

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-09908

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
(Exact name of registrant as specified in its charter)

<b>FLORIDA</b> (State or other jurisdiction of incorporation or organization)	<b>59-1947988</b> (I.R.S. Employer Identification No.)
9454 Wilshire Blvd., R-1, Beverly Hills, California (Address of principal executive offices)	90212 (Zip Code)

Registrant's telephone number, including area code: (800) 525-1698

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.01 Par Value Cumulative Series A Preferred Stock, \$0.01 Par Value Cumulative Convertible Series B Preferred Stock, \$1,000 Stated Value	OTC Bulletin Board

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

Indicate by check mark 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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" 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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$14,121,109 based upon the closing price of registrant's common stock on that date.

As of March 20, 2015 the registrant had 85,266,521 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**  
None.

TOMI ENVIRONMENTAL SOLUTIONS, INC.

FORM 10-K ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2014

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## CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains or incorporates by reference certain forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “will,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume” or other similar expressions. You should not rely on our forward-looking statements because the matters they describe are subject to assumptions, known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section “Risk Factors,” Item 1A of this Annual Report on Form 10-K.

As used in this Annual Report on Form 10-K, “company,” “we,” “us,” “our” and “TOMI” refer to TOMI Environmental Solutions, Inc.

### PART I

#### Item 1. BUSINESS

##### Overview

The Company was incorporated in Florida in 1979. In October 2007, the Company and its controlling shareholders entered into a definitive Agreement whereby the Company acquired 100% of the issued and outstanding common shares of The Ozone Man, Inc., a Nevada Corporation (“Ozone Nevada”). Although the Company was the legal acquirer, for accounting purposes Ozone Nevada was the surviving entity and, accordingly, the transaction has been accounted for as a reverse acquisition that was in substance a recapitalization of Ozone Nevada.

During August 2010, TOMI entered into negotiations with BIT Technology a division of L-3, and we began to develop applications for and distribution of the SteraMist™ equipment that currently accounts for nearly all of our revenue.

In April 2013, we completed the acquisition of certain assets from L-3 Applied Technologies, Inc. (“L-3”) for \$3,510,000. At that moment our business model consisting of the production of activated ionized hydrogen peroxide and the transformation into TOMI’s reactive oxygen species began as we reengineered the prototypes into TOMI’s, Binary Ionization Technology® (BIT™), branded as SteraMist™, technology that is a direct offspring of the Defense Advanced Research Projects Agency (DARPA). DARPA is an advanced technology incubator, which has given birth to many game changing technologies, such as stealth fighters, M16 assault rifles, and the Internet. BIT™ is a technology with a strong foundation.

Developed in response to the anthrax attacks after 9-11, BIT™ is a patented two-step process that aerosolizes and activates a low concentration hydrogen peroxide solution producing a fine aqueous mist that contains a high concentration of Reactive Oxidative Species (ROS). ROS cause damage to pathogenic organisms via mechanisms such as oxidation of unsaturated fatty acids and amino acids leading to cellular disruption and/or dysfunction. The unique physiochemistry of the Activated Ionized Hydrogen Peroxide (AIHP) allows these ROS to exist in high concentrations without rapidly recombining and losing their reactivity.

Testing detailed by DARPA demonstrates these ROSs, which include the hydroxyl ion and hydroxyl radicals, aggressively break the double bonds in biological and chemical warfare agents (BWA and CWA) neutralizing their threat and producing nontoxic byproducts.

Brought to the commercial market in June 2013, TOMI’s current suite of products incorporates BIT™ Solution and applicators including the SteraMist™ Surface Unit and the SteraMist™ Environment System. Current SteraMist™ BIT™ Technology has expanded beyond chemical and biological warfare applications to deactivate problem microorganisms (including spores) in a wide variety of commercial settings. SteraMist™ BIT™ provides fast acting biological deactivation and works in even the most hard-to-reach areas while leaving no residue or noxious fumes. The by-products of the AIHP are oxygen and water (humidity).

TOMI Environmental Solutions, Inc. currently targets domestic markets for mold control and air & surface remediation. In the international markets our products are used for the decontamination of large and small indoor space for biological pathogens and chemical agents including infectious diseases in commercial, hospital, pharmaceutical, biodefense, biosafety including isolation and transfer chambers, tissue banks, food safety and many other settings.

Internationally, SteraMist™ has been used and has shown to reduce many problem organisms found in healthcare and other environments.

Independent lab testing, study data, and field clinical data have shown six-log efficacy against *Geobacillus stearothermophilus* which is the standard for bacterial spore testing against steam, dry heat and hydrogen peroxide sterilization.

SteraMist™ BIT™ is currently EPA approved for mold control and air & surface remediation and TOMI is awaiting approval of a second EPA label for a healthcare-hospital disinfectant. TOMI has passed required EPA testing protocols to obtain this hospital-healthcare disinfectant label.

TOMI is also seeking FDA and USDA approval for its product in the medical device sterilization field, food packaging, preservation and food safety industries.

This acquired patented technology relates to a disinfection/decontamination system that applies atmospheric cold plasma activation to a hydrogen peroxide based mist and fog and produces a Reactive Oxygen Species (ROS) aerosolized mist that resembles a fog but moves like a gas and is trademarked as Binary Ionization Technology® (BIT™) deactivates most organic compounds quickly and effectively by inactivating viruses, killing bacteria, bacteria spores, molds spores, other fungi and yeast, both in the air and on surfaces, and the product is eco-friendly. BIT™ does not damage delicate medical equipment and computers as BIT™'s only by-product is oxygen and water (humidity) with the smallest of carbon footprint.

SteraMist™ (BIT™) provide a group of ROSs composed mostly of hydroxyl radicals that provides fast acting, broad-spectrum decontamination, and leaves no residue or noxious fumes. The eco-friendly characteristics ensure safety of employees and equipment, while providing maximum decontamination efficacy to both air and surfaces. BIT™ has also been shown to effectively decontaminate weaponized biological agents like Anthrax, chemical agents such as VX, and Mustard gas when applied using properly developed protocols. A summary of BIT™ capabilities can be found in the DHS "Guide for the Selection of Chemical, Biological, Radiological, and Nuclear Decontamination Equipment for Emergency First Responders" (2nd Edition, March 2007).

By acquiring this patent, TOMI now controls this innovative, patented technology and has the ability to build its client base and expand into other market segments beyond its current customers. For example, once a current customer has purchased one of our portable hand-held or mobile units (or has tried our service), they regularly reorder TOMI's BIT™ solution for continued applications and have expanded their initial SteraMist™ program assuring repeat business and an ongoing revenue stream as long as the system is in use.

We believe that reducing Healthcare Associated Infections ("HAI"), which is one of the top ten leading cause of death in the United States and cost the healthcare system approximately \$36 - \$45 billion annually according to the Centers for Disease Control, provide significant opportunities for our technology, services, and products. Statistically, it has been documented that approximately 10% of inpatients contract infections from hospitals resulting in more than 2,000,000 illnesses and over 100,000 deaths per annum. Further, it has been estimated that approximately 15% of all discharged patients are readmitted with infections, which among other things results in the healthcare facility becoming financially penalized. According to published studies, current hospital cleaning procedures leave behind between 30%-60% of microorganisms depending upon the process. These remaining surface and air pathogens increase the risk of acquiring a HAI. TOMI's BIT™ has safely and effectively produced a 99.999% (a five-log kill) or a 99.9999% (a six-log kill) whenever challenged. In comparison to most of its competitors, SteraMist™ technology has a quicker and higher kill level in a shorter time, leaves no residue, is eco-friendly, is not effected by humidity, is not caustic, does not blister painted surfaces, contains no silver ions, requires no humidify alteration prior to use, has a shorter treatment time, is quicker to exhaust due to the production of the reactive oxygen species verses nebulization of higher concentrates of hydrogen peroxide, contains no bleach, rooms require little or no prep prior to treatment, and converts to oxygen and water which differentiates us from our competition.

Our SteraMist™ and BIT™ Technology and TOMI's related service platform are currently being used in a broad spectrum of industries including:

- medical facilities
- bio-safety labs
- tissue labs
- clean rooms
- office buildings
- hospitality
- schools
- pharmaceutical companies
- remediation companies
- military
- transportation
- airports
- first responders
- single-family homes and multi-unit residences

Other vertical industry applications for SteraMist™ that have expressed interest in our technology, service and products include:

- blood banks
- food safety industry
- athletic facilities (from professional to educational)
- airlines
- entertainment
- homeland defense and border protection
- control and containment of pandemic invasions

The Company intends to generate and support research on improving, extending and applying our patents. To date, we have received interest, both domestically and internationally, to form business alliances with major healthcare companies, biosafety labs, tissue and blood labs, pharmaceutical companies, the food safety industry, border protection including homeland defense companies, construction companies and remediation companies.

The Company began sales to international locations during the third quarter of 2010. In September 2013, the Company entered into a Sales and Distribution Agreement with TOMI Panama, a non-affiliated company in Panama and successfully completed an official pilot study at the request of Panama Social Security Program (CSS), performing bio-mass reduction and remediation of biological bacterial colonies. As a result, the Panamanian Government accepted the Company's technology as the only decontamination product of its kind that is authorized by the Panamanian Government to be purchased by their hospitals for the next two years. On September 30, 2013, TOMI was awarded a multi-year contract from Panama Social Security Program ("CSS Contract") to initiate biomass reduction and decontamination services. During the 4<sup>th</sup> quarter 2013, TOMI completed the biomass reduction and decontamination services at The Complejo Hospitalario Metropolitano in Panama City, Panama. Currently, we are actively engaged to expand this program and make SteraMist™ a standard for decontamination in over 41 Panamanian hospitals.

During the 4<sup>th</sup> quarter of 2013, the Company's Panamanian distribution partner initiated biomass reduction and decontamination services at The Complejo Hospitalario Metropolitano in Panama City, Panama. The initial project in Panama provides for decontamination services for 64,583 sq./ft. of space for an approximate value to the Company of \$420,000. The Company completed this project in October 2013. The maintenance of this hospital continues daily.

The revenue distribution for the CSS Contract is broken up into two segments:

- (1) The first segment consisted of biomass reduction, a deep cleaning, and the initial application of SteraMist™. This consisted of 64,583 sq./ft. at \$6.50 per sq./ft., which amounted to approximately \$420,000.
- (2) The second segment consists of maintenance services for the same square footage area, which has a contract value of \$60,000 per month for 3 years. Thru November 2014, the Company has received 15% of the \$60,000 or \$9,000 per month as a management fee and currently is receiving 10% or \$6,000 for the remaining balance of the CSS Contract.

On March 21, 2014, the Company entered into a distribution and licensing agreement with Plascencia Universal, S. de R.L. de C.V. ("Plascencia Universal"), a Mexican company that will act as the exclusive distributor of TOMI's products and services in Mexico. The agreement provides for a \$300,000 licensing fee which will be recognized based on the gross purchases made by Plascencia Universal from the Company. The principal of Plascencia Universal is also the broker for the Company's insurance policies and was appointed a director of the Company. For the year ended December 31, 2014, revenues of approximately \$301,000 were recognized with regards to Plascencia Universal. Included in the revenue was a license fee for approximately \$26,000.

During the fourth quarter of 2014, the Company expanded into the Asian market and began to ship products into two new countries (South Korea and Philippines). The Company recognized revenue during the fourth quarter of 2014 from products shipped into South Korea and the Philippines of approximately \$101,000 and \$24,000, respectively.

Internationally and domestically, we have continued to increase the use and subsequent sales of TOMI's™ patented BIT™ Technology under our existing programs to thirty-five clients in a variety of industries internationally and domestically including, healthcare, tissue banks, remediation companies, biosafety including as a build in for biosafety and transfer hoods, pharmaceutical companies, Civil Defenses and military.

On October 15, 2014, the Company named RG Group, Inc. its platinum manufacturing partner and entered into a manufacturing and development agreement.

Through our sales and services, our business growth objective is to be “The Global Leader in Disinfection/Decontamination including Infectious Disease Control” through our premier novel platform of hydrogen peroxide mists and fogs, as well as other eco-friendly products and technologies. We have, and continue to expand and support research on other air remediation solutions including hydroxyl radicals and other ROS and to form more business alliances which may include selling licenses and or performing decontamination services with cleanrooms, biosafety labs, tissue and blood labs, pharmaceutical labs, kidney dialysis centers, major remediation companies, construction companies and corporations specializing in disaster relief. Our intended targets are located in North America, South America, Central America, Africa and the Far East.

Our worldwide executive offices including administration and accounting are located at 9454 Wilshire Blvd. R-6, Beverly Hills, CA 90212 and our telephone number is (800) 525-1698. Our operations are headquartered at 5111 Pegasus Court, Suite A, Frederick, Maryland 21704, 800.525.1698, www.tomiesinc.com. The East Coast operation headquarters holds TOMI's executives, training facilities, research and development, mock hospital room, warehouse, fulfillment center, marketing offices and sales offices.

## Marketing and Distribution

### The Company primarily offers its products and services in the following market segments:

**Hospitals.** This market segment should continue to allow for increased penetration as we have a solution to most healthcare facilities' biggest problem: the spread of airborne contaminants. Under the Affordable Care Act's Hospital Readmissions Reduction Program, hospitals that have high rates of hospital-acquired infections (HAIs) now face significant penalties. The enactment of this bill demonstrates the need hospitals have to control and eliminate HAIs. Using our SteraMist™ BIT™ Technology, hospitals have been able to reduce HAIs in patient rooms, infectious disease rooms and operator suites, with a corresponding return on investment to the hospital of up to 20-1 in the first year, according to studies.

**Biosafety labs, tissue and blood labs, cleanrooms.** These categories all have one common trait. They need to reduce the chance of transfer risks. As risk assessment is a process used to identify the hazardous characteristics of a known infectious or potentially infectious agent or material, the activities in these labs can result in a person's exposure to an agent, with a high likelihood that such exposure could cause probable consequences of an infection.

The use of SteraMist™ as a routine decontamination product in all biosafety levels and microbiological practices, safety equipment, and facility safeguards may possibly reduce those potential risks.

There are many requirements and new restrictions on the type of decontamination agents these labs may use to prevent these risks and handle mishaps. In light of these regulations, TOMI's rapid deployment of its effective aerosolized reactive oxygen species becomes the solution to lower risks and perform decontamination clean-up in these labs. Our product works within minutes and leaves no noxious chemical smell behind. Its by-products are just oxygen and humidity. This is a modern day answer to lower the risk potential.

As risk assessment is a process used to identify the hazardous characteristics of a known infectious or potentially infectious agent or material, our products and technology can aid in all biosafety levels and microbiological practices, on all safety equipment, transfer hoods, isolation chambers, animal cages, and other equipment along with adding to facility safeguards to help prevent the risks associated with handling these infectious microorganisms.

Biosafety level 1 (BSL-1) is the basic level of protection and is appropriate for agents that are not known to cause disease in normal, healthy humans. Biosafety level 2 (BSL-2) is appropriate for handling moderate-risk agents that cause human disease of varying severity by ingestion or through percutaneous or mucous membrane exposure. Biosafety level 3 (BSL-3) is appropriate for agents with a known potential for aerosol transmission, for agents that may cause serious and potentially lethal infections and that are indigenous or exotic in origin. Exotic agents that pose a high individual risk of life-threatening disease by infectious aerosols and for which no treatment is available are restricted to high containment laboratories that meet biosafety level 4 (BSL-4) standards. The laboratory worker's complete isolation from aerosolized infectious materials is accomplished primarily by working in a Class III BSC or in a full-body, air-supplied positive-pressure personnel suit. The BSL-4 facility itself is generally a separate building or completely isolated zone with complex, specialized ventilation requirements and waste management systems to prevent release of viable agents to the environment.

TOMI's BIT™ Technology has recently been successfully tested in level 3 (BSL-3) and level 4 (BSL-4).

**Food Safety Industry.** SteraMist™ has a major opportunity of becoming the product of choice as it relates to decontamination in the food safety industry. Food related ingesting one or more of 200 bacteria, viruses, and parasites, which contaminate parts of the world food supply and can cause illnesses. According to the CDC, 80 million people per year in the United States contract food poisoning or other food related illnesses, of these people, 5,000 die. Current cleaning techniques involve time intensive processes, which cut into profit. AIHP (Activated Ionized Hydrogen Peroxide) degrades into only harmless Water and Oxygen. Since this can be applied to all foods (pending FDA and USDA approval) and all food packing and storage equipment, it is safe for use on electronics and kitchenware along with high touch surfaces where most pathogens are found generally (phones, computers, the stove, etc.) Currently Hydrogen Peroxide (H2O2), which is a main component of SteraMist™, is of its self commonly used in the industry for microorganism treatment. The applications can be from the farm, slaughter house, packaging and canning facilities, to the transportation from those to the restaurants and grocery stores, including the use of SteraMist™ by the end-user to keep up their A rating and reduce contamination by improving shelf life industry wide.

**The Remediation Industry.** Generally, a professional certified remediation company waits until an emergency or disaster occurs before they can earn fees. TOMI has implemented and plans to expand its certification, license and equipment program throughout the United States which allows these disaster professionals to earn fees doing routine air and surface remediation and infectious disease control without the need of a disaster. It will also arm the professional with state of the art technology to be used in their everyday challenges in treating indoor environments. There are over 20,000 certified professional remediators in the United States, this is a market we are aggressively targeting

**Biodefense Industry.** Countries around the world, including the United States, need to protect their borders and cities in the event of a potential terrorist attack. Our SteraMist™ line of products may give international governmental bodies an added tool in their arsenal to potentially mitigate a risk of attack. In addition, SteraMist™ could specifically assist in mitigating the spread of emerging pandemic viruses like strains of Ebola, MERS, H1N1, H5N1, H7N9 and H10N8. In addition, border patrol agents internationally could utilize our SteraMist™ line of products to assist in ceasing the spread of infectious disease upon infected persons entering their respective borders by decontaminating containment rooms/holding cells.

**Hospitality.** Our products will primarily be used for air remediation and surface cleaning including those hard to clean areas and objects like remote controls, chairs, nooks and crannies, telephones, bed spread and decorative pillows to make the hospitality-related companies (hotels, motels, etc.) smell better and be cleaner prior to the check-in of hotel guests using a eco-friendly disinfectant.

## Competition

The decontamination and environmental infectious disease control industry is extremely competitive. The Company's competitors for its BIT™ Technology include other hydrogen peroxide based products, ultraviolet companies along with other chemical companies. From a service standpoint, the competition is other remediators and abatement companies. These competitors may have longer operating histories, greater name recognition, larger installed customer bases, and substantially greater financial and marketing resources than the Company. The Company believes that the principal factors affecting competition in this proposed market include name recognition, and the ability to receive referrals based on client confidence in the Company's service. There are no significant barriers of entry that could keep potential competitors from opening similar facilities. The Company's ability to compete successfully in the industry will depend, in large part, upon its ability to market and sell its indoor decontamination and infectious disease control products and services. There can be no assurance that the Company will be able to compete successfully in the remediation industry, or that future competition will not have a material adverse effect on the business, operating results, and financial condition of the Company.

## Research & Development

SteraMist™'s new and improved equipment design presents a safer and more effective delivery system of its ROS (Reactive Oxygen Species) mist, which can be utilized as an option for use in mechanical disinfection/decontamination with an effective kill of 99.999% or 99.9999% when challenged. Effective mechanical disinfection/decontamination of environmental surfaces is a key step in the prevention of spread of infectious agents. The traditional manual cleaning is essential in assuring adequate elimination of contamination; however, terminal cleaning is frequently suboptimal or unpredictable in many circumstances, thus leaving 30-60% of the organisms behind.

SteraMist™'s BIT™ Technology is an adjunctive decontamination new technology that could kill a wide array of microorganisms including both vegetative and spore forming pathogens. The technology is affordable and has produced consistent reproducible significant reductions of bacterial/viral and fungal contamination including spore-forming agents.

We are generating and supporting research on improving, extending and applying our patents in the field of mechanical cleaning and decontamination. Our current products and future designs have/and may form other business alliances with major healthcare systems, biosafety labs, tissue and blood labs, pharmaceutical companies, the food safety industry, border protection including homeland defense companies, construction companies and remediation companies specializing as being the first responder in disaster relief worldwide.

#### **Human Resources**

As of March 20, 2015, we have 7 employees working within the United States mainly in the areas of general and administrative and operations capacity. TOMI has additional independent 31 persons worldwide that work for commissions. Our sales efforts are primarily made through outside sales groups and direct sales.

#### **Cautionary Statement on Forward-Looking Statements**

Certain statements in this report constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact included in this report regarding our financial position, business and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding exploration and mine development, construction and expansion plans, costs, grade, strip ratio, production and recovery rates, permitting, financing needs, the availability of financing on acceptable terms or other sources of funding, if needed, and the timing of additional tests, feasibility studies and environmental permitting are all forward-looking in nature.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to, the risk factors discussed below in “Item 1A. Risk Factors” which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and other factors referenced in this report. We do not undertake and specifically decline any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

#### **Available Information**

For more information about us, visit our website at [www.tomiesinc.com](http://www.tomiesinc.com). The contents of the website are not part of this Annual Report on Form 10-K. Our electronic filings with the U.S. Securities and Exchange Commission, or SEC (including all Forms 10-K, 10-Q and 8-K, and any amendments to these reports) are available free of charge through our website immediately after we electronically file with or furnish them to the SEC. These filings may also be read and copied at the SEC's Public Reference Room which is located at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers who file electronically with the SEC at [www.sec.gov](http://www.sec.gov). In addition, we post the following information on our website (the Company does not intend to, and does not hereby, incorporate by reference the information on our website, <http://www.tomiesinc.com>, as a part of this Memorandum):

- our corporate code of conduct, which qualifies as a “code of ethics” as defined by Item 406 of Regulation S-K of the Exchange Act; and
- charters for our Audit Committee and Compensation Committee.



## **Item 1A. RISK FACTORS.**

*Our business routinely encounters and attempts to address risks, some of which will cause our future results to differ, sometimes materially, from those originally anticipated. Below, we have described our present view of certain important risks. The risk factors set forth below are not the only risks that we may face or that could adversely affect us. If any of the risks discussed in this Annual Report on Form 10-K actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our securities could decline significantly and you may lose all or part of your investment.*

*The following discussion of risk factors contains “forward-looking statements,” which may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Item 8—Financial Statements and Supplementary Data of this Annual Report on Form 10-K.*

### **Risks Related to Our Business**

#### ***Our independent registered public accounting firm has issued a “going concern” opinion.***

Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. We plan to continue to provide for our capital requirements by issuing additional equity. No assurance can be given that additional capital will be available when required or on terms acceptable to us. We also cannot give assurance that we will achieve sufficient revenues in the future to achieve profitability and cash flow positive operations. The outcome of these matters cannot be predicted at this time and there are no assurances that, if achieved, we will have sufficient funds to execute our business plan or to generate positive operating results. Our independent registered public accounting firm has indicated that these matters, among others, raise substantial doubt about our ability to continue as a going concern.

The Company completed a private placement of convertible promissory notes in April 2013, the proceeds of which were used to purchase from L-3 the intellectual property that forms the basis of our current business operations. The convertible notes become due on July 31, 2015. While the Company’s current operations sustain our ongoing business, we do not have sufficient funds to repay the notes when they become due. The principal balance due on the notes is \$5,074,000. Absent conversion of the notes or extension thereof, of all or part of the notes, we will need to raise new capital to repay the notes which capital may not be available on favorable terms or at all.

#### ***The Company’s operations are subject to environmental laws and regulations that may increase costs of operations and impact or limit business plans.***

The Company is subject to environmental laws and regulations affecting many aspects of its present and future operations. These laws and regulations can result in increased capital, operating and other costs, delays as a result of administrative proceedings and compliance and reporting obligations. These laws and regulations generally require the Company to obtain and comply with a wide variety of EPA labeling requirements and state regulatory agency compliance. Public officials and entities may seek injunctive relief or other remedies to enforce applicable environmental laws and regulations. The Company cannot predict the outcome—financial or operational—of any administrative proceedings that may arise.

Existing environmental laws and regulations may be revised and new laws and regulations seeking to protect the environment may be adopted or become applicable to the Company, resulting in additional operating costs or restrictions.

We presently are EPA approved for mold control and air and surface remediation and we have passed the required EPA testing protocols to obtain a disinfectant label. However, there is no assurance this will be issued in a timely manner and failure to do so would hinder our domestic sales.

#### ***We are subject to risks in our international operations.***

A substantial portion of our sales are made to customers outside the United States including Mexico and Panama. There are a number of risks inherent in doing business in some of those regions including the following:

- Unfavorable political or economic environments
- Unexpected legal or regulatory changes
- An inability to effectively protect intellectual property
- Potentially adverse tax consequences

If we are unable to manage the risks inherent in our international activities, our business, financial condition and results of operations could be materially and adversely affected.

***Dependence on third party contractors and suppliers; no manufacturing facilities.***

We are reliant upon third parties to supply the Company with its product's components. We use contract manufacturers to build our BIT based systems, as we do not maintain our own manufacturing facilities. Any disruption in the manufacturing process could have a material adverse effect on our business, financial condition and results of operations. We cannot ensure that alternative production capacity would be available in the event of a disruption, or if it would be available, it could be obtained on favorable terms.

***The pace of introduction of our new products is accelerating and is accompanied by potential design and production delays and by significant costs.***

The development and initial production and enhancement of the decontamination systems we produce is often accompanied by design and production delays and related costs of a nature typically associated with the introduction and transition to full scale manufacturing of complete equipment. We cannot predict with precision the time and expense required to overcome these initial problems. If we are unable to introduce or bring to full scale production new products as quickly as we anticipate, it could have a material adverse effect on our business, financial condition and results of operations.

***Failure to adequately protect intellectual property rights upon which we depend could harm our business.***

We rely on intellectual property rights including patents rights we purchased from L-3 related to BIT, copyrights and trade secrets. We face the risk that such measures could prove to be inadequate because:

- Intellectual property laws may not sufficiently support our rights or may change in the future in a manner adverse to us
- Our patents will expire which may result in key technology becoming widely available
- Third parties may be able to develop or obtain patents for similar competing technology

Additionally, litigation may be necessary to enforce our intellectual property rights. Any such litigation may result in substantial costs and diversion of management resources, and, if decided unfavorable, could have a material adverse effect on our business, financial condition and results of operations. Further, we are subject to claims by third parties alleging infringement by our products and processes upon their intellectual property right. If successful, such claims could limit or prohibit us from developing our technology and manufacturing our products, which could have a material adverse effect on our business, financial condition and results of operations.

***We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control.***

A number of these risks are listed below. These risks could affect actual future results and could cause them to differ materially from any forward-looking statements we have made in this Annual Report. You should carefully consider the risks described below, as well as the other information set forth in this Form 10-K. Any of the risks described below could significantly and adversely affect our business, prospects, financial condition or results of operations. In that case, the trading price of our common stock could fall and you may lose all or part of the money you paid to buy our securities.

***No assurance of sales or profitability.***

The Company's business is dependent upon the acceptance of its products, licenses and services as an effective and reliable method to perform indoor decontamination and infectious disease control. The Company's business is also dependent on the effectiveness of its marketing program to attract potential clients, potential independent contractors and remediators to utilize its products and services so that the Company will become profitable. There can be no assurance that the public or industry participants will accept the Company's services, or that the Company will be successful or that its business will earn any profit. There can be no assurance that the Company will earn material revenues or that investors will not lose their entire investment. There is no assurance that the Company will operate its business successfully or that its common stock will have value. A failure of the Company's marketing campaign would have a material adverse impact on its operating results, financial condition and business performance.

**Competition.**

The decontamination and environmental infectious disease control industry is extremely competitive. The Company's competitors for its BIT technology include other hydrogen peroxide based products, ultraviolet companies along with other chemical companies. From a service standpoint, the competition is other remediators and abatement companies. These competitors may have longer operating histories, greater name recognition, larger installed customer bases, and substantially greater financial and marketing resources than the Company. The Company believes that the principal factors affecting competition in this proposed market include name recognition, and the ability to receive referrals based on client confidence in the Company's service. There are no significant barriers of entry that could keep potential competitors from opening similar facilities. The Company's ability to compete successfully in the industry will depend, in large part, upon its ability to market and sell its indoor decontamination and infectious disease control products and services. There can be no assurance that the Company will be able to compete successfully in the remediation industry, or that future competition will not have a material adverse effect on the business, operating results, and financial condition of the Company.

**Dependence on key personnel.**

The Company's success is substantially dependent on the performance of its executive officers. Given the Company's early stage of operation, the Company is dependent on its ability to retain and motivate high quality personnel. Although the Company believes it will be able to engage qualified personnel for such purposes, an inability to do so could materially adversely affect the Company's ability to market and perform its services. The loss of one or more of its key employees or the Company's inability to hire and retain other qualified employees could have a material adverse effect on the Company's business.

**Inability to sell its license and equipment packages.**

In the short-term, the success of the Company's business plan depends heavily on its ability to sell its certification, license and equipment packages, and in the longer term, on its ability to profitably integrate and operate those businesses. There is no assurance that the Company will be able to find businesses to license to, and that it needs to successfully implement its business plan. The Company needs to sell its packages in order to grow at an attractive pace. A failure of the Company to sell its licenses and equipment packages will likely have an adverse impact on its operating results, financial condition and business performance.

**We may not be able to manage our growth effectively, create operating efficiencies or achieve or sustain profitability.**

The ability to manage and operate our business as we execute our growth strategy will require effective planning. Rapid growth could strain our internal resources, leading to a lower quality of customer service, reporting problems and delays in meeting important deadlines, resulting in loss of market share and other problems that could adversely affect our reputation and financial performance. Our ability to manage future growth effectively will also require us to continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, we could be faced with slower growth and a failure to achieve or sustain profitability.

**We may incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.**

We may incur significant legal, accounting and other expenses as a public company, including costs resulting from regulations regarding corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations could make it more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

In addition, the Sarbanes-Oxley Act of 2002 ("SOX") requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Our testing, or the potential subsequent testing by our independent registered public accounting firm in future period ends, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 may require that we incur substantial expense and expend significant management time on compliance-related issues. Moreover, if our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock would likely decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

***There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and may not be detected.***

While we continue to take action to ensure compliance with the disclosure controls and other requirements of SOX, there are inherent limitations in our ability to control all circumstances. Our management, including our Chief Executive Officer, does not expect that any company's controls, including our own, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be evaluated in relation to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of change in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### **Risk Related To Our Securities**

***Our stock price is volatile and there is a limited market for our shares.***

The stock markets generally have experienced, and will probably continue to experience, extreme price and volume fluctuations that have affected the market price of the shares of many small capital companies. These fluctuations have often been unrelated to the operating results of such companies. Factors that may affect the volatility of our stock price include the following:

- Our success or lack of success, in developing and marketing our products and services;
- Our ability to maintain compliance with OTCQB listing requirements;
- Our ability to raise the required capital to fund our business;
- The announcement of new products, services, or technological innovations by us or our competitors;
- Changes in the executive leadership of the company;
- Quarterly fluctuations of our operating results;
- Changes in revenue or earnings estimates; and
- Competition.

***Based on the factors described above, recent trends should not be considered reliable indicators of our future stock prices or financial results.***

Our shares of common stock have been traded on the OTCQB. There has been limited trading in our common stock and we cannot give assurances that such a market will develop further or be maintained.

***Investors should not expect the payment of dividends by us.***

The Company has not paid dividends on its common stock since its inception. The Company currently intends to retain earnings, if any, for use in the business and does not anticipate paying any dividends to its stockholders in the foreseeable future. Investors who require cash dividends from their investments should not purchase our common stock or warrants.

***If we fail to remain current in our SEC reporting obligations, we could be removed from the OTCQB Pink sheets, which would adversely affect the market liquidity for our securities.***

Companies trading on the OTCQB Pink Sheets, such as us, must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTCQB Pink Sheets. If we fail to remain current in our reporting requirements, we could be removed from the OTCQB Pink Sheets. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

*Our common stock is subject to the “penny stock” rules of the SEC, and trading in our securities is very limited, which makes transactions in our common stock cumbersome and may reduce the value of an investment in our securities.*

The SEC has adopted Rule 3a51-1 which establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15c-9 requires:

- that a broker or dealer approve a person’s account for transactions in penny stocks; and
- the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person’s account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

**Item 1B. UNRESOLVED STAFF COMMENTS**

Not Applicable

**Item 2. PROPERTIES**

The Company rents 300 square feet of office space at 9454 Wilshire Blvd., Beverly Hills, CA 90212, at \$22,500 annually on a month-to-month tenancy, in a professional office building.

In September 2014, the Company entered into a lease agreement for approximately 6,000 square feet in Frederick MD comprised of space for offices, warehousing, laboratory, training and mock hospital facilities. As part of the lease agreement, the Company is to receive a rent holiday in the first 5 months of the lease. The lease also provides for an escalation clause where the Company will be subject to an annual rent increase of 3%, year over year. The lease expires on January 31, 2018.

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. REMOVED AND RESERVED**

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

The Company's common stock was approved for listing on the OTC Bulletin Board, under the symbol "TOMZ," on June 23, 2008 and currently trades on the pink sheets. The following table sets forth, for the fiscal quarters indicated, high and low sale prices for the common stock on the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. (NASD). The information below reflects inter-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions. There was little trading in our common stock during the period(s) reflected. As of March 20, 2015, the Company had 85,266,521 common shares outstanding, of which 46,414,743 were unrestricted.

	2014		2013	
	High	Low	High	Low
First Quarter	\$ 0.50	\$ 0.25	\$ 0.20	\$ 0.09
Second Quarter	\$ 0.39	\$ 0.25	\$ 0.65	\$ 0.11
Third Quarter	\$ 0.40	\$ 0.26	\$ 0.96	\$ 0.37
Fourth Quarter	\$ 0.37	\$ 0.22	\$ 0.80	\$ 0.30

#### Stockholders

As of March 20, 2015, there were approximately 376 record holders of our common stock. On March 20, 2015, the last reported sale price of our common stock on the OTCQB was \$0.52 per share.

#### Recent Sales of Unregistered Securities

Unless otherwise noted, the following sales of securities were effected in reliance on the exemption from registration contained in Section 4(2) of the Act or Regulation D promulgated there under, and such securities may not be reoffered or sold in the United States by the holders in the absence of an effective registration statement, or valid exemption from the registration requirements, under the Securities Act of 1933 (as amended, the "Act"). (See Note 14 to the Company's Financial Statements.)

### Item 6. SELECTED FINANCIAL DATA

Not Required.

### Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This Annual Report on Form 10-K contains or incorporates by reference certain forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "will," "believe," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. You should not rely on our forward-looking statements because the matters they describe are subject to assumptions, known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section "Risk Factors," Item 1A of this Annual Report on Form 10-K.*

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

The following discussion relates to the years ended December 31, 2014 and 2013. As disclosed elsewhere in this report, we commenced our current operations in the fourth quarter of 2007 and, since 2008, we have proceeded to implement our business plan by acquiring for cash both the intellectual property and methodology that at that time was the core of our ozone treatment systems. TOMI continues to focus on obtaining high-tech decontamination technology and the writing of building health and infectious disease protocols.

During August 2010, TOMI entered into negotiations with BIT Technology a division of L-3, and we began to develop applications for and distribution of the SteraMist™ equipment that currently accounts for nearly all of our revenue. In April 2013 we completed the acquisition of Binary Ionization Technology® certain assets (“BIT™”) from L-3 Applied Technologies, Inc. (“L-3”) for \$3,510,000. This technology relates to a disinfection/decontamination system that applies cold plasma activation to a hydrogen peroxide based mist and fog and produces a Reactive Oxygen Species (ROS) mist. BIT™ deactivates organic compounds and quickly and effectively kills viruses, bacteria, bacteria spores, molds spores, other fungi and yeast, both in the air and on surfaces. The product is eco-friendly and leaves no residue or obnoxious odors.

### Overview

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. Also refer to Item 1. Business – Overview for more detailed descriptions.

Our financial position was as follows:

	As of December 31, 2014	As of December 31, 2013
Total convertible notes payable	\$ 5,074,000	\$ 5,074,000
Debt discount	\$ 3,996,033	\$ 5,003,558
Total convertible note payable, net	\$ 1,077,967	\$ 70,442
Total stockholders’ (deficiency)/equity	\$ 1,125,555	\$ ( 2,787,360)
Cash and cash equivalents	\$ 160,560	\$ 706,350
Accounts receivable	\$ 441,153	\$ 805,809
Inventories	\$ 772,833	\$ 407,549
Derivative liability	\$ 1,728,883	\$ 7,665,502
Working capital	\$ (1,826,212)	\$ (6,452,209)

During our year ended December 31, 2014 our debt and liquidity positions were affected by the following:

- Net cash used in operations of approximately \$1,127,000;
- Acquisition of property plant and equipment of \$82,000;
- Proceeds from the issuance of common stock of \$765,000;

## **Looking Forward**

Certain key factors will affect our future financial and operating results. These include, but are not limited to, the following:

- We anticipate interest payments of approximately \$507,000 during 2015;
- Repayments on convertible notes payable of \$5,074,000 during 2015.
- Our 2015 expectations, particularly with respect to sales volumes may differ significantly from actual quarter and full year results due to competition, demand for our products, sales and marketing success, and our ability to effectively and efficiently manufacture our products.

## **Results of Operations**

### ***Results of Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

#### **Sales**

During the year ended December 31, 2014 and 2013, we had net revenue of approximately \$2,248,000 and \$1,166,000, respectively, representing an increase in revenue of \$1,082,000 or 93%. The primary reason for the increase in revenue was attributable mainly to the fact that we were able to acquire and take control over the entire SteraMist™ line of products from L-3 in April 2013, including manufacturing as well as research and development, which facilitated the Company having sufficient supply of product to fill orders, as well as diversify our client base. We have also ramped up sales, marketing and trade shows which has positively impacted sales as compared to the prior period.

#### **Cost of Sales**

During the year ended December 31, 2014 and 2013, we had cost of sales of approximately \$874,000 and \$481,000, respectively, representing an increase of \$393,000 or 82%. The primary reason for the increase in cost of sales was due to sales increasing mostly in conjunction with costs during the year ended December 31, 2014. We also experienced higher profit margins attributable to gaining economies of scale through the acquisition of the SteraMist™ line of products from L-3 in April 2013.

#### **Professional Fees**

Professional fees for the year ended December 31, 2014 totaled approximately \$349,000 as compared to \$336,000 during the prior year representing an increase of approximately \$13,000 or 4%. Professional fees are mainly comprised of legal, environmental advisory, accounting and financial consulting fees.

#### **Depreciation and Amortization**

Depreciation and amortization was approximately \$470,000 and \$318,000 for the year ended December 31, 2014 and 2013, respectively. The increase in depreciation expense was attributable to: 1) amortization expense recognized during the year ended December 31, 2014 in connection with our patents associated with the SteraMist™ line of products. There was no such expense during the three months ended March 31, 2013 as the patents were acquired in April 2013, and 2) SteraMist™ equipment being reclassified and utilized by the company for demo and/or rental use during the year ended December 31, 2014.

#### **Selling Expenses**

Selling expenses for the year ended December 31, 2014 totaled approximately \$380,000 as compared to \$226,000 in 2013 representing an increase of \$154,000 or 68%. These expenses represent selling salaries and wages, trade show fees, commissions and marketing expenses. We have ramped up sales, marketing and trade shows during 2014 which has positively impacted sales as compared to the prior period.

#### **Research & Development**

Research and development expenses for the year ended December 31, 2014 totaled approximately \$156,000 as compared to \$128,000 in 2013. Research and development expenses mainly include costs incurred in generating and supporting research on improving, extending and applying our patents in the field of mechanical cleaning and decontamination.

#### **Consulting Fees**

Consulting fees for the year ended December 31, 2014 totaled approximately \$180,000 as compared to \$552,000 during the prior year representing a decrease of approximately \$272,000. The decrease in consulting fees is primary due to a general decrease in consulting fees as the Company hired full time employees during 2014 rather than out-sourcing to consultants.



### Equity Compensation Expense

Equity compensation expense represents primarily one-time non-cash charges for the year ended December 31, 2014 and totaled approximately \$2,565,000 as compared to \$149,000 in 2013. Equity compensation expense is incurred upon the issuance of warrants to our executive officers. On the date of a grant, we determine the fair value of the stock option award and recognize compensation expense over the requisite service period, which is generally the vesting period of the award. The fair value of the stock option award is calculated using the Black-Scholes Method option-pricing model. The increase in equity compensation is primarily due to the immediate vesting of warrants of two executive officers of the Company upon their resignation in September of 2014. See Note 8. Stockholders' Deficiency for details on these issuances.

### General and Administrative Expense

General and administrative expenses include salaries and payroll taxes, rent, insurance expense, utilities and office expense. General and administrative expenses were approximately \$1,084,000 and \$426,000 for the year ended December 31, 2014 and 2013, respectively, representing an increase of \$658,000 or 155%. The primary reason for the increase in General and administrative expenses can be attributed to higher salaries and wages due to new hires during 2014.

### Other Income and Expense

Amortization of deferred financing costs was approximately \$342,000 and \$234,000 for the years ended December 31, 2014 and 2013, respectively. This represents the amortization of costs incurred to raise capital in relation to the acquisition of the SteraMist™ line of products from L-3.

Amortization of debt discount was approximately \$1,008,000 and \$70,000 for the years ended December 31, 2014 and 2013, respectively, representing the charges related to the amortization of debt discount on our \$5,074,000 in convertible notes issued in 2013. These convertible notes are being amortized over the life of the note utilizing the effective interest method.

The fair value adjustment of the derivative liability during the year ended December 31, 2014, amounted to approximately a \$5,937,000 gain in 2014 versus a loss of \$349,000 in 2013.

Financing costs were \$0 for the year ended December 31, 2014 versus \$3,199,000 of such costs for the year ended December 31, 2013. These costs were attributed to the \$5,074,000 in convertible notes issued in 2013 in connection with the acquisition of the SteraMist™ line of products from L-3.

Interest expense for the years ended December 31, 2014 and 2013 was approximately \$508,000 and 357,000, respectively. The primary reason for the increase in interest expense can be attributed to the interest due on the \$5,074,000 in convertible notes issued during the second quarter 2013 in connection with the acquisition of the SteraMist™ line of products from L-3.

### Net Income (Loss)

Net income for the year ended December 31, 2014 amounted to approximately \$268,000 versus a net loss of approximately \$5,658,000 for the year ended December 31, 2013. Net income per common share, basic and diluted, for the year ended December 31, 2014 was \$0.00 and \$0.00, respectively. The net loss per common share, basic and diluted, for the year ended December 31, 2013 was (\$0.07) and (\$0.07), respectively.

### ***Results of Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

During the year ended December 31, 2014, we had total revenue of \$2,248,000, as compared to total revenue of \$1,166,000 for the year ended December 31, 2013. The increase in revenue for the year ended December 31, 2014 when compared to the prior comparable period is attributable mainly to the fact that we were able to acquire and take control over the entire SteraMist™ line of products from L-3 in April 2013, including manufacturing as well as research and development, which facilitated the Company having sufficient supply of product to fill orders, as well as diversify our client base. We have also ramped up sales, marketing and trade shows which has positively impacted sales as compared to the prior period.

### Summary of Annual Results

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>
Revenues	\$ 2,248,000	\$ 1,166,000
Gross Profit	1,374,000	686,000
Total Cost and Expenses	5,185,000	2,134,000
Loss from Operations	(3,810,000)	(1,448,000)
Total Other Income (Expense)	4,079,000	(4,210,000)
Net Income (Loss)	\$ 268,000	\$ (5,658,000)
Basic net income (loss) per share	\$ 0.00	\$ (0.07)
Diluted net income (loss) per share	\$ 0.00	\$ (0.07)

## Summary of Revenues

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>
Revenues:		
Equipment / Product	\$ 1,652,000	\$ 498,000
BIT Solution	432,000	200,000
Bio-mass and Decontamination Services	31,000	449,000
Maintenance fees	105,000	13,000
Training	28,000	6,000
Total Revenues	<u>\$ 2,248,000</u>	<u>\$ 1,166,000</u>

## Sales Information of Geographic Basis

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>
Revenues:		
International	\$ 871,000	\$ 557,000
United States	1,377,000	609,000
Total Revenues	<u>\$ 2,248,000</u>	<u>\$ 1,166,000</u>

## Liquidity and Capital Resources

### *Operating activities*

Cash used in operating activities during the year ended December 31, 2014 and 2013 was approximately \$1,127,000 and \$1,306,000, respectively. Cash used in operating activities decreased \$179,000 as compared to the year ended December 31, 2013, primarily due to: 1) a decrease in accounts receivable balances of approximately \$327,000, 2) an increase in accounts payable of \$62,000, offset by 3) building inventory stockpiles representing an increase in the amount of \$508,000 for an anticipated increase in sales.

## Investing Activities

Cash used in investing activities during the year ended December 31, 2014, amounted to approximately \$82,000 primarily due to the acquisition of trade show, computer equipment and office furniture. Cash used in investing activities during the year ended December 31, 2013, amounted to approximately \$3,461,000, primarily from the acquisition of patents and equipment from L-3.

## Financing Activities

Cash provided in financing activities during the year ended December 31, 2014 amounted to approximately \$663,000, primarily from the proceeds from the issuance of common stock of \$765,000 offset by the increase in the bond sinking fund of \$36,000. In addition, the Company paid a finder's fee of approximately \$66,000 in connection with the issuance of the stock for the year ended December 31, 2014.

As of December 31, 2014 we had a cash balance of approximately \$161,000. We have incurred significant losses from operations since inception, including a loss from operations of approximately \$3,810,000 for the year ended December 31, 2014. We have, since inception, consistently incurred negative cash flow from operations. As of December 31, 2014, we had a working capital deficiency of approximately \$1,826,000 and a stockholders' equity of \$1,125,000.

We currently have 7,611,000 warrants issued to note holders of our convertible debt at an exercise price of \$0.30. In the event, all holders were to exercise their warrant holdings, we would receive approximately \$2,283,000 in gross proceeds. There can be no assurance that the note holders will exercise their warrants by the expiration date of their respective warrant.

While we believe that our available funds in conjunction with anticipated revenues from sales of our SteraMist™ line of products will be adequate to cover our cash requirements for the following twelve months, if we encounter unexpected problems we may need to raise additional capital. To the extent that we need to obtain additional capital, management may raise such funds through the sale of our securities, obtain debt financing, and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available or on terms acceptable to us.

## Contractual Obligations

Our contractual obligations as of December 31, 2014 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Debt <sup>(1)</sup>	\$ 5,074	\$ 5,074	\$ -	\$ -	\$ -
Interest on convertible debt <sup>(1)</sup>	507	507	-	-	-
Operating leases <sup>(2)</sup>	151	42	109	-	-
	<u>\$ 5,732</u>	<u>\$ 5,623</u>	<u>\$ 109</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Amounts represent principal (\$5,074) due July 2015 and estimated interest payments (\$507) assuming no early extinguishment.

(2) Amounts represent a non-cancelable operating lease for office space in Frederick, MD that terminates on January 31, 2018. In addition to base rent, the lease calls for payment of common area maintenance operating expenses.

## Off-Balance Sheet Arrangements

None.

## Critical Accounting Policies and Estimates

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

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

## **Revenue Recognition**

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

## **Fair Value Measurement**

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

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

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

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

## **Inventories**

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

## **Deferred Financing Costs**

The Company follows authoritative guidance for accounting for financing costs as it relates to convertible debt issuance cost. These costs are deferred and amortized over the term of the debt period or until redemption of the convertible debentures.

## **Stock-Based Compensation**

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

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

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

### ***Recent Accounting Pronouncements***

In May of 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

The Company's financial statements for the fiscal years ended December 31, 2014 and 2013 are included in this annual report, beginning on page F-1.

### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

During the two most recent years we have not had a change in, or disagreement with, our independent registered public accounting firm.

### **Item 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report, as is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are intended to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer to allow timely decisions regarding required disclosures.

Based on that evaluation, of our Principal Executive Officer and Principal Financial Officer we concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective. Our management has concluded that the financial statements included in this Form 10-K present fairly, in all material respects our financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

## Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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. Also, 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.

Our management, with the participation of our Principal Chief Executive Officer and our Principal Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our Principal Chief Executive Officer along with our Principal Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our internal control over financial reporting was effective.

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 pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

## Changes in Internal Control Over Financial Reporting

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## Item 9B. OTHER INFORMATION

None.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our executive officers and directors and their biographical information are presented below. Our bylaws require three directors who serve until our next annual meeting or until each is succeeded by a qualified director. Our executive officers are appointed by our Board of Directors and serve at its discretion. There are no existing family relationships between or among any of our executive officers or directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Halden S. Shane	70	CEO, Chairman of the Board
Nick Jennings	37	Chief Financial Officer
Norris Gearhart	54	Chief Operating Officer
Harold W. Paul	66	Director
Joe Plascencia	42	Director

*Halden S. Shane:* Dr. Shane has been our Chairman since the Company's inception. Up until 2009 Dr. Shane also served as President and CEO of Tiger Management International, a private management company that deals in business management of private and public companies. Dr. Shane resigned all positions and closed Tiger Management International in 2009. Dr. Shane was founder and CEO of Integrated Healthcare Alliance, Inc. and also founder and General Partner of Doctors Hospital West Covina, California. Prior thereto, Dr. Shane practiced podiatric surgery specializing in ankle arthroscopy.

*Nick Jennings:* Mr. Jennings has been our Chief Financial Officer since October 2014. Mr. Jennings has more than twelve (12) years' experience in the fields of accounting, financial services and taxation. He is a graduate of Loyola Marymount College with a degree in accounting and is a member of the American Institute of Certified Public Accountants.

*Norris Gearhart:* Mr. Gearhart has been our Chief Operating Officer since September 2014. Since January 2014 he served as Vice President of Technical Operations. Mr. Gearhart has 30 years' experience within the insurance claims and disaster response industry. He has served in regional management roles with Allstate and Travelers insurance companies as well as owning and operating his own disaster response company. He has worked as an international consultant and trainer. He is a former US Army Captain among other assignments serving with 20<sup>th</sup> Special Forces Group, Airborne.

*Harold W. Paul:* Mr. Paul has been a director since June 2009. He has been engaged in the private practice of law for more than thirty-five years, primarily as a securities specialist. Mr. Paul has been company counsel to public companies listed on the AMEX, NASDAQ and OTC exchanges. He has served as a director for six public companies in a variety of industries, including technology and financial services. He holds a BA degree from SUNY at Stony Brook and a JD from Brooklyn Law School and is admitted to practice in New York and Connecticut.

*Joe Plascencia:* Mr. Plascencia is founder and Chief Executive Officer of JP Tech Insurance Services and has held that position since 2002. He has advised both public and private companies on issues of corporate governance and risk management including Directors and Officers Liability. He is a graduate of the University of Southern California and has served both as a member of the USC Board of Governors and the executive body of the USC Trojan Board of Directors. He presently serves as a board member of the Dedeux Foundation.

On February 11, 2014, we entered into an amended employment agreement with our CEO that provides for a base salary of \$36,000 per year. The agreement provides for an increase in the base salary to \$120,000 if annual gross revenue exceeds five million and \$175,000 if annual gross revenue were to exceed ten million on a calendar year basis. Any bonuses awarded will be based upon the Company's performance and be made at the discretion of the Board of Directors. The CEO, will also have the right to receive expense reimbursements and certain employee benefits. The terms of the employment agreement will be three years terminating on December 31, 2016. The CEO's existing compensation plan was amended, whereby his base salary will no longer be subject to CPI adjustments and the incentive performance bonus equal to 12% of the Company's annual GAAP earnings for the years 2011 through 2015 was also removed.

On February 11, 2014, and as part of the employment agreement entered into with our CEO, our Board of Directors approved the grant of 3,000,000 stock warrants to our CEO as executive compensation. The warrants have a term of five years and vest as follows: 1,000,000 warrants will vest upon issuance; 1,000,000 warrants vested as of February 11, 2015, and 1,000,000 warrants will vest as of February 11, 2016. The exercise price of the warrants is \$0.30 per share based on the closing price of the Company's common stock on the grant date of \$0.32. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall immediately vest on termination. The Company utilized the Black-Scholes method to fair value the 3,000,000 warrants received by this individual totaling approximately \$952,000 with the following assumptions: volatility, 233%; expected dividend yield, 0%; risk free interest rate, 1.54%; and a life of 5 years. The grant date fair value of each warrant was \$0.32.

Effective July 18, 2014, Chris Chipman resigned from his position of Chief Financial Officer of the Company and accordingly, his unvested shares of warrants were deemed to be null and void.

Effective September 24, 2014, Mark Futrovsky resigned from his position of President of the Company and his employment contract was terminated. On December 24, 2014, 3,000,000 warrants granted to him as part of his former employment contract expired by their terms, ninety (90) days after termination of his employment.

Effective September 24, 2014, Sam Bergman resigned from his position of Chief Operating Officer of the Company and his employment contract was terminated. On December 24, 2014, 3,000,000 warrants granted to him as part of his former employment contract expired by their terms, ninety (90) days after termination of his employment.

On September 25, 2014, the Company appointed Norris Gearhart as Principal Operating Officer of the Company and entered into an employment agreement with him. The agreement provides for a base salary of \$126,000 per year and bonus in the form of 100,000 shares of the Company's restricted stock valued at \$29,000. The restricted shares were issued in October of 2014.

The Company appointed Nick Jennings as its Principal Financial Officer effective September 25, 2014. Mr. Jennings' employment with the Company commenced on October 1, 2014. The employment agreement between Mr. Jennings and the Company provides for an annual base salary of \$60,000 to be paid in the form of cash and \$24,000 to be paid in the form of the Company's restricted stock. As part of Mr. Jennings's agreement, 300,000 warrants were issued with a term of five years vesting 100,000 upon the grant date (October 1, 2014), 100,000 on October 1, 2015 and 100,000 on October 1, 2016. The exercise price of the warrant is \$0.30 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall be deemed null and void. The Company utilized the Black-Scholes method to fair value the 300,000 warrants received totaling approximately \$89,000 with the following assumptions: volatility, 221%; expected dividend yield, 0%; risk free interest rate, 1.80%; and a life of 5 years. The grant date fair value of each warrant was \$0.30.

#### **Audit Committee**

The Company's audit committee was established in June 2009 and is currently comprised of Harold W. Paul.

Our Board has determined that it does not have a member of its Audit Committee that qualifies as an "audit committee financial expert" as defined in Item 401(e) of Regulation S-B, and is "independent" as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

We believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our current circumstances.

#### **AUDIT COMMITTEE REPORT**

The primary responsibility of the Audit Committee (the "Committee") is to assist the Board of Directors in discharging its oversight responsibilities with respect to financial matters and compliance with laws and regulations. The primary methods used by the Committee to fulfill its responsibility with respect to financial matters are:

- To appoint, evaluate, and, as the Committee may deem appropriate, terminate and replace TOMI's independent registered public accountants;
- To monitor the independence of TOMI's independent registered public accountants;
- To determine the compensation of TOMI's independent registered public accountants;
- To pre-approve any audit services, and any non-audit services permitted under applicable law, to be performed by TOMI's independent registered public accountants;
- To review TOMI's risk exposures, the adequacy of related controls and policies with respect to risk assessment and risk management;
- To monitor the integrity of TOMI's financial reporting processes and systems of control regarding finance, accounting, legal compliance and information systems; and
- To facilitate and maintain an open avenue of communication among the Board of Directors, management and TOMI's independent registered public accountants.



In discharging its responsibilities relating to internal controls, accounting and financial reporting policies and auditing practices, the Committee discussed with TOMI's independent registered public accountants, Wolinetz, Lafazan & Company, P.C., the overall scope and process for its audit. The Committee has met with Wolinetz, Lafazan & Company, P.C., with and without management present, to discuss the results of its examinations and the overall quality of TOMI's financial reporting.

The Committee has discussed with Wolinetz, Lafazan & Company, P.C. its judgments about the quality, in addition to the acceptability, of TOMI's accounting principles as applied in TOMI's financial reporting, as required by Statement on Auditing Standards No. 90 "Communications with Audit Committees."

The Committee also has received a letter from Wolinetz, Lafazan & Company, P.C. that is required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with Wolinetz, Lafazan & Company, P.C. their independence.

The Committee has met and held discussions with management. The Committee has reviewed and discussed with management TOMI's audited consolidated financial statements as of and for the years ended December 31, 2014 and 2013.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements referred to above be included in TOMI's Annual Report for the year ended December 31, 2014.

This report is respectfully submitted by the members of the Audit Committee of the Board of Directors.

#### AUDIT COMMITTEE

Harold W. Paul, Committee Chairman

#### Code of Ethics

The Board adopted a Code of Ethics in 2008 applies to, among other persons, Board members, officers including our Chief Executive Officer, contractors, consultants and advisors. Our Code of Ethics sets forth written standards designed to deter wrongdoing and to promote:

1. honest and ethical conduct including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. full, fair, accurate, timely and understandable disclosure in reports and documents that we file with or submit to the SEC and in other public communications made by us;
3. compliance with applicable governmental laws, rules and regulations;
4. the prompt internal reporting of violations of the Code of Ethics to an appropriate person or persons identified in the Code of Ethics; and
5. accountability for adherence to the Code of Ethics.

## Item 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The Compensation Discussion and Analysis (the “CD&A”) discusses the compensation of our named executive officers for the year ended December 31, 2014. The named executive officers are Halden S. Shane, Chairman & CEO, Nick Jennings, CFO, and Norris Gearhart, COO (collectively, the “named executive officers”).

### Objectives and Philosophy of Executive Compensation

The primary objectives of the Compensation Committee with respect to executive compensation are to attract and retain the most talented and dedicated executives possible, to tie annual and long-term cash and stock incentives to achievement of measurable performance objectives, and to align executives' incentives with stockholder value creation. To achieve these objectives, the Compensation Committee strives to implement and maintain compensation plans that tie a substantial portion of executives' overall compensation to the experience level of the executive or employee, the complexity and amount of responsibility of the employee's job, key strategic financial and operational goals such as the establishment and maintenance of key strategic relationships, and the performance of our common stock price. The Compensation Committee evaluates individual executive performance with the goal of setting compensation at levels the Compensation Committee believes are comparable with executives in other companies of similar size and stage of development operating in our industry while taking into account our relative performance and our own strategic goals.

On a going forward basis, the Compensation Committee will determine the cash bonus and/or equity incentive award based on the level of achievement of the financial and operational goals of the Company and for the level of achievement of annual performance objectives of each individual named executive officer. These objectives may vary depending on the individual executive, but will relate generally to strategic factors such as establishment and maintenance of key strategic relationships, the development and operation of our mining projects, the identification and possible development of additional mining properties, and to financial factors such as raising capital and improving our results of operations. Bonuses, if awarded, are determined at the sole discretion of the Board of Directors as recommended by the Compensation Committee.

### 2008 Stock Option Plan

The 2008 Stock Option Plan (the “Plan”) is intended to attract and retain individuals of experience and ability, to provide incentive to our employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in us, and to encourage employees to remain in our employ. Each of the named executive officers is eligible for annual equity awards, which are granted pursuant to the Plan.

The Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights and restricted stock awards (each, an “Award”). A maximum of 2,500,000 shares of common stock are reserved for potential issuance pursuant to Awards under the Plan. Unless sooner terminated, the Plan will continue in effect for a period of 10 years from its effective date.

The Plan is administered by our Board of Directors. The Plan provides for Awards to be made to such of our employees, directors and consultants and our affiliates as the Board may select.

The Plan provides the Board with the general power to amend the Plan, or any portion thereof at any time in any respect without the approval of our stockholders, provided however, that the stockholders must approve any amendment which increases the fixed maximum number of shares of common stock issuable pursuant to the Plan, reduces the exercise price of an Award held by a director, officer or ten percent stockholder or extends the term of an Award held by a director, officer or ten percent stockholder. Notwithstanding the foregoing, stockholder approval may still be necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 of the Exchange Act or any applicable stock exchange listing requirements. The Board may amend the Plan in any respect it deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

Although non-cash compensation is utilized by us to prevent placing strains on liquidity, care is taken by management to avoid materially diluting investors.

In the event of a termination of continuous service, unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall end on the earlier of the original expiration date or 90 days from the date continuous service terminates.

## 2014 Stock Option Plan

On February 11, 2014, the Company's Board of Directors adopted the 2014 Stock Option Plan (the "Plan"), subject to shareholder approval, intended to attract and retain individuals of experience and ability, to provide incentive to our employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in us, and to encourage employees to remain in our employ. Each of the named executive officers is eligible for annual equity awards, which are granted pursuant to the Plan. The Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights and restricted stock awards (each, an "Award"). A maximum of 5,000,000 shares of common stock are reserved for potential issuance pursuant to Awards under the Plan.

### **Retirement or Change of Control Arrangements**

We do not offer retirement benefit plans to our executive officers, nor have we entered into any contract, agreement, plan or arrangement, whether written or unwritten, that provides for payments to a named executive officer at or in connection with the resignation, retirement or other termination of a named executive officer, or a change in control of the company or a change in the named executive officer's responsibilities following a change in control.

### **SUMMARY COMPENSATION TABLE**

The following tables set forth the total compensation paid to or earned by our named executive officers for the years ended December 31, 2014, 2013 and 2012, respectively (in thousands):

<b>Name &amp; Principal Position</b>	<b>Year</b>	<b>Salary (\$) (1,2,3,4,5,6)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (1,3,6)</b>	<b>Option/ Warrant Awards (1,3,4,5)</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Non-qualified Deferred Compensation Earnings</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Halden S. Shane, Chairman and CEO (1,2,3)	2014	\$ 36	-	25	596	-	-	-	657
	2013	\$ 20	-	-	-	-	-	-	20
	2012	\$ 20	-	35	525	-	-	-	580
Christopher M. Chipman, CFO (4)	2014	\$ 60	-	-	32	-	-	-	92
	2013	\$ 15	-	-	67	-	-	-	82
	2012	\$ -	-	-	-	-	-	-	-
Nick Jennings, CFO (5)	2014	\$ 15	-	-	37	-	-	-	52
	2013	\$ -	-	-	-	-	-	-	-
	2012	\$ -	-	-	-	-	-	-	-
Norris Gearhart, COO (6)	2014	\$ 34	-	29	-	-	-	-	63
	2013	\$ -	-	-	-	-	-	-	-
	2012	\$ -	-	-	-	-	-	-	-

- (1) The CEO's current employment agreement provides for a \$36,000 annual salary plus incentive bonuses for the year ended December 31, 2014. The \$36,000 cash portion of his compensation has been deferred. In February of 2014, he was issued 78,125 common shares as consideration for payment of \$25,000 in accrued compensation as of December 31, 2013.

On February 11, 2014, the Board of Directors approved the grant of 3,000,000 stock warrants to the CEO as executive compensation. The warrants have a term of five years and vest as follows: 1,000,000 warrants will vest upon issuance; 1,000,000 warrants will vest as of February 11, 2015, and 1,000,000 warrants will vest as of February 11, 2016. The exercise price of the warrants is \$0.30 per share based on the closing price of the Company's common stock on the grant date of \$0.32. The Company utilized the Black-Scholes method to fair value the 3,000,000 warrants received by Dr. Shane totaling approximately \$952,000 with the following assumptions: volatility, 233%; expected dividend yield, 0%; risk free interest rate, 1.54%; and a life of 5 years. The grant date fair value of each warrant was \$0.32. The Company recognized equity based compensation for the CEO for approximately \$596,000 on the vested warrants and accrual of unvested warrants.

- (2) The CEO's prior employment agreement provided for a \$20,000 annual salary plus incentive bonuses for the year ended December 31, 2013. The \$20,000 cash portion of his salary was deferred in 2013.
- (3) The CEO's prior employment agreement provided for a \$20,000 annual salary plus incentive bonuses for the year ended December 31, 2012. The \$20,000 cash portion of his compensation was deferred in 2012. In October 2012, he was issued 1,790,000 common shares as consideration for payment of \$144,000 in loans payable and \$35,000 in accrued compensation. In connection with this transaction the Company recognized \$89,500 in finance charges.

On October 15, 2012 the Company issued 3,500,000 common stock purchase warrants to the Company's CEO for services. The warrants have an exercise price of \$.15 per share and have a 5 year term. They were valued at \$524,957 using the Black Scholes model using the following assumptions: volatility - 352%; divided yield - 0%; discount rate - .26% and a life of 5 years. In connection with the issuance of these warrants, the Company recorded compensation expense of approximately \$525,000 in the year ended December 31, 2012.

- (4) On February 11, 2014 the Company increased the CFO's base annual fee to \$120,000 and issued 300,000 common stock purchase warrants to the CFO for services. The warrants had an exercise price of \$.30 per share and have a 5 year term. They were valued at \$95,000 using the Black Scholes model using the following assumptions: volatility - 233%; divided yield - 0%; discount rate - 1.54% and a life of 5 years. In connection with the issuance of these warrants, the Company recorded compensation expense of approximately \$32,000 in the year ended December 31, 2014. Effective July 18, 2014, Chris Chipman resigned from his position as CFO of the Company and the above mentioned warrants expired prior to December 31, 2014.

On September 26, 2013, the Company entered into an engagement agreement with Christopher M. Chipman. Pursuant to the engagement agreement, Mr. Chipman served as our Chief Financial Officer and received a base annual fee of at least \$60,000. As part of Mr. Chipman's engagement, 300,000 warrants were issued with a term of five years vesting 100,000 upon the grant date, 100,000 on September 26, 2014 and 100,000 on September 26, 2015. The exercise price of the warrant is \$0.77 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date. In connection with this transaction the Company recognized approximately \$67,000 in compensation charges. Effective July 18, 2014, Chris Chipman resigned from his position as CFO of the Company and the above mentioned warrants expired prior to December 31, 2014.

- (5) On October 1, 2014, the Company entered into an employment agreement with Nick Jennings. Pursuant to the agreement, Mr. Jennings serves as our Chief Financial Officer and receives a base annual salary of \$60,000. As part of Mr. Jennings' agreement, 300,000 warrants were issued with a term of five years vesting 100,000 upon the grant date, 100,000 on October 1, 2015 and 100,000 on October 1, 2016. The exercise price of the warrant is \$0.30 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date. They were valued at \$89,000 using the Black Scholes model using the following assumptions: volatility - 221%; divided yield - 0%; discount rate - 1.80% and a life of 5 years. In connection with this transaction the Company recognized approximately \$37,000 in compensation charges on the vested warrants and accrual of unvested warrants.
- (6) On September 24, 2014, the Company appointed Norris Gearhart as Chief Operating Officer and entered an employment agreement with him. The agreement provides for a base salary of \$126,000 per year and a bonus in the form of 100,000 shares of the Company's restricted stock valued at \$29,000.
- (7) On February 11, 2014, the Board of Directors approved the grant of 3,000,000 stock warrants to the former President and COO as executive compensation while they were officers of the Company. Effective September 25, 2014, the President and COO resigned from their positions with the Company and accordingly, the remaining unvested warrants immediately vested. The Company recognized equity based compensation of approximately \$1,904,000 in connection with the vested warrants for the President and COO for the year ended December 31, 2014. As of December 31, 2014, their warrants had expired.

## GRANT OF PLAN BASED AWARDS TABLE

The following table sets forth information with respect to restricted stock awards during the year ended December 31, 2014 to the Company's named executive officers:

Name	Grant Date	All Other Stock Awards(1) (#)	All Other Warrant Awards: Number Of Securities Underlying Warrants(1) (#)	Exercise or base price of award(2) (\$/Sh)	Grant Date Fair Value of Stock and Warrant Awards (\$)
Halden S. Shane	02/12/14	78,125	-	0.32	25,000
Norris Gearhart	09/25/14	100,000	-	0.29	-

(1) Refer to the Compensation Discussion and Analysis beginning on page 24 for a description of the terms of and criteria for making these awards.

(2) Exercise price or base price of the awards are based upon the closing price on the trading day of the grant.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information with respect to outstanding warrants and restricted stock previously awarded to the Company's named executive officers as of December 31, 2014.

Name	Warrant Awards					Stock Awards	
	Number of Securities Underlying Unexercised Warrants (#) Exercisable	Number of Securities Underlying Unexercised Warrants (#) Unexercisable	Warrant Exercise Price (\$)	Warrants Grant Date	Warrant Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Halden S. Shane	3,500,000	-	\$ 0.15	10/15/2012	10/15/2017	-	-
Halden S. Shane	1,000,000	2,000,000	\$ 0.30	02/11/2014	02/11/2019	-	-
Nick Jennings	100,000	200,000	\$ 0.30	10/01/2014	10/01/2019	-	-
Norris Gearhart <sup>(1)</sup>	-	-	\$ -	-	-	-	-

(1) Norris Gearhart was issued 100,000 of the Company's restricted stock valued at \$29,000 in October of 2014.

## **Compensation of Directors**

A directors' compensation plan was adopted on September 18, 2009 and is comprised of 20,000 options for outside directors upon appointment or election to the board and 20,000 options issued annually the first day of each calendar year that the outside director is continuing in service, together with cash fees for each committee or subcommittee meeting attended. The options are to be issued from the Company's stock option plan. Meeting fees are set at \$1,000 and \$500 for each committee or subcommittee meeting, respectively, attended in person, and \$750 and \$375 for each committee and subcommittee meeting, respectively, attended by telephone.

## **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

### **Securities Under Equity Compensation Plans**

The Board of Directors adopted the 2008 Stock Option Plan that was approved by shareholders on May 13, 2009 and authorizes the issuance of up to 2,500,000 shares under the Plan.

In January 2011 and January 2012, Willie L. Brown, Jr.-a former director-and Harold W. Paul were issued 20,000 options each. In January 2013 and 2014, Mr. Paul was issued 20,000 options.

## Beneficial Ownership

The following table sets forth the beneficial ownership of our outstanding common stock by our management and each person or group known by us to own beneficially more than 5% of our outstanding common stock. Beneficial ownership is determined in accordance with SEC rules and regulations, which generally requires voting or investment power with respect to securities. Except as indicated by footnote, the persons named in the table below have sole voting power and investment power with respect to all shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 85,266,521 shares of common stock outstanding as of March 20, 2015.

### CERTAIN BENEFICIAL OWNERS

Name and Address of Beneficial Owners	Amount and Nature of Beneficial Owner	Percent of Class
Halden Shane (1) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	25,120,048	27.4%
Shane Family Trust (2) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	8,100,000	9.5%
Harold W. Paul (3) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	1,463,694	1.7%
Belinha Shane (4) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	1,000,000	1.2%
Joe Plascencia (5) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	994,838	1.2%
Norris Gearhart 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	130,000	*
Nick Jennings (6) 9454 Wilshire Blvd., Penthouse Beverly Hills, CA 90212	320,245	*
Ah Kee Wee 112 Spring Leaf Avenue Singapore 788502	5,555,556	6.5%
All Directors and Officers as a Group:	36,128,825	39%

(1) Includes 6,500,000 warrants of which 5,500,000 warrants are presently exercisable.

(2) Halden Shane is a trustee of the Shane Family Trust.

(3) Includes 40,000 options presently exercisable.

(4) Belinha Shane is the wife of Halden Shane. Mr. Shane disclaims beneficial ownership of any shares held in her name.

(5) Includes 150,000 warrants which are presently exercisable and 20,000 options that are presently exercisable

(6) Includes 300,000 warrants of which 100,000 are presently exercisable

\* Denotes ownership of less than 1%

## Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Transactions with Related Parties

None

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Accountant Fees**

The following table presents the aggregate fees billed for each of the last two fiscal years by our independent registered public accounting firm Wolinetz, Lafazan & Company, P.C., Certified Public Accountants, in connection with the audit of our financial statements and other professional services rendered by that accounting firm:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Audit fees	\$ 77,000	\$ 80,000
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
Total	<u>\$ 77,000</u>	<u>\$ 80,000</u>

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accounting firm in connection with statutory and regulatory filings or engagements. Audit-related fees represent professional services rendered for assurance and related services by the accounting firm that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.

Tax fees represent professional services rendered by the accounting firm for tax compliance, tax advice, and tax planning. All other fees represent fees billed for products and services provided by the accounting firm other than the services reported for the other categories.

**Pre-approval Policies**

Our audit committee evaluates and approves the scope, cost and engagement of an auditor and has done so this year. The Company does not otherwise rely on pre-approval policies and procedures.



## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) The following financial statements of the Company are included in Part II, Item 8 of this Annual Report on Form 10-K:

- Report of Independent Registered Public Accounting Firm, Wolinetz, Lafazan & Company, P.C.;
- Consolidated Balance Sheets as of December 31, 2014 and December 31, 2013;
- Consolidated Statements of Operations: For the Years Ended December 31, 2014 and December 31, 2013;
- Consolidated Statements of Stockholders' Equity (Deficiency): For the Years Ended December 31, 2014 and December 31, 2013;
- Consolidated Statements of Cash Flows: For the Years Ended December 31, 2014 and December 31, 2013; and
- Notes to Consolidated Financial Statements.

(2) Schedules to financial statements:

All financial statement schedules have been omitted because they are either inapplicable or the information required is provided in the Company's Consolidated Financial Statements and Notes thereto, included in Part II, Item 8 of this Annual Report on Form 10-K.

(3) The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report on Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**

DATED: March 24, 2015

By: /s/ HALDEN S. SHANE

**Halden S Shane**  
**Chairman of the Board and Chief Executive Officer**  
**(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ HALDEN S. SHANE</u> <b>Halden S. Shane</b>	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 24, 2015
<u>/s/ NICK JENNINGS</u> <b>Nick Jennings</b>	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 24, 2015
<u>/s/ HAROLD W. PAUL</u> <b>Harold W. Paul</b>	Director	March 24, 2015
<u>/s/ JOE PLASCENCIA</u> <b>Joe Plascencia</b>	Director	March 24, 2015

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of the Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certifications of the Principal Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Principal Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

TOMI ENVIRONMENTAL SOLUTIONS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Operations for the Years Ended December 31, 2014 and 2013	F-4
Consolidated Statements of Stockholders' Equity (Deficiency) for the Years Ended December 31, 2014 and 2013	F-5
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
TOMI Environmental Solutions, Inc. (A Florida Corporation)

We have audited the accompanying consolidated balance sheets of TOMI Environmental Solutions, Inc. and Subsidiaries ("the Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. Also, an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TOMI Environmental Solutions, Inc. and Subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred losses from operations during the years ended December 31, 2014 and 2013 and has a working capital deficiency at December 31, 2014. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York  
March 24, 2015

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 160,560	\$ 706,350
Cash – Restricted (Note 6)	105,776	70,124
Accounts Receivable, net	441,153	805,809
Inventories (Note 3)	772,833	407,549
Prepaid Expenses	35,404	7,980
Other Assets	36,644	-
Deferred Financing Costs – net (Note 6)	199,625	-
Total Current Assets	<u>1,751,995</u>	<u>1,997,812</u>
Property & Equipment – net (Note 4)	288,159	164,068
Other Assets:		
Intangible Assets – net (Note 5)	2,657,056	3,026,564
Deferred Financing Costs – net (Note 6)	-	542,116
Security Deposits	6,552	2,543
Total Other Assets	<u>2,663,608</u>	<u>3,571,223</u>
<b>Total Assets</b>	<u><b>\$ 4,703,762</b></u>	<u><b>\$ 5,733,103</b></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 448,064	\$ 383,349
Accrued Interest on Convertible Notes (Note 6)	211,417	211,194
Accrued Officers Compensation (Note 9)	41,000	25,000
Common Stock to be Issued (Note 13)	35,925	150,871
Customer Deposits	19,716	14,105
Deferred Rent	15,236	-
Derivative Liability (Note 7)	1,728,883	7,665,502
Convertible Notes Payable, net of discount at December 31, 2014 of \$3,996,033 (Note 6)	1,077,967	-
Total Current Liabilities	<u>3,578,207</u>	<u>8,450,021</u>
Convertible Notes Payable, net of discount at December 31, 2013 of \$5,003,558 (Note 6)	-	70,442
Total Long-term Liabilities	<u>-</u>	<u>70,442</u>
Total Liabilities	<u>3,578,207</u>	<u>8,520,463</u>
Commitments and Contingencies	-	-
Stockholders' Equity (Deficiency):		
Cumulative Convertible Series A Preferred Stock; par value \$0.01, 1,000,000 shares authorized; 510,000 shares issued and outstanding at December 31, 2014 and 2013	5,100	5,100
Cumulative Convertible Series B Preferred Stock; \$1,000 stated value; 7.5% Cumulative dividend; 4,000 shares authorized; none issued and outstanding at December 31, 2014 and 2013	-	-
Common stock; par value \$0.01, 200,000,000 shares authorized; 83,646,275 and 79,867,217 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively.	836,463	798,672
Additional Paid-In Capital	19,281,647	15,674,958
Accumulated Deficit	(18,997,655)	(19,266,090)
Total Stockholders' Equity (Deficiency)	<u>1,125,555</u>	<u>(2,787,360)</u>
<b>Total Liabilities and Stockholders' Equity (Deficiency)</b>	<u><b>\$ 4,703,762</b></u>	<u><b>\$ 5,733,103</b></u>

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	For The Year Ended December 31,	
	2014	2013
Sales, net	\$ 2,248,341	\$ 1,166,457
Cost of Sales	873,990	480,678
Gross profit	<u>1,374,350</u>	<u>685,779</u>
Costs and Expenses:		
Professional Fees	349,546	336,116
Depreciation and Amortization	470,327	318,265
Selling Expenses	380,303	225,954
Research and Development	155,984	127,547
Consulting fees (Note 9)	179,809	551,565
Equity Compensation Expense (Note 8)	2,564,707	148,794
General and Administrative	1,083,885	425,711
Total Costs and Expenses	<u>5,184,561</u>	<u>2,133,952</u>
Loss from Operations	<u>(3,810,211)</u>	<u>(1,448,173)</u>
Other Income (Expense):		
Amortization of Deferred Financing Costs	(342,492)	(234,370)
Amortization of Debt Discounts	(1,007,525)	(70,442)
Fair Value Adjustment of Derivative Liability	5,936,619	(349,410)
Financing Costs (Note 6)	-	(3,198,803)
Interest Expense	(507,956)	(357,114)
Total Other Income (Expense)	<u>4,078,646</u>	<u>(4,210,139)</u>
Net Income (Loss)	<u>\$ 268,435</u>	<u>\$ (5,658,312)</u>
Income (Loss) Per Common Share		
Basic	<u>\$ 0.00</u>	<u>\$ (0.07)</u>
Diluted	<u>\$ 0.00</u>	<u>\$ (0.07)</u>
Basic Weighted Average Common Shares Outstanding	<u>81,281,030</u>	<u>77,474,329</u>
Diluted Weighted Average Common Shares Outstanding	<u>127,398,990</u>	<u>77,474,329</u>

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficiency)
	Shares	Amount	Shares	Amount			
Balance at December 31, 2012	510,000	\$ 5,100	75,455,585	\$ 754,555	\$ 12,956,535	\$ (13,607,778)	\$ 108,412
Equity based compensation			-	-	148,794	-	148,794
Common stock issued for services provided			977,028	9,770	470,984	-	480,754
Exercise of stock options as payment for legal services			20,000	200	(200)	-	-
Private placements, net			3,414,604	34,147	976,953	-	1,011,100
Warrants issued as part of debt private placement					956,711		956,711
Warrants issued as Deferred financing costs					165,181		165,181
Net loss for the year ended December 31, 2013			-	-	-	(5,658,312)	(5,658,312)
Balance at December 31, 2013	510,000	5,100	79,867,217	798,672	15,674,958	(19,266,090)	(2,787,360)
Options and warrants issued to executives for services					2,564,707		2,564,707
Common stock issued for services provided			901,580	9,016	340,827		349,843
Common stock issued for executive compensation			178,125	1,781	52,219		54,000
Exercise of stock options as payment for legal services			20,000	200	(200)		-
Proceeds from issuance of common stock, net			377,778	3,778	95,162		98,940
Proceeds from issuance of common stock and warrants, net			2,290,243	22,902	574,013		596,915
Issuance of common stock as finder's fee			11,332	113	(113)		-
Value of common stock to be issued as finder's fee					(19,925)		(19,925)
Net Income for the year ended December 31, 2014						268,435	268,435
Balance at December 31, 2014	<u>510,000</u>	<u>\$ 5,100</u>	<u>83,646,275</u>	<u>\$ 836,462</u>	<u>\$ 19,281,647</u>	<u>\$ (18,997,655)</u>	<u>\$ 1,125,555</u>

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



**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	For The Years Ended December 31,	
	2014	2013
<b>Cash Flow From Operating Activities:</b>		
Net Income (Loss)	\$ 268,435	\$ (5,658,312)
Adjustments to Reconcile Net Income (loss) to		
Net Cash Used In Operating Activities:		
Depreciation and Amortization	470,328	318,264
Amortization of Deferred Financing Costs	342,492	234,371
Amortization of Debt Discount	1,007,525	70,442
Finance Charges in connection with Convertible Debt	-	3,198,804
Fair Value Adjustment of Derivative Liability	(5,936,619)	349,410
Equity Based Compensation	2,564,707	148,794
Value of Equity Issued for Services	403,843	480,754
Reserve for Bad Debts	37,500	-
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Accounts Receivable	327,156	(590,152)
Inventory	(508,200)	(407,547)
Prepaid Expenses	(27,424)	(2,580)
Other Assets	(36,644)	-
Deposits	(4,010)	(2,043)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	61,655	157,861
Accrued Interest	222	211,194
Accrued Officers Compensation	16,000	20,000
Common Stock to be Issued	(134,872)	150,871
Deferred Rent	15,236	-
Customer Deposits	5,611	14,105
<b>Net Cash Used in Operating Activities</b>	<b><u>(1,127,059)</u></b>	<b><u>(1,305,764)</u></b>
<b>Cash Flow From Investing Activities:</b>		
Purchase of Intangibles	-	(3,288,300)
Purchase of Property and Equipment	(81,994)	(172,691)
<b>Net Cash Used in Investing Activities</b>	<b><u>(81,994)</u></b>	<b><u>(3,460,991)</u></b>

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED**

	For The Years Ended December 31,	
	2014	2013
<b>Cash Flow From Financing Activities:</b>		
Proceeds from Convertible Notes Payable	-	5,074,000
Repayment of Loan Payable to Officer	-	(3,988)
Deferred Debt Costs	-	(611,306)
Proceeds From Issuance of Common Stock and Warrants	765,262	1,041,099
(Increase) in Bond Sinking Fund	(35,653)	(70,124)
Payment of Finder's Fee	(66,347)	(30,000)
Net Cash Provided by Financing Activities	<u>663,262</u>	<u>5,399,681</u>
Increase (Decrease) In Cash and Cash Equivalents	(545,792)	632,926
Cash and Cash Equivalents - Beginning	706,350	73,424
Cash and Cash Equivalents – Ending	<u>\$ 160,560</u>	<u>\$ 706,350</u>
<b>Supplemental Cash Flow Information:</b>		
Cash Paid For Interest	\$ 507,956	\$ 145,920
Cash Paid For Income Taxes	\$ -	\$ 933
<b>Non-Cash Investing and Finance Activities:</b>		
Reclassification of demo equipment from inventory to property and equipment	<u>\$ 142,916</u>	<u>\$ -</u>
Discount on convertible debt	<u>-</u>	<u>\$ 5,074,000</u>
Common Stock Warrants Issued As Deferred Finance Costs	<u>\$ -</u>	<u>\$ 165,181</u>
Cash Finder's Fee Accrual	<u>\$ 3,060</u>	<u>\$ -</u>
Common Stock Finder's Fee Accrual	<u>\$ 19,925</u>	<u>\$ -</u>
Establishment of derivative liability	<u>\$ -</u>	<u>\$ 7,316,092</u>

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

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

**NOTE 1. DESCRIPTION OF BUSINESS**

TOMI Environmental Solutions, Inc. is a global decontamination and infectious disease control company, providing environmental solutions for indoor and outdoor surface decontamination through the sale of equipment, services and licensing of our SteraMist™ Binary Ionization Technology® (“BIT™”) hydrogen peroxide based mist and fogs.

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

***Going Concern***

The Company incurred losses from operations of approximately \$3,810,000 and \$1,448,000 for the years ended December 31, 2014 and 2013, respectively. In addition, the Company had a working capital deficiency of approximately \$1,826,000 at December 31, 2014. Cash and cash equivalents was approximately \$161,000 as of December 31, 2014. In addition, the Company has not been able to generate positive cash from operations for the years ended December 31, 2014 and 2013. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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

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

During the year ended December 31, 2014 the Company raised gross proceeds of \$765,262 through the sale of 2,668,021 shares of common stock and equity units (see note 8 for additional details).

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

***Principles of Consolidation***

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

***Use of Estimates***

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

### **Reclassification of Accounts**

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

### **Fair Value Measurements**

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

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

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

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

### **Cash and Cash Equivalents**

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

### **Inventories**

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

### **Property and Equipment**

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

### **Deferred Financing Costs**

The Company follows authoritative guidance for accounting for financing costs as it relates to convertible debt issuance cost. These costs are deferred and amortized over the term of the debt period or until redemption of the convertible debentures. Amortization of deferred financing costs amounted to approximately \$342,000 and \$234,000 for the years ended December 31, 2014 and 2013, respectively.

### **Income taxes**

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized; in accordance with ASC guidance for income taxes. Net deferred tax benefits have been fully reserved at December 31, 2014 and 2013. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

## Income (Loss) Per Share

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

Potentially dilutive securities as of December 31, 2014, consisted of 17,496,552 common shares from convertible debentures, 28,051,408 common shares from outstanding warrants (including 7,611,000 warrants issued in conjunction with the above convertible notes), 60,000 common shares from options and 510,000 common shares from convertible Series A preferred stock.

Potentially dilutive securities as of December 31, 2013, consisted of 17,496,552 common shares from convertible debentures, 19,325,800 common shares from outstanding warrants (including 7,611,000 warrants issued in conjunction with the above convertible notes), 60,000 common shares from options and 510,000 common shares from convertible Series A preferred stock. Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

The following provides a reconciliation of the shares used in calculating the per share amounts for the periods presented:

	For the years Ended December 31	
	2014	2013
Numerator:		
Net Income (Loss)	\$ 268,435	\$ (5,658,312)
Denominator:		
Basic weighted-average shares	81,281,030	77,474,329
Effect of dilutive securities		
Warrants	28,051,408	-
Convertible Debt	17,496,552	-
Options	60,000	-
Preferred Stock	510,000	-
Diluted Weighted Average Shares	<u>127,398,990</u>	<u>77,474,329</u>
Net Income (Loss)		
Basic	\$ 0.00	\$ (0.07)
Diluted	<u>\$ 0.00</u>	<u>\$ (0.07)</u>

Note: Warrants, Convertible Debt, Options, and Preferred Stock for the year ended December 31, 2013, are not included in the computation of diluted weighted average shares as such inclusion would be anti-dilutive.

### Loss from Operations Data:

Loss from Operations		
Basic and Diluted Weighted Average Shares	\$ (3,810,211)	\$ (1,448,173)
	<u>81,281,030</u>	<u>77,474,329</u>
Basic and Diluted Loss per Share	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>

### **Revenue Recognition**

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

### ***Stock-Based Compensation***

The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board (“FASB”), ASC 718, Compensation—“Stock Compensation.” Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award’s fair value and is recognized as expense over the requisite service period. The Company currently has one active stock-based compensation plan, TOMI Environmental Solutions, Inc. Stock Option and Restricted Stock Plan (the “Plan”). The Plan calls for the Company, through a committee of its Board of Directors, to issue up to 2,500,000 shares of restricted common stock or stock options. The Company generally issues grants to its employees, consultants, and board members. Stock options are granted with an exercise price equal to the closing price of its common stock on the date of the grant with a term no greater than 10 years. Generally, stock options vest over two to four years. Incentive stock options granted to shareholders who own 10% or more of the Company’s outstanding equity securities are granted at an exercise price that may not be less than 110% of the closing price of the Company’s common stock on the date of grant and have a term no greater than five years. On the date of a grant, the Company determines the fair value of the stock option award and recognizes compensation expense over the requisite service period, which is generally the vesting period of the award. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. As of December 31, 2014, the Company had 712,291 shares available to be issued under the Plan.

On February 11, 2014, the Company’s Board of Directors adopted the 2014 Stock Option Plan (the “Plan”), subject to shareholder approval, intended to attract and retain individuals of experience and ability, to provide incentive to our employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in us, and to encourage employees to remain in our employ. Each of the named executive officers is eligible for annual equity awards, which are granted pursuant to the Plan. The Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights and restricted stock awards (each, an “Award”). A maximum of 5,000,000 shares of common stock are reserved for potential issuance pursuant to Awards under the Plan. As of December 31, 2014, no shares have been issued under the 2014 Stock Option Plan.

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

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

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

The Company assesses long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, the Company measures recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If the Company’s long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. The Company bases its calculations of the estimated fair value of its long-lived assets on the income approach. For the income approach, The Company uses an internally developed discounted cash flow model that include, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations.

We have had no long-lived asset impairment charges for the years ended December 31, 2014 and 2013. The Company’s most recent detailed test disclosed an estimated fair value of its patents and trademarks that exceeded its’ respective carrying amount based on our model and assumptions.

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

The Company expenses advertising costs in the period in which they are incurred. For the year ended December 31, 2014 and 2013, advertising and promotional expenses were approximately \$11,000 and \$6,000, respectively.

### Recent Accounting Pronouncements

In May of 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

### NOTE 3: INVENTORIES

Inventories consist of the following:

	December 31, 2014	December 31, 2013
Raw materials	\$ 159,807	\$ 1,500
Finished goods	613,026	406,049
Inventory, end of period	<u>\$ 772,833</u>	<u>\$ 407,549</u>

### NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2014	December 31, 2013
Furniture and fixture	\$ 69,555	\$ 22,390
Equipment	374,620	217,672
Vehicles	44,344	44,344
Software	12,167	-
Leasehold Improvements	8,630	-
	<u>509,316</u>	<u>284,406</u>
Less: Accumulated depreciation	<u>221,157</u>	<u>120,338</u>
	<u>\$ 288,159</u>	<u>\$ 164,068</u>

Depreciation was \$100,819 and \$56,529 for the years ended December 31, 2014 and 2013, respectively.

### NOTE 5. INTANGIBLE ASSETS AND ASSET ACQUISITION

On April 15, 2013 the Company completed the acquisition of binary ionization technology and related patents and other assets consisting of personal property and inventory related to implementation of the Binary Ionization Technology related to these patents from L-3 Applied Technologies, Inc. ("L-3"). All of these assets are pledged as collateral for the convertible notes issued as described below in Note 6.

The purchase price allocation was obtained from an independent valuation firm. The following sets forth the components of the final purchase price allocation:

**Purchase Price**

Cash payment	\$	3,500,000
Warranty expense		10,000
<b>Total purchase price</b>	<b>\$</b>	<b>3,510,000</b>

**Assets Purchased**

Inventory	\$	71,700
Fixed assets		150,000
Patents		2,848,300
Trademarks		440,000
<b>Total Assets Acquired</b>	<b>\$</b>	<b>3,510,000</b>

The intangible assets purchased consist of Patents and Trademarks. The patents are being amortized over the estimated remaining lives of the related patents, which is 7.7 years. The trademarks have an indefinite life. Amortization expense was \$369,508 and \$261,736 for the years ended December 31, 2014 and 2013.

Definite life intangible assets consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Intellectual property and patents	\$ 2,848,300	\$ 2,848,300
Less: Accumulated Amortization	631,244	261,736
<b>Intangible Assets, net</b>	<b><u>\$ 2,217,056</u></b>	<b><u>\$ 2,586,564</u></b>

Indefinite life intangible assets consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Trademarks	\$ 440,000	\$ 440,000
<b>Total Intangible Assets</b>	<b><u>\$ 2,657,056</u></b>	<b><u>\$ 3,026,564</u></b>

Approximate amortization over the next five years is as follows:

Year Ending December 31,	<u>Amount</u>
2015	\$ 370,000
2016	370,000
2017	370,000
2018	370,000
2019	370,000
Thereafter	367,000
	<b><u>\$ 2,217,000</u></b>



## NOTE 6. CONVERTIBLE DEBT

In November 2012, the Company initiated a Private Placement offering a maximum of 240 Units of the Company's securities at a price of \$25,000 per Unit or \$6,000,000. The initial closing of the offering occurred in April 2013 as the bulk of the net proceeds of the offering were to be allocated for the asset purchase from L-3 Applied Technologies, Inc., which agreement was not finalized until April 2013. Each Unit consists of \$25,000 par amount of a 10% Senior Secured Callable Convertible Promissory Note due and payable on July 31, 2015 and 37,500 warrants each of which allows the investor to purchase one share of common stock and expires on July 31, 2018. Interest is payable on the Notes at a rate of 10% per annum, and payable on July 31<sup>st</sup> and January 31<sup>st</sup>. The Notes are secured by the Company's intellectual property such as the Patents, royalties, receivables of the Company and all equipment except for the new equipment acquired with the proceeds from any future financing that is initially secured by this new equipment. The Notes call for the establishment of a sinking fund. Within 45 days of each calendar quarter 15% of the Company's reported revenue will be deposited into the Company's escrowed sinking fund account. During the fourth quarter and subsequent to December 31, 2014, the Company funded approximately \$157,000 or 15% of the fourth quarter revenue into the sinking fund account.

The Company sold 202.96 Units for gross proceeds of \$5,074,000 and issued 7,611,000 warrants in connection with the Units. Net proceeds amounted to \$4,462,693 after expenses of offering totaling \$611,307. In addition, the placement agent received 1,014,800 warrants valued at \$165,180.

The convertible notes are convertible, at the option of the note holder, into shares of our common stock at an initial conversion price of \$.29 (which conversion price is subject to adjustment upon the occurrence of events specified in the Convertible Notes, including stock dividends, stock splits, certain fundamental corporate transactions, and certain issuances of common stock by the Company).

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

The Company evaluated the warrants under ASC 815-40-15 due to the exercise price being adjustable upon certain events occurring. The company determined that the warrants are considered indexed to the Company's own stock and thus meet the scope exception under FASB ASC 815-10-15-74 and are therefore not considered a derivative. The estimated fair value of the warrants, which contain reset provisions, were calculated using the Monte Carlo valuation model. The Company recorded the warrant's relative fair value of \$956,712 as an increase to additional paid in capital and a discount against the related debt.

The Convertible Notes contain a provision whereby the conversion price is adjustable upon the occurrence of certain events, including the issuance of common stock or common stock equivalents at a price which is lower than the current conversion price. Under FASB ASC 815-40-15-5, the embedded conversion feature is not considered indexed to the Company's own stock and, therefore, does not meet the scope exception in FASB ASC 815-10-15 and thus needs to be accounted for as a derivative liability. The initial fair value of the embedded conversion feature was estimated at \$7,316,092 and recorded as a derivative liability, resulting in an additional discount of \$4,117,288 to the convertible notes and a finance charge of \$3,198,804 included in the statement of operations for the year ended December 31, 2013. The fair value of the embedded conversion feature is estimated at the end of each quarterly reporting period using the Monte Carlo model.

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

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

## Convertible Notes

	December 31, 2014	December 31, 2013	Inception
Closing stock price	\$ 0.27	\$ 0.42	0.13-0.55
Conversion price	\$ 0.29	\$ 0.29	0.29
Expected volatility	114%	175%	185%-190%
Remaining term (years)	0.58	1.58	2.30-2.07
Risk-free rate	0.13%	0.28%	.25%-.43%
Expected dividend yield	0%	0%	0%

## Warrant

	Inception
Closing stock price	0.13-0.55
Conversion price	0.30
Expected volatility	250%
Remaining term (years)	5.30-5.09
Risk-free rate	.76% - (1.61%)
Expected dividend yield	0%

Convertible notes consist of the following at December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
Convertible notes	\$ 5,074,000	\$ 5,074,000
Initial Discount on convertible notes	(5,074,000)	(5,074,000)
Accumulated amortization of discount	1,077,967	70,442
Total convertible notes, net	<u>\$ 1,077,967</u>	<u>\$ 70,442</u>

## NOTE 7. FAIR VALUE

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and December 31, 2013:

December 31, 2014:	Level 3	Total
Derivative Instruments	\$ 1,728,883	\$ 1,728,883
<b>December 31, 2013:</b>	<b>Level 3</b>	<b>Total</b>
Derivative Instruments	\$ 7,665,502	\$ 7,665,502

Level 3 financial instruments consist of certain embedded conversion features. The fair value of these embedded conversion features that have exercise reset features are estimated using a Monte Carlo valuation model. The Company adopted the disclosure requirements of ASU 2011-04, "Fair Value Measurements." (See note 6) The unobservable input used by the Company was the estimation of the likelihood of a reset occurring on the embedded conversion feature of the Convertible Notes. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions are based on numerous factors, including the remaining term of the financial instruments and the Company's overall financial condition.

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the period ended December 31, 2014 and 2013.

	December 31, 2014	December 31, 2013
Beginning Balance	\$ 7,665,502	\$ 7,316,092
Change in fair value	(5,936,619)	349,410
Ending Balance	<u>\$ 1,728,883</u>	<u>\$ 7,665,502</u>

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

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

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

##### ***Convertible Series A Preferred Stock***

The Company has authorized 1,000,000 shares of Convertible Series A Preferred Stock, \$0.01 par value. At December 31, 2014 and 2013, there were 510,000 shares issued and outstanding, respectively. The Convertible Series A Preferred Stock is convertible at the rate of one share of common stock for one share of Convertible Series A Preferred Stock.

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

The Company has authorized 4,000 shares of Convertible Series B Preferred Stock, \$1,000 stated value, 7.5% Cumulative dividend. At December 31, 2014 and 2013, there were no shares issued and outstanding, respectively.

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

During the year ended December 31, 2013, the Company issued 977,028 shares of common stock valued at \$480,754 for services rendered and issued an aggregate of 3,414,604 shares of common stock for gross proceeds of \$1,011,100.

During the year ended December 31, 2014, the Company issued 326,035 shares of common stock valued at approximately \$105,893 for professional services rendered.

During the year ended December 31, 2014, the Company issued 44,319 shares of common stock valued at \$15,000 to Harold Paul, Director, as payment for legal services rendered.

During the year ended December 31, 2014, the Company issued 455,000 shares to the Rolyn Companies, Inc. ("Rolyn") for labor and services support valued at \$203,950 of which 230,000 shares valued at \$128,800 were recorded as common stock to be issued at December 31, 2013. (See Note 9).

In addition, the Company issued 76,226 shares valued at \$25,000 to a consultant for services rendered for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company issued 78,125 shares as consideration for payment of accrued compensation to the CEO amounting to \$25,000. The Company also issued 100,000 shares to the COO amounting to \$29,000 as part of his employment agreement (see note 11).

During the year ended December 31, 2014, the Company sold 377,778 shares of common stock at \$.27 per share for gross proceeds of \$102,000. In connection with the sale, the Company incurred a cash finder fee in the amount of \$3,060 in addition to a finder's fee paid in common stock of 11,332 shares valued at \$3,060.

During the year ended December 31, 2014, the Company sold 2,290,243 equity units. Each unit consisted of 1 share of common stock and 2.5 warrants. The warrants have an exercise price of \$.29 per share and a term of five years. Gross proceeds to the Company amounted to \$663,262. In connection with the sale, the Company incurred a cash finder's fee in the amount of \$66,347 in addition to a finder's fee to be paid in common stock of 68,707 shares valued at \$19,925.

### Stock Options

The Company issued 20,000 options valued at \$3,000 to a director in January 2013. The options have an exercise price of \$0.15 per share. The options expire in January 2023. The options were valued using the Black-Scholes model using the following assumptions: volatility: 343%; dividend yield: 0%; zero coupon rate: 0.25%; and a life of 10 years.

The Company issued 20,000 options valued at \$8,723 to a director in January 2014. The options have an exercise price of \$0.44 per share. The options expire in January 2024. The options were valued using the Black-Scholes model using the following assumptions: volatility: 233%; dividend yield: 0%; zero coupon rate: 1.72%; and a life of 10 years.

The following table summarizes stock options outstanding as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	60,000	\$ 1.42	60,000	\$ 1.42
Granted	20,000	0.44	20,000	0.15
Exercised	(20,000)	0.44	(20,000)	0.15
Outstanding, end of year	60,000	\$ 1.42	60,000	\$ 1.42

Options outstanding and exercisable by price range as of December 31, 2014 were as follows:

Range	Number	Average Weighted Remaining Contractual Life in Years	Exercisable Options	
			Number	Weighted Average Exercise Price
\$ 2.10	40,000	5.01	40,000	\$ 2.10
\$ 0.05	20,000	6.02	20,000	\$ 0.05
	60,000		60,000	

### Stock Warrants

The Company issued 250,000 warrants valued at \$37,495 to a consultant in January 2013. The warrants have an exercise price of \$0.15 and expire in January 2018. The warrants were valued using the Black-Scholes model with the following assumptions: volatility: 343%; dividend yield: 0%; zero coupon rate: 0.25%; and a life of 5 years.

During the year ended December 31, 2013, the Company issued 7,611,000 warrants in connection with convertible debt units and 1,014,800 warrants to the placement agent (see Note 6). These warrants have an initial exercise price of \$0.30 per share and expire July 31, 2018.

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

On September 26, 2013, the Company's Chief Financial Officer, Christopher Chipman, was granted 300,000 warrants. The warrants had a term of five years and vest 100,000 upon the grant date, 100,000 on September 26, 2014 and 100,000 on September 26, 2015. The exercise price of the warrant is \$0.77 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall be deemed null and void. The Company utilized the Black-Scholes method to fair value the 300,000 warrants received by this individual totaling \$208,022 with the following assumptions: volatility, 179%; expected dividend yield, 0%; risk free interest rate, 1.43%; and a life of 5 years. Effective July 18, 2014, Chris Chipman resigned from his position of Chief Financial Officer of the Company and accordingly, his unvested share of warrants were deemed to be null and void. The vested portion of the warrants expired prior to December 31, 2014. For the year ended December 31, 2014, the Company reversed out the equity based compensation attributable to the accrued but not vested portion of the warrants.

On February 11, 2014, as part of the employment agreements entered into with its three executive officers (CEO, President and COO), the Board of Directors approved the grant of 3,000,000 stock warrants to each of them as executive compensation. The warrants have a term of five years and vest as follows: 1,000,000 warrants will vest upon issuance; 1,000,000 warrants will vest as of February 11, 2015, and 1,000,000 warrants will vest as of February 11, 2016. The exercise price of the warrants is \$0.30 per share based on the closing price of the Company's common stock on the grant date of \$0.32. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall immediately vest on termination. The Company utilized the Black-Scholes method to fair value the 3,000,000 warrants received by these individuals totaling approximately \$952,000 for each executive with the following assumptions: volatility, 233%; expected dividend yield, 0%; risk free interest rate, 1.54%; and a life of 5 years. The grant date fair value of each warrant was \$0.32. Effective September 25, 2014, the President and COO resigned from their positions with the Company and accordingly, the remaining unvested warrants immediately vested. The Company recognized equity based compensation of approximately \$1,904,000 in connection with the vested warrants for the President and COO for the year ended December 31, 2014. As of December 31, 2014, their warrants expired. In addition, the Company recognized equity based compensation for the CEO for approximately \$596,000 on the vested warrants and accrual of unvested warrants.

On February 11, 2014, the Company's Board of Directors approved the granting of 300,000 stock warrants to its CFO as incentive compensation. The warrants have a term of five years and vest as follows: 100,000 warrants will vest upon issuance; 100,000 warrants will vest as of February 11, 2015, and 100,000 warrants will vest as of February 11, 2016. The exercise price of the warrants is \$0.30 per share based on the closing price of the Company's common stock on the grant date of \$0.32. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall be deemed null and void. The Company utilized the Black-Scholes method to fair value the 300,000 warrants received by the Company's executive totaling approximately \$95,000 with the following assumptions: volatility, 233%; expected dividend yield, 0%; risk free interest rate, 1.54%; and a life of 5 years. The grant date fair value of each warrant was \$0.32. Effective July 18, 2014, Chris Chipman resigned from his position of Chief Financial Officer of the Company and accordingly, his unvested share of warrants were deemed to be null and void. For the year ended December 31, 2014, the Company recognized approximately \$32,000 in equity based compensation for the vested portion of the warrants.

On October 1, 2014, the Company's Board of Directors approved the granting of 300,000 stock warrants to its new CFO as incentive compensation. The warrants have a term of five years and vest as follows: 100,000 warrants will vest upon issuance; 100,000 warrants will vest as of October 1, 2015, and 100,000 warrants will vest as of October 1, 2016. The exercise price of the warrant is \$0.30 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date. If employment is terminated, the terms of any then outstanding warrant held by the holder shall extend for a period ending on the earlier of the date on which such warrant would otherwise expire or three months after such termination of employment and the warrant shall be exercisable to the extent it was exercisable as of the date of termination of employment. Any unvested warrants shall be deemed null and void. The Company utilized the Black-Scholes method to fair value the 300,000 warrants received by the Company's executive totaling approximately \$89,000 with the following assumptions: volatility, 221%; expected dividend yield, 0%; risk free interest rate, 1.80%; and a life of 5 years. The grant date fair value of each warrant was \$0.30. For the year ended December 31, 2014, the Company recognized approximately \$37,000 in equity based compensation on the vested warrants and accrual of unvested warrants.

The following table summarizes the outstanding common stock warrants as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	19,325,800	\$ 0.21	10,050,000	\$ 0.12
Granted	15,325,608	0.30	9,275,800	0.31
Expired	(300,000)	0.77	-	-
Expired	(6,300,000)	0.30	-	-
Exercised	-	-	-	-
Outstanding, end of year	<u>28,051,408</u>	<u>\$ 0.23</u>	<u>19,325,800</u>	<u>\$ 0.21</u>

Warrants outstanding and exercisable by price range as of December 31, 2014 were as follows:

Outstanding Warrants			Average Weighted Remaining Contractual Life in Years	Exercisable Warrants		
Range	Number			Number	Weighted Average Exercise Price	
\$ 0.01	1,575,000		2.53	1,575,000	\$ 0.01	
\$ 0.05	975,000		2.62	975,000	\$ 0.05	
\$ 0.15	7,750,000		2.80	7,750,000	\$ 0.15	
\$ 0.261	100,000		3.49	100,000	\$ 0.261	
\$ 0.29	5,725,608		4.67	5,725,608	\$ 0.29	
\$ 0.30	11,925,800		3.75	9,725,800	\$ 0.30	
	<u>28,051,408</u>			<u>25,851,408</u>		

Unvested warrants outstanding as of December 31, 2014 were as follows:

Unvested Warrants			
Weighted Average Exercise Price	Number	Average Weighted Remaining Contractual Life in Years	
\$ 0.30	2,200,000	4.20	

## NOTE 9. RELATED PARTY

### Employment Agreement

On February 11, 2014, the Company entered into an amended employment agreement with its CEO as well as new employment agreements with its President and COO that provide each with a base salary of \$36,000 per year. The agreements provided for an increase in the base salary to \$120,000 if annual gross revenue exceeds five million and \$175,000 if annual gross revenue were to exceed ten million on a calendar year basis. Any bonuses awarded will be based upon the Company's performance and be made at the discretion of the Board of Directors. The CEO, President and COO will also have the right to receive expense reimbursements and certain employee benefits. The terms of the employment agreements will be three years terminating on December 31, 2016. Effective September 24, 2014, the president and COO resigned from the Company and their employments contracts were terminated.

The Company appointed Nick Jennings as its Principal Financial Officer effective September 25, 2014. Mr. Jennings employment with the Company commenced on October 1, 2014. The employment agreement between Mr. Jennings and the Company provides for an annual base salary of \$60,000 to be paid in the form of cash and \$24,000 to be paid in the form of the Company's restricted stock. As part of Mr. Jennings's agreement, 300,000 warrants were issued with a term of five years vesting 100,000 upon the grant date (October 1, 2014), 100,000 on October 1, 2015 and 100,000 on October 1, 2016. The exercise price of the warrant is \$0.30 per share based on the volume weighted average price of the Company's common stock for the five days prior to the grant date.

#### **Support and Service Agreement**

Effective April 1, 2013 the Company entered into a Support and Service Agreement ("the Agreement") with Rolyn Companies, Inc. ("Rolyn") under the terms of which Rolyn will provide labor and services support. The Agreement called for payment to Rolyn of 76,666 shares of the Company's common stock per month as well as payment of out of pocket expenses. This agreement was amended, effective January 1, 2014, to reduce the payment to Rolyn to 25,000 shares of the Company's common stock per month. All other terms and conditions of the agreement remained the same. Either party can terminate the Agreement within 30 days written notice. The Company has recorded approximately \$75,000 and \$203,000 support and service expense for the year ended December 31, 2014 and 2013, respectively. Certain officers of Rolyn were appointed officers of the Company in June and July 2013 and have since resigned. The service agreement was terminated effective October 7, 2014.

#### **Distribution and Licensing Agreement**

On March 21, 2014, the Company entered into a distribution and licensing agreement with Plascencia Universal, S. de R.L. de C.V. ("Plascencia Universal"), a Mexican company that will act as the exclusive distributor of TOMI's products and services in Mexico. The principal of Plascencia Universal is also the broker for the Company's insurance policies and was appointed a director of the Company. For the year ended December 31, 2014, revenues of approximately \$301,000 were recognized with regards to Plascencia Universal. Included in the revenue was a license fee for approximately \$26,000.

### **NOTE 10. COMMITMENTS AND CONTINGENCIES**

#### **Lease Commitments**

The Company leased 1,611 square feet of office/warehouse space in San Diego, CA for research and development purposes. The lease payments amounted to approximately \$2,000 per month. This lease expired in May of 2014 and the Company continued to rent the space on a month-to-month basis. The Company vacated the office/warehouse in July of 2014 and has moved the lab to its new facility in Fredrick, Maryland.

In September of 2014 the Company entered into a lease agreement for office and warehouse space in Fredrick Maryland. As part of the lease agreement, the Company is to receive a rent holiday in the first 5 months of the lease. The lease also provides for an escalation clause where the Company will be subject to an annual rent increase of 3%, year over year. The lease expires on January 31, 2018. The Company accounts for the lease using the straight line method and recorded \$15,236 in rent expense for the year ended December 31, 2014. Approximate minimum annual rents under lease are as follows:

Year Ending December 31,	<u>Amount</u>
2015	\$ 42,000
2016	52,000
2017	53,000
2018	4,000
	<u>\$ 151,000</u>

## **NOTE 11. CONTRACTS AND AGREEMENTS**

In September 2014, the Company entered into a Sales and Distribution Agreement, superseding previous agreements, with TOMI Panama covering Panama, El Salvador, Guatemala, Nicaragua, Columbia, Honduras, Costa Rica and Ecuador. TOMI Panama is its exclusive distributor of the Company's products and services within the country of Panama. For the year ended December 31, 2014, revenues of approximately \$400,000 were recognized with regards to TOMI Panama.

On September 25, 2014, the Company appointed Norris Gearhart as Principal Operating Officer of the Company and entered into an employment agreement with him. The agreement provides for a base salary of \$126,000 per year and bonus in the form of 100,000 shares of the Company's restricted stock valued at \$29,000. The restricted shares were issued in October of 2014.

On October 15, 2014, the Company entered into a manufacturing and development agreement with RG Group, Inc. The agreement does not provide for any minimum purchase agreements and is for a term of 2 years. For the year ended December 31, 2014, RG Group, Inc. manufactured substantially all of the Company's equipment.

## **NOTE 12. INCOME TAXES**

At December 31, 2014 the Company had available net-operating loss carryforwards for federal income tax purposes of approximately \$7,516,000, which may be applied against future taxable income, if any, from 2015 through 2034. Certain significant changes in ownership of the Company may restrict the utilization of these tax loss carryforwards.

At December 31, 2014 the Company had a deferred tax asset of approximately \$3,042,000 representing the benefit of its net operating loss carryforwards. The Company has not recognized any tax benefit or tax asset from these loss carryforwards due to the fact that realization of the tax benefit is uncertain and therefore, a valuation allowance equal to 100% of the tax benefit has been applied against the value of any tax assets arising from these losses. The difference between the federal statutory tax rate of 34% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance and various permanent differences in the amount of approximately \$855,000

## **NOTE 13. COMMON STOCK TO BE ISSUED**

As of December 31, 2014, the Company was obligated to issue 155,619 shares of common stock valued at approximately \$36,000 primarily to certain vendors and consultants.

As of December 31, 2013, the Company was obligated to issue 322,845 shares of common stock valued at approximately \$151,000 primarily to certain vendors and consultants.

## **NOTE 14. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the date the financial statements were issued and up to the time of filing of the financial statements with the Securities and Exchange Commission.

In January 2015, as per the Company's directors' compensation plan adopted on September 18, 2009, the Company granted 40,000 stock options to two directors. The options have an exercise price of \$0.27 per share and expire January 2, 2025.

During the first quarter of 2015, the Company sold 1,500,002 equity units, each unit consisting of 1 share of common stock and 2.5 warrants for gross proceeds of \$435,000. Expenses in connection with the sale of these equity units was approximately \$56,500.

On January 31, 2015, the Company made its bi-annual interest payment in connection with the convertible notes in the amount of \$253,700.



## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Halden S. Shane, certify that:

1. I have reviewed this Annual Report on Form 10-K of TOMI Environmental Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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

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

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

Dated: March 24, 2015

/s/ HALDEN S. SHANE

**Halden S. Shane**

**Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)  
(authorized officer of registrant)**

## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Nick Jennings, certify that:

1. I have reviewed this Annual Report on Form 10-K of TOMI Environmental Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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

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

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

Dated: March 24, 2015

/s/ Nick Jennings

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**Nick Jennings**  
**Chief Financial Officer**  
**(Principal Financial Officer)**  
**(principal accounting officer)**

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

In connection with the annual report of TOMI Environmental Solutions, Inc. (the "Company") on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on March 24, 2015 (the "Report"), I, Halden S. Shane, Chairman of the Board and Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ HALDEN S/ SHANE

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**Halden S. Shane**  
**Chairman of the Board and Chief Executive Officer**  
**(Principal Executive Officer)**

March 24, 2015

**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 TOMI Environmental Solutions, Inc. (the "Company") on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on March 24, 2015 (the "Report"), I, Nick Jennings, Chief Financial Officer (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Nick Jennings

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**Nick Jennings  
Chief Financial Officer  
(Principal Financial Officer)**

March 24, 2015