As a business judgment, the Company does not patent or copyright or trademark all intellectual property due to a combination of factors, including, in part, the cost of registration and maintenance of registration, odds and cost of successful defense of the registration and commercial value of the intellectual property rights. To enforce or protect intellectual property rights, litigation or threatened litigation is common. The Company has not sued any third parties over intellectual property rights.

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 2019 represented 90% of revenues and we expect that region 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 cost fluctuations in the cost of our purchased components. See "Risk Factors" above in Item 1A.

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

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

(In Thousands)

	December 31, 2019		December 31, 2018	
	Dollars	% of Revenue	Dollars	% of Revenue
Revenue, Net	\$ 12,404	100.00%	\$ 12,830	100.00%
Cost of sales	9,972	80.4%	9,937	77.5%
Gross Profit	2,432	19.6%	2,893	22.5%
Operating Expenses:				
Sales and marketing	379	3.1%	915	7.1%
Compensation	1,554	12.5%	1,503	11.7%
Professional fees	435	3.5%	510	4.0%
Product development	349	2.8%	519	4.0%
Other general and administrative	648	5.2%	691	5.4%
Total Operating Expenses	3,365	27.1%	4,138	32.2%
Operating Loss	(933)	(7.5)%	(1,245)	(9.7)%
Other Income (Expense)				
Miscellaneous Income (Expense), net	29	.2%	(55)	(0.4)%
Interest expense	(3)	-.%	-	-.%
Total Other Income (Expense)	26	.2%	(55)	(0.4)%
Loss Before Tax Benefit	(907)	(7.3)%	(1,300)	(10.1)%
Benefit for Income Tax	(15)	(.1)%	(289)	(2.2)%
Net Loss	\$ (892)	(7.2)%	\$ (1,011)	(7.9)%

Net Revenues

For the year ended December 31, 2019, net revenues were approximately \$12.4 million, a decrease of \$426 thousand or 3.3% from \$12.8 million in fiscal 2018. The reduction in net revenues was primarily due to the increase in marketing and promotional allowances provided to retailers which was \$1.181 million in 2019 as compared to \$626 thousand in 2018 an increase of \$555 thousand or 88.7%. These additional allowances were used to support the transition of product from licensed brands into Capstone brands.

In 2019 Capstone Lighting brands accounted for \$12.4 million or 100% of revenue compared to \$5.4 million or 41.9% in 2018.

The licensed products in 2019 had \$0 revenue compared to \$7.46 million or 58.1% in 2018.

For the years ended December 31, 2019 and 2018, international sales were approximately \$1.2 million or 10% of revenue as compared to \$1.3 million or 10 % of revenue, respectively.

The following table disaggregates revenue by major source:

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Capstone Brand	Licensed Brands (In Thousands)	Total Consolidated	Capstone Brand	Licensed Brands (In Thousands)	Total Consolidated
LED Consumer Products- US	\$ 11,219	\$ -	\$ 11,219	\$ 4,733	\$ 6,827	\$ 11,560
LED Consumer Products-International	1,185	-	1,185	639	631	1,270
Total Revenue	\$ 12,404	\$ -	\$ 12,404	\$ 5,372	\$ 7,458	\$ 12,830
% of Total Revenue	100%	-%	100%	42%	58%	100%

Gross Profit and Cost of Sales

Gross profit for the year ended December 31, 2019, was approximately \$2.4 million, or 19.6% of net revenues, as compared to gross profit of \$2.9 million or 22.5% of net revenues, for fiscal 2018. The reduction to revenue by \$555 thousand of increased marketing allowance during 2019, had the impact of reducing gross profit by approximately 3.4% and was the main reason for the overall gross profit reduction from 22.5% in 2018 down to 19.6% in 2019. For the years ended December 31, 2019 and 2018, cost of sales were approximately \$10.0 million and \$9.9 million, respectively, an increase of \$100 thousand or 1.0% from the previous year. This cost represents 80.4% and 77.5% of net revenues for 2019 and 2018, respectively. Overall product costs overseas have remained stable during the year resulting from the stronger U.S. dollar.

Operating Expenses

Sales and Marketing Expenses

In fiscal 2019 and 2018, sales and marketing expenses were approximately \$379 thousand and \$915 thousand respectively, a decrease of \$536 or 58.5%. As a percent to revenue 2019 expenses were 3.1% as compared to 7.1% in 2018. During the year with the transition from licensed products to the Capstone brand many sales related expenses were greatly reduced. Royalty to TTI Floor Care for the *Hoover*® License was \$0, a decrease of \$312 thousand as compared to the \$312 thousand in 2018. Royalty for the Duracell® license product, was \$0 thousand, a reduction of \$36 thousand as compared to the \$36 thousand incurred in 2018. Sales agent commission in 2019 was \$53 thousand a decrease of \$172 thousand from \$225 thousand in 2018.

Compensation Expenses

For fiscal 2019, compensation expenses were approximately \$1.6 million an increase of \$52 thousand or 3.5% from \$1.5 million expensed in 2018. As a percent to revenue 2019 expenses were 12.5% as compared to 11.7% in 2018. Expenses in 2019 increased as we filled a new Social Media Specialist position to support the new online marketing campaign.

Professional Fees

For fiscal 2019, professional fees were approximately \$435 thousand compared to \$510 thousand in 2018, a decrease of \$75 thousand or 14.7%. As a percent to revenue 2019 expenses were 3.5% as compared to 4.0% in 2018. In 2019, consulting fees were approximately \$165 thousand the same amount as incurred in 2018. Accounting, Legal and other expenses were \$270 thousand, a decrease of \$75 thousand from \$345 thousand in the prior year. In 2018, the Company incurred \$78 thousand of added legal fees with the cost of court arbitration to resolve a stock dispute over the validity of a 1998 stock certificate and related request for corporate documents.

Product Development Expenses

For fiscal 2019, product development expenses were approximately \$349 thousand as compared to \$519 thousand, a decrease of \$170 thousand or 32.7% from 2018. In 2019, the Company invested \$207 thousand in the Smart Mirror development a \$88 thousand reduction from 2018 which was higher as most of the initial development expense was incurred in that year. As a percent to revenue, 2019 expenses were 2.8% as compared to 4.0% in 2018. We have continued to invest in product design, software development, electrical engineering, product prototyping, testing and regulatory certifications by outside third-party testing laboratories related to the Smart Mirror project.

Other General and Administrative Expenses

For fiscal 2019 and 2018, other general and administration expenses were approximately \$648 thousand and \$691 thousand, respectively, a decrease of \$43 thousand or 6.2%. As a percent to revenue 2019 expenses were 5.2% as compared to 5.4% in 2018. In 2019 we incurred \$37 thousand of additional expense in the development of the Company's new websites that did not incurred in 2018. That increase was offset by a reduction in legal expenses that had increased in 2018 as we incurred a "one-off" settlement charge of \$63 thousand related to settlement of litigation described in "Legal Proceedings" of this Report.

Total Operating Expenses

In summary, in fiscal 2019, total operating expenses were \$3.4 million or 27.1% of revenue as compared to \$4.1 million or 32.2% of revenue in 2018. This represents a \$774 thousand or 18.7% decrease over fiscal 2018.

Operating Loss

For the year ended December 31, 2019 the operating loss was approximately \$933 thousand as compared to a \$1.244 million operating loss in 2018 an improvement of \$311 thousand over 2018.

In 2019, the overall operating result was negatively impacted by the \$555 thousand increased marketing allowances provided to retailers. In the same period the Company further invested a total of \$497 thousand in developing the Smart Mirror technology, constructing new company websites with e-commerce capabilities, developing social media presence and marketing programs and launched the Smart Mirror portfolio at the 2020 CES Show. These expenditures negatively impacted the 2019 results, but they were are of the planned strategic investment to transition the Company into the Smart Home category.

Other Income (Expense)

For fiscal 2019 other income was approximately \$26 thousand compared to a \$55 thousand expense in 2018. The other income was the result of previous years accruals not being required and released to income. The Company through a combination of efficient cash flow management, favorable payment terms with our overseas suppliers and a strong cash position was able to eliminate the need for increased borrowing or purchase order funding which resulted in \$3.3 thousand interest expense in 2019 and \$0 expense in 2018.

Benefit for Income Tax

The effective tax rate was 1.6% in 2019 and 22.2% in 2018.

For the years ended December 31, 2019 and 2018 the benefit for income tax was estimated at \$15 thousand compared to \$289 thousand in the same period 2018. The benefit was a result of the net loss incurred during the years.

Net Loss

For fiscal 2019 and 2018 net loss was approximately \$892 thousand and \$1.0 million, respectively, an improvement of approximately \$118 thousand.

RESULTS OF OPERATIONS AND BUSINESS OUTLOOK

Management continues to believe that the execution of the Company's strategy and development of the Connected Surfaces category will provide attractive opportunities for profitable growth over the long-term. The Company's strategy is to capitalize on the market growth of these new innovative Smart Home categories and leverage our market relationships and expansion into previously unpenetrated channels of distribution.

Third-party forecasts and leading indicators suggest that the North American lighting market, will continue to increase in low-single digit range in 2020. Management expects to retain some lighting revenues, but the revenue growth will come from launching the new Connected Surfaces category.

Starting from July 19, 2018 with the implementation of U.S Customs tariff list 1, the current U.S. administration implemented tariff increases on products manufactured in China. Both governments over the course of 2019 were involved in an aggressive "trade war" which resulted in various tariff lists from 1 and ending at List 4B that were impacted by varying punitive tariff rates.

On January 15, 2020, as part of the improving relations with Chinese government trade officials, U.S. Customs issued a Federal Register notice reducing the rate of planned additional tariffs on List 4A products from 15% to 7.5%, effective February 14, 2020. The planned 15% tariff increase on List B was also suspended.

All companies are affected equally and the appeal for these products may be negatively impacted when retail prices are increased due to higher duty rates. The tariff negotiations has caused uncertainty and confusion with retailers. The Company has seen in store 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 may continue to do so until the 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 business.

In 2017, as management recognized that the growth of the LED category was maturing, we sought a business opportunity that would prove equal to or greater opportunity than the LED business. While we currently continue to develop new LED products, the revenue potential has been lessened and our new product strategy was developed to seek products to supplement and compensate for declining revenues from our established product lines.

Our new portfolio is designed to appeal to a larger consumer base, especially products that will benefit from Company's abilities in the areas of low-cost production and operations. The new Connected Surfaces portfolio seeks to address perceived consumer expectations of greater connectivity in appliances and products. The Connected Surfaces products have touch screen and voice interfacing, internet access and an operating system capable of running downloadable applications. The average selling prices are expected to retail at \$500.00 per unit, with the goal to deliver consumer value for and to appeal to middle income consumers. Capstone's new Connected Surfaces products are designed to provide the ease of connectivity in consumer devices that consumers have come to expect from use of smart phones.

The Company competes in competitive consumer 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. We are confident in maintaining our revenue stream in the lighting business segment by continuing to introduce new innovative LED products. The first of these new LED products were introduced in 2019. These products were called LED Light Bars and introduced under the Capstone brand. By continuing to work diligently overseas with alternate manufacturers located outside China, particularly in Thailand, we anticipate minimal impact to our future selling prices and related margins of profit that could otherwise be impacted by ongoing trade disputes with China.

While the Company seeks to expand into consumer lighting products for the Smart Home segment, the Company may face competition not only from traditional competitors in the consumer lighting product industry companies, but also potential future competition from companies in smart home technology industry. Such possible future competition could come from companies like Ring, that makes smart, connected home security lighting devices and is owned by Amazon.com, Inc., or Nest, a maker of smart home technology and is owned by Alphabet, Inc. (formerly Google). Smart phone manufacturers, like Apple, Inc. and Samsung Electronics Co., could also enter the smart home product industry as a natural product expansion for smart phones that have growing capabilities to control home or consumer devices. Such future competition could undermine the Company's ability to develop a new product line to compensate for the declining revenues from its established lighting product line.

In 2019, we were focused on the following priorities to support our goals of delivering higher revenue and profits and establishing a new product line and revenue source to compensate for the declining revenues from the matured lighting product line:

- While maintaining our presence in LED lighting categories, the Company continued to invest in product development and engineering of Connected Surfaces Smart Home portfolio. This portfolio will offer potential revenue growth through product channel expansion. The Smart Home category is expected to grow to \$151.4 billion by 2024, a CAGR of 12% since 2018. Household penetration of smart homes is 33.2% in 2019 and is expected to hit 53.9% by 2023. Our goal is to exploit this projected expansion of the Smart Home category with our new product line.
- We committed to a formal Capstone Connected launch at the Consumer Electronics Show 2020.
- We engaged a consumer technology public relations firm to assist in the launch of our Connected Surfaces product line and manage media contact for the Company.
- We formalized and readied a Social Media Department to execute a social media campaign that will build awareness and drive viewership to our related platforms, websites, etc. Social media participation will include third party sites: Facebook, Instagram, Pinterest, Twitter and YouTube.
- We launched the Company's pre-sale website which will feature our first Smart Mirror from the Connected Surfaces portfolio direct to early adopters and completed the Capstone Connected website with e-commerce capabilities.
- Maintained our customer care experience as part of our effort to build consumer loyalty.
- We identified and had certified factory sources in Thailand as part of the manufacturing transition away from China.

Contractual Obligations

The following table represents contractual obligations as of December 31, 2019

	Payments Due by Period				
	Total	2020	2021	2022	After 2023
(In thousands)					
Purchase Obligations	\$ 635,593	\$ 635,593	\$ -	\$ -	\$ -
Short-Term Debt	-	-	-	-	-
Long-Term Debt	-	-	-	-	-
Operating and Short Term Leases	262,688	75,602	73,290	75,492	38,304
Total Contractual Obligations	<u>\$ 898,281</u>	<u>\$ 711,195</u>	<u>\$ 73,290</u>	<u>\$ 75,492</u>	<u>\$ 38,304</u>

Notes to Contractual Obligations Table

Purchase Obligations — Purchase obligations are comprised of the Company's liability for goods and services in the normal course of business.

Short Term Debt — None.

Long Term Debt— None.

Operating Leases — Operating lease obligations are related to facility leases for our operations in the U.S. and in Hong Kong.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures and strategic investments. Our principal sources of liquidity are cash on hand, cash generated from operations, availability under our Sterling Bank credit facility and our ability to negotiate beneficial payment terms with our main overseas manufacturers that has resulted in significantly reduced funding requirements to produce newly launched products.

Operational cashflow is significantly influenced by the timing and launch of new products into the marketplace. With our Hong Kong operation, we have built an operational structure that, through relationships with factory-suppliers combined with our expertise, can develop and release quality, innovative products to the market substantially quicker than in previous years.

Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with flexibility in meeting our operating, financing and investing needs.

On July 18, 2019, Sterling National Bank renewed our existing line up to \$7.5 million. Additional expansion of the line will be reviewed as the need arises.

Our cash balances as of December 31, 2019 and 2018 was approximately \$3.1 million and \$3.8 million, respectively.

As of December 31, 2019, and 2018 the loan balance for both years was \$0.

The Company has continued its open market stock repurchase program, which is described under "Adoption of Stock Repurchase Plan" on page 25 of this Report.

Historically, our Directors have been a significant source of financing and they continue to support our operations as necessary. In 2017 the Company was able to pay off all Director debt and accumulated interest and has not incurred any Director debt since. As of December 31, 2019, and 2018, the notes payable to related parties for both years was \$0.

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 strong working capital position, we believe that we have the ability to continue to invest in further development of our products.

Cash flow from operations are primarily dependent on our operation results adjusted for non-cash expenses and the timing of collections of receivables, level of inventory and payments to suppliers. As of December 31, 2019, cash and cash equivalents decreased by \$691 thousand as compared to a \$154 increase in 2018.

	Years ended December 31,	
	2019	2018
Summary of Cash Flows		
(In thousands)		
Net cash provided by (used in):		
Operating Activities	\$ (586)	\$ 208
Investing Activities	(34)	(54)
Financing Activities	(71)	-
Net (decrease) increase in cash and cash equivalents	\$ (691)	\$ 154

As of December 31, 2019 the Company's working capital was approximately \$2.9 million. Current liabilities were \$688 thousand and include:

- Accounts payable of approximately \$274 thousand were amounts due vendors and service providers.
- Accrued expenses of approximately \$114 thousand.
- Warranty provision for estimated defective returns in the amount of approximately \$248 thousand.

Cash Flows provided by (used in) Operating Activities

Cash used in operating activities was approximately \$586 thousand in 2019 compared with approximately \$208 thousand provided by activities in 2018. The negative cash impact of the net loss of approximately \$892 thousand, was partially offset by account collections during the year which reduced outstanding accounts receivables by \$51 thousand and a \$174 thousand increase in accounts payable.

Cash Flows used in Investing Activities

Cash used in investing activities in 2019 was approximately \$34 thousand compared to \$54 thousand in 2018. The Company continued to invest in new product molds and tooling. With the product expansion into Smart Home lighting and Smart Mirror categories, the Company's future capital requirements will increase. CIHK will try to negotiate 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 year ended December 31, 2019 and 2018, was approximately \$71 thousand and \$0, respectively.

The Company repurchased 466,617 shares during the year. As of December 31, 2019, the Company had zero debt outstanding.

The Company's cash position reduced from \$3.8 million at December 31, 2018 to \$3.1 million at December 31, 2019.

The Company continued to negotiate beneficial payment terms with our main overseas manufacturers that resulted in reduced funding requirements to produce newly launched products.

At December 31, 2019, the Company was in compliance with all of the covenants pursuant to existing credit facilities. Management believes that our existing cash balances, cash flow from operations, the expansion credit line from Sterling National Bank and support of our Directors as needed will provide sufficient financial resources for the Company in 2020.

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 6.70 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 \$7.80 to U.S. \$1.00 since 1983 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.

Off Balance Sheet Arrangements

We do 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.

DIVIDENDS

We have not declared or paid any cash or other dividends on shares of our Common Stock in the last six years and we presently have no intention of paying any cash dividends on shares of our Common Stock.

RELATED-PARTY TRANSACTIONS

See Note 5 of the Consolidated Financial Statements at Item 15 of this Report.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Consolidated Financial Statements at Item 15 of this Report.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make certain estimates and assumptions regarding matters that are inherently uncertain and that ultimately affect the reported amounts of assets, liabilities, revenues and expense, and the disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition; inventory valuation; depreciation; amortization and the recovery of long-lived assets; including goodwill and intangible assets; shared base-based payment expense; product warranty; and other reserves and assumptions based on management's experience and understanding of current facts and circumstances, historical experience and other relevant factors. These estimates may differ from actual results. Certain of our accounting policies are considered critical as they are both important to reflect our financial position and results of operations and require significant or complex judgement on the part of management. The following is a summary of certain accounting policies considered critical by management.

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 will have different functionalities. Capstone currently operates in the consumer lighting products category in the United States and in specific 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 a ship 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. The Company recognizes product revenue when the Company's performance obligations as per the terms in the customer's purchase order have been fully satisfied, specifically, when the specified product and quantity ordered has been manufactured and shipped pursuant to the customer's 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 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.

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 retail customers, however occasionally as part of a customer's in store test for new product, we may receive back residual inventory.

Customer orders received are not long-term orders and are typically shipped within six months of the order receipt, but certainly within a one-year period.

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.

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. The Company may be subject to chargebacks from customers for negotiated promotional allowances, that are deducted from open invoices and reduce collectability of open invoices. As of December 31, 2019, the Company has recorded an allowance of approximately \$263 thousand as a reduction of Accounts Receivables for such potential claims.

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 both December 31, 2019 and 2018, management has determined that the accounts receivable is fully collectible. As such, management has not recorded an allowance for doubtful accounts.

Goodwill

On September 13, 2006, the Company entered into a Stock Purchase Agreement with Capstone Industries, Inc., a Florida corporation ("Capstone"). Capstone was incorporated in Florida on May 15, 1996 and is engaged primarily in the business of wholesaling technology inspired consumer products to distributors and retailers in the United States. Under the Stock Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of Capstone's Common Stock, and recorded goodwill of \$1,936,020.

Goodwill acquired in business combinations is initially computed as the amount paid by the acquiring company in excess of the fair value of the net assets acquired.

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). ASU 2017-04 was effective for the Company's fiscal year ended December 31, 2019. The adoption of ASU 2017-04 did not have a material effect on the Company's consolidated financial statements.

Goodwill is subject to ongoing periodic impairment tests based on fair value of the reporting unit compared to its carrying amount, including goodwill. At December 31, 2019 and 2018, the required annual impairment test of goodwill was performed, and no impairment existed as of the valuation dates.

With the economic uncertainties caused by the COVID-19 pandemic, the capital markets may continue to have a downturn and adversely affect the Company's stock price which will require the Company to test its goodwill for impairment in future reporting periods. As of the date of issuance of these financial statements, the full impact to the Company's financial position is not known.

Accrued Liabilities

Accrued liabilities contained in the accompanying consolidated balance sheets include accruals for estimated amounts of credits to be issued in future years based on potential product warranties and accruals for various compensation, benefits and commission expenses.

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 of 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.

As of December 31, 2019, the Company had net operating loss carry forwards of approximately \$1,654,000 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 as of December 31, 2019 and 2018 was \$0 and \$12,000, respectively, and is reflected in long-term liabilities in the accompanying consolidated balance sheets.

The benefit for income taxes for the years ended December 31, 2019 and 2018 was calculated based on the estimated annual effective rate of 1.6% and 22.2%, respectively for both the full 2019 and 2018 calendar years.

On December 22, 2017, President Trump signed into law the legislation generally known as Tax Cut and Jobs Act of 2017. The tax law includes significant changes to the U.S. corporate tax systems including a rate reduction from 35% to 21% beginning in January of 2018, a change in the treatment of foreign earnings going forward and a deemed repatriation transition tax. In accordance with ASC 740, the impact of a change in tax law is recorded in the period of enactment.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk. (Not Applicable)

Item 8. Financial Statements and Supplementary Data.

The financial statements and financial statement schedules of CAPC as well as supplementary data are listed in Item 15 below and are included after the signature page to this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2019, was effective at the reasonable assurance level.

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 year ended December 31, 2019, that has materially affected or are reasonable likely to materially affect, our internal control over financial reporting.

The Chairman of our Audit Committee has reviewed the internal control reports in detail and has spoken to the external auditors in depth about the audit, the internal controls and the auditors' findings. The Chairman has had detailed discussions with the auditors about these matters, prior to, during, and on completion of the audit.

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, 2019, for a more complete understanding of the matters covered by such certifications.

Item 9B. Other Information.

None

Item 10. Directors, Executive Officers and Corporate Governance.

CURRENT BOARD OF DIRECTORS

The background information on the Directors is set forth below under "Item 1. Proposal Two: Election of Directors." Each Director's term is for one year. The incumbent and current members of the Board of Directors are:

1. Stewart Wallach. Mr. Wallach has been a Director since April 2007.
2. Gerry McClinton. Mr. McClinton has been a Director since February 2008.
3. Jeffrey Postal. Mr. Postal has been a Director since January 2004.
4. Jeffrey Guzy. Mr. Guzy was appointed as a Director on May 3, 2007. Mr. Guzy is deemed an "Independent Director."
5. Larry Sloven. Mr. Sloven was appointed as a Director on May 3, 2007.

Company Directors have typically been elected in the past by written consent of stockholders holding more than 50% of the then current voting power. The Company uses the written consent because a small number of shareholders have sufficient voting power to decide the election of Directors and approval or denial of any other corporate resolution and the cost of conducting an annual stockholders' meeting is significant for a small reporting company. The Company conducts regular stockholder-investor conference calls to allow stockholders to interact with Company senior management and to ask questions of that management.

Further, stockholders may make inquiries in writing by sending their inquiries to Aimee Gaudet, Secretary, Capstone Companies, Inc., 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441. The information required in Part III of this Report is set forth in the information statement filed for the written consent approval of nominee slates of Directors and the requirements for stockholders to submit proposed resolutions and Director nominees is set forth in this Report.

POLICY REGARDING BOARD ATTENDANCE

Company Directors are expected to attend all annual and special board meetings per Company policy. An attendance rate of less than 75% over any 12-month period is grounds for removal from the Board of Directors. In fiscal year 2019, all Directors attended the (1) one board meeting.

ROLE OF THE BOARD OF DIRECTORS IN CORPORATE GOVERNANCE

The Board of Directors is responsible for overseeing the Chief Executive Officer and other senior management in order to assure that such officers are competent and ethical in running the Company on a day-to-day basis and to assure that the long-term interests of the stockholders are being served by such management. The Directors must take a pro-active focus and approach to their obligation in order to set and enforce standards to ensure that the Company is committed to business success through maintenance of the highest standards of responsibility and ethics.

The Company has adopted a Code of Ethics, which is posted on <http://capstonecompaniesinc.com>. The contents of the Company Website are not incorporated herein by reference and that Website provided in this Report is intended to be an inactive textual reference only.

AUDIT COMMITTEE

The Audit Committee was established in accordance with Section 3(a)(58) (A) of the Exchange Act. It is primarily responsible for overseeing the services performed by the Company's Independent Registered Public Accounting Firm, evaluating the Company's accounting policies and its system of internal controls and reviewing significant financial transactions. The members of the Audit Committee in fiscal year 2019 were Jeffrey Guzy and Jeffrey Postal. The Company believes that Mr. Guzy is an Independent Director under SEC and NASDAQ applicable standards.

The Board of Directors has determined that Mr. Guzy qualifies as an "Audit Committee Financial Expert" as defined under applicable SEC rules and also meets the additional criteria for independence of Audit Committee members set forth in Rule 10A-3(b)(1) under the Exchange Act.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is responsible for providing oversight to Company's accounting and financial reporting processes and the audit of the Company's financial statements. The Audit Committee monitors the Company's external audit process, including auditor independence matters, the scope and fees related to audits, and the extent to which the Independent Registered Public Accounting Firm may be retained to perform non-audit services. The Audit Committee also reviews the results of the external audit with regard to the adequacy and appropriateness of our financial, accounting and internal controls over financial reporting. It also generally oversees the Company's internal compliance programs. The function of the Audit Committee is not intended to duplicate or to certify the activities of the management and the Independent Registered Public Accounting Firm, nor can the Audit Committee certify that the independent registered public accounting firm is "independent" under applicable rules. The Audit Committee members are not professional accountants or auditors. Under its Charter, the Audit Committee has authority to retain outside legal, accounting or other advisors as it deems necessary to carry out its duties and to require the Company to pay for such expenditures.

The Audit Committee provides counsel, advice and direction to management and the Independent Registered Public Accounting Firm on matters for which it is responsible, based on the information it receives from management and the independent registered public accounting firm and the experience of its members in business, financial and accounting matters.

The Company's management is responsible for the preparation and integrity of its financial statements, accounting and financial reporting principles, and internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations.

In this context, the Audit Committee hereby reports as follows:

- 1) Company's management has represented to the Audit Committee that the 2019 audited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee has reviewed and discussed the audited financial statements for year 2019 with Company's management and the independent registered public accounting firm.
- 2) The Audit Committee has received written disclosures and a letter from the Independent Registered Public Accounting Firm, Kaufman, Rossin & Co., required by the PCAOB and has discussed with Kaufman, Rossin & Co., their independence.
- 3) Based on the review and discussion referred to above, the Audit Committee recommended to the board, and the board has approved, that the audited financial statements be included in Company's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Commission on March 30, 2020.

The foregoing report is provided by the undersigned members of the Audit Committee.

/s/Jeffrey Guzy
Jeffrey Guzy, Chairman of Audit Committee

COMPENSATION AND NOMINATION COMMITTEE ("Compensation and Nomination Committee")

Company's Compensation and Nomination Committee is currently composed of two members (both Company directors): Mr. Jeffrey Guzy and Mr. Jeffrey Postal. Only Mr. Guzy, who serves as Chairman of the Compensation and Nomination Committee, is "independent" within the meaning of the NASDAQ Marketplace Rules.

Company's Compensation and Nomination Committee assists the Company Board of Directors in reviewing and approving the compensation structure of executive officers, including all forms of compensation to be provided to the executive officers. The chief executive officer and chief financial officer may not be present at any Compensation and Nomination Committee meeting during which the executive's compensation is discussed and deliberated.

The Compensation and Nomination Committee is responsible for, among other customary duties, the following:

- Reviewing, overseeing and approving the compensation of Company's executive officers; and
- Periodically reviewing and making recommendations to the Company Board of Directors about incentive compensation, stock or equity compensation plans, annual bonus programs and grants, any employee pension or welfare benefit plans and any similar forms of benefit plans; and
- Periodically reviewing and approving corporate performance and corporate performance goals that are applicable to compensation of Company's chief executive officer and chief financial officer, evaluating the performance of those executives in light of corporate performance and corporate performance goals; and determining the compensation for the Company's chief executive officer and chief financial officer.

CODE OF ETHICS

The Company has a code of ethics that applies to all of the Company's employees, including its principal executive officer, and principal financial officer, and its Board. A copy of this code is available on <http://www.capstonecompaniesinc.com>. The Company intends to disclose any changes in or waivers from its code of ethics by posting such information on its website or by filing a Form 8-K Report.

DIRECTOR MEETINGS IN FISCAL YEAR 2019

The Board of Directors had (1) one official meeting in year 2019. During 2019, all of the Directors attended 75% or more of the Board meeting, which were held during the period of time that such person served on the Board or such committee.

Board Leadership Structure and Board's Role in Risk Oversight

The Company's Board of Directors endorses the view that one of its primary functions is to protect stockholders' interests by providing independent oversight of management, including the Chief Executive Officer and Chief Operating Officer (who also holds the Chief Financial Officer position). The Chief Financial Officer is allowed and encouraged to address the Board of Directors on any issues affecting the Company or its stockholders. The Company also allows outside counsel to participate in some of the board meetings in order to provide legal counsel and an outside perspective on corporate governance and risk issues.

Board Structure. The Company believes that the Chief Executive Officer or "CEO" should also serve as Chairman of the Board of Directors in order to have the person most knowledgeable about the Company heading the Board of Directors.

The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board of Directors provides guidance to senior management and sets the agenda for Board of Directors meetings and presides over meetings of the full Board of Directors.

Our CEO serves on our Board of Directors, which we believe helps the CEO serve as a bridge between management and the Board of Directors, ensuring that both groups act with a common purpose. We believe that the CEO's presence on the Board of Directors enhances his ability to provide insight and direction on important strategic initiatives to both management and the independent directors and, at the same time, ensures that the appropriate level of independent oversight is applied to all decisions by the Board of Directors.

The Chairman of the Board has no greater nor lesser vote on matters considered by the Board than any other director, and neither the Chairman nor any other director votes on any related party transaction. All directors of the Company, including the Chairman, are bound by fiduciary obligations, imposed by law, to serve the best interests of the stockholders. Accordingly, separating the offices of Chairman and Chief Executive Officer would not serve to enhance or diminish the fiduciary duties of any director of the Company.

Board of Director – 2019 Compensation Table

Name ⁽¹⁾	Audit Committee	Nomination and Compensation Committees	Total Awards
Stewart Wallach ⁽²⁾	-	-	-
Gerry McClinton ⁽²⁾	-	-	-
Jeff Guzy ^{(3), (4),(5)}	\$ 9,692	\$ 9,693	\$ 19,385
Jeff Postal ^{(3), (4),(5)}	\$ 9,692	\$ 9,693	\$ 19,385
Larry Sloven ⁽²⁾	-	-	-

(1) The individuals listed were appointed to the Board of Directors for 2019-2020.

(2) Mr. Wallach, Mr. McClinton and Mr. Sloven as Company Employees did not receive compensation for participating as a Director on the Board.

(3) On August 6, 2017, Mr. Guzy and Mr. Postal each received 100,000 stock option grants for participating in the Audit and Nomination and Compensation Committees for the year 2017-2018. The market value using the Binomial Lattice pricing model for each grant was \$55,000. As the grant period covered 2017-2018, the cost impact in 2017 was \$22,212 for each grant.

(4) On August 6, 2018, Mr. Guzy and Mr. Postal each received 100,000 stock option grants for participating in the Audit and Nomination and Compensation Committees for the year 2018-2019. The market value using the Binomial Lattice pricing model for each grant was \$21,000. As the grant period covered 2018-2019 the cost impact in 2018 was \$8,481 for each grant.

(5) On August 6, 2019, Mr. Guzy and Mr. Postal each received 100,000 stock option grants for participating in the Audit and Nomination and Compensation Committees for the year 2019-2020. The market value using the Binomial Lattice pricing model for each grant was \$17,000. As the grant period covered 2019-2020 the cost impact in 2019 was \$6,865 for each grant.

On May 31, 2019, the Company approved that effective on June 1, 2019, each independent director, namely Jeffrey Guzy and Jeffrey Postal, would each receive \$750 per calendar month, as a Form 1099 compensation, for their continued services as directors of the Company. This compensation would be additional to the stock option grants awarded for their participation on the Audit Committee and Compensation and Nominating Committee. For the year ended December 31, 2019 both directors received \$5,250 each in additional compensation.

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.

Independent Directors. The Board of the Company is currently comprised of five directors, one of whom is an independent director under the listing standards of quotation systems like The NASDAQ Stock Market. The Company has sought unsuccessfully to recruit qualified independent directors. Although we have D&O insurance, we believe that past losses and low public stock market price discourages qualified candidates from serving as independent directors. This is a problem commonly faced by micro-cap, "penny stock" companies like our Company.

Our senior officers are responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board and other non-officer directors met quarterly on average with management to discuss strategy and the risks facing the Company. Senior management, each member being also a director, attends the Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The Chairman of the Board and members of the Board work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of directors. Since most of the directors are located in the same area, informal meetings between directors and officers also occur to discuss business risk and appropriate responses.

Director - Minimum Qualifications. The Compensation and Nominating Committee has adopted a set of criteria that it considers when it selects individuals not currently on the Board of Directors to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's Bylaws. A candidate must also meet any qualification requirements set forth in any Board or committee governing documents. If the candidate is deemed eligible for election to the Board of Directors, the Compensation and Nominating Committee will then evaluate the prospective nominee to determine if he or she possesses the following qualifications, qualities or skills:

- contributions to the range of talent, skill and expertise appropriate for the Board;
- financial, regulatory and business experience, knowledge of the operations of public companies and ability to read and understand financial statements;
- familiarity with the Company's market;
- personal and professional integrity, honesty and reputation;
- the ability to represent the best interests of the shareholders of the Company and the best interests of the institution;
- the ability to devote sufficient time and energy to the performance of his or her duties; and
- independence under applicable Commission and listing definitions.

The Compensation and Nominating Committee will also consider any other factors it deems relevant. With respect to nominating an existing director for re-election to the Board of Directors, the Compensation and Nominating Committee will consider and review an existing director's Board and committee attendance and performance; length of Board service; experience, skills and contributions that the existing director brings to the Board; and independence.

Director Nomination Process. The process that the Compensation and Nominating Committee follows when it identifies and evaluates individuals to be nominated for election to the Board of Directors is as follows:

For purposes of identifying nominees for the Board of Directors, the Compensation and Nominating Committee relies on personal contacts of the committee members and other members of the Board of Directors and will consider director candidates recommended by stockholders in accordance with the policy and procedures set forth above. The Compensation and Nominating Committee has not used an independent search firm to identify nominees.

In evaluating potential nominees, the Compensation and Nominating Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under the selection criteria, which are discussed in more detail below. If such individual fulfills these criteria, the Compensation and Nominating Committee will conduct a check of the individual's background and interview the candidate to further assess the qualities of the prospective nominee and the contributions he or she would make to the Board of Directors.

Consideration of Recommendation by Stockholders. It is the policy of the Compensation and Nomination Committee of the Board of Directors of the Company to consider director candidates recommended by stockholders who appear to be qualified to serve on the Company's Board of Directors. The Compensation and Nominating Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Compensation and Nomination Committee does not perceive a need to increase the size of the Board of Directors. To avoid the unnecessary use of the Compensation and Nominating Committee's resources, the Compensation and Nomination Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

Stockholder Proposal Procedures. To submit a recommendation of a director candidate to the Compensation and Nomination Committee, a stockholder should submit the following information in writing, addressed to the Chairperson of the Compensation and Nomination Committee, care of the Corporate Secretary, at the main office of the Company:

1. The name of the person recommended as a director candidate;
2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934;
3. The written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serving as a director if elected;
4. The name and address of the stockholder making the recommendation, as they appear on the Company's books; provided, however, that if the stockholder is not a registered holder of the Company's common stock, the stockholder should submit his or her name and address along with a current written statement from the record holder of the shares that reflects ownership of the Company's common stock; and
5. A statement disclosing whether such stockholder is acting with or on behalf of any other person and, if applicable, the identity of such person.

In order for a director candidate to be considered for nomination at the Company's annual meeting of stockholders, when and if one is held, or to be considered prior to a written consent vote on director nominees, the recommendation must be received by the Compensation and Nominating Committee at least 30 days before the date of the annual meeting or, in the case of an information statement and no shareholder meeting being held, prior to April 1st.

MANAGEMENT OF THE COMPANY

CURRENT OFFICERS. The current officers of the Company are:

1. Stewart Wallach, age 68, was appointed as Chief Executive Officer and President of the Company on April 23, 2007. Mr. Wallach is also the senior executive officer and director of Capstone.
2. Gerry McClinton, age 64, is the Chief Financial Officer and Chief Operating Officer and a director (appointed as a director on February 5, 2008) of the Company. Mr. McClinton is also a senior executive of Capstone.
3. Aimee Gaudet, age 41, was appointed on January 16, 2013 as Company Secretary. She is also Executive Assistant to Stewart Wallach at CAPC.

FAMILY RELATIONSHIP: There is no family relationship between members of Company management.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of securities ownership and changes in such ownership with the SEC. Executive officers, directors and greater than ten percent stockholders also are required by rules promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to the Company or other written representations, the Company believes that all of Section 16(a) filing requirements were met during fiscal year 2020 by the Company's directors and officers.

Item 11. Executive Compensation.

Role of Management

The Company believes that it is important to have our Chief Executive Officer's input in the design of compensation programs for his direct reports. The Chief Executive Officer reviews his direct reports' compensation programs annually with the Committee, evaluating the adequacy relative to the marketplace, inflation, internal equity, external competitiveness, business and motivational challenges and opportunities facing the Company and its executives. In particular, he considers base salary a critical component of compensation to remain competitive and retain his executives. All final decisions regarding compensation for the Chief Executive Officer's direct reports listed in the Summary Compensation Table are made by the Compensation Committee. The Chief Executive Officer does not make recommendations with regard to his own compensation.

Role of the Compensation Consultant

While we may consult industry sources on compensation for executives, we have not engaged a consultant to analyze our compensation levels.

For 2019, the principal components of compensation for each officer were:

- base salary;
- annual incentive;
- long-term incentive compensation (restricted stock awards); and
- perquisites and other benefits.

Our Company endeavors to strike an appropriate balance between long-term and current cash compensation. The current executives are key to the ability of the Company to conduct its business because of their individual experience and relationships in our current business line. Their compensation reflects their individual value to the ability of the Company to conduct its current business.

EXECUTIVE COMPENSATION

Name & Principal Position	Year	Salary \$	Bonus \$	Stock Awards \$	Non-Equity Incentives \$	All Others \$	TOTAL
Stewart Wallach,	2019	\$ 301,521	\$ -	\$ -	\$ -	\$ -	\$ 301,521
Chief Executive	2018	\$ 301,521	\$ -	\$ -	\$ -	\$ -	\$ 301,521
Officer (1,2,3,7,8)	2017	\$ 301,521	\$ 100,000	\$ -	\$ -	\$ -	\$ 401,521
James G. McClinton,	2019	\$ 191,442	\$ -	\$ -	\$ -	\$ -	\$ 191,442
Chief Financial	2018	\$ 191,442	\$ -	\$ -	\$ -	\$ -	\$ 191,442
Officer & COO (4,5,6,7,8)	2017	\$ 191,442	\$ 20,000	\$ -	\$ -	\$ -	\$ 211,442

Footnotes:

- (1) On February 5, 2020, the Company entered into a new Employment Agreement with Stewart Wallach, whereby Mr. Wallach will be paid \$301,521 per annum.
- (2) On February 5, 2018, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach would be paid \$301,521 per annum.
- (3) On February 5, 2016, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach would be paid \$301,521 per annum.
- (4) On February 5, 2020, the Company entered into a new Employment Agreement with James McClinton, , whereby Mr. McClinton would be paid \$191,442 per annum.
- (5) On February 5, 2018, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton would be paid \$191,442 per annum.
- (6) On February 5, 2016, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton would be paid \$191,442 per annum.
- (7) The Company has no non-equity incentive plans.
- (8) The Company has no established bonus plan. Any bonus payments are made ad hoc upon recommendation of the Compensation Committee. Bonuses are only paid on a performance basis.

EMPLOYMENT AGREEMENTS

Stewart Wallach, Chief Executive Officer and President.

On February 5, 2016, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach was paid \$287,163 per annum. The initial term of this agreement began February 5th, 2016 and ended February 5th, 2018.

On February 5, 2018, the Company renewed the Employment Agreement with Stewart Wallach, whereby Mr. Wallach was paid \$301,521 per annum. The term of this new agreement began February 5, 2018 and ended 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.

On February 5, 2020, the Company entered into a new Employment Agreement with Stewart Wallach, whereby Mr. Wallach will be paid \$301,521 per annum. The term of this new agreement began February 5, 2020 and ends February 5, 2022. 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.

The February 5, 2020 Employment Agreement with Mr. Wallach was filed by the Company as an exhibit to Report Form 10-K for fiscal year ended December 31, 2019 - (as filed by the Company with the Commission on March 30, 2020).

Gerry McClinton, Chief Operating Officer and Chief Financial Officer.

On February 5, 2016, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton was paid \$191,442 per annum. The initial term of this agreement began February 5, 2016 and ended February 5, 2018.

On February 5, 2018, the Company renewed the Employment Agreement with James McClinton, whereby Mr. McClinton was paid \$191,442 per annum. The term of this new agreement began February 5, 2018 and ended 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.

On February 5, 2020, the Company entered a new Employment Agreement with James McClinton, whereby Mr. McClinton will be paid \$191,442 per annum. The term of this new agreement began February 5, 2020 and ends February 5, 2022. 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.

The February 5, 2020 Employment Agreement with Mr. McClinton was filed by the Company as an exhibit to Report Form 10-K for fiscal year ended December 31, 2019 (as filed by the Company with the Commission on March 30, 2020).

Common Provisions in both new Employment Agreements:

The following provisions are contained in each of the above 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 payout 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 6 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.

The above summary of the employment agreements is qualified by reference to the actual employment agreements, which were filed as exhibits to the Form 10-K by the Company for fiscal year ended December 31, 2019 (as filed by the Company with the Commission on March 30, 2020).

These amended agreements supersede any existing employment agreements and are the only employment agreements with Company officers:

**SUMMARY TABLE OF OPTION GRANTS TO OFFICERS OF COMPANY
As of December 31, 2019**

Name	No. of Shares Underlying	% of Total Options Granted Employees in 2019	Expiration Date	Restricted Stock Grants	No. Shares underlying Options Granted in 2019
Stewart Wallach	-	-	-	-	-
Gerry McClinton	-	-	-	-	-

OTHER COMPENSATION (1)

NAME/POSITION	YEAR	SEVERANCE PACKAGE	CAR ALLOWANCE	CO. PAID SERVICES	TRAVEL LODGING	TOTAL (\$)
Stewart Wallach	2019	-	-	-	-	-
Chief Executive	2018	-	-	-	-	-
Officer	2017	-	-	-	-	-
Gerry McClinton	2019	-	-	-	-	-
Chief Operating Officer & Chief Financial Officer	2018	-	-	-	-	-
	2017	-	-	-	-	-

Footnotes:

(1) There were no 401(k) matching contributions by the Company and no medical supplemental payments by the Company in any of the years specified.

OUTSTANDING EQUITY AWARDS FOR YEAR END 2019 TABLE

OPTIONS (1)

NAME	Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date
Stewart Wallach	-	-	-
Gerry McClinton	-	-	-

Footnotes:

(1) The Company does not have any stock awards for the years specified for the above named senior officers.

2019 OPTION EXERCISES AND VESTED OPTIONS

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise
Stewart Wallach	-	-
Gerry McClinton	-	-

POTENTIAL PAYMENTS UPON TERMINATION OF EMPLOYMENT

	SALARY SEVERANCE	BONUS SEVERANCE	GROSS UP TAXES	BENEFIT COMPENSATION	GRAND TOTAL
Stewart Wallach	\$ 301,521	-	\$ 12,600	\$ 17,250	\$ 331,371
Gerry McClinton	\$ 191,442	-	\$ 11,000	\$ 17,250	\$ 219,692

Indemnification.

The Company maintains directors and officer's liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material. Further, the Company's articles of incorporation and bylaws provide for indemnification of directors and officers.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

VOTING RIGHTS AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

The sole class of voting Common Stock of the Company as of March 23, 2020, that are issued and outstanding is the Common Stock, \$0.0001 par value per share, or "Common Stock". The table below sets forth, as of March 23, 2020, ("Record Date"), certain information \$0.0001 par value per share, or "Common Stock" information with respect to the Common Stock beneficially owned by (i) each Director, nominee and executive officer of the Company; (ii) each person who owns beneficially more than 5% of the Common Stock; and (iii) all Directors, nominees and executive officers as a group.

There were 46,328,261 shares of Common Stock outstanding on the Record Date of March 23, 2020.

OWNERSHIP OF OFFICERS, DIRECTORS AND PRINCIPAL SHAREHOLDERS
As of March 1, 2020

<u>NAME, ADDRESS & TITLE</u>	<u>STOCK OWNERSHIP</u>	<u>PERCENTAGE OF STOCK OWNERSHIP</u>	<u>STOCK OWNERSHIP AFTER CONVERSION OF ALL OPTIONS & WARRANTS PLUS THOSE EXERCISEABLE WITHIN THE NEXT 60 DAYS</u>	<u>% OF STOCK OWNERSHIP AFTER CONVERSION OF ALL OPTIONS & WARRANTS PLUS THOSE EXERCISEABLE WITHIN THE NEXT 60 DAYS</u>	<u>ALL OPTION WARRANT SHARES</u>		
					<u>VESTED</u>	<u>EXPIRED</u>	<u>NOT VESTED</u>
Stewart Wallach, CEO, 431 Fairway Drive, Suite 200, Deerfield Beach, FL 33441	9,831,745	21.2%	9,831,745	21.2%	-	-	-
Gerry McClinton, CFO, & Director, 431 Fairway Drive Suite 200, Deerfield Beach, FL 33441	33,664	0.1%	33,664	0.1%	-	-	-
Jeff Postal, Director, 431 Fairway Drive , Suite 200, Deerfield Beach, FL 33441	9,034,120	19.5%	9,334,120	20.2%	200,000	-	100,000
Aimee C. Gaudet, Secretary, 431 Fairway Drive , Suite 200, Deerfield Beach, FL 33441	-	0.0%	70,000	0.1%	60,000	-	10,000
Jeff Guzy, Director, 3130 19th Street North, Arlington, VA 22201	52,800	0.1%	652,800	1.4%	600,000	100,000	100,000
Larry Sloven, Director, 431 Fairway Drive Suite 200, Deerfield Beach, FL 33441	52,800	0.1%	52,800	0.1%	-	-	-
ALL OFFICERS & DIRECTORS AS A GROUP	19,005,129	41.0%	19,975,129	43.1%	860,000	100,000	210,000

Notes to Table

- (1) Unless otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The Company is a "controlled company" under typical stock exchange corporate governance rules, that is a company where 50% or more of the voting power is owned by a person or a group and does not currently have to meet requirements for a board of directors with a majority of "independent directors." Currently, only Jeffrey Guzy qualifies as an "independent director" under the listing standards of most stock exchanges or quotation systems. No other director qualifies as an "independent director" under those rules because they are officers of the Company or have business relationships with the Company.

The CAPC Board adopted a written policy for approval of transactions between the Company and its directors, director nominees, executive officers, greater than 5% beneficial owners and their respective immediate family members. The policy governs transaction in which the value exceeds or is expected to exceed \$120,000 in a single calendar year.

A "related-person transaction" will be a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any "related person" are participants involving an amount that exceeds \$120,000. Transactions involving compensation for services provided to us as an employee, director, consultant or similar capacity by a related person will not be covered by this policy. A related person will be any executive officer, director or a holder of more than five percent of our common stock, including any of their immediate family members and any entity owned or controlled by such persons.

The policy provides that the Audit Committee reviews transactions subject to the policy and determines whether or not to approve or ratify those transactions. The Audit Committee takes into account, among other factors it deems appropriate, the following factors:

- Benefits derived by the related person from the transaction versus the benefits derived by the Company;
- Total value of the transaction;
- Whether the transaction was undertaken in the ordinary course of business of the Company; and
- Were the terms and conditions of the transaction usual and customary and commercially reasonable.

The Audit Committee does not have any policies on expedited or pre-approval of certain routine related person transactions.

From time to time, the Company borrows working capital on a short-term basis, usually with maturity dates of less than a year, from Company directors and officers. The Company believes that these working capital loans are commercially reasonable, especially in light of the inability of the Company to obtain such short-term financing from traditional funding sources. As of December 31, 2019, all related party loans outstanding balance is \$0.

On September 25, 2018, the disinterested directors of the Board of Directors of the Company approved the use of up to \$850,000 dividend distribution, to be completed by December 31, 2018, from Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of the Company, to fund intercompany subsidiary loans and Company stock purchases under an approved stock repurchase program and to provide working capital. As of December 31, 2018, the authorized distribution had been fully completed.

On May 31, 2019, the Board of Directors approved that the Company's outstanding loan balance as of December 31, 2018 of \$904,109, owed to Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of the Company, would be offset as a dividend distribution from Capstone Industries, Inc to the Company as of December 31, 2018.

On May 31, 2019, the disinterested directors of the Board of Directors approved the use of up to \$900,000 dividend distribution, to be completed by December 31, 2019, from Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of the Company, to the Company to provide working capital. As of December 31, 2019, the authorized distribution had been fully completed.

On February 4, 2020, the Board of Directors approved that the Company's outstanding loan balance as of December 31, 2019 of \$380,967, owed to Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of the Company, would be offset as a dividend distribution from Capstone Industries, Inc to the Company as of December 31, 2019.

On February 4, 2020, the disinterested directors of the Board of Directors of the Company approved the use of up to an aggregate of \$1,000,000 profit distribution to the Company, to be completed by December 31, 2020, from Capstone Industries, Inc., a Florida corporation and a wholly owned subsidiary of the Company, to provide working capital.

Process for Identifying Related Person Transactions.

To identify related-person transactions in advance, we are expected to rely on information supplied by our executive officers, directors and certain significant stockholders. In considering related-person transactions, our board of directors will take into account the relevant available facts and circumstances including, but not limited to:

- the risks, costs and benefits to us;
- the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;
- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally.

Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

Director Independence

Our Board of Directors has determined that our director, Mr. Jeffery Guzy, is an independent director, as the term "independent" is defined by the rules of the Nasdaq Stock Market. The Company was not successful in recruiting additional, qualified and interested independent directors in fiscal year 2019.

Item 14. Principal Accountant Fees & Services

The following is a summary of the fees billed to us by Kaufman, Rossin & Co., for professional services rendered for the years ended December 31, 2019 and 2018:

	2019	2018
Audit Fees	\$ 140,500	\$ 90,000
Tax Fees	7,900	4,900
Total	\$ 148,400	\$ 94,900

The following is a summary of the fees paid by us to CBIZ and Mayer Hoffman McCann P.C., the Company's former Independent Registered Public Accounting Firm, for the years ended December 31, 2019 and 2018:

	2019	2018
Audit Fees	\$ 15,000	\$ 115,000
Tax Fees	8,750	7,975
Total	\$ 23,750	\$ 122,975

Audit Fees. Consists of fees billed for professional services rendered for the audits of our consolidated financial statements, reviews of our interim consolidated financial statements included in quarterly reports, services performed in connection with filings with the Commission and related comfort letters and other services that are normally provided by the Independent Registered firm in connection with statutory and regulatory filings or engagements.

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and local tax compliance and consultation in connection with various transactions and acquisitions.

AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The Audit Committee is to pre-approve all audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services as allowed by law or regulation. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specifically approved amount. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees incurred to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

The Audit Committee pre-approved 100% of the Company's 2019 audit fees, audit-related fees, tax fees, and all other fees to the extent the services occurred after the effective date of the SEC's final pre-approval rules.

Part IV

Item 15. Exhibits, and Financial Statement Schedules Reports

(a) The following documents are filed as part of this Report.

1. FINANCIAL STATEMENTS

F-1 Report of Independent Registered Public Accountants for the Years Ended December 31, 2019 and 2018

F-2 Consolidated Balance Sheets as of December 31, 2019 and 2018

F-3 Consolidated Statements of Operations for the Years Ended December 31, 2019 and 2018

F-4 Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2019 and 2018

F-5 Consolidated Statements of Cash Flows for the Years Ended December 31, 2019 and 2018

F-6 Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

All schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

3. EXHIBITS

Exhibits Required by Item 601 of Regulation S-K. Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its consolidated subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. A copy of such instrument will be furnished to the Securities and Exchange Commission upon request.

3.1	Articles of Incorporation of CHDT Corp. Incorporated by reference to Annex G to the Special Meeting Proxy Statement, Dated April 15, 2004, filed by CHDT Corporation with the Commission on April 20, 2004.
3.1.1	Amended and Restated Articles of Incorporation of Capstone Companies, Inc. Incorporated by reference to Exhibit 3.1 to Form 8-K filed by Capstone Companies, Inc. with the Commission on July 14, 2009.
3.1.1.1	Amendment to Amended and Restated Articles of Incorporation of Capstone Companies, Inc., as filed with Florida Secretary of State on June 8, 2016. Incorporated by reference to Exhibit 3.1 to the Form 8-K filed by Capstone Companies, Inc. with the Commission on June 8, 2016.
3.2	By-laws of Capstone Companies, Inc. Incorporated by reference to Annex H the Special Meeting Proxy Statement, Dated April 15, 2004, filed by CHDT Corporation with the Commission on April 20, 2004.
4.6	Description of Capstone Companies, Inc. Securities[^]
10.01	Employment Agreement by Capstone Companies, Inc. and Stewart Wallach, dated February 5, 2020.[^]
10.02	Employment Agreement by Capstone Companies, Inc. and James McClinton, dated February 5, 2020.[^]
10.03	Amendment to Financing Agreement by Capstone Industries, Inc. and Sterling Capital Funding, dated November 5, 2015. Incorporated by reference to Exhibit 10.12 to Form 10-K filed by Capstone Companies, Inc with the Commission on March 28, 2018.
10.04	Validity Guaranty to Financing Agreement by Capstone Industries, Inc. and Sterling Capital Funding, dated June 4, 2016. Incorporated by reference to Exhibit 10.13 to Form 10-K filed by Capstone Companies, Inc with the Commission on March 28, 2018.
10.05	Trademark License with Hoover Inc. dated January 29, 2015. Incorporated by reference to Exhibit 10.14 to Form 10-K filed by Capstone Companies, Inc with the Commission on March 28, 2018.
10.06	Amendment to Trademark License with Hoover Inc., dated January 29, 2016. Incorporated by reference to Exhibit 10.15 to Form 10-K filed by Capstone Companies, Inc with the Commission on March 28, 2018.
10.07	Addendum dated January 1, 2019 to Consulting Agreement by Capstone Industries, Inc. and George Wolf. [^]
10.08	Financial Services Agreement dated March 1, 2017, by Capstone Companies, Inc. and Wilmington Capital Securities, LLC. Incorporated by reference to Exhibit 10.18 to Form 10-K filed by Capstone Companies, Inc with the Commission on March 28, 2018.
14	Code of Ethics Policy. Exhibit 14 of the Capstone Companies, Inc. Form 8-K, as filed with the Commission on March 22, 2018.
21.1	Subsidiaries of Capstone Companies, Inc. [^]
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Stewart Wallach, Chief Executive Officer[^]
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Gerry McClinton, Chief Financial Officer and Chief Operating Officer[^]
32.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Stewart Wallach, Chief Executive Officer. [^]
32.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Gerry McClinton, Chief Financial Officer & Chief Operating Officer[^]
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Note: CHDT Corp. is a prior name of Capstone Companies, Inc.

[^] Filed Herein.

Item 16. Form 10-K Summary. None.

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, Capstone Companies, Inc. has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Broward County, Florida on this 30th day of March 2020.

CAPSTONE COMPANIES, INC.

Dated: March 30, 2020

By: /s/ Stewart Wallach

Stewart Wallach

Chief Executive Officer and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of Capstone Companies, Inc. and in the capacities and on the dates indicated.

/s/ Stewart Wallach

Stewart Wallach

Principal Executive Officer

Director and Chief Executive Officer

March 30, 2020

/s/ Gerry McClinton

Gerry McClinton

Chief Financial Officer

Chief Operating Officer and Director

March 30, 2020

/s/ Jeffrey Guzy

Jeffrey Guzy

Director

March 30, 2020

/s/ Jeffrey Postal

Jeffrey Postal

Director

March 30, 2020

/s/ Larry Sloven

Larry Sloven

Director

March 30, 2020

To the Board of Directors and
Stockholders of Capstone Companies, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Capstone Companies, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases due to the adoption of Accounting Standards Update 2016-02, *Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Kaufman, Rossin & Co., P.A.

We have served as the Company's auditor since 2018.

Boca Raton, Florida

March 30, 2020

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Assets:		
Current Assets:		
Cash	\$ 3,131,249	\$ 3,822,359
Accounts receivable, net	13,459	64,511
Inventories	24,818	27,497
Prepaid expenses	182,782	243,876
Income tax refundable	<u>220,207</u>	<u>220,207</u>
Total Current Assets	3,572,515	4,378,450
Property and equipment, net	65,649	75,720
Operating lease – right of use asset	214,202	-
Deposit	46,021	102,805
Goodwill	<u>1,936,020</u>	<u>1,936,020</u>
Total Assets	<u>\$ 5,834,407</u>	<u>\$ 6,492,995</u>
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 635,593	\$ 461,446
Deferred rent incentive	-	108,844
Operating lease – current portion	51,174	-
Income tax payable	-	11,694
Total Current Liabilities	<u>686,767</u>	<u>581,984</u>
Long Term Liabilities:		
Operating lease – long term portion	170,998	-
Deferred tax liabilities	-	12,000
Total Long Term Liabilities	<u>170,998</u>	<u>12,000</u>
Total Liabilities	<u>857,765</u>	<u>593,984</u>
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, outstanding 46,579,747 shares at December 31, 2019 and 47,046,364 shares at December 31, 2018	4,658	4,704
Additional paid-in capital	7,061,565	7,092,219
Accumulated deficit	<u>(2,089,581)</u>	<u>(1,197,912)</u>
Total Stockholders' Equity	<u>4,976,642</u>	<u>5,899,011</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,834,407</u>	<u>\$ 6,492,995</u>

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

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended	
	December 31,	
	<u>2019</u>	<u>2018</u>
Revenues, net	\$ 12,404,445	\$ 12,830,324
Cost of sales	<u>(9,972,871)</u>	<u>(9,936,745)</u>
Gross Profit	<u>2,431,574</u>	<u>2,893,579</u>
Operating Expenses:		
Sales and marketing	378,605	915,205
Compensation	1,554,286	1,502,590
Professional fees	435,143	510,022
Product development	348,745	518,969
Other general and administrative	<u>647,696</u>	<u>691,466</u>
Total Operating Expenses	<u>3,364,475</u>	<u>4,138,252</u>
Operating Loss	<u>(932,901)</u>	<u>(1,244,673)</u>
Other Income (Expenses):		
Miscellaneous Income (Expense), net	29,505	(55,360)
Interest expense	<u>(3,206)</u>	<u>-</u>
Total Other Income (Expenses)	<u>26,299</u>	<u>(55,360)</u>
Loss Before Tax Benefit	(906,602)	(1,300,033)
Benefit for Income Tax	<u>(14,933)</u>	<u>(288,975)</u>
Net Loss	<u>\$ (891,669)</u>	<u>\$ (1,011,058)</u>
Net Loss per Common Share		
Basic and Diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Weighted Average Shares Outstanding		
Basic and Diluted	<u>46,863,467</u>	<u>47,046,364</u>

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

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Preferred Stock Series A		Preferred Stock Series B		Preferred Stock Series C		Common Stock		Additional		Total Equity
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid-In Capital	Accumulated Deficit	
Balance at December 31, 2017	-	\$ -	-	\$ -	-	\$ -	47,046,364	\$ 4,704	\$ 7,005,553	\$ (186,854)	\$ 6,823,403
Stock options for compensation	-	-	-	-	-	-	-	-	86,666	-	86,666
Net Loss	-	-	-	-	-	-	-	-	-	(1,011,058)	(1,011,058)
Balance at December 31, 2018	-	-	-	-	-	-	47,046,364	4,704	7,092,219	(1,197,912)	\$ 5,899,011
Stock options for compensation	-	-	-	-	-	-	-	-	40,707	-	40,707
Repurchase of shares	-	-	-	-	-	-	(466,617)	(46)	(71,361)	-	(71,407)
Net Loss	-	-	-	-	-	-	-	-	-	(891,669)	(891,669)
Balance at December 31, 2019	-	\$ -	-	\$ -	-	\$ -	46,579,747	\$ 4,658	\$ 7,061,565	\$ (2,089,581)	\$ 4,976,642

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

CAPSTONE COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended
December 31,

2019 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss	\$	(891,669)	\$	(1,011,058)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		44,194		45,510
Stock based compensation expense		40,707		86,666
Noncash lease expense		20,248		-
(Benefit) for deferred income tax		(12,000)		(239,000)
Decrease in accounts receivable, net		51,052		4,303,210
Decrease in inventories		2,679		113,137
Increase (decrease) in prepaid expenses		61,094		(4,726)
(Increase) decrease in deposits		56,784		(89,189)
Increase (decrease) in accounts payable and accrued liabilities		174,147		(2,272,070)
Increase (decrease) in deferred rent incentive		(108,844)		108,844
(Decrease) in income tax payable		(11,694)		(613,088)
(Increase) in income tax refundable		-		(220,207)
(Decrease) in operating lease liabilities		(12,278)		-
Net cash provided by (used in) operating activities		<u>(585,580)</u>		<u>208,029</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment		(34,123)		(53,866)
Net cash(used in) investing activities		<u>(34,123)</u>		<u>(53,866)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Repurchase of shares		(71,407)		-
Net cash(used in) financing activities		<u>(71,407)</u>		<u>-</u>

Net Increase (Decrease) in Cash		(691,110)		154,163
Cash at Beginning of Period		3,822,359		3,668,196
Cash at End of Period		<u>\$ 3,131,249</u>		<u>\$ 3,822,359</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$	3,206	\$	-
Income taxes		<u>\$ -</u>		<u>\$ 865,000</u>

Non-cash financing and investing activities:

Operating lease – right-of-use asset at commencement	\$	224,550	\$	-
Operating lease liabilities at commencement		<u>\$ 234,450</u>		<u>\$ -</u>

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements for the years ended December 31, 2019 and 2018 include the accounts of the parent entity and its wholly-owned subsidiaries. All material intra-entity transactions and balances have been eliminated in consolidation.

This summary of accounting policies for Capstone Companies, Inc. ("CAPC" or the "Company"), a Florida corporation (formerly, "CHDT 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

Capstone Companies, Inc. is headquartered in Deerfield Beach, Florida.

On June 6, 2012, the Company amended its charter to change its name from CHDT Corporation to CAPSTONE COMPANIES, INC. This name change was effective as of July 6, 2012, for purposes of the change of its name on the OTC Bulletin Board. With the name change, the trading symbol was changed to CAPC.

On April 13, 2012, the Company established a wholly owned subsidiary in Hong Kong, named Capstone International Hong Kong Ltd ("CIHK") which provides support services such as engineering, new product development, product sourcing, factory certification and compliance, product price negotiating, product testing and quality control and ocean freight logistics for the Company's other subsidiaries. CIHK is also engaged in selling the Company's products internationally.

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 was launched for market at the Consumer Electronics Show in early 2020. 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.

Liquidity

The Company reported a net loss of approximately \$892 thousand for the year ended December 31, 2019 compared to a net loss of approximately \$1.011 million for the year ended December 31, 2018. During the fiscal year 2019, the Company was able to transition customers from licensed brands into Capstone branded products, launched new LED lighting products, reduced operating expenses by \$774 thousand and invested \$207 thousand in the development of the Smart Mirror portfolio. At December 31, 2019, the Company continued to remain debt free, had a cash balance of \$3.1 million and an available credit facility of \$7.5 million subject to eligible collateral at Sterling National Bank. Management is confident that the Company has adequate cash on hand and availability on its credit facility to meet the Company's liquidity requirements for the next twelve months.

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 both Decembers 31, 2019 and 2018, accounts receivable serves as collateral when the Company borrows against its credit facilities.

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

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 both December 31, 2019 and 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:

	<u>December 31,</u> 2019	<u>December 31,</u> 2018
Trade Accounts Receivables at year end	\$ 276,551	\$ 429,405
Reserve for estimated marketing allowances, cash discounts and other incentives	<u>(263,092)</u>	<u>(364,894)</u>
Total Accounts Receivable, net	<u>\$ 13,459</u>	<u>\$ 64,511</u>

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:

	<u>December 31,</u> 2019	<u>December 31,</u> 2018
Balance at beginning of the year	\$ (364,894)	\$ (194,061)
Accrued allowances	(89,666)	(191,468)
Reversal of prior year accrued allowances	-	1,749
Expenditures	<u>191,468</u>	<u>18,886</u>
Balance at year-end	<u>\$ (263,092)</u>	<u>\$ (364,894)</u>

Marketing allowances include the cost of underwriting an in store 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.

Inventory

The Company's inventory, which consists of finished LED lighting products for resale by Capstone, is recorded at the lower of cost (first-in, first-out) or net realizable value. The Company writes down its inventory balances for estimates of excess and obsolete amounts. The Company reduces inventory on hand to its net realizable value on an item-by-item basis when the expected realizable value of a specific inventory item falls below its original cost. Management regularly reviews the Company's investment in inventories for such declines in value. The write-downs are recognized as a component of cost of sales. During the fiscal year 2019 and 2018, inventory write downs were \$0 for each year. As of December 31, 2019, and 2018, respectively, the inventory was valued at \$24,818 and \$27,497.

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. As of December 31, 2019, and 2018, respectively, prepaid expenses were \$182,782 and \$243,876.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated economic useful lives of the related assets as follows:

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

	Useful Life	December 31, 2019	December 31, 2018
Computer equipment and software	3-7 years	\$ 53,819	\$ 51,195
Machinery and equipment	3-7 years	157,267	170,567
Furniture and fixtures	3-7 years	6,828	6,828
Less: Accumulated depreciation		(152,265)	(152,870)
Property and Equipment, Net		\$ 65,649	\$ 75,720

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell. No impairment losses were recognized by the Company during 2019 or 2018.

Upon sale or other disposition of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is included in the determination of income or loss.

Expenditures for maintenance and repairs are charged to expense as incurred. Major overhauls and betterments are capitalized and depreciated over their estimated economic useful lives.

Depreciation and amortization expense was \$44,194 and \$45,510 for the years ended December 31, 2019 and 2018, respectively.

Leases

In February 2016, the FASB issued ASU no 2016-02, "Leases (Topic 842)," which requires leases with durations greater than twelve months to be recognized on the balance sheet and disclose key information about the leasing arrangements. The Company adopted the new standard with an effective date of January 1, 2019 on a modified retrospective approach. The Company has elected to take the practical expedient to separate lease and non-lease components for its operating lease. See Note 6 "Operating Leases" for additional disclosures as required by the new standard.

Goodwill

On September 13, 2006, the Company entered into a Stock Purchase Agreement with Capstone Industries, Inc., a Florida corporation ("Capstone"). Capstone was incorporated in Florida on May 15, 1996 and is engaged primarily in the business of wholesaling technology inspired consumer products to distributors and retailers in the United States. Under the Stock Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of Capstone's Common Stock, and recorded goodwill of \$1,936,020.

Goodwill acquired in business combinations is initially computed as the amount paid by the acquiring company in excess of the fair value of the net assets acquired.

Goodwill is tested for impairment on December 31 of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying amount exceeds its fair value, an impairment loss is recognized. Goodwill is not amortized.

Goodwill is subject to ongoing periodic impairments tests based on fair value of the reporting unit compared to its carrying amount, including goodwill. Impairment exists when a reporting unit's carrying amount exceeds its fair value. At December 31, 2019 and 2018, the required annual impairment test of goodwill was performed, and no impairment existed as of the valuation dates.

With the economic uncertainties caused by the COVID-19 pandemic, the capital markets may continue to have a downturn and adversely affect the Company's stock price which will require the Company to test its goodwill for impairment in future reporting periods. The Company estimates the fair value of its single reporting unit relative to the Company's market capitalization.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income-loss by the weighted average number of shares of common stock outstanding as of December 31, 2019 and 2018. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For calculation of the diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and warrants using the treasury stock

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

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. As of December 31, 2019 and 2018, the total number of potentially dilutive common stock equivalents excluded from the diluted earnings per share calculation was 1,000,00 and 970,001, respectively.

During the year ended December 31, 2019 a total of 180,001 stock options expired.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Basic weighted average shares outstanding	46,863,467	47,046,364
Dilutive options	-	-
Diluted weighted average shares outstanding	46,863,467	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 United 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 a ship 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.

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 Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Capstone Brand	License Brands	Total Consolidated	Capstone Brand	License Brands	Total Consolidated
Lighting Products- U.S.	\$ 11,218,714	\$ -	\$ 11,218,714	\$ 4,732,927	\$ 6,827,308	\$ 11,560,235
Lighting Products-International	1,185,731	-	1,185,731	639,130	630,959	1,270,089
Total Revenue	\$ 12,404,445	\$ -	\$ 12,404,445	\$ 5,372,057	\$ 7,458,267	\$ 12,830,324

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.

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

Customer orders received are not long-term orders and are typically shipped within six months of the order receipt, but certainly within a one-year period.

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 and which country their corporate office is located. The time 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.

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 year ended December 31, 2019 and 2018, Capstone determined that \$0 and \$1,749, respectively of previously accrued allowances were no longer required. The reduction of accrued allowances is included in net revenues for the years ended December 31, 2019 and 2018.

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 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 December 31, 2019 and 2018 balance sheets:

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	\$ 212,495	\$ 328,279
Amount accrued	180,797	59,981
Amount expensed	(145,442)	(175,765)
Balance at year-end	\$ 247,850	\$ 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 \$254,283 and \$113,474 for the years ended December 31, 2019 and 2018, respectively.

Product Development

Our research and development team located in Hong Kong working with our designated factories, are 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.

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

For the year ended December 31, 2019 and 2018, product development expenses were \$348,745 and \$518,969, respectively.

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 \$25,730 and \$59,896 for the years ended December 31, 2019 and 2018, respectively.

Accounts Payable and Accrued Liabilities

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

	<u>December 31,</u> 2019	<u>December 31,</u> 2018
Accounts payable	\$ 273,606	\$ 221,568
Accrued warranty reserve	247,850	212,495
Accrued compensation, benefits, marketing allowances and other expenses	114,137	27,383
Total accrued liabilities	361,987	239,878
Total	\$ 635,593	\$ 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 of 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 consolidated statements of income.

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.

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

Stock-based compensation expense recognized during the years ended December 31, 2019 and 2018 was \$40,707 and \$86,666, respectively.

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, impairments, 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.

Adoption of New Accounting Standards

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 was effective for the Company's fiscal year ended December 31, 2019. The adoption of ASU 2017-04 did not have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-02, Topic 842, as amended, "*Leases*". The ASU requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use asset model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term greater than 12 months regardless of the lease classification. Leases will be classified as a finance or operating lease. The lease classification will determine whether the lease expense is recognized based on effective interest rate method or a straight-line basis over the term of the lease. On January 1, 2019, the Company adopted the new lease standard using the modified retrospective approach.

The Company determines if an arrangement contains a lease at the inception of a contract. Right-of-use asset represents the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date. The liability is equal to the present value of the remaining minimum lease payments. The asset is based on the liability, subject to certain adjustments. Operating leases result in a straight-line expense (similar to operating leases under the prior accounting standard). The Company utilizes its incremental borrowing rate to discount the lease payments. See Note 6 "Operating Leases" for additional disclosures as required by the new standard.

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 ("FDIC") 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 two customers who comprised 83% and 15% of net revenue during the year ended December 31, 2019, and 36% and 60% of net revenue during the year ended December 31, 2018, respectively. The loss of these customers would adversely impact the business of the Company.

For the years ended December 31, 2019 and 2018, approximately 10% and 10% respectively, of the Company's net revenue resulted from international sales.

Major Customers

	<u>Net Revenue %</u>		<u>Net Accounts Receivable</u>	
	<u>Year Ended</u>		<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31,</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Customer A	83%	36%	\$ 13,459	\$ 38,090
Customer B	15%	60%	-	-
Total	<u>98%</u>	<u>96%</u>	<u>\$ 13,459</u>	<u>\$ 38,090</u>

Major Vendors

The Company had one vendor from which it purchased 97% of merchandise sold during the year ended December 31, 2019, and two vendors from which it purchased 60% and 16% of merchandise sold during the year ended December 31, 2018. The loss of this supplier could adversely impact the business of the Company.

As of December 31, 2019 and 2018, approximately 37% and 29%, respectively, of accounts payable were due to one vendor.

	<u>Purchases %</u>		<u>Accounts Payable</u>	
	<u>Year Ended</u>		<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31,</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Vendor A	97%	60%	\$ 100,705	\$ 63,594
Vendor B	-	16%	-	-
Total	<u>97%</u>	<u>76%</u>	<u>\$ 100,705</u>	<u>\$ 63,594</u>

NOTE 3 - INVESTMENT AND NOTE RECEIVABLE

On January 15, 2013, the Company entered into an agreement with AC Kinetics, Inc. ("AC Kinetics") to purchase 100 shares of AC Kinetics Series A Preferred Stock for \$500,000. These shares carried a liquidation preference in the amount of \$500,000, were convertible at the Company's demand into 3% of the outstanding shares of AC Kinetics common stock and had anti-dilution protection.

On June 8, 2016, the Board of Directors approved a Resolution to accept an offer from AC Kinetics to sell the Company 100 shares of AC Kinetics Series A Preferred Stock. For consideration, the Company received a note in the face amount of \$1,500,000 that would be immediately paid to the Company on completion and funding of a Securities Purchase Agreement with a national company to purchase AC Kinetics. The note was subject to a Subordination Agreement for loans made to AC Kinetics by the national company involved in the Securities Purchase Agreement. As further consideration, the Company also received an option to repurchase 1,666,667 shares of Company common stock held by Involve L.L.C. at an exercise price of \$.15. The Agreements were signed June 27, 2016.

The options also had termination dates being the earlier of the 12-month anniversary of the first option exercise date or 36 months from the agreement effective date. The agreement was signed June 27, 2016 and the options would have expired on June 27, 2019.

On June 27, 2016 in assessing the fair value of the note, management had to first consider the probability of the Securities Purchase Agreement between AC Kinetics and a national company being finalized. The completion of the Securities Purchase Agreement involved the development, testing and marketing of technologically advanced motor-control software which was still in its development stages. Payment of the note was also subject to a subordination agreement for loan advances made by the national company to AC Kinetics to fund the project which at the time of the transaction were several million dollars.

In evaluating the note management determined that other than the intrinsic fair value of the option agreement, any added value to the note was dependent on the completion of the Securities Purchase Agreement between AC Kinetics and a national company and if the Securities Purchase agreement did not close, then AC Kinetics would not have the financial ability to pay the note, particularly as the note was subordinated to substantial loan advances made to AC Kinetics to fund the product development.

In evaluating the note management also determined that the best estimate of fair value should be based on the value of the option to repurchase common stock from Involve L.L.C. which represented the spread between the market price and the exercised price of the 1,666,667 shares of common stock to be repurchased with an estimated value of \$500,000.

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.

As of September 30, 2017 management were advised by a principal of AC Kinetics that the national company had not exercised its securities purchase rights per the agreement, that the national company had stopped advancing loans to fund the project, that the national company had not entered into a revised loan agreement and that the project leader for the national company coordinating the project had been laid off and there was no guarantee that the securities purchase option would be completed.

With the exercise of all available options under the repurchase agreement and as the collateral used to substantiate the value of the note receivable was no longer available and as the possibility of the securities purchase agreement coming to a completion was doubtful, management determined that the fair value of the note at December 31, 2019 and December 31, 2018 was \$0.

NOTE 4 – NOTES PAYABLE

Sterling National Bank

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, 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 .30% of the gross invoice amount. The interest rate of the loan advance is .25% above Sterling National Bank's Base Rate which at time of closing was 7.0%. As of December 31, 2019 and 2018, the interest rate on the loan was 6.75% and 7.25%, respectively. The amounts borrowed under this agreement are due on demand and collateralized by substantially all the assets of Capstone.

NOTE 4 – NOTES PAYABLE (continued)

For the years ended December 31, 2019 and 2018, the processing fees associated with the agreement were \$40,006 and \$45,157, 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 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 both December 31, 2019, and 2018, there was no balance due to Sterling National Bank.

NOTE 5 – NOTES AND LOANS PAYABLE TO RELATED PARTIES

Capstone Companies, Inc. - Notes Payable to Officers, Directors and Related Parties

For the years ended December 31, 2019 and 2018, there have been no loan transactions with a Company Officer, Director or related parties.

As of December 31, 2019, and December 31, 2018, the Company had \$0 notes payable to officers, directors and related parties.

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENTS

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 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 premise's 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 sublease which expired on January 31, 2020. The base annual rent in the sublease remained at the same rate as the previous agreement until January 31, 2020. At the expiration of the sublease, the Company had the option to accept the prime lease with another 3 years renewal and with an option to renew for an additional 5-year period. If the Company decided to further extend the sublease after January 31, 2020, the Company would 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 would be \$7,514 until January 31, 2020 which includes an estimate for portion of the common area maintenance.

As 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 a \$150,000 incentive to vacate the existing premises on completion of the relocation, which was fully paid as of December 31, 2018 and was being amortized over the life of the lease amendment and resulted 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.

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENTS (continued)

Effective November 1, 2019, the Company entered into a new prime operating lease with the landlord “431 Fairway Associates, LLC” ending June 30, 2023, for the Company’s executive offices located on the second floor of 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441 with an annualized base rent of \$70,104 and with a base rental adjustment of 3% commencing July 1, 2020 and on July 1st of each subsequent year during the term. Under the lease agreement, Capstone is also responsible for a portion of common area maintenance charges in the leased premises which has been estimated at \$12.00 per square foot on an annualized basis of which the premises is approximately 4,694 square feet.

The Company's rent expense is recorded on a straight line basis over the term of the lease. The rent expense for the years ended December 31, 2019 and 2018 amounted to \$100,616 and \$108,024, respectively.

At the effective date of the new office lease, the Company recorded a right-of-use asset and lease liability under ASU 2016-02, Topic 842.

Supplemental balance sheet information related to leases as of December 31, 2019 is as follows:

Assets	
Operating lease - right-of-use asset	\$ 214,202
Liabilities	
Current	
Current portion of operating lease	\$ 51,174
Noncurrent	
Operating lease liability, net of current portion	\$ 170,998

Supplemental statement of operations information related to leases for the year ended December 31, 2019

Operating lease expense as a component of Other general and administrative expenses	\$ 11,640
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Supplemental cash flow information related to leases for the year ended December 31, 2019 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow paid for operating lease	\$ 13,567

Lease term and Discount Rate

Weighted average remaining lease term (months)	42
Operating lease	

Weighted average Discount Rate

Operating lease	7%
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Scheduled maturities of operating lease liabilities outstanding as of December 31, 2019 are as follows:

Year	Operating Lease
2020	\$ 65,312
2021	73,290
2022	75,492
2023	38,304
Total Minimum Future Payments	<u>252,398</u>
Less: Imputed Interest	<u>30,226</u>
Present Value of Lease Liabilities	<u>\$ 222,172</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES (continued)

The Company had two short leases with durations of less than twelve months.

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. On August 17, 2019, the lease was further extended with a base monthly rate of \$5,100 for six months until February 16, 2020. As the premises was no longer required as the employees were working remotely, the Company decided not to renew and allowed this lease to expire.

CIHK entered into a six-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 lease with a base monthly rent of \$1,290 expired August 16, 2019 and was further renewed for six-months expiring on February 16, 2020. Effective February 17, 2020, the Company entered into a new six-month lease expiring on September 30, 2020, with a base rate of \$1,285 per month and the space is available to renew as required.

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 was 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 was 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.

Employment Agreements

On February 5, 2016, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach was paid \$301,521 per annum. As part of the agreement, the base salary would be reviewed annually by the Compensation Committee for a potential increase, to at least reflect increases in the cost of living, but only if the Company shows a net profit for the year. The initial term of this agreement began February 5, 2016 and ended February 5, 2018.

On February 5, 2018, the Company entered into an Employment Agreement with Stewart Wallach, whereby Mr. Wallach was paid \$301,521 per annum. The initial term of this agreement began February 5, 2018 and ended 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.

On February 5, 2020, the Company entered into a new 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, 2020 and ends February 5, 2023. 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.

On February 5, 2016, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton was paid \$191,442 per annum. The term of this agreement began February 5, 2016 and ended February 5, 2018.

On February 5, 2018, the Company renewed the Employment Agreement with James McClinton, whereby Mr. McClinton was paid \$191,442 per annum. The term of this new agreement began February 5, 2018 and ended February 5, 2020.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (continued)

On February 5, 2020, the Company entered into an Employment Agreement with James McClinton, whereby Mr. McClinton will be paid \$191,442 per annum. The term of this new agreement began February 5, 2020 and ends February 5, 2022.

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 payout 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 6 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, would each receive \$750 per calendar month, as a Form 1099 compensation, for their continued services as directors of the Company. This compensation would 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 was for 3 years. The Licensing Agreement did not have a guaranteed royalty stipulation.

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.

As the Company did not achieve the stated net sales volume for the renewal period, the License expired on February 3, 2020.

Royalty expense related to this Licensing Agreement for the years ended December 31, 2019 and 2018, was \$0 and \$312,225, 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 year ended December 31, 2019 and 2018, was \$0 and \$35,559 respectively.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (continued)

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 agreement was effective on October 1, 2018 with an initial 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.

During the year both Company’s agreed to temporarily pause the MBA agreement for specific months and restarted the engagement with the same statement of work and terms 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 7 - 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.

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 an exercise price of \$.435 with an effective date of August 6, 2018 and vested on August 5, 2019 and have a term of 5 years. The Company Secretary options have an exercise price of \$.435 with an effective date of August 6, 2018 and vested 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 December 31, 2019, there were 1,000,000 stock options outstanding and 790,000 stock options vested. The stock options have a weighted average expense price of \$0.435.

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

In applying the Binomial Lattice (Suboptimal) option pricing model to stock option granted, the Company used the following weighted average assumptions: The following assumptions were used in the fair value calculations of options granted during the year ended December 31, 2018:

NOTE 7 - STOCK TRANSACTIONS (continued)

Risk free interest rate – 2.80 – 2.94%
Expected term – 5 to 10 years
Expected volatility of stock – 500%
Expected dividend yield – 0%
Suboptimal Exercise Behavior Multiple – 2.0
Number of Steps – 150

In applying the Binomial Lattice (Suboptimal) option pricing model to stock option granted, the Company used the following weighted average assumptions: The following assumptions were used in the fair value calculations of options granted during the year ended December 31, 2019:

Risk free interest rate – 1.53 – 1.73%
Expected term – 5 to 10 years
Expected volatility of stock – 500%
Expected dividend yield – 0%
Suboptimal Exercise Behavior Multiple – 2.0
Number of Steps – 150

The risk-free interest rate is based on rates of treasury securities with the same expected term as the options. The Company uses the expected term of employee and director stock-based options. The Company is utilizing an expected volatility based on a review of the Company's historical volatility, over a period of time, equivalent to the expected life of the instrument being valued.

The expected dividend yield is based upon the fact that the Company has not historically paid dividends and does not expect to pay dividends in the near future.

For the years ended December 31, 2019 and 2018, the Company recognized stock-based compensation expense of \$40,707 and \$86,666, respectively, related to these stock options. Such amounts are included in compensation expense in the accompanying consolidated statements of income. A further compensation expense expected to be \$21,283 will be recognized for these options in 2020.

The following table sets forth the Company's stock options outstanding as of December 31, 2019 and 2018 and activity for the years then ended:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding, January 1, 2018	1,026,670	\$ 0.435	\$ 0.345	2.45	\$ 87,267
Granted	210,000	0.435	0.210	6.52	(59,010)
Exercised	-	-	-	-	-
Forfeited/expired	(266,669)	0.435	0.371	-	74,934
Outstanding, December 31, 2018	970,001	0.435	0.308	2.77	(272,570)
Granted	210,000	0.435	0.210	4.84	(64,050)
Exercised	-	-	-	-	-
Forfeited/expired	(180,001)	0.435	0.283	-	54,900
Outstanding, December 31, 2019	1,000,000	\$ 0.435	\$ 0.284	2.88	\$ (305,000)
Vested/exercisable at December 31, 2018	760,001	\$ 0.435	\$ 0.336	2.20	\$ (213,560)
Vested/exercisable at December 31, 2019	790,000	\$ 0.435	\$ 0.314	2.36	\$ (240,950)

NOTE 7 - STOCK TRANSACTIONS (continued)

The following table summarizes the information with respect to options granted, outstanding and exercisable under the 2005 Plan:

Exercise Price	Options Outstanding	Remaining Contractual Life in Years	Average Exercise Price	Number of Options Currently Exercisable
\$.435	20,000	0.46	\$.435	20,000
\$.435	10,000	1.50	\$.435	10,000
\$.435	10,000	4.01	\$.435	10,000
\$.435	100,000	0.01	\$.435	100,000
\$.435	10,000	5.50	\$.435	10,000
\$.435	100,000	0.60	\$.435	100,000
\$.435	10,000	5.60	\$.435	10,000
\$.435	100,000	1.60	\$.435	100,000
\$.435	10,000	6.60	\$.435	10,000
\$.435	200,000	2.60	\$.435	200,000
\$.435	10,000	7.60	\$.435	10,000
\$.435	200,000	3.60	\$.435	200,000
\$.435	10,000	8.60	\$.435	10,000
\$.435	200,000	4.60	\$.435	-
\$.435	10,000	9.60	\$.435	-

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.

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 bona fide 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.

NOTE 7 - STOCK TRANSACTIONS (continued)

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.

On September 23, 2019 the Company signed a revised stock Purchase Plan to reflect an extension of the plan to repurchase up to an aggregate of 750,000 shares at prevailing market prices, subject to the terms of the Purchase Plan.

As of December 31, 2019 a total of 466,617 of the Company's Common Stock has been repurchased at a total cost of \$71,407.

NOTE 8 - INCOME TAXES

As of December 31, 2019, the Company had net operating loss carry forwards of approximately \$1,654,000, 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 as of December 31, 2019 and 2018 was \$0 and \$12,000, respectively, and is reflected in long-term liabilities in the accompanying consolidated balance sheets.

Tax benefit for income taxes differs from the amount computed using the federal US statutory income tax rate as follows:

	Year Ended December 31,	
	2019	2018
Tax benefit at U.S. statutory rate	\$ (88,547)	\$ (273,007)
State income taxes, net of federal benefit	(13,260)	(105,808)
Tax effect of foreign operations	(3,801)	136,696
Non-deductible items	792	706
Valuation allowance	89,959	-
Other	(76)	(47,562)
Income tax benefit	\$ (14,933)	\$ (288,975)

The effective tax rate was 1.6% in 2019 and 22.2% in 2018 and the statutory tax rate was 24.4% in 2019 and 25.4% in 2018.

On December 22, 2017, President Trump signed into law the legislation generally known as Tax Cut and Jobs Act of 2017. The tax law includes significant changes to the U.S. corporate tax systems including a rate reduction from 35% to 21% beginning in January of 2018, a change in the treatment of foreign earnings going forward and a deemed repatriation transition tax. In accordance with ASC 740, the impact of a change in tax law is recorded in the period of enactment.

The income tax benefit for the years ended December 31, 2019 and 2018 consists of:

	2019	2018
Current:		
Federal	\$ -	\$ (39,000)
State	1,000	(11,000)
Foreign	(4,000)	-
Deferred:		
Federal	(11,000)	(187,000)
State	(1,000)	(52,000)
Income Tax Benefit	\$ (15,000)	\$ (289,000)

NOTE 8 - INCOME TAXES (continued)

The tax effects of temporary differences and carry forwards that give rise to significant portions of deferred tax assets and liabilities consist of the following:

	2019	2018
Deferred tax assets:		
Net operating loss	\$ 416,000	\$ 218,000
Liabilities and reserves	25,000	116,000
Property and equipment and inventory	6,000	9,000
Stock options	85,000	75,000
	<u>532,000</u>	<u>418,000</u>
Deferred tax liabilities:		
Defective warranty allowance	-	(29,000)
Gain/loss on disposal	(9,000)	(8,000)
Intangible assets	(433,000)	(393,000)
Valuation allowance	(90,000)	-
	<u>(532,000)</u>	<u>(430,000)</u>
Net deferred tax assets and liabilities	\$ -	\$ (12,000)

Deferred tax assets are to be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred asset will not be realized. The deferred tax assets are adjusted by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred assets will not be realized. The Companies will continue to assess the need for a valuation allowance and, to the extent it is determined that such allowance is necessary, the tax effect will be recognized in the future.

NOTE 9 – SUBSEQUENT EVENT

COVID-19 Pandemic:

Subsequent to year-end, the Company has been negatively impacted by the effects of the worldwide COVID-19 pandemic. During the months of February and March 2020, the Company's Hong Kong office and Chinese suppliers were temporarily impacted by the closedown of facilities by local and regional authorities in their efforts to combat the spread of COVID-19. The CIHK staff worked remotely from home, however the factory closures delayed certain orders from the second quarter, 2020 until the third quarter 2020. These factories are now functioning, and orders are being produced both in China and in Thailand.

On March 9, 2020, the State of Florida declared a state of emergency in order to combat the spread of the COVID-19 pandemic. The Company in 2019 had expanded its IT systems to allow for remote operations and as of March 20, 2020, the Company's U.S. staff have been working remotely from their homes.

The Company is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. The Company has taken some immediate steps to reduce operating costs and to conserve cash including reductions in rent and travel expenses and staff reductions.

These economic uncertainties may continue to have a downturn on capital markets and adversely affect the Company's stock price, which may result in the impairment of the Company's goodwill. As of the date of issuance of these financial statements, the Company's goodwill is at risk of impairment relative to the market capitalization of the Company's outstanding common stock having fallen below the carrying value of the Company's sole reporting unit.

Exhibit 21.1 Subsidiaries of Capstone Companies, Inc.

Subsidiaries of Registrant

United State of America

Capstone Industries, Inc., a Florida corporation

Capstone Lighting Technologies, L.L.C., a Florida limited liability company

Hong Kong SAR

Capstone International Hong Kong Ltd

Exhibit 4.6. DESCRIPTION OF CAPSTONE COMPANIES, INC. SECURITIES

As of December 31, 2019, Capstone Companies, Inc. (the "Company") had one class of securities registered under Section 12(g) of the Securities Exchange Act of 1934, as amended: its common stock, par value \$0.0001 per share.

The following summary of the Company's common stock is subject to and qualified in its entirety by reference to, the Company's Amended and Restated Articles of Incorporation, as amended (the "Articles"), and Bylaws (the "Bylaws"). This summary does not relate to or give effect to the provisions of statutory or common law. For a complete description of the Company's common stock, refer to the Articles, Bylaws and any applicable provisions of relevant law, including the applicable provisions of the Florida Statutes (Company's domicile law) and federal law governing companies subject to Securities Exchange Act of 1934.

Authorized Shares

The Company's authorized capital shares consists of 60,000,000, of which 56,666,667 shares shall be common stock, par value \$0.0001 per share, and 3,333,333 shares shall be preferred stock, par value determined with authorization of each series of preferred stock. The Company's board of directors has the power to set the terms of any series of preferred stock, including the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, redemption and others. The creation of any series of preferred stock requires filing and acceptance of an amendment to the Articles by the State of Florida. There are no shares of preferred stock currently outstanding.

The Company's common stock is listed on The OTC Markets Group, Inc.'s QB Venture Market Tier under the trading symbol "CAPC".

Voting Rights

Holders of the common stock are entitled to one vote per share on all matters voted on by the shareholders, including the election of directors. The affirmative vote of a majority of the shares of common stock entitled to vote which are present in person or represented by proxy at a meeting of the Company's shareholders is required to elect directors and act on any other matters properly brought a meeting of the Company's shareholders, subject to certain limited exceptions as may be set forth in the Florida Statutes.

Any director or the entire Board of Directors of the Company may be removed only for cause. At any annual meeting of shareholders of the Company or at any special meeting of shareholders of the Company, the notice of which shall state that the removal of a director or directors is among the purposes of the meeting, the holders of eighty percent (80%) or more of the combined voting power of the then outstanding shares of capital stock entitled to vote thereon, present in person or by proxy, may remove such director or directors for cause.

Articles may only be amended by the affirmative vote of the holders of a majority of the shares of capital stock entitled to vote on such amendment, voting as a single class.

Preemptive and Other Rights

The common stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights.

The Company's common stock does not have cumulative voting rights.

Dividends

Holders of the Company's common stock are entitled to share ratably in dividends when and if declared by the Company's board of directors from funds legally available for the dividends.

Liquidation Rights

Subject to any preferential rights of outstanding shares of preferred stock that may be outstanding, holders of the common stock will share ratably in all assets legally available for distribution to the Company's shareholders in the event of a dissolution of the Company.

No Classification of the Board

The Company's board of directors is not classified or staggered into tiers. All directors stand for election each year.

Certain Anti-Takeover Matters

The Articles and Bylaws include a few provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with the board of directors rather than pursue non-negotiated takeover attempts. These provisions include the following:

Amendment of Bylaws

Amendments of the Bylaws require the approval of a majority of all shares of capital stock, voting as a single class.

Removal of Directors

A director may be removed from the board of directors only for cause and only upon the affirmative vote of at least 80% of the shares entitled to vote.



**EXECUTIVE EMPLOYMENT AGREEMENT
STEWART WALLACH**

This Executive Employment Agreement (“Agreement”) is made and entered into as of February 5th, 2020 by and between Capstone Companies, Inc. (“Company”) and Stewart Wallach, a natural person (the “Executive”). The Company and the Executive may also hereinafter be referred to individually as a “party” and collectively as the “parties.”

RECITALS:

WHEREAS, the Company desires to employ Executive on a full-time basis and Executive wishes to be employed by the Company on the terms and conditions set forth in this Agreement; and

WHEREAS, the parties wish this Agreement to supersede all prior employment agreements between the parties.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Executive agree as follows:

1. Term of Employment.

- 1.1. Initial Employment Period. The Company agrees to employ the Executive as the Chairman of the Board, Chief Executive Officer and President of Capstone Industries, Inc., (a subsidiary of the Company), and the Executive accepts employment with the Company, upon the terms set forth in this Agreement, for the period beginning on 12:01 a.m., local Miami, Florida time, on February 5, 2020 , and ending on 11:59 p.m., local Miami, Florida time, on February 5, 2023 (the “Employment Period”), during which time Executive will devote his full business time to providing services hereunder. During the Employment Period, this Agreement shall remain in force unless sooner terminated in accordance with the provisions of this Agreement pursuant to Section 5 below. The Executive agrees that the consideration provided hereunder is fair and adequate consideration for all services provided in each of the aforesaid capacities. Executive further agrees that this Agreement shall not constitute an employment agreement for services rendered to any company other than the Company. Any employment agreement with any other company shall be and must be a separate written agreement with such other company or companies.
- 1.2. Extension of the Employment Period. The parties may extend the Employment Period of this Agreement by mutual agreement, provided that such agreement must be approved by the Company Board of Directors in writing and no extension may exceed two (2) year in length.

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- 1.3. Termination of all Prior Employment Agreement. Executive hereby knowingly, intentionally and voluntarily terminates any and all prior employment agreements between the Company or any of its subsidiaries and the Executive. Executive agrees and understands that this Agreement sets forth all of the terms and conditions of his employment by the Company and that all rights, benefits and claims under any prior employment agreement, whether written or oral, are expressly waived and terminated by this Agreement.

2. Employment.

- 2.1. Position and Duties. During the Employment Period, the Company hereby agrees to employ Executive as Chairman of the Board, Chief Executive Officer and President of Capstone Industries, Inc. (a subsidiary of the Company) on the terms set forth herein. In such capacity, Executive has responsibility for the executive oversight and strategic planning for the Company and its subsidiaries, especially in terms of producing and implementing the Company's and its subsidiaries' strategic marketing and sales plan and strategic business development plan. The Company may also assign Executive to other duties commensurate with Executive's skills and experience. Executive reports to the Board of Directors of the Company. Executive agrees to devote his business time, ability, knowledge and attention solely to the Company's business affairs and interests and to faithfully and diligently perform such services and assume such duties and responsibilities as are assigned to the best of Executive's abilities, skills and efforts and to abide by applicable Company policies and directives as they exist from time to time.

- 2.2. Location. The Executive shall render his services under this Agreement in the principal executive offices of the Company which shall be in the greater Fort Lauderdale-Miami consolidated metropolitan area. Under no circumstances shall the Executive be required to relocate from more than fifty (50) miles from said metropolitan area or provide services under this Agreement in any other location other than in connection with reasonable and customary business travel. The Company reserves the right to make a temporary reassignment of the location for the performance of Executive's services hereunder for a period not to exceed forty five (45) days, which relocation shall not constitute a breach of this Agreement.

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2.3 Limitations on Outside Activities. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to (i) serving, with the approval of the Company's Board of Directors, which shall not be unreasonably withheld, as a director, trustee or member of any committee of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs; provided that such activities do not involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement. Notwithstanding the foregoing and except as expressly provided herein, during the Employment Period, the Executive may not accept employment with any other individual or entity or engage in any other venture which is directly or indirectly in conflict or competition with the business of the Company.

3. Compensation.

3.1. Base Salary. In consideration of Executive's services to the Company, the Company will pay Executive a gross base salary of THREE HUNDRED AND ONE THOUSAND, FIVE HUNDRED AND TWENTY ONE HUNDRED AND ZERO CENTS. (\$301,521.00) per annum. The Executive's base salary will be paid in equal installments in accordance with the Company's standard payroll schedule, and the Company will withhold from such salary all applicable federal, state and local taxes as required by applicable laws. The Executive may elect to accept additional cash compensation awards in Company "restricted" (as defined in Rule 144 under the Securities Act of 1933, as amended) shares of Company Common Stock, \$0.0001 par value, ("Shares"), which payments shall be made in semi-annual installments. The Company hereby grants "piggy-back" registration rights to the Executive for all such Shares that are issued hereunder (expressly excepting any registration on Form S-8 or Form S-4, or any successor form to those two forms). The value of the Shares in respect of the cash compensation being replaced by such Shares shall be determined by the average closing BID price for the Shares (as quoted on www.bloomberg.com) for the first twenty (20) consecutive trading days for each month in which Shares will be substituted for cash compensation hereunder.

3.2. Bonus. In addition, any bonus program adopted by the Company for senior office(s), shall be deemed to be "merit based" and will be determined solely at the discretion of the compensation committee, and in accordance with its terms as they exist from time to time.

4. Benefits and Reimbursements.

4.1. Insurance. Executive shall be entitled to participate in the following benefit programs which would include; health insurance, dental insurance and vision insurance, as well as any similar insurance programs offered by the Company to individuals employed by the Company as executives or in otherwise similar positions.

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- 4.2. Leave. Executive shall be entitled to thirty (30) days of paid vacation and seven (7) days of paid personal leave each year (during which time his compensation shall continue to be paid in full). Executive shall also be entitled to five (5) days of sick leave, during which time his compensation shall continue to be paid in full. Executive may carry over up to five (5) days of unused vacation/personal leave from contract year to contract year provided the company requests the Executive not take vacation due to required work. For purposes of this Agreement, "contract year" means from January 1st to December 31st each year.
- 4.3. Stock Option, Savings or Retirement Plans. Executive shall be entitled to participate in any pension, profit-sharing, deferred compensation plans, "merit" bonuses, stock option or other incentive compensation plans as are offered by the Company to individuals employed by the Company as full-time executive and subject to the same qualifications as other full-time executive employees.
- 4.4. Expenses. The Company shall reimburse Executive for the reasonable amount of hotel, travel, entertainment and other expenses necessarily incurred by Executive in the discharge of his duties to the Company, subject to the Company's expense policy.
- 4.5. Technology. The Company shall provide Executive with a laptop computer and a cellular phone for his use during the Employment Period. These shall remain the property of the Company, and shall be returned to the Company upon the termination of the Executive's employment.

5. Termination.

The employment of Executive by Company and the Employment Period shall terminate upon the occurrence of any of the following conditions:

- 5.1. Expiration. Immediately upon the expiration of the Employment Period set forth in Section 1 above, including any extension of the Employment Period as agreed upon in writing pursuant to Section 1.
- 5.2. Death. Immediately upon the death of Executive.
- 5.3. Disability. Immediately upon the Disability of Executive. Immediately upon the death or disability of the Executive. As used herein, the term "Disability" shall mean either (i) the Executive's inability, by reason of physical or mental incapacity or impairment, to perform his duties and responsibilities under this Agreement for a period of more than sixty (60) consecutive days, or for more than ninety (90) days, whether or not consecutive, within the preceding 365-day period, or (ii) the receipt by the Executive of disability benefits for permanent and total disability under any long-term disability income policy held by or on behalf of the Executive.

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5.4. By the Company for Cause. Immediately upon provision of written notice to the Executive by the Company that his employment is being terminated for Cause, as defined below. "Cause" for termination means:

(i) Executive's willful and intentional refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement; provided, however, that the Company shall not be deemed to have Cause pursuant to this clause (i) unless the Company gives the Executive written notice that the specified conduct has occurred and making specific reference to this Section 5.4 (i) and the Executive fails to cure the conduct within thirty (30) days after receipt of such notice;

(ii) Any willful and intentional act of the Executive involving fraud, theft, misappropriation of funds, or embezzlement affecting the Company or its subsidiaries;

(iii) Executive's conviction of, or a plea of guilty or *nolo contendere* to, an offense which is a felony or a misdemeanor evincing moral turpitude;

(iv) Executive's material breach of this Agreement which is not remedied within fifteen (15) days after receipt of a written demand to remedy from the Company; or

(v) Gross misconduct by Executive that is of such a serious or substantial nature that a substantial likelihood exists that such misconduct would injure the public business reputation of the Company if the Executive were to remain employed by the Company; or

(vi) Issuance of any prohibition by the U.S. Securities and Exchange Commission or "SEC" against the Executive serving as an officer or director of a public company and the period for appeal of such prohibition has expired without the Executive filing an appeal; or

(vii) the Company files for Chapter 7 protection from creditors and the bankruptcy petition is not withdrawn or dismissed within sixty days after the filing date; or

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(viii) Executive intentionally refuses to follow a lawful, commercially reasonable directive of the Company Board of Directors, such directive concerns an action or matter within the purview of the Executive's customary and usual duties and the refusal of the Executive results in the Company or any of its subsidiaries suffering a material liability or loss (for purposes of this Agreement, "material" shall mean an amount equal to or exceeding One Hundred Thousand Dollars and No Cents (\$100,000.00)).

5.5 Termination of the Executive for Cause shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean delivery to the Executive of written notice from duly authorized officers of the Company stating that in the good faith determination of the Company the Executive was guilty of conduct constituting Cause and failed to cure such conduct within the applicable time period. For purposes of this Agreement, no such purported termination of the Executive's employment shall be effective without such Notice of Termination.

5.6 By Company Without Cause. At the election of the Company after serving the Executive with at least three (6) months-notice of the Company's intent to termination his employment Without Cause. The Company shall have the right to pay the Executive 1 years' salary in lieu of notice.

5.7 By Executive for Good Reason. As used herein, the term "Good Reason" means the occurrence of any of the following, without the prior written consent of the Executive:

(i) assignment to the Executive of duties materially inconsistent with the Executive's positions as described in Section 2.1 hereof, or any significant diminution in the Executive's duties or responsibilities, other than in connection with the termination of the Executive's employment for Cause, Disability or as a result of the Executive's death or by the Executive other than for Good Reason;

(ii) the change in the location of the Company's principal executive offices or of the Executive's principal place of employment to a location outside the greater Fort Lauderdale-Miami, Florida metropolitan area/more than fifty (50) fifty miles from the current location. The Executive will have the option to transfer to the new location, in the same or equivalent position at a reasonable expense to the Company.

(iii) any material breach of this Agreement by the Company which is continuing;

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(iv) a Change in Control, provided that a Change of Control shall only constitute Good Reason if the Executive terminates his employment within six (6) months following a Change of Control;

provided, however, that the Executive shall not be deemed to have Good Reason pursuant to clauses (i) or (iii) above unless the Executive gives the Company written notice that the specified conduct or event has occurred and the Company fails to cure such conduct or event within thirty (30) days of the receipt of such notice. A "Change of Control" shall be deemed to have occurred when any person, other than Executive or his respective affiliates, associates, or estate, becomes, after the date of grant, the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then-outstanding securities;

6. Effect of Termination and Severance.

6.1. If the Employment Period is terminated by the Company for Cause, the Company will pay to the Executive his accrued and unpaid base salary as well as all accrued but unused vacation through the date of such termination;

6.2. If the Employment Period is terminated by the Executive other than because of death, Disability or for Good Reason, the Company will pay to the Executive his accrued and unpaid base salary as well as all accrued but unused vacation through the date of such termination;

6.3. If the Employment Period is terminated upon the Executive's death or Disability,

(i) the Company will pay to the Executive's estate or the Executive, as the case may be, an ongoing salary from the Company's normal payroll account, equivalent to the sum of (12) months base salary based on the annual base salary the Executive was earning as of the date of termination; a pro-rated "merit" bonus, if earned during the previous calendar year, if applicable to the Executive during the calendar year of Termination;

6.4. If the Employment Period is terminated by the Company without Cause or if the Executive terminates for Good Reason,

(i) the Company shall pay the Executive sum payments equal to the greater of: (A) the sum of twelve (12) months base salary rate Executive was earning as of the date of termination; (B) the sum of any "merit" based bonuses earned by the Executive during the prior calendar year of his/her Termination. Any payments owed by the Company to the Executive, as a result of Death, Disability, or Termination, shall be paid from a normal payroll account on a weekly or bi-weekly basis in accordance with the normal payroll policies of the Company. The amount owed by the Company to the Executive will be divided by the remaining number of weeks in the calendar year of the Termination, and will continue until company obligation is fully paid but at no time will be no more than twelve (12) installments.

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- (ii) the Company shall also continue in effect the Executive's health and dental benefits (or similar health and dental benefits paid to senior executives noted in Section 3(c)) for a period of twelve (12) months commensurate with the Company's "approved" Health Plan & Benefits Package at the time of termination. If Executive, participated in family health insurance coverage at the time of termination, that obligation would remain theirs and the Company would continue to pay installments to keep insurance active for a twelve (12) month period and reduce the family's monthly premium against the Executive's severance package. If Executive is eligible for continued health insurance benefits under the federal law known as COBRA and Executive timely elects COBRA coverage and makes timely payment of required premiums, the Company will reimburse Executive the cost of such COBRA coverage, not to exceed amount being paid at the time of termination, for twelve (12) months (commensurate with Executives' severance package) from the termination date or the date on which the Executive obtains health coverage from a subsequent employer. If Executive is not eligible for COBRA benefits, the Company will reimburse Executive the cost of similar coverage Executive obtains for twelve (12) months from the termination date or the date on which the Executive obtains health insurance coverage from subsequent employer. If contract is terminated due to death, Company would not be required to keep any coverage in effect.

7. Confidential Information.

Executive acknowledges that he will occupy a position of trust and confidence with respect to the Company's affairs and business and that, in connection with the performance of his services on behalf of the Company, Executive will be provided access to the Company's confidential and proprietary information and trade secrets ("Company Confidential Information") and confidential and proprietary information of third parties ("Third Party Information").

- 7.1. Confidential Information Defined. The term "Company Confidential Information" shall mean any and all confidential and/or proprietary information of the Company. By way of illustration but not limitation, Company Confidential Information includes: information and materials related to proprietary computer software, hardware, including hard drives, electronic files and websites, research, business procedures and strategies, marketing plans and strategies, member lists and business histories, analyses of member information, employee or prospective employee information, financial data of the Company or its customers or employees, and any other information that is not generally known to the public or within the industry in which the Company competes. Executive further acknowledges that the Company has and in the future will receive from third parties confidential and proprietary information ("Third Party Information"), including but not limited to confidential and proprietary information of the Company's customers, subject to a duty on the Company's part to maintain the confidentiality of such information and to use it for certain limited purposes for a period of two (2) years thereafter.

- 7.2. Executive's Obligations.

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(i) Non-Disclosure. Executive agrees that during Executive's employment with the Company and thereafter, Executive will not use, disclose, lecture upon, publish or transfer directly or indirectly any Company Confidential Information or Third Party Information other than as authorized by the Company, nor will Executive accept any employment or other professional engagement that likely will result in the use or disclosure, even if inadvertent, of Company Confidential Information or Third Party Information. Executive agrees that he will not use in any way other than in furtherance of the Company's business any Company Confidential Information or Third Party Information. Executive will obtain the Company's written approval before publishing or submitting for publication any material (written, verbal, or otherwise) that relates to Executive's work at the Company and/or incorporates any Confidential Information. Executive hereby assigns to the Company any rights Executive may have or acquire in such Confidential Information and recognizes that all Confidential Information shall be the sole property of the Company and its/their assigns.

(ii) Disclosure Prevention. Executive agrees to take all reasonable steps to preserve the confidential and proprietary nature of Company Confidential Information and Third Party Information and to prevent the inadvertent or accidental disclosure of Company Confidential Information and Third Party Information.

(iii) Removal of Materials. Executive agrees that Executive will not remove any Company Confidential Information or Third Party information from the Company's premises or make copies of such materials except for use in the Company's business.

(iv) Return of Materials. Executive agrees not to retain and further agrees to return to the Company any tangible or intangible originals or copies of any Company Confidential Information or Third Party Information after termination of Executive's employment, or earlier at the Company's request for any reason. Executive further agrees to provide the Company with access to any personal computer equipment and/or devices that Executive has used during the term of this Agreement, so that the Company may verify that all of its Company Confidential Information or Third Party Information has been deleted from this equipment.

(v) Copying. Executive agrees that copying of Company Confidential Information or Third Party Information shall be done only as needed in furtherance of and for use in the Company's business. Executive further agrees that copies of Company Confidential Information and Third Party Information shall be treated with the same degree of confidentiality as the original information and shall be subject to the same restrictions herein.

(vi) Continuation of Obligations. Executive agrees that the obligations of this Section shall continue after termination or Executive's employment.

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(vii) Computer Security. Executive agrees that, during his employment with the Company, he will use computer resources (both on and off of the Company's premises) for which Executive has been granted access and then only to the extent authorized. Executive agrees to comply with the Company's policies and procedures concerning computer security. Executive further acknowledges that Executive will not alter, remove or destroy any Company Confidential Information or Third Party Information stored on any electronic storage devices, including, but not limited to, electronic media stored on servers, local hard drives, lap-tops, "PDAs" or any other similar devices except in accordance with the Company's record retention and destruction policy.

(viii) Email and Internet. Executive understands that the Company maintains an electronic mail and Internet/World Wide Web ("Internet") system, and related facilities, for the purpose of business communications. Executive acknowledges that the Company owns such a system and facilities, and that the Company retains the right to review any and all electronic mail and Internet communications, and to review his use of the Internet, with or without notice, at any time. Executive further acknowledges that he has no right to privacy to any e-mail or Internet communications, or to his use of the Internet. Executive further agrees to comply with the Company's procedures concerning the use of e-mail and the Internet, including compliance with any destruction and/or retention policies for e-mail communications.

7.3. Known Knowledge. Subject to the foregoing obligations, it is understood that Executive is free at all times to use information which is generally known in the trade or industry (except such information which becomes so because of a breach of this Agreement by Executive) and further that Executive's general knowledge, skill and experience shall not be deemed to be Confidential Information.

8. Assignment of Inventions.

8.1. Definitions. The term "Proprietary Rights" shall mean all trade secret, patent, copyright, mask work and other intellectual property rights or "moral rights" throughout the world. "Moral rights" refers to any rights to claim authorship of an Invention or to object to or prevent the modification of any Invention, or to withdraw from circulation or control the publication or distribution of any Invention, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral right."

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- 8.2. Assignment of Inventions. Executive hereby assigns and agrees to assign in the future (when any such Inventions or Proprietary Rights are first reduced to practice or first fixed in a tangible medium, as applicable) to the Company all his or her right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by the Executive, either alone or jointly with others, during the period of his or her employment with the Company. Inventions assigned to the Company, or to a third party as directed by the Company, are hereinafter referred to as "Company Inventions."
- 8.3. Unassigned Inventions. This Agreement will not be deemed to require assignment of any invention that was (1) developed entirely on the Executive's own time without using the Company's equipment, supplies, facilities, or Proprietary Information and (2) is not related to the Company's actual or anticipated business, research or development and (3) has not resulted from work performed by Executive for the Company. Attached as Exhibit One hereto is a complete list of all Inventions that the Executive has conceived, developed or reduced to practice prior to the Effective Date of this Agreement, alone or jointly with others, that are the Executive's sole property or the property of third parties and which are excluded from the scope of this Agreement.
- 8.4. Works for Hire. Executive acknowledges that all original works of authorship which are made by the Executive (solely or jointly with others) within the scope of Executive's employment and which are protectable by copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101).
- 8.5. Enforcement of Proprietary Rights. Executive agrees to assist the Company in every proper way to obtain, and from time to time enforce, United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. To that end Executive agrees to execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, Executive will execute, verify and deliver assignments of such Proprietary Rights to the Company or its designee. Executive's obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of his or her employment, but the Company shall compensate Executive at a reasonable rate after Executive's termination for the time actually spent by Executive at the Company's request on such assistance.

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9. Restrictive Covenants.

9.1. Acknowledgements. Executive acknowledges that (i) his services to the Company will be special and unique and that he will occupy a position of trust and confidence with respect to the business affairs of the Company; (ii) that his engagement for the Company will allow him access to the Company's Confidential Information; (iii) that he will have access to the customers and clients of the Company and will be working to develop business relationships for the Company; (iv) that the Company would not have entered into this Agreement with Executive, or engaged Executive, but for the covenants and agreements contained in this Section; and (v) that the agreements and covenants contained in this Section are essential to protect the business, good will, and confidential information of the Company.

9.2. Non-Competition. During the Employment Period and for eighteen (18) months thereafter, Executive shall not, directly or indirectly, in any geographic area in which the Company operates compete with the Company in the development, marketing, or sale of products that compete with those developed, marketed, or sold by the Company.

9.3. Non-Solicitation of Employees. During the Employment Period and for eighteen (18) months thereafter, Executive shall not, directly or indirectly, on his own behalf or on behalf of any other person or entity, solicit for employment, hire, or engage, whether on a full-time, part-time, consulting, advising, or any other basis, any persons who were employees or Executives of the Company during the Employment Period.

9.4. Non-Solicitation of Customers. During the Employment Period and for [twelve (12) months] thereafter, Executive shall not, in competition with the Company, directly or indirectly, on his own behalf or on behalf of any other person or entity, solicit, accept business from, or conduct business with, (i) any customer or client served by the Company prior to or during the Employment Period with which Executive had contact or about which Executive received information or knowledge during the Employment Period, or (ii) any prospective customer or client of the Company with which Executive had contact or about which Executive received information or knowledge during the Employment Period.

9.5. Independent Covenants. The Restrictive Covenants set forth herein are each to be construed as a separate agreement, independent of any other provisions of this Agreement. Therefore, the Executive agrees that the existence of any claim or cause of action that Executive may have against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any provision of this Section 9 against the Executive.

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10. Enforcement.

- 10.1. Equitable Relief Authorized. Executive acknowledges that in the event of a violation of the provisions of Sections 7, 8 or 9 of this Agreement, Company's business interests will be irreparably injured, the full extent of Company's damages will be impossible to ascertain, monetary damages will not be an adequate remedy for Company, and Company will be entitled to enforce this Agreement to prevent a breach or threatened breach of the Agreement by temporary, preliminary or permanent injunction or other equitable relief without the necessity of proving actual damage and without the necessity of posting bond or security, which Executive expressly waives. Executive also agrees that Company may, in addition to injunctive relief, seek monetary damages for any breach of the provisions contained in this Agreement in addition to equitable relief and that the granting of equitable relief shall not preclude Company from recovering monetary damages.
- 10.2. Modification. Company and Executive represent that in entering into this Agreement it is their intent to enter into an agreement that contains reasonable employment and post-employment restrictions and that such restrictions be enforceable under law. In the event that any court or other enforcement authority determines that any provision of this Agreement is overbroad or unenforceable by reason of the geographic scope, scope of prohibited activities, time frame, or any other reason, the parties authorize such court or other enforcement authority to modify the scope of the restriction so that it is enforceable to the greatest extent permissible.
- 10.3. Severability. If any provision of the Agreement is held to be invalid, illegal or unenforceable for any reason, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.
- 10.4. Notification of New Employer. In the event that Executive leaves the employ of the Company for any reason, Executive agrees to inform any subsequent employer of his rights and obligations under this Agreement. Executive further hereby authorizes the Company to notify his new employer about Executive's rights and obligations under this Agreement, including by delivering a copy of this Agreement, and any written modifications thereto, to any subsequent employer.

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11. General Terms.

- 11.1. No Prior Agreements. Executive hereby represents and warrants to the Company that the execution of this Agreement by Executive and his/her employment by the Company and the performance of his/her duties hereunder will not violate or be a breach of any agreement with or obligation to a former employer, client or any other person or entity, and Executive agrees to indemnify the Company for any costs and expenses arising out of a claim by any such third party has against the Company based upon or arising out of any non-competition agreement or other restrictive covenant, invention or confidentiality agreement between Executive and such third party which was in existence as of the date of this Agreement and which Executive is alleged to be in violation of.
- 11.2. Indemnification; Insurance Against Liability. Executive will be entitled to such prevailing rights and entitlements to indemnification, defense of claims and insurance against liability as are generally provided to executives of the Company, consistent with Company bylaws, insurance policies and contracts, and applicable law.
- 11.3. Governing Law; Interpretation. This Agreement will be governed by the substantive laws of the State of Florida, without regard to the principles of conflicts of laws. This Agreement will be construed as a whole, according to its fair meaning, and not in favor of or against any party, regardless of which party may have initially drafted certain provisions set forth herein.
- 11.4. Choice of Law and Forum: This Agreement shall be construed according to the laws of the United States of America and the State of Florida, without regard to its conflict of laws provisions. Executive hereby expressly consent to the personal jurisdiction of the state and federal courts for Broward County, Florida in any lawsuit filed there against the Executive by the Company arising from or related to this Agreement, including any claims for infringement of the Company's Confidential Information, Inventions or Works for Hire or any update thereto. Executive agrees that if Executive is not a resident of the State of Florida, USA, at the time of such action, then Executive hereby irrevocably appoints the Secretary of the State of Florida, as agent for the purpose of accepting service of process in Florida and the United States. Executive waives trial by jury in any action, proceeding, claim, or counterclaim brought by any party in connection with any matter arising out of or in any way connected with this Agreement, the relationship of Executive to the Company and /or any claim of injury or damage arising in any way between and among the Company and Executive. Provided, however, that Executive agrees that nothing in this Section shall prohibit the Company from initiating legal action in any court which has personal and subject matter jurisdiction over me in the event that it is necessary for the Company to pursue equitable relief against me for a breach of this Agreement.
- 11.5. Assignment. This Agreement is personal to Executive and he may not assign it without prior written consent of the Company. The Company may, without Executive's consent, assign the Agreement to any successor entity, including the Restrictive Covenants of Section 9.

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- 11.6. Notices. Any notice required or permitted hereunder will be in writing and will be deemed to have been duly given if delivered by hand or if sent by certified mail, postage and certification prepaid, to Executive at his residence (as noted in the Company's records), or to the Company address, or to such other address or addresses as either party may have furnished to the other in writing.
- 11.7. Entire Agreement; Amendments. This Agreement and any other exhibits and attachments hereto constitutes the final and complete expression of all of the terms of the understanding and agreement between the parties hereto with respect to the subject matter hereof, and this Agreement replaces and supersedes any and all prior or contemporaneous negotiations, communications, understandings, obligations, commitments, agreements or contracts, whether written or oral, between the parties respecting the subject matter hereof. This Agreement may not be modified, amended, altered or supplemented except by means of the execution and delivery of a written instrument mutually executed by both parties. No action or omission by the Company shall be deemed to be a waiver of any of its rights under this Agreement unless such waiver is set forth in writing and identified as a waiver. Any waiver by the Company of any rights under this Agreement shall not be deemed to be a waiver of any other right.
- 11.8. Counterparts. This Agreement may be executed simultaneously in two (2) counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.
- 11.9. Survival. The provisions of the various sections of this Agreement which by their terms call for performance subsequent to the expiration or termination of this Agreement or the Employment Period shall survive such expiration or termination.
- 11.10. Withholdings. The parties agree that all payments to be made to the Executive by the Company pursuant to this Agreement shall be subject to all applicable withholdings.
- 11.11. Headings. The Section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.
- 11.12. No Contra Proferentum. The parties agree that they have been represented by counsel during the negotiation and execution of this Agreement, and, therefore, waive the application of any law, regulation or holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.
- 11.13. Capacity. Each of the parties hereto warrants that they are legally competent to execute this Agreement and accepts full responsibility therefor.

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12. Resolution of Disputes.

Except as provided, herein, and in the event of any claim, cause of action, dispute or controversy arising under this Agreement or otherwise related to the parties' employment relationship, the parties shall negotiate in good faith for the purpose of resolving such dispute. In the event that the parties cannot resolve the claim, cause of action, dispute or controversy informally within fifteen (15) days, then such claim, cause of action, dispute or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by a mandatory arbitration in Miami, Florida before one (1) arbitrator. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures (Streamlined Arbitration Rules and Procedures). Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction. Each party shall bear its own costs in the arbitration and shall share equally the costs of the arbitration itself. Notwithstanding the foregoing, and without undermining the agreement to arbitrate on any other claim, cause of action, dispute or controversy, the Company shall at all times have and retain the exclusive and unilateral right to seek immediate temporary and preliminary injunctive relief in a court of law in the event of a violation or alleged violation by the Executive of Sections 7, 8, or 9 of this Agreement. In the event such judicial relief is granted, such relief shall remain binding on the parties pending the outcome of arbitration. **THE COMPANY AND EXECUTIVE ACKNOWLEDGE THAT EACH HAD THE OPPORTUNITY TO CONSULT WITH LEGAL AND FINANCIAL COUNSEL CONCERNING THE RIGHTS AND OBLIGATIONS ARISING UNDER THIS AGREEMENT, THAT EACH HAS READ AND UNDERSTANDS THIS AGREEMENT, AND THAT EACH ENTERS INTO IT WILLINGLY.**

This Agreement is duly executed as of the day and year of the last signature below.

Capstone Companies, Inc.

Stewart Wallach

By: _____ Sign: _____

Title: _____ Title: _____

Date: _____ Date: _____

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**EXECUTIVE EMPLOYMENT AGREEMENT
JAMES G. MCCLINTON**

This Executive Employment Agreement ("Agreement") is made and entered into as of February 5th, 2020 by and between Capstone Companies, Inc. ("Company") and James Gerald McClinton, a natural person (the "Executive"). The Company and the Executive may also hereinafter be referred to individually as a "party" and collectively as the "parties."

RECITALS:

WHEREAS, the Company desires to employ Executive on a full-time basis and Executive wishes to be employed by the Company on the terms and conditions set forth in this Agreement; and

WHEREAS, the parties wish this Agreement to supersede all prior employment agreements between the parties.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Executive agree as follows:

1. Term of Employment.

1.1 Initial Employment Period. The Company agrees to employ the Executive as the Chief Financial Officer and the Chief Operating Officer of the Company, and the Executive accepts employment with the Company, upon the terms set forth in this Agreement, for the period beginning on 12:01 a.m., local Miami, Florida time, on February 5, 2020, and ending on 11:59 p.m., local Miami, Florida time, on February 5, 2022 (the "Employment Period"), during which time Executive will devote his full business time to providing services hereunder. During the Employment Period, this Agreement shall remain in force unless sooner terminated in accordance with the provisions of this Agreement pursuant to Section 5 below. The Executive agrees that the consideration provided hereunder is fair and adequate consideration for all services provided in each of the aforesaid capacities. Executive further agrees that this Agreement shall not constitute an employment agreement for services rendered to any company other than the Company. Any employment agreement with any other company shall be and must be a separate written agreement with such other company or companies.

1.2 Extension of the Employment Period. The parties may extend the Employment Period of this Agreement by (mutual agreement), provided that such agreement must be approved by the Company Board of Directors in writing and no extension may exceed one (1) year in length.

1.3 Termination of all Prior Employment Agreement. Executive hereby knowingly, intentionally and voluntarily terminates any and all prior employment agreements between the Company or any of its subsidiaries and the Executive. Executive agrees and understands that this Agreement sets forth all of the terms and conditions of his employment by the Company and that all rights, benefits and claims under any prior employment agreement, whether written or oral, are expressly waived and terminated by this Agreement.

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2. Employment.

2.1 Position and Duties. During the Employment Period, the Company hereby agrees to employ Executive as Chief Financial Officer (CFO) and the Chief Operating Officer (COO) on the terms set forth herein. In CFO capacity, Executive is accountable for the administrative, financial and risk management operations of the Company, to include the development of a financial and operational strategy, metrics tied to that strategy and the ongoing development and monitoring of control systems designed to preserve Company assets and report accurate financial results. In COO capacity, Executive has responsibility for manufacturing and logistical support for the Company and its subsidiaries, especially in terms of supporting the Company's and its subsidiaries' strategic marketing and sales plan and strategic business development plan. The Company may also assign Executive to other duties commensurate with Executive's skills and experience. Executive reports to the CEO, and the Board of Directors of the Company. Executive agrees to devote his business time, ability, knowledge and attention solely to the Company's business affairs and interests and to faithfully and diligently perform such services and assume such duties and responsibilities as are assigned to the best of Executive's abilities, skills and efforts and to abide by applicable Company policies and directives as they exist from time to time.

2.2 Location. The Executive shall render his services under this Agreement in the principal executive offices of the Company which shall be in the greater Fort Lauderdale-Miami consolidated metropolitan area. Under no circumstances shall the Executive be required to relocate from more than fifty (50) miles from said metropolitan area or provide services under this Agreement in any other location other than in connection with reasonable and customary business travel. The Company reserves the right to make a temporary reassignment of the location for the performance of Executive's services hereunder for a period not to exceed forty five (45) days, which relocation shall not constitute a breach of this Agreement.

2.3 Limitations on Outside Activities. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to (i) serving, with the approval of the Company's Board of Directors, which shall not be unreasonably withheld, as a director, trustee or member of any committee of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs; provided that such activities do not involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement. Notwithstanding the foregoing and except as expressly provided herein, during the Employment Period, the Executive may not accept employment with any other individual or entity, or engage in any other venture which is directly or indirectly in conflict or competition with the business of the Company.

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3. Compensation.

Base Salary. In consideration of Executive's services to the Company, the Company will pay Executive a gross base salary of ONE HUNDRED NINETY ONE THOUSAND, FOUR HUNDRED AND FORTY FOUR DOLLARS AND NINETY SIX CENTS (\$191,441.96) per annum. The Executive's base salary will be paid in equal installments in accordance with the Company's standard payroll schedule, and the Company will withhold from such salary all applicable federal, state and local taxes as required by applicable laws. The Executive may elect to accept additional cash compensation awards in Company "restricted" (as defined in Rule 144 under the Securities Act of 1933, as amended) shares of Company Common Stock, \$0.0001 par value, ("Shares"), which payments shall be made in semi-annual installments. The Company hereby grants "piggy-back" registration rights to the Executive for all such Shares that are issued hereunder (expressly excepting any registration on Form S-8 or Form S-4, or any successor form to those two forms). The value of the Shares in respect of the cash compensation being replaced by such Shares shall be determined by the average closing BID price for the Shares (as quoted on www.bloomberg.com) for the first twenty (20) consecutive trading days for each month in which Shares will be substituted for cash compensation hereunder.

Bonus. In addition, any bonus program adopted by the Company for senior office(s), shall be determined solely at the discretion of the compensation committee, and in accordance with its terms as they exist from time to time.

4. Benefits and Reimbursements.

4.1 Insurance. Executive shall be entitled to participate in the following benefit programs which would include; health insurance, dental insurance and vision insurance, as well as any similar insurance programs offered by the Company to individuals employed by the Company as executives or in otherwise similar positions.

4.2 Leave. Executive shall be entitled to twenty (20) days of paid vacation and seven (7) days of paid personal leave each year (during which time his compensation shall continue to be paid in full). Executive shall also be entitled to five (5) days of sick leave, during which time his compensation shall continue to be paid in full. Executive may carry over up to ten (10) days of unused vacation/personal leave from contract year to contract year provided the company requests the Executive not take vacation due to required work. For purposes of this Agreement, "contract year" means from January 1st to December 31st each year.

4.3 Stock Option, Savings or Retirement Plans. Executive shall be entitled to participate in any pension, profit-sharing, deferred compensation plans, "merit" bonuses, stock option or other incentive compensation plans as are offered by the Company to individuals employed by the Company as full-time executive and subject to the same qualifications as other full-time executive employees.

4.4 Expenses. The Company shall reimburse Executive for the reasonable amount of hotel, travel, entertainment and other expenses necessarily incurred by Executive in the discharge of his duties to the Company, subject to the Company's expense policy.

4.5 Technology. The Company shall provide Executive with a laptop computer and a cellular phone for his use during the Employment Period. These shall remain the property of the Company, and shall be returned to the Company upon the termination of the Executive's employment.

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5. Termination.

The employment of Executive by Company and the Employment Period shall terminate upon the occurrence of any of the following conditions:

5.1 Expiration. Immediately upon the expiration of the Employment Period set forth in Section 1 above, including any extension of the Employment Period as agreed upon in writing pursuant to Section 1.

5.2 Death. Immediately upon the death of Executive.

5.3 Disability. Immediately upon the Disability of Executive. Immediately upon the death or disability of the Executive. As used herein, the term "Disability" shall mean either (i) the Executive's inability, by reason of physical or mental incapacity or impairment, to perform his duties and responsibilities under this Agreement for a period of more than sixty (60) consecutive days, or for more than ninety (90) days, whether or not consecutive, within the preceding 365-day period, or (ii) the receipt by the Executive of disability benefits for permanent and total disability under any long-term disability income policy held by or on behalf of the Executive.

5.4 By the Company for Cause. Immediately upon provision of written notice to the Executive by the Company that his employment is being terminated for Cause, as defined below. "Cause" for termination means:

- (i) Executive's willful and intentional refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement; provided, however, that the Company shall not be deemed to have Cause pursuant to this clause (i) unless the Company gives the Executive written notice that the specified conduct has occurred and making specific reference to this Section 5.4 (i) and the Executive fails to cure the conduct within thirty (30) days after receipt of such notice;
- (ii) Any willful and intentional act of the Executive involving fraud, theft, misappropriation of funds, or embezzlement affecting the Company or its subsidiaries;
- (iii) Executive's conviction of, or a plea of guilty or *nolo contendere* to, an offense which is a felony or a misdemeanor evincing moral turpitude;
- (iv) Executive's material breach of this Agreement which is not remedied within fifteen (15) days after receipt of a written demand to remedy from the Company; or
- (v) Gross misconduct by Executive that is of such a serious or substantial nature that a substantial likelihood exists that such misconduct would injure the public business reputation of the Company if the Executive were to remain employed by the Company; or

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(vi) Issuance of any prohibition by the U.S. Securities and Exchange Commission or “SEC” against the Executive serving as an officer or director of a public company and the period for appeal of such prohibition has expired without the Executive filing an appeal; or

(vii) the Company files for Chapter 7 protection from creditors and the bankruptcy petition is not withdrawn or dismissed within sixty days after the filing date; or

(viii) Executive intentionally refuses to follow a lawful, commercially reasonable directive of the Company Board of Directors, such directive concerns an action or matter within the purview of the Executive’s customary and usual duties and the refusal of the Executive results in the Company or any of its subsidiaries suffering a material liability or loss (for purposes of this Agreement, “material” shall mean an amount equal to or exceeding One Hundred Thousand Dollars and No Cents (\$100,000.00)).

5.5 Termination of the Executive for Cause shall be communicated by a Notice of Termination. For purposes of this Agreement, a “Notice of Termination” shall mean delivery to the Executive of written notice from duly authorized officers of the Company stating that in the good faith determination of the Company the Executive was guilty of conduct constituting Cause and failed to cure such conduct within the applicable time period. For purposes of this Agreement, no such purported termination of the Executive’s employment shall be effective without such Notice of Termination.

5.6 By Company Without Cause. At the election of the Company after serving the Executive with at least three (3) months’ notice of the Company’s intent to terminate his employment Without Cause. The Company shall have the right to pay the Executive the notice period in lieu of notice.

5.7 By Executive for Good Reason. As used herein, the term “Good Reason” means the occurrence of any of the following, without the prior written consent of the Executive:

(i) assignment to the Executive of duties materially inconsistent with the Executive’s positions as described in Section 2.1 hereof, or any significant diminution in the Executive’s duties or responsibilities, other than in connection with the termination of the Executive’s employment for Cause, Disability or as a result of the Executive’s death or by the Executive other than for Good Reason;

(ii) the change in the location of the Company’s principal executive offices or of the Executive’s principal place of employment to a location outside the greater Fort Lauderdale-Miami, Florida metropolitan area/more than fifty (50) fifty miles from the current location. The Executive will have the option to transfer to the new location, in the same or equivalent position at a reasonable expense to the Company.

(iii) any material breach of this Agreement by the Company which is continuing;

(iv) a Change in Control, provided that a Change of Control shall only constitute Good Reason if the Executive terminates his employment within six (6) months following a Change of Control;

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provided, however, that the Executive shall not be deemed to have Good Reason pursuant to clauses (i) or (iii) above unless the Executive gives the Company written notice that the specified conduct or event has occurred and the Company fails to cure such conduct or event within thirty (30) days of the receipt of such notice. A "Change of Control" shall be deemed to have occurred when any person, other than Executive or his respective affiliates, associates, or estate, becomes, after the date of grant, the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then-outstanding securities;

6. Effect of Termination and Severance.

6.1 If the Employment Period is terminated by the Company for Cause, the Company will pay to the Executive his accrued and unpaid base salary as well as all accrued but unused vacation through the date of such termination;

6.2 If the Employment Period is terminated by the Executive other than because of death, Disability or for Good Reason, the Company will pay to the Executive his accrued and unpaid base salary as well as all accrued but unused vacation through the date of such termination;

6.3 If the Employment Period is terminated upon the Executive's death or Disability,

(i) the Company will pay to the Executive's designated beneficiary, or, in the absence of such designation, to the estate or legal representative of the Executive, as the case may be, his accrued and unpaid base salary as well as all accrued but unused vacation through the date of such termination.

(ii) the Company will continue to pay to the Executive's designated beneficiary, or, in the absence of such designation, to the estate or legal representative of the Executive, as the case may be, the base salary as in effect at the time of termination for a period of 1 year on the first Eligible Payment Date (the "Pay-out Period"), in accordance with the Company's customary payroll practices,; a pro-rated "merit" bonus, if earned during the previous calendar year, if applicable to the Executive during the calendar year of Termination;

6.4 If the Employment Period is terminated by the Company without Cause or if Executive terminates for Good Reason,

(i) the Company shall pay the Executive sum payments equal to: (A) the sum of twelve (12) months base salary rate the Executive was earning as of the date of termination; and (B) the sum of any "merit" based bonuses earned by the Executive during the prior calendar year of his/her Termination. Any payments owed by the Company to the Executive, as a result of Death, Disability, or Termination, shall be paid from a normal payroll account on a weekly or bi-weekly basis in accordance with the normal payroll policies of the Company. The amount owed by the Company to the Executive, from the Termination effective date, will be divided by the remaining number of weeks in the calendar year of the Termination, and will continue until company obligation is fully paid but at no time will be no more than twenty six (26) installments.

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(ii) the Company shall also continue in effect the Executive's health and dental benefits (or similar health and dental benefits paid to senior executives noted in Section 4.1) for a period of six (6) months commensurate with the Company's "approved" Health Plan & Benefits Package at the time of termination. If Executive, participated in family health insurance coverage at the time of termination, that obligation would remain theirs and the Company would continue to pay installments to keep insurance active for a six (6) month period and reduce the family's monthly premium against the Executive's severance package. If Executive is eligible for continued health insurance benefits under the federal law known as COBRA and Executive timely elects COBRA coverage and makes timely payment of required premiums, the Company will reimburse Executive the cost of such COBRA coverage, not to exceed amount being paid at the time of termination, for twelve (12) months (commensurate with Executives' severance package) from the termination date or the date on which the Executive obtains health coverage from a subsequent employer. If Executive is not eligible for COBRA benefits, the Company will reimburse Executive the cost of similar coverage Executive obtains for twelve (12) months from the termination date or the date on which the Executive obtains health insurance coverage from subsequent employer. If contract is terminated due to death, Company would not be required to keep any coverage in effect.

7. Confidential Information.

Executive acknowledges that he will occupy a position of trust and confidence with respect to the Company's affairs and business and that, in connection with the performance of his services on behalf of the Company, Executive will be provided access to the Company's confidential and proprietary information and trade secrets ("Company Confidential Information") and confidential and proprietary information of third parties ("Third Party Information").

7.1 Confidential Information Defined. The term "Company Confidential Information" shall mean any and all confidential and/or proprietary information of the Company. By way of illustration but not limitation, Company Confidential Information includes: information and materials related to proprietary computer software, hardware, including hard drives, electronic files and websites, research, business procedures and strategies, marketing plans and strategies, member lists and business histories, analyses of member information, employee or prospective employee information, financial data of the Company or its customers or employees, and any other information that is not generally known to the public or within the industry in which the Company competes. Executive further acknowledges that the Company has and in the future will receive from third parties confidential and proprietary information ("Third Party Information"), including but not limited to confidential and proprietary information of the Company's customers, subject to a duty on the Company's part to maintain the confidentiality of such information and to use it for certain limited purposes for a period of two (2) years thereafter.

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7.2 Executive's Obligations.

(i) Non-Disclosure. Executive agrees that during Executive's employment with the Company and thereafter, Executive will not use, disclose, lecture upon, publish or transfer directly or indirectly any Company Confidential Information or Third Party Information other than as authorized by the Company, nor will Executive accept any employment or other professional engagement that likely will result in the use or disclosure, even if inadvertent, of Company Confidential Information or Third Party Information. Executive agrees that he will not use in any way other than in furtherance of the Company's business any Company Confidential Information or Third Party Information. Executive will obtain the Company's written approval before publishing or submitting for publication any material (written, verbal, or otherwise) that relates to Executive's work at the Company and/or incorporates any Confidential Information. Executive hereby assigns to the Company any rights Executive may have or acquire in such Confidential Information and recognizes that all Confidential Information shall be the sole property of the Company and its/their assigns.

(ii) Disclosure Prevention. Executive agrees to take all reasonable steps to preserve the confidential and proprietary nature of Company Confidential Information and Third Party Information and to prevent the inadvertent or accidental disclosure of Company Confidential Information and Third Party Information.

(iii) Removal of Materials. Executive agrees that Executive will not remove any Company Confidential Information or Third Party information from the Company's premises or make copies of such materials except for use in the Company's business.

(iv) Return of Materials. Executive agrees not to retain and further agrees to return to the Company any tangible or intangible originals or copies of any Company Confidential Information or Third Party Information after termination of Executive's employment, or earlier at the Company's request for any reason. Executive further agrees to provide the Company with access to any personal computer equipment and/or devices that Executive has used during the term of this Agreement, so that the Company may verify that all of its Company Confidential Information or Third Party Information has been deleted from this equipment.

(v) Copying. Executive agrees that copying of Company Confidential Information or Third Party Information shall be done only as needed in furtherance of and for use in the Company's business. Executive further agrees that copies of Company Confidential Information and Third Party Information shall be treated with the same degree of confidentiality as the original information and shall be subject to the same restrictions herein.

(vi) Continuation of Obligations. Executive agrees that the obligations of this Section shall continue after termination or Executive's employment.

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(vii) Computer Security. Executive agrees that, during his employment with the Company, he will use computer resources (both on and off of the Company's premises) for which Executive has been granted access and then only to the extent authorized. Executive agrees to comply with the Company's policies and procedures concerning computer security. Executive further acknowledges that Executive will not alter, remove or destroy any Company Confidential Information or Third Party Information stored on any electronic storage devices, including, but not limited to, electronic media stored on servers, local hard drives, lap-tops, "PDAs" or any other similar devices except in accordance with the Company's record retention and destruction policy.

(viii) Email and Internet. Executive understands that the Company maintains an electronic mail and Internet/World Wide Web ("Internet") system, and related facilities, for the purpose of business communications. Executive acknowledges that the Company owns such a system and facilities, and that the Company retains the right to review any and all electronic mail and Internet communications, and to review his use of the Internet, with or without notice, at any time. Executive further acknowledges that he has no right to privacy to any e-mail or Internet communications, or to his use of the Internet. Executive further agrees to comply with the Company's procedures concerning the use of e-mail and the Internet, including compliance with any destruction and/or retention policies for e-mail communications.

Known Knowledge. Subject to the foregoing obligations, it is understood that Executive is free at all times to use information which is generally known in the trade or industry (except such information which becomes so because of a breach of this Agreement by Executive) and further that Executive's general knowledge, skill and experience shall not be deemed to be Confidential Information.

8. Assignment of Inventions.

8.1 Definitions. The term "Proprietary Rights" shall mean all trade secret, patent, copyright, mask work and other intellectual property rights or "moral rights" throughout the world. "Moral rights" refers to any rights to claim authorship of an Invention or to object to or prevent the modification of any Invention, or to withdraw from circulation or control the publication or distribution of any Invention, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral right."

8.2 Assignment of Inventions. Executive hereby assigns and agrees to assign in the future (when any such Inventions or Proprietary Rights are first reduced to practice or first fixed in a tangible medium, as applicable) to the Company all his or her right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by the Executive, either alone or jointly with others, during the period of his or her employment with the Company. Inventions assigned to the Company, or to a third party as directed by the Company, are hereinafter referred to as "Company Inventions."

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8.3 Unassigned Inventions. This Agreement will not be deemed to require assignment of any invention that was (1) developed entirely on the Executive's own time without using the Company's equipment, supplies, facilities, or Proprietary Information and (2) is not related to the Company's actual or anticipated business, research or development and (3) has not resulted from work performed by Executive for the Company. Attached as Exhibit One hereto is a complete list of all Inventions that the Executive has conceived, developed or reduced to practice prior to the Effective Date of this Agreement, alone or jointly with others, that are the Executive's sole property or the property of third parties and which are excluded from the scope of this Agreement.

8.4 Works for Hire. Executive acknowledges that all original works of authorship which are made by the Executive (solely or jointly with others) within the scope of Executive's employment and which are protectable by copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101).

8.5 Enforcement of Proprietary Rights. Executive agrees to assist the Company in every proper way to obtain, and from time to time enforce, United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. To that end Executive agrees to execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, Executive will execute, verify and deliver assignments of such Proprietary Rights to the Company or its designee. Executive's obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of his or her employment, but the Company shall compensate Executive at a reasonable rate after Executive's termination for the time actually spent by Executive at the Company's request on such assistance.

9. Restrictive Covenants.

9.1 Acknowledgements. Executive acknowledges that (i) his services to the Company will be special and unique and that he will occupy a position of trust and confidence with respect to the business affairs of the Company; (ii) that his engagement for the Company will allow him access to the Company's Confidential Information; (iii) that he will have access to the customers and clients of the Company and will be working to develop business relationships for the Company; (iv) that the Company would not have entered into this Agreement with Executive, or engaged Executive, but for the covenants and agreements contained in this Section; and (v) that the agreements and covenants contained in this Section are essential to protect the business, good will, and confidential information of the Company.

9.2 Non-Competition. During the Employment Period and for eighteen (18) months thereafter, Executive shall not, directly or indirectly, in any geographic area in which the Company operates compete with the Company in the development, marketing, or sale of products that compete with those developed, marketed, or sold by the Company.

9.3 Non-Solicitation of Employees. During the Employment Period and for eighteen (18) months thereafter, Executive shall not, directly or indirectly, on his own behalf or on behalf of any other person or entity, solicit for employment, hire, or engage, whether on a full-time, part-time, consulting, advising, or any other basis, any persons who were employees or Executives of the Company during the Employment Period.

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9.4 Non-Solicitation of Customers.

During the Employment

Period and for [twelve (12) months] thereafter, Executive shall not, in competition with the Company, directly or indirectly, on his own behalf or on behalf of any other person or entity, solicit, accept business from, or conduct business with, (i) any customer or client served by the Company prior to or during the Employment Period with which Executive had contact or about which Executive received information or knowledge during the Employment Period, or (ii) any prospective customer or client of the Company with which Executive had contact or about which Executive received information or knowledge during the Employment Period.

9.5 Independent Covenants.

The Restrictive Covenants set forth herein are each to be construed as a separate agreement, independent of any other provisions of this Agreement. Therefore, the Executive agrees that the existence of any claim or cause of action that Executive may have against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any provision of this Section 9 against the Executive.

10. Enforcement.

10.1 Equitable Relief Authorized. Executive acknowledges that in the event of a violation of the provisions of Sections 7, 8 or 9 of this Agreement, Company's business interests will be irreparably injured, the full extent of Company's damages will be impossible to ascertain, monetary damages will not be an adequate remedy for Company, and Company will be entitled to enforce this Agreement to prevent a breach or threatened breach of the Agreement by temporary, preliminary or permanent injunction or other equitable relief without the necessity of proving actual damage and without the necessity of posting bond or security, which Executive expressly waives. Executive also agrees that Company may, in addition to injunctive relief, seek monetary damages for any breach of the provisions contained in this Agreement in addition to equitable relief and that the granting of equitable relief shall not preclude Company from recovering monetary damages.

10.2 Modification. Company and Executive represent that in entering into this Agreement it is their intent to enter into an agreement that contains reasonable employment and post-employment restrictions and that such restrictions be enforceable under law. In the event that any court or other enforcement authority determines that any provision of this Agreement is overbroad or unenforceable by reason of the geographic scope, scope of prohibited activities, time frame, or any other reason, the parties authorize such court or other enforcement authority to modify the scope of the restriction so that it is enforceable to the greatest extent permissible.

10.3 Severability. If any provision of the Agreement is held to be invalid, illegal or unenforceable for any reason, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

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10.4 Notification of New Employer. In the event that Executive leaves the employ of the Company for any reason, Executive agrees to inform any subsequent employer of his rights and obligations under this Agreement. Executive further hereby authorizes the Company to notify his new employer about Executive's rights and obligations under this Agreement, including by delivering a copy of this Agreement, and any written modifications thereto, to any subsequent employer.

11. General Terms.

11.1 No Prior Agreements. Executive hereby represents and warrants to the Company that the execution of this Agreement by Executive and his/her employment by the Company and the performance of his/her duties hereunder will not violate or be a breach of any agreement with or obligation to a former employer, client or any other person or entity, and Executive agrees to indemnify the Company for any costs and expenses arising out of a claim by any such third party has against the Company based upon or arising out of any non-competition agreement or other restrictive covenant, invention or confidentiality agreement between Executive and such third party which was in existence as of the date of this Agreement and which Executive is alleged to be in violation of.

11.2 Indemnification; Insurance Against Liability. Executive will be entitled to such prevailing rights and entitlements to indemnification, defense of claims and insurance against liability as are generally provided to executives of the Company, consistent with Company bylaws, insurance policies and contracts, and applicable law.

11.3 Governing Law; Interpretation. This Agreement will be governed by the substantive laws of the State of Florida, without regard to the principles of conflicts of laws. This Agreement will be construed as a whole, according to its fair meaning, and not in favor of or against any party, regardless of which party may have initially drafted certain provisions set forth herein.

11.4 Choice of Law and Forum: This Agreement shall be construed according to the laws of the United States of America and the State of Florida, without regard to its conflict of law's provisions. Executive hereby expressly consent to the personal jurisdiction of the state and federal courts for Broward County, Florida in any lawsuit filed there against the Executive by the Company arising from or related to this Agreement, including any claims for infringement of the Company's Confidential Information, Inventions or Works for Hire or any update thereto. Executive agrees that if Executive is not a resident of the State of Florida, USA, at the time of such action, then Executive hereby irrevocably appoints the Secretary of the State of Florida, as agent for the purpose of accepting service of process in Florida and the United States. Executive waives trial by jury in any action, proceeding, claim, or counterclaim brought by any party in connection with any matter arising out of or in any way connected with this Agreement, the relationship of Executive to the Company and /or any claim of injury or damage arising in any way between and among the Company and Executive. Provided, however, that Executive agrees that nothing in this Section shall prohibit the Company from initiating legal action in any court which has personal and subject matter jurisdiction over me in the event that it is necessary for the Company to pursue equitable relief against me for a breach of this Agreement.

11.5 Assignment. This Agreement is personal to Executive and he may not assign it without prior written consent of the Company. The Company may, without Executive's consent, assign the Agreement to any successor entity, including the Restrictive Covenants of Section 9.

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11.6 Notices. Any notice required or permitted hereunder will be in writing and will be deemed to have been duly given if delivered by hand or if sent by certified mail, postage and certification prepaid, to Executive at his residence (as noted in the Company's records), or to the Company address, or to such other address or addresses as either party may have furnished to the other in writing.

11.7 Entire Agreement; Amendments. This Agreement and any other exhibits and attachments hereto constitutes the final and complete expression of all of the terms of the understanding and agreement between the parties hereto with respect to the subject matter hereof, and this Agreement replaces and supersedes any and all prior or contemporaneous negotiations, communications, understandings, obligations, commitments, agreements or contracts, whether written or oral, between the parties respecting the subject matter hereof. This Agreement may not be modified, amended, altered or supplemented except by means of the execution and delivery of a written instrument mutually executed by both parties. No action or omission by the Company shall be deemed to be a waiver of any of its rights under this Agreement unless such waiver is set forth in writing and identified as a waiver. Any waiver by the Company of any rights under this Agreement shall not be deemed to be a waiver of any other right.

11.8 Counterparts. This Agreement may be executed simultaneously in two (2) counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

11.9 Survival. The provisions of the various sections of this Agreement which by their terms call for performance subsequent to the expiration or termination of this Agreement or the Employment Period shall survive such expiration or termination.

11.10 Withholdings. The parties agree that all payments to be made to the Executive by the Company pursuant to this Agreement shall be subject to all applicable withholdings.

11.11 Headings. The Section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

11.12 No Contra Proferentum. The parties agree that they have been represented by counsel during the negotiation and execution of this Agreement, and, therefore, waive the application of any law, regulation or holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

11.13 Capacity. Each of the parties hereto warrants that they are legally competent to execute this Agreement and accepts full responsibility therefor.

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12. Resolution of Disputes.

12.1 Except as provided, herein, and in the event of any claim, cause of action, dispute or controversy arising under this Agreement or otherwise related to the parties' employment relationship, the parties shall negotiate in good faith for the purpose of resolving such dispute. In the event that the parties cannot resolve the claim, cause of action, dispute or controversy informally within fifteen (15) days, then such claim, cause of action, dispute or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by a mandatory arbitration in Miami, Florida before one (1) arbitrator. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures (Streamlined Arbitration Rules and Procedures). Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction. Each party shall bear its own costs in the arbitration and shall share equally the costs of the arbitration itself. Notwithstanding the foregoing, and without undermining the agreement to arbitrate on any other claim, cause of action, dispute or controversy, the Company shall at all times have and retain the exclusive and unilateral right to seek immediate temporary and preliminary injunctive relief in a court of law in the event of a violation or alleged violation by the Executive of Sections 7, 8, or 9 of this Agreement. In the event such judicial relief is granted, such relief shall remain binding on the parties pending the outcome of arbitration. **THE COMPANY AND EXECUTIVE ACKNOWLEDGE THAT EACH HAD THE OPPORTUNITY TO CONSULT WITH LEGAL AND FINANCIAL COUNSEL CONCERNING THE RIGHTS AND OBLIGATIONS ARISING UNDER THIS AGREEMENT, THAT EACH HAS READ AND UNDERSTANDS THIS AGREEMENT, AND THAT EACH ENTERS INTO IT WILLINGLY.**

This Agreement is duly executed as of the day and year of the last signature below.

Capstone Companies, Inc.

James Gerald McClinton

By:

Sign:

Title:

Title:

Date:

Date:

Capstone Companies, Inc.

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Addendum #4 to Consulting Agreement

This Addendum to Consulting Agreement (the "Agreement") is made and entered into on January 1, 2019 by and between Capstone Industries, Inc., a Florida Corporation (the "Company"), and George Wolf, (the "Consultant"), located at 7687 NW 127th Manor, Parkland, FL 33076.

WHEREAS, on July 1, 2015, the Company and George Wolf entered into a Consulting Agreement (the "Consulting Agreement") whereby George Wolf would provide Support to Sales & Marketing, Establish Protocol for a Global Sales Operation Function and Manage the Sales Operation Function for the Company, and the Consultant desires to perform such functions for the Company.

This Agreement amends and modifies the Consulting Agreement as follows:

1. Scope of Work.

Rate and Expenses. The Company shall pay the Consultant the rate for the Services provided hereunder (the "Compensation").

(a) Provide Support to Sales/Marketing

- iii. Will deal directly with specific retail accounts when requested by CEO

2. Compensation.

(a) Rate and Expenses. The Company shall pay the Consultant the rate for the Services provided hereunder (the "Compensation").

- January 1, 2019 – December 31, 2020 - \$13,750.00, per month

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

WITNESS:

Name: Aimee C. Brown

WITNESS:

Name: Bharati Patel

COMPANY:

Name: Stewart Wallach

CONSULTANT:

Name: George Wolf

Capstone Industries, Inc.
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Exhibit 31.1

Section 302 Certifications

I, Stewart Wallach, certify that:

1. I have reviewed this annual report on Form 10-K of Capstone Companies, Inc. for the fiscal year end December 31, 2019;
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 Securities 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: March 30, 2020

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

Exhibit 31.2

Section 302 Certifications

I, Gerry McClinton, certify that:

1. I have reviewed this annual report on Form 10-K of Capstone Companies, Inc. for the fiscal year ended December 31, 2019;
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 Securities 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: March 30, 2020

s/ Gerry McClinton
Gerry McClinton
Chief Financial 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 Annual Report of Capstone Companies, Inc. on Form 10-K for the fiscal year ended December 31, 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.

/s/ Stewart Wallach
Stewart Wallach
Chief Executive Officer and Director
(Principal Executive Officer)
March 30, 2020

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.

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 Annual Report of Capstone Companies, Inc. on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission (the "Report"), I, Gerry McClinton, Chief Financial 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.

/s/ Gerry McClinton
Gerry McClinton
Chief Financial Officer, Director
(Principal Financial Executive and Accounting Officer)
March 30, 2020

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.
