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, 2019

or

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

For the transition period from to

Commission File Number 000-09908

TOMI ENVIRONMENTAL SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

FLORIDA	**59-1947988**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9454 Wilshire Blvd., R-1, Beverly Hills, California	**90212**
(Address of principal executive offices)	**(Zip Code)**

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

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

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.01 par value per share

(Title of class)

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

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

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller Reporting Company ☒
	Emerging Growth Company ☐

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

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

As of June 30, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $8,004,609, based upon the closing price of the registrant's common stock as reported on the OTCQB Marketplace on such date.

As of March 24, 2020, the registrant had 133,517,083 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TOMI ENVIRONMENTAL SOLUTIONS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

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FORWARD-LOOKING STATEMENTS

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

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section "Risk Factors," Item 1A of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. Except as required by law, we undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. BUSINESS

Overview

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

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

TOMI introduced SteraMist® to the commercial market in June 2013. In June 2015, we successfully registered SteraMist® BIT™ as a hospital-healthcare disinfectant for use as a misting/fogging agent, at which time it became the first EPA-registered hospital-healthcare and general disinfectant registered solution and technology disinfection system on the market.

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

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

Our Technology

BIT™ was developed in response to Amerithrax, the weaponized anthrax spore attacks that occurred in Washington, D.C. shortly after the September 11, 2001 U.S. terrorist attacks. BIT™ is a patented process that aerosolizes and activates a low concentration hydrogen peroxide solution, producing a fine aqueous mist (0.3-3 um in diameter) that contains a high concentration of Reactive Oxidative Species ("ROS"), mostly hydroxyl radicals ("·OH"). ROS cause damage to pathogenic and resistant organisms, such as bacteria, bacteria spores, viruses, mold spores, other fungi and yeast, via oxidation of proteins carbohydrates, lipids and rendering the building blocks of nature- amino acids, DNA and RNA inactive - leading to cellular death, disruption and/or dysfunction.

Testing detailed by the Defense Advanced Research Projects Agency (DARPA) of the U.S. Department of Defense demonstrates these hydroxyl radicals, aggressively break the double bonds and other bonds in bacterial spores, biological and chemical warfare agents and neutralize their threat while producing nontoxic by-products. The unique alteration of the chemistry of our solution occurs after our EPA-registered solution passes through an atmospheric cold plasma arc, which causes the breaking of the double bond of a hydrogen peroxide molecule, the net result - our ·OH hydroxyl radical. This hydroxyl radical is known as iHP™. This patented process allows these hydroxyl radicals to exist in high concentrations without rapidly recombining and losing their reactivity, while seeking to attach with any and all surfaces within the proximity of TOMI's mist.

The sole active ingredient of BIT™ is a low percentage (7.8%) Hydrogen Peroxide and is represented by the TOMI™ SteraMist® brand of products. Our technology produces a germ-killing aerosol that moves throughout a space like a gas. Our technology is able to efficiently and effectively kill pathogenic and resistant organisms in the air and on the surfaces without damaging delicate equipment or computers, and the only by-product is oxygen and water in the form of humidity. SteraMist® is designed to be easily incorporated into any industry's current cleaning procedures; is economical, non-corrosive and easy to apply; leaves behind no residues; and requires no manual wiping.

Under the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"), we are required to register with the EPA and certain state regulatory authorities as a seller of disinfectants. In June 2015, SteraMist® BIT™ was registered with the EPA as a hospital-healthcare disinfectant and general broad-spectrum surface disinfectant for use as a misting/fogging agent. SteraMist® BIT™ now holds EPA registrations (# 90150-2) for mold control, and air and surface remediation (# 90150-1). In February 2016, we expanded our label with the EPA to include *C. diff*") spores and MRSA, as well as the influenza virus h1n1, which we believe has better positioned us to penetrate all industries including the bio-defense and healthcare industry. In August 2017, our EPA label was further expanded to include efficacy against Salmonella and Norovirus. As of January 27, 2017, our technology is one of 53 of the EPA's "Registered Antimicrobial Products Effective against Clostridium *difficile* Spores", as published on the EPA's K List. Further, in December 2017, SteraMist® was included in the EPA's list G (Norovirus), L (Ebola) and M (Avian Flu). Currently, our EPA-registered label is in all fifty (50) U.S. states as well as many other countries.

SteraMist® is being used throughout the world and has been demonstrated to reduce certain problem organisms, such as bacterial spores, Vancomycin-resistant Enterococcus ("VRE"), C. *diff*, Middle East Respiratory Syndrome ("MERS") and Ebola Virus Disease ("Ebola"). In U.S. hospitals where SteraMist® is being used for terminal cleaning, evidence has demonstrated a reduction of *C. diff* spore rates. SteraMist® has reduced outbreaks of nosocomial MDRO's (Klebsiella *pneumoniae*, AB, pseudomonas *aeruginosa*) at large hospital to small clinics and has contributed to the control of MERS and Ebola throughout the world.

Our technology passed a sanctioned test showing six-log reduction against Geobacillus *stearothermophilus*. Geobacillus *stearothermophilus* is the laboratory testing gold standard and is commonly used as a challenge organism for sterilization validation studies and periodic check of sterilization cycles. In May 2015, the United States Agency for International Development (USAID) awarded us a grant in the amount of $559,000 for the development of SteraMist® Mobile Decontamination Chambers to fight Ebola. In May 2016, upon the decontamination and decommissioning of an Ebola treatment center in West Africa, we fully achieved the milestones upon which the grant was conditioned. Additionally, BIT™ has also been shown to effectively decontaminate weaponized biological agents, including weaponized anthrax, chemical agents such as VX (an extremely toxic organophosphate) and sulfur mustard (otherwise known as mustard gas) when applied using properly developed international protocols.

All our SteraMist® products are fully validated to comply with good manufacturing practice standards, have received Conformité Européene ("CE") marks in the European Economic Area ("EEA") and are approved by Underwriters Laboratory ("UL"). Our solution is manufactured at an EPA-registered solution blender and our product performance is supported by good laboratory practice efficacy data for Staphylococcus *aureus*, Pseudomonas *aeruginosa*, Salmonella, Norovirus, mold spores, MRSA, h1n1, Geobacillus *stearothermophilus* and C. *diff* spores.

Our Products and Services

SteraMist® Surface Unit

Our SteraMist® Surface Unit is a fully portable, handheld, point and spray disinfection/decontamination system intended to provide quick turnover of any affected space. The single applicator unit enables disinfection of all surfaces, including high touch, sensitive equipment and electronics. An application time of only five seconds per square foot and seven-minute contact time allows for safe re-entering of the space within minutes after applying the iHP™ mist.

Our SteraMist® Surface Unit is lightweight, easy to transport and capable of achieving reliable disinfection/decontamination results, as it is easily incorporated into existing cleaning procedures and protocols. It can be used as a standalone hospital terminal clean product or as an adjunct to ultraviolet disinfection and is a perfect solution to exit and entry barrier points of a facility. The SteraMist® Surface Unit does not require heating, ventilation or air conditioning systems to be shut down. Further, its touchless application (no wipe, no rinse) reduces risk of cross-contamination between treated surfaces.

SteraMist Environment System

Our SteraMist® Environment System is a transportable, remotely controlled (robotic) system that provides complete room disinfection/decontamination of a sealed space up to 103.8 m^3 (3,663 ft^3) in just over 75 minutes (application, contact, and aeration time). Individually, each remote applicator can be used to treat a space of approximately 34.6 m^3 (1,221 ft^3). Injection times are based on individual room size and number of applicators. Multiple SteraMist® Environment Systems can be used simultaneously to accommodate larger or multiple spaces with fast application and minimal down time. Our hybrid technology applicators can be used in both manual and/or fogging modes.

Our SteraMist® Environment System features additional programmable and printable features in PDF format. Other key features include lot # of BIT™ Solution, location identifier, injection/dwell/aeration times, and error notifications.

The SteraMist® Hospital Disinfection Cart

The Hospital Cart was designed by request of multiple public healthcare facilities EVS (Environmental Service) teams using our equipment for the SHIELD study that TOMI is participating in. The cart houses our Surface Unit, a portable H_2O_2 monitor, Carbon Air Scrubber, MaxAir Helmet Respiratory Protection System with positive pressure air flow, storage hooks, and a sign notifying the room is being treated. Included with the Cart is a custom ICU 45-55 minute terminal cleaning protocol.

SteraMist® Select Surface Unit

Our Select Unit was designed to meet the needs of our customers who have smaller enclosures in need of decontamination. This unit is lightweight and easy to transport with the added ability to function between a lower flow operation and standard operation, such as the SteraMist® Surface Unit. The user can adjust air flow, adjust pump fluid flow, set the programmable timer for automatic runs, modify spray/dwell times and number of cycles, and is equipped with start and stop buttons.

Stainless Steel 90 Degree Applicator

TOMI's standard applicator was converted to a 90 degree and manufactured using 316 stainless steel, the ideal applicator to accompany the Select Surface Unit, affording many 90-degree build-in opportunities. This applicator can be purchased with a flange for ease of installation either permanently or semi-permanently.

SteraMist® Permanent iHP™ Complete Disinfection Room

The SteraMist® Permanent iHP™ Disinfection Room is an automated system that is plumbed utilizing the facilities' existing HVAC system. This involves permanently installing SteraMist® applicators within the designated space to achieve maximum results. The generator and Programmable Logic Control ("PLC") are housed in a National Electrical Manufacturers Association ("NEMA") enclosure in a central remote location. The entire system can be developed for multiple rooms and various specifications, controlled remotely through the NEMA interface. The status of the decontamination cycle is monitored with indicators and can be integrated into a Supervisory Control and Data Acquisition ("SCADA)" monitoring board.

iHP™ Plasma Decontamination Chamber

With prior written approval our patented cold plasma technology can be integrated with a chamber or cage washer by leading manufacturers. Current examples are Lynx, BetterBuilt and Allentown. The photo demonstrates our iHP™ Decontamination Chamber built into a lab at the University of Houston. Our custom generator/chamber is built into a stainless-steel single door panel and is permanently mounted next to the chamber or washer, while a SteraMist® applicator is permanently or semi-permanently mounted in the enclosure. This SteraMist® product line includes but is not limited to an internally mounted air compressor, regulator for air pressure adjustment, E-stop button, lever power switch, data logging functions, and multiple dry contract outputs determined by the needs of the customer.

iHP™ Service Decontamination

TOMI offers full room, equipment, facility, and emergency disinfection/decontamination services. Our goal is to reduce bioburden and eliminate the potential for costly microbial contamination preventing laboratory outbreaks. If a lab is dealing with a current outbreak TOMI's iHP™ service will contain and prevent future outbreaks. Single and routine services are provided to TOMI customers to coincide with maintenance, mandatory facility shutdowns, or to control a specific threat.

- The SteraMist® systems are versatile and easy to maintain with relatively low upkeep. In fact, preventive maintenance is not required to be performed by a service engineer and remote guidance can be provided upon request.

Industries & Market Segments

We believe that our technology, service, and product offerings provide a significant opportunity to help reduce the spread of Community Associated and Healthcare-Acquired Infections ("HAI's").

SteraMist® and TOMI's related service platforms are currently being used in a broad spectrum of industries, including but not limited to:

- Pharmaceutical companies
- Clean rooms
- Hospitals & medical facilities
- Ambulances
- Bio-safety labs
- Tissue labs
- Vivariums & Research Universities
- Military & Government Agencies
- Office buildings
- Hospitality
- Schools
- Transportation
- Athletic facilities
- Single-family homes and multi-unit residences
- Patient Medical Transport Airline
- Cruise Ships
- Entertainment establishments

Life Sciences. Our SteraMist® line of products is a decontamination solution to use sites in this industry, specifically pharmaceutical (compounding and manufacturing), vivariums, research universities, BSLs of any level, BSC's, chambers, isolators, cage washers, and cleanrooms. With proper implementation SteraMist® can reduce the risk of infectious as well as potentially infectious agents and/or materials, facilities such as these handle on a routine basis.

There are many requirements and restrictions on the type of decontamination agents our Life Sciences customers may use to prevent these risks and remediate adverse incidents. In light of these regulations, our rapid deployment of our effective ionized hydrogen peroxide aerosolized mist is the solution to lower risks, reduce damage to expensive laboratory equipment and furniture, eliminate other labor intense procedures, and perform decontamination clean-up in these spaces quickly, less caustically, requiring no wipe and with no residue.

Our team of technicians and representatives train, maintain, and troubleshoot capital equipment globally for our Life Sciences customers. Further, our iHP™ service decontamination team provides routine, emergency, and/or commissioning or decommissioning of facilities equipment or full complete space decontamination for our customer base.

Hospital-HealthCare. Our SteraMist® line of products, specifically the SteraMist® Surface Unit and SteraMist® Disinfection Cart are solutions to aid our Hospital-HealthCare customers in providing the quality of care and safety they provide to their patients by disinfecting patient and operating rooms, pharmacies, ambulances, and emergency environments in a hospital or healthcare facility. Our team of technicians and representatives train, maintain, and troubleshoot capital equipment throughout the world for our Hospital-HealthCare customers.

We continue to penetrate the hospital-healthcare market segment, and under the United States Patient Protection and Affordable Care Act's (also known as the Affordable Care Act or ACA) Hospital Readmissions Reduction Program, hospitals that have high rates of infections and HAIs are facing significant financial penalties. Our SteraMist® BIT™ technology has proven to reduce the transference spread of infections leading to an overall reduction in the number of patients being infected as a result of the prior poor manual cleaning of these patient rooms, infectious disease rooms and operatory suites, with a corresponding return on investment to the hospital of up to 20-to-1 in the first year. At this time, we cannot predict the effect of any potential healthcare reform legislation, including the potential repeal of the Patient Protection and Affordable Care Act, on such penalties.

The TOMI Service Network. The TSN, has allowed us to enhance our corporate service division by creating a multi-nation-wide network composed of existing, full-service specialists. Since the launch of TSN, we have added over one hundred and three (103) service partner companies across the United States and Canada. These are professional first responders that specialize within the mold remediation, hurricane and tornado response and other mitigation fields, biohazard specialists including forensic restoration specialists. These servicing specialists focus their businesses in the commercial and residential space. Our team of TSN Business Managers and SteraMist® technicians train, maintain and troubleshoot capital equipment for these individuals with the goal of implementing servicing procedures and protocols throughout the United States and Canada for our TSN network partners.

In September 2018, we partnered with the Global BioRisk Advisory Council ("GBAC") to use SteraMist® as one of the training technologies used in their certification classes. This also allows for the decontamination of everyday crises as well as forensic restoration and bio-hazard scenes as needed. TOMI also launched the Forensic Restoration Service Team (or "FRST"), a U.S. based TOMI-certified forensic restoration and crime clean network. This network is comprised of service providers who specialize in forensic restoration such as mass casualty, crime scene, suicide and unattended death cleanup. Also included within this field are hoarding and bio-recovery services. Participating FRST members will receive specialized training and certifications by GBAC. We have four (4) certified FRST members to date.

Food Safety Industry. SteraMist® is an effective decontaminant in the food safety industry. According to the CDC, 80 million people per year in the United States contract, and 5,000 people die from, food poisoning or other food-related illnesses. Current food safety cleaning techniques involve time intensive processes, which can reduce food manufacturers' profit. Our iHP™ degrades into only harmless water and oxygen. After we obtain approval by the United States Food and Drug Administration (the "FDA") and the United States Department of Agriculture (the "USDA"), we anticipate that our solution can be applied directly to all foods. Currently we use SteraMist® on all food packing and storage equipment as SteraMist® is safe for use on electronics and kitchenware, along with high touch surfaces where most pathogens are found (such as phones, computers and kitchen appliances). We believe that SteraMist® could be useful for decontamination at all phases of food production, from the farm, slaughterhouse, packaging and canning facilities, food storage locations to the transportation of food and to the restaurants and grocery stores.

Medical Cannabis. TOMI is looking to enter the global medical and recreational cannabis market. Currently we are researching how the BIT™ Solution and the iHP™ process can be used to rid the cannabis plant of the following:

- Powdery Mildew (odium, white mold)
- Spider Mites, Thrips, Root Aphids & Fungus Gnats
- Bud Rot (Botrytis cinerea)
- Load counts on coliform, microbes, bacteria, e. *coli* and other molds.
- Direct plant application, soil application and whole room application
- Residuals left on the plant

All tests will also include whether or not the process affects the THC and Cannabinoid levels of the plant.

SteraMist® can be used in cannabis facilities globally upping the industry standard of disinfecting areas between grows- for example, the cannabis drying/curing/cloning/grow rooms, manufacturing/packaging areas, on-site laboratories, storage rooms, and employee restrooms and locker rooms.

Homeland Defense and Border Protection. Countries around the world, including the United States, need to protect their borders and cities against a potential terrorist attack. Our SteraMist® line of products will give governmental bodies an added tool in their arsenal to mitigate the risk of a weaponized biological attack. In addition, SteraMist® could assist in mitigating the spread of emerging pandemic viruses, including strains of Ebola, MERS, MLAV (filovirus), h1n1, h5n1, h7n9 and h10n8. Our SteraMist® line of products may assist border patrol agents in controlling the spread of infectious disease introduced by foreign individuals by decontaminating interview rooms, containment rooms, holding cells and quarantine areas after a potential infected carrier's condition either improves or the carrier dies.

INFORMATION WITH RESPECT TO OUR BUSINESS IN GENERAL

Manufacturing

We outsource the manufacturing and blending of our SteraMist® line of equipment and BIT™ Solution. Our SteraMist® equipment manufacturer is an ISO9001 registered company with facilities in Pennsylvania, New York and New Jersey.

Our solution is blended by an EPA approved blender; our blend includes as the only active ingredient 7.8% Hydrogen Peroxide.

TOMI maintains sole source distribution of all the SteraMist® product lines, including our BIT™ Solution. Neither our manufacturer or chemical blender may make modifications to the manufacturing or blending of our products without our request or consent in written format. TOMI maintains all creative control throughout the design and manufacturing process, which includes research & development through final product fabrication.

Intellectual Property

Our success depends in part upon our ability to obtain and maintain proprietary protection for our products and technologies. We protect our technology and products by, among other means, obtaining United States and foreign patents. There can be no assurance, however, that any patent will provide adequate protection for the technology, system, product, service or process it covers. In addition, the process of obtaining and protecting patents can be long and expensive. We also rely upon trade secrets, technical know-how, and continuing technological innovation to develop and maintain our competitive position.

As part of our intellectual property protection strategy, we have registered our BIT™ solution with the Environmental Protection Agency ("EPA"), all fifty (50) states in the United States, and multiple countries worldwide. We have received Conformité Européene ("CE") marks in the European Economic Area ("EEA") and are approved by Underwriters Laboratory ("UL").

Our portfolio includes a total of twenty (20) Utility Patents for both method and system claim on SteraMist ®BIT™, either published or waiting for acceptance. Most recently, we were awarded and published a new Utility patent giving us protection of our technology until the year 2038. And in February 2020, we were awarded a continuation application for the systems patent published – disclosing yet further additional claims on SteraMist® BIT™ and its capabilities. In 2019, we filed a PCT international application for device and method decontamination which passed on all claims approved in the United States on the latest published patents. Further in 2019, we submitted utility patents in other multiple countries which are all in the national stage for review. Once these are received, we will hold international acceptance for the inherited patents and our newly received patents.

We have filed and have been granted or have pending acceptance on thirty-two (32) separate design patents for our: Decontamination Chamber(s), Decontamination Applicator, Decontamination Cart, Applicator, and Surface Mounted Applicator 90 Degree Device. These patents are published around the world, including but not limited to United States, China, Hong Kong, Europe, United Kingdom, Singapore, Taiwan, Vietnam, Canada, South Korea, and Japan.

Our products are sold around the world under various brand names and trademarks. We consider our brand names and trademarks to be valuable in the marketing of our products. As of December 31, 2019, we held a total of eighty-five (85) trademarks (word and logo) registered or pending across the globe. TOMI registers marks in seven (7) classes of specification of goods and services: Class 1 for Chemicals for Treating Hazardous Waste, Class 5 for Disinfectants, All-Purpose for Hard Surfaces and for Treating Mold, Class 7 for Handheld Power Operated Spraying Machines, Class 11 for Sterilizers for Medical Use and Air Purification, Class 35 for Business Consultation and Management Services, Class 37 for General Disinfecting Services, and Class 40 for Chemical Decontamination and Manufacturing Services.

Marketing and Distribution

Through our brand awareness, marketing, social media presence and sales, our business growth objective is to be a global leader in disinfection and decontamination products, services, and manufacturing. We intend to continue to expand and support research and development on other decontamination and remediation solutions (including hydroxyl radicals and other ROS), and to form more business alliances with strategic partners.

We continue to perform decontamination services within cleanrooms, bio-safety labs, tissue and blood labs, pharmaceutical labs, vivariums and research universities and we continue to secure additional license agreements with major remediation, construction and bio-safety servicing companies. Both of these strategies assist in the brand awareness and use of our suite of products.

We sell our products domestically through our internal sales force, as well as independent sales and manufacturing representatives. Internationally, our products are sold through exclusive and non-exclusive sales representatives and distributors. We have shipped our equipment and solution into twenty-two (22) countries worldwide.

Competition

The decontamination and environmental infectious disease control industry is extremely competitive and highly regulated. Competition is intense in all four (4) of our divisions and includes many large and small competitors.

Our competitors include companies that market other hydrogen peroxide-based products, such as Steris Corporation (“Steris”), Bioquell, Inc. (“Bioquell”) currently owned by Ecolab, Inc. (“Ecolab”) and The Clorox Company (“Clorox”), various ultraviolet companies and quad ammonia-chemical companies. We believe our SteraMist® suite of products have a competitive advantage in that they have a quicker and less caustic kill time, provide a six log kill to a wide variety of pathogens and leave no residue or unpleasant odor. However, these competitors may have longer operating histories, greater name recognition, larger installed customer bases and substantially greater financial and marketing resources than us.

We believe that the principal factors affecting competition in our markets include name recognition and the ability to receive referrals based on client confidence in the service. There are no significant barriers of entry that could keep potential competitors from opening similar facilities. Our ability to compete successfully in the industry will depend, in large part, upon our ability to market and sell our indoor decontamination and infectious disease control products and services. There can be no assurance that we will be able to compete successfully in this industry, or that future competition will not have a material adverse effect on our business, operating results and financial condition.

We believe that our growth in these industries as a leading global disinfection/decontamination company depends on our abilities to discover, develop, market, and innovate, disruptive cost-effective products and services.

Competitive Advantages

We believe the SteraMist® technology has many advantages over its competition. Our technology can turn over a space to an end-user far faster than its competition. Our technology requires limited preparation to an area compared to our competitors and does not rely on fans to move throughout a space. Our "·OH" is a small 0.3-3-micron particle that receives a charge and can move around an area like a gas, going above, below, and beyond the hardest to reach areas.

SteraMist® offers the following competitive advantages:

- Provides a 99.9999% or six-log kill and above kill (i.e. the statistical destruction of all microorganisms and their spores) on all challenged pathogens, on multiple surfaces including *Bacillus atrophaeus* spores, *Bacillus subtilis* spores and *Geobacillus stearothermophilus*, the spore that is considered a gold standard for validation of sterilization versus household/industrial cleaners that offer a 99.9% (sanitizing) or three-log, kill to 99.99%,(disinfection) or four-log, kill.
- Easy to use.
- Does not require mixing of materials
- No Touch
- No Wipe, No Rinse
- Does not include silver ions or peracetic acid.
- Leaves no residue.
- Not affected by humidity or temperature.
- Non-corrosive.
- Does not damage medical or electronic equipment.
- By-products converts to humidity.

Research & Development

We are generating and supporting research on improving, extending and applying our patents in the field of mechanical cleaning and decontamination. Research and development expenses for the years ended December 31, 2019 and 2018, were approximately $341,000 and $916,000, respectively.

Government Regulation

Our business is subject to various degrees of governmental regulation in the countries in which we operate. In the United States, the EPA, the FDA and other governmental authorities regulate the development, manufacture, sale, and distribution of our products and services. Our international operations also are subject to a significant amount of government regulation, including country-specific rules and regulations and U.S. regulations applicable to our international operations. Government regulations include detailed inspection of, and controls over, research and development, product approvals and manufacturing, marketing and promotion, sampling, distribution, record-keeping, storage, and disposal practices. We believe that we are currently compliant in all material respects with applicable regulatory requirements.

Employees

As of March 20, 2020, we have twenty-one (21) full-time executive, operational and administrative employees working within the United States. Most of our sales are conducted by global exclusive distribution agreements or domestically by independent manufacturing representatives.

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. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the SEC.

Risk Related to Our Company and Business

We have experienced losses historically, may be required to obtain additional financing and may never achieve and sustain profitability.

We incurred net losses of approximately $2.3 million and $3.2 million for the years ended December 31, 2019 and 2018, respectively. We may continue to incur net losses for the foreseeable future as we continue to develop our products and seek customers and distribution for our products. Even if we achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis. Further, to finance our product development and grow our business, we may seek funds through borrowings or through additional rounds of financing, including private or public equity or debt offerings. We may be unable to raise funds on commercially reasonable terms or at all. In addition, the sale of additional equity or convertible debt securities could result in additional dilution to our shareholders. If we borrow additional funds or issue debt securities, these securities could have rights superior to holders of our common stock and could contain covenants that will restrict our operations. If we do not obtain additional resources or achieve and sustain profitability, our ability to capitalize on business opportunities will be limited, the growth of our business will be harmed, our business may fail, and investors may lose all of their investment.

Our operations are subject to environmental laws and regulations that may increase costs of operations and impact or limit our business plans.

We are subject to environmental laws and regulations affecting many aspects of our present and potential future operations, including a wide variety of EPA labeling and other state regulatory agency requirements. Compliance with these laws and regulations may result in increased costs and delays as a result of administrative proceedings and certain reporting obligations. Public officials and entities may seek injunctive relief or other remedies to enforce applicable environmental laws and regulations. We cannot predict the outcome of any administrative proceedings that may arise.

Business interruptions resulting from the COVID-19 outbreak or similar public health crises could cause a disruption of the manufacturing of our products and adversely impact our business.

Public health crises such as pandemics or similar outbreaks could adversely impact our business. In December 2019, a novel strain of a virus named SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), or coronavirus, which causes coronavirus disease, or COVID-19, was reported to have surfaced in Wuhan, China, and has reached multiple other regions and countries, including the United States and more specifically, Beverly Hills, California, where our primary office is located. The coronavirus pandemic is evolving, and to date has led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures. Global health concerns, such as coronavirus, could result in social, economic and labor instability in the countries in which we or the third parties with whom we engage operate. The extent to which the coronavirus impacts our operations or those of our third party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if we or any of the third parties with whom we engage, including the suppliers, customers and other third parties with whom we conduct business, were to experience shutdowns or other business disruptions, our ability to conduct our business in the manner presently planned could be materially and negatively impacted. The future progression of the COVID-19 outbreak and its resulting effects on our business, financial condition and results of operations are uncertain and are continuing to be assessed.

We are subject to risks related to our international operations and failure to manage these risks may adversely affect our operating results and financial condition.

A portion of our sales are made to customers outside the United States. As such, we may be denied access to our customers as a result of a closing of the borders of the countries in which we sell our products due to economic, legislative, political and military conditions in such countries.

International operations are subject to a number of other inherent risks, and our future results could be adversely affected by a number of factors, including:

- unfavorable political or economic environments;
- requirements or preferences for domestic products or solutions, which could reduce demand for our products;
- differing existing or future regulatory and certification requirements;
- unexpected legal or regulatory changes;
- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties in enforcing contracts;
- an inability to effectively protect intellectual property;
- natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, travel, social distancing and quarantine policies, boycotts, curtailment of trade, and other business restrictions affecting our ability to manufacture or sell or products;
- tariffs and trade barriers, export regulations and other regulatory and contractual limitations on our ability to sell our products; and
- potentially adverse tax consequences, including multiple and possibly overlapping tax structures.

If we are unable to manage the risks inherent in our international activities, our ability to obtain future revenues may suffer and, consequently, our business, financial condition and results of operations could be materially and adversely affected.

Our success depends upon third party contractors, suppliers and manufacturers, the disruption of which could negatively impact our business.

We rely upon third parties to supply us with components for our products. We outsource the manufacturing of our SteraMist® line of equipment to a manufacturing company and use contract manufacturers to build our BIT™-based systems, as we do not maintain our own manufacturing facilities. If we fail to maintain relationships with our current suppliers, we may not be able to effectively commercialize and market our products, which would have a material and adverse effect on our business. Further, 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.

Significant outbreaks of contagious diseases such as COVID-19, and other adverse public health developments, could have a material impact on our business, financial condition and results of operations. As of March 2020, the outbreak of COVID-19 has led to numerous confirmed cases worldwide, including in the Unites States. In addition to those who have been directly affected, millions more have been affected by governmental effortsaround the world to slow the spread of the outbreak. Such measures have had, and are expected to continue to have, a significant impact, both direct and indirect, on businesses and commerce worldwide. Although we keep stock of all our product components with long lead times to assist in the event that our supply chain is disrupted, we cannot guarantee that such measures will be sufficient to avoid a disruption to our production capacity due to the current COVID-19 pandemic or similar events that may occur in the future.

The introduction of new products is often accompanied by design and production delays, as well as significant cost, which could prevent us from introducing new products to the market in a timely and cost-effective manner.

The development and initial production and enhancement of the decontamination systems we produce is often accompanied by design and production delays and related costs. Often, we cannot predict the time and expense required to overcome such problems. If we are unable to introduce new products on our anticipated timeframe, our business, financial condition and results of operations may suffer.

Our success depends on our ability to adequately protect our intellectual property.

In April 2013, we acquired certain assets from L-3 Applied Technologies, Inc. ("L-3"), including patents, trademarks and trade secrets related to BIT™. Our commercial success depends, in part, on our ability to obtain, maintain, defend, file new or enforce our existing patents, trademarks, trade secrets and other intellectual property rights covering our technologies and products, including, in particular, the intellectual property rights we acquired from L-3. We may, however, be unable to adequately preserve such rights due to a number of reasons, including the following:

- our rights could be invalidated, circumvented, challenged, breached or infringed upon;
- we may not have sufficient resources to adequately prosecute or protect our intellectual property rights;
- upon expiration of our patents, certain of our key technology may become widely available; or
- third parties may be able to develop or obtain patents for similar or competing technology.

Although we devote resources to the establishment and protection of our patents and trademarks, we cannot assure you that the actions we have taken or will take in the future will be adequate to prevent violation of our patents, trademarks and proprietary rights by others or prevent others from seeking to block sales of our products as an alleged violation of their patents, trademarks and proprietary rights. In the future, litigation may be necessary to enforce our trademarks or proprietary rights and we may be forced to defend ourselves against claimed infringement or the rights of others. Any such litigation could result in adverse determinations that could have a material adverse effect on our business, financial condition or results of operations.

We may be unable to enforce our intellectual property rights throughout the world.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. To the extent that we have obtained or are able to obtain patents or other intellectual property rights in any foreign jurisdictions, it may be difficult to stop the infringement of our patents or the misappropriation of other intellectual property rights. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, some countries limit the availability of certain types of patent rights and enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide only limited benefit or no benefit.

Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, efforts to protect our intellectual property rights in such countries may be inadequate. In addition, future changes in the law and legal decisions by courts in the United States and foreign countries may affect our ability to obtain adequate protection for our technology and products and the enforcement of intellectual property.

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, which could lead 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 face significant competition in our industry, which could significantly limit our growth and materially and adversely affect our financial results.

The decontamination and environmental infectious disease control industry is extremely competitive. The competition includes remediators and disinfection/decontamination companies such as Steris, Bioquell (Eco-lab) and Clorox, various ultraviolet companies and quad ammonia-chemical companies. These competitors may have longer operating histories, greater name recognition, larger installed customer bases and substantially greater financial and marketing resources than us. We believe that the principal factors affecting competition in our markets include name recognition and the ability to receive referrals based on client confidence in the service. There are no significant barriers of entry that could keep potential competitors from opening similar facilities. Our ability to compete successfully in the industry will depend, in large part, upon our ability to market and sell our indoor decontamination and infectious disease control products and services. There can be no assurance that we will be able to compete successfully in the remediation industry, or that future competition will not have a material adverse effect on our business, operating results and financial condition.

Our success depends upon broad market acceptance of our technology that has not yet been achieved.

Our BIT™ technology is relatively new, having received full Hospital registration for C. *diff* spores from the EPA in mid-2017. Our sales are dependent upon broad market acceptance of our technology that replaces long-standing failing manual cleaning techniques such as quaternary ammonium compounds and bleach for disinfection, with our no-touch mechanical process. The failure to obtain broad market acceptance inevitably leads to substantially increased lead times for sales, until our prospective customers-particularly in the hospital-healthcare market-are accustomed to the use of newer mechanical technology. The inability to timely meet our sales goals could adversely affect our financial condition and results of operations.

We are dependent on our key personnel, the loss of whom could adversely affect our operations, and if we fail to attract and retain the talent required for our business, we could be materially harmed.

Our success is substantially dependent on the performance of our executive officers, including our Chairman and Chief Executive Officer, Dr. Halden S. Shane, the loss of whom would have a material adverse effect on our business. Given our relatively recent entry into the decontamination industry, we depend to a significant degree on our ability to attract, retain and motivate quality personnel.

Competition for highly skilled personnel is often intense in the United States. We may not be successful in attracting, integrating or retaining qualified personnel to fulfill our current or future needs.

Our operations, and those of our suppliers, are subject to a variety of business continuity hazards and risks, any of which could interrupt production or operations or otherwise adversely affect our performance and results.

We are subject to business continuity hazards and other risks, including natural disasters, utility and other mechanical failures, labor difficulties, inability to obtain necessary licenses, permits or registrations, disruption of communications, data security and preservation, disruption of supply or distribution, safety regulation and labor difficulties. The occurrence of any of these or other events might disrupt or shut down operations, or otherwise adversely impact the production or profitability of a particular facility, or our operations as a whole. We may also be subject to certain liability claims in the event of an injury or loss of life, or damage to property and equipment, resulting from such events. Although we maintain property and casualty insurance, as well as other forms of insurance that we believe are customary for our industries, our insurance policies include limits and, as such, our coverage may be insufficient to protect against all potential hazards and risks incident to our business. Should any such hazards or risks occur, or should our insurance coverage be inadequate or unavailable, our business, prospects, financial condition and results of operations might be adversely affected.

Our products are subject to potential product liability claims which, if successful, could have a material adverse effect on our business, financial condition and results of operations.

Certain of our products may be hazardous if not deployed properly. We are exposed to significant risks for product liability claims if death, personal injury or property damage results from the use of our products. While we currently maintain insurance against product liability claims, we may experience material product liability losses in the future. Our insurance coverage may not continue to be available on terms that we accept, if at all, and our insurance coverage also may not adequately cover liabilities that we incur. A successful claim against us that exceeds our insurance coverage level or that is not covered by insurance, or any product recall, could have a material adverse effect on our business, financial condition and results of operations. In addition, product liability and other claims can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. Further, claims of this nature may cause our customers to lose confidence in our products and us. As a result, an unsuccessful defense of a product liability or other claim could have a material adverse effect on our financial condition, results of operations and cash flows.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain executive management and qualified board members.

We have and likely will continue to incur significant legal, accounting and other expenses as a public company subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 ("SOX"), the Dodd–Frank Wall Street Reform and Consumer Protection Act and other applicable rules and regulations. 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, applicable rules and regulations could make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors (the "Board") or as executive officers.

In addition, 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 periods, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 of SOX 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 could decline, and we could be subject to sanctions or investigations by regulatory authorities, which would require additional financial and management resources.

As a result of disclosure of information in this Annual Report on Form 10-K and in filings required of a public company, our business and financial condition are more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected. Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

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-cap 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;
- changes in general economic, political and market conditions in or any of the regions in which we conduct our business, including as a result of the current COVID-19 outbreak and related governmental responses;
- 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 our executive leadership;
- quarterly fluctuations of our operating results;
- changes in revenue or earnings; and
- competition.

Moreover, we are listed on the marketplace OTCQB exchange under the symbol of TOMZ. OTCQB replaced the Financial Industry Regulatory Authority (FINRA)-operated OTC Bulletin Board (OTCBB) as the main market for trading OTC securities that report to a U.S. regulator.

OTCQB is a trading platform, and trading of securities quoted on the OTCQB is often more sporadic than the trading of securities listed on a national securities exchange like The NASDAQ Stock Market or the New York Stock Exchange. Even if we were to seek to list our securities on a national securities exchange, there is no assurance we will be able to do so, and if we do so, many of these same forces and limitations may still impact our trading volumes and market price in the near term. Additionally, the sale or attempted sale of a large amount of common stock into the market may also have a significant impact on the trading price of our common stock.

We do not intend to pay dividends for the foreseeable future.

We have not paid dividends on our common stock since inception. The continued operation and expansion of our business will require substantial funding. Accordingly, we currently intend to retain earnings, if any, for use in the business and we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our Board deems relevant. Investors seeking cash dividends should not purchase our common stock. Accordingly, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur.

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 regulations which generally define a "penny stock" to be any equity security that is not listed on a qualified national securities exchange and 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. Historically, shares of our common stock have traded on the OTCQB at a price of less than $5.00 per share and, as a result, our common stock is considered a "penny stock" by the SEC and subject to rules adopted by the SEC regulating broker-dealer practices in connection with transactions in "penny stocks." Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. For any transaction involving a penny stock, unless exempt, Rule 15g-9 under the Exchange Act requires that a broker-dealer must:

- approve a person's account for transactions in penny stocks; and
- receive 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 that:

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

Additionally, the investor must receive disclosure 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 must 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 discourage investor interest in and limit the marketability of our securities.

While we intend to apply to list our common stock on a national securities exchange, the exchange may not approve our listing and, if approved, our common stock may not continue to trade on such exchange.

We intend to apply to list our common stock on a national securities exchange. As such, we will need to satisfy certain qualitative and quantitative requirements in order to successfully list our common stock on such an exchange. We cannot assure you that we will be able to meet the applicable requirements for such initial listing or that our application will be approved.

If our listing application is approved, we will be required to comply with certain listing requirements of such exchange, which may include compliance with certain requirements with respect to our corporate governance, finances, stock trading volume and stock price. If we fail to meet any of these requirements, such exchange may take steps to delist our common stock. Such a delisting would likely have a negative effect on the price of our common stock and would adversely affect the ability to sell or purchase our common stock. Further, even if we successfully apply to list our common stock on a national exchange, we cannot assure you that an orderly and active trading market in our common stock will ever develop or be sustained.

We have a substantial number of options, warrants and convertible debt outstanding, which could give rise to additional issuances of our common stock and potential dilution of ownership to existing shareholders.

As of December 31, 2019, we had outstanding options and warrants to purchase an aggregate of 17.9 million shares of our common stock at exercise prices ranging from $0.05 to $2.10 per share. Of these, 620,000 represent shares underlying options with exercise prices ranging from $0.05 to $2.10 per share and 17.2 million represent shares underlying warrants at exercise prices ranging from $0.08 to $1.00 per share. To the extent any holders of options or warrants exercise same, the issuance of shares of our common stock upon such exercise will result in dilution of ownership to existing shareholders. Additionally, as a result of our 2017 financing, with a remaining principal balance of $5,000,000 (See Note 8—Convertible Debt), the promissory notes issued are convertible at $0.54 per share into an aggregate of 9,259,250 shares of common stock, if fully converted. As of March 25, 2020, we converted $4,500,000 of the notes into 8,333,333 shares of our common stock and repaid the remaining $500,000 note with cash. As part of the original transaction, we also issued warrants to purchase up to an additional 999,998 shares of common stock at an exercise price of $0.69 per share 799,999 of which have expired.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

Our U.S. headquarters, a 9,000 square foot office space, is located at 8430 Spires Way, Frederick, MD 21701. The innovative facility includes a warehouse, training room, quality control room, qualification laboratory, and upon further installation will house its own custom iHP ™SteraMist® Complete Room System. The new warehouse is significantly larger than our previous headquarters, allowing TOMI to store its new product lines and stock a greater variety of inventory - quickly delivering a customer purchase. The training room is integrated with the newest technology to be able to present SteraMist® virtually around the world. As the company keeps up with the demand for SteraMist®, there is a dedicated quality control room to allow our service engineers to work on machines for quick and efficient service to our customers. The lease for our U.S. headquarters has a 10-year term and provides for annual rent of approximately $143,000.

We lease a 300 square foot office and conference space located at 9454 Wilshire Blvd., Penthouse, Beverly Hills, CA 90212. We lease this space for $28,000 annually on a month-to-month tenancy in a professional office building. The property serves as our sales and executive office in the western region of the United States and is used for meetings, sales demonstrations and various administrative functions.

Item 3. LEGAL PROCEEDINGS

We currently are not a party to any legal proceedings, the adverse outcome of which, in management’s opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is quoted on the OTCQB under the symbol "TOMZ." The OTCQB replaced the Financial Industry Regulatory Authority (FINRA)-operated OTC Bulletin Board (OTCBB) as the main market for trading OTC securities that report to a U.S. regulator. The market quotations were for OTCQB reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

Shareholders

As of March 24, 2020, there were 771 record holders of our common stock. On March 23, 2020, the last reported sale price of our common stock on the OTCQB was $0.62 per share.

Dividends

We have not paid and do not currently intend to pay cash dividends on our common stock in the foreseeable future. Our policy is to retain all earnings, if any, to provide funds for operation and expansion of our business. The declaration of dividends, if any, will be subject to the discretion of our Board, which may consider such factors as our results of operations, financial condition, capital needs and acquisition strategy, among others.

Recent Sales of Unregistered Securities

None.

Item 6. SELECTED FINANCIAL DATA

Not Required.

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

The following discussion and analysis of our financial condition and results of operations relates to the years ended December 31, 2019 and 2018. This discussion and analysis should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this report.

Overview

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

TOMI's SteraMist is a patented technology that produces ionized Hydrogen Peroxide (iHP™) using plasma science invented by the United States Defense Advanced Research Projects Agency (DARPA). TOMI's EPA registered BIT™ Solution is composed of a low concentration of hydrogen peroxide converted to iHP™ after passing the trade secret blended solution including its sole active ingredient of 7.8% hydrogen peroxide through an atmospheric cold plasma arc. The newly formed iHP™ fog and mist consists of submicron's to 3-micron radical particles that are carried throughout the treatment area in a fog or mist moving with the same velocity and characteristics of a gas. This allows the fog or mist to affect all surfaces and space throughout the targeted treatment area, over, above and beyond the ability of a manual cleaning processes. iHP™ damages pathogenic organisms through oxidation of proteins, carbohydrates, and lipids. SteraMist® no-touch disinfection and or decontamination mechanical clean in the treated area occurs by cellular disruptions and/or dysfunctions resulting in a 6-log (99.9999%) and greater kill or inactivation of all pathogens in the treatment area.

SteraMist® Binary Ionization Technology® allows a facility to have a Hospital-HealthCare EPA registered tool and solution to replace manual cleaning technology, upgrade existing protocols, and limit liability in a facility when it comes to resistant infectious pathogens. SteraMist® BIT™ is the first EPA registered solution and system combination on the market. BIT™ is also listed on EPA's List G, L, K, and M for Norovirus, C. *diff*, Ebola, and Influenza, respectively. TOMI maintains this registration in 50 states, Canada, and approximately 22 other countries.

Markets

TOMI's SteraMist® products are designed to address a panoply of industries using iHP™. Our operations are organized into four main divisions based on our current target industries: Hospital-Healthcare, Life Sciences, TOMI Service Network (TSN) and Food Safety.

Products

We continue to offer our customers a wide range of innovative products designed to be easily incorporated into their existing disinfection and decontamination procedures. In addition, we offer equipment installations, iHP™ Service (routine & emergency), validations and qualifications, and onsite performance maintenance requests - all of which are structured to address the disinfection and decontamination needs of our customers worldwide.

Divisions

Hospital-Healthcare

TOMI's hospital-healthcare customer list expands with the close of every quarter. TOMI's SteraMist® Hospital Disinfection Cart, an all-in-one cart that houses our handheld point-and-spray SteraMist® Surface Unit as well as accompanying supplies, has increased interest in our technology for this division. This product is designed to make the terminal cleaning process of patient rooms more efficient than traditional manual cleaning methods. We believe that our SteraMist® Hospital Disinfection Cart will allow our customers within the Hospital-Healthcare industry to address the growing concern regarding the increasing high level of transference of pathogens including multiple drug resistant organisms (MDRO's) leading to HAI's from hospital and healthcare related environmental surfaces and equipment to patients and healthcare workers. TOMI's SteraMist 55-minute terminal clean protocol includes incorporating most stages of a facility's current cleaning protocol and by just adding SteraMist mechanical clean protocol, allows an average 90-minute manual clean protocol to be reduced to 55-minutes, as confirmed by the Shield Study at UCLA, from beginning to end, including the changing of the bed linens, demonstrating remarkable results in our clients' facilities from coast to coast.

Life Sciences

TOMI's SteraMist®, Environment System, iHP™ Decontamination Complete Room, SteraMist® Select Surface Unit, iHP™ implementation to decontamination chambers and cage washers, and our iHP™ Service Division, are designed to provide a complete room solution to address the regulatory inspections of disinfecting/decontaminating and Installation Qualification (IQ)-Operational Qualification (OQ)–Performance Qualification (PQ) validation processes within the life sciences industry.

TOMI Service Network

TSN is our network comprised of outside professionals who are exclusively licensed and trained to use the SteraMist® products. TSN sells, trains and services professional remediation companies in the use of SteraMist®. These companies specialize in mold abatement, water damage (including damage from CAT 1 though 3 water loss) and fire damage, as well as professional specialists that are certified and practice in the area of forensic restoration. Currently, TSN is comprised of companies throughout the United States and Canada. TSN members use SteraMist® as a standalone service as well as incorporating our products into their existing business models. We derive a continuous revenue stream from our TSN customers through recurring purchases of our BIT™ solution. As of January 1, 2020, we have removed the exclusivity portion of our service partner company agreements which allows us to expand our network and penetrate existing markets.

Our TSN network continues to grow and currently the total number of TSN company providers to date is one-hundred and three (103) expanding our network membership across 35 U.S. States and two (2) Canadian provinces. Our service providers, with approximately 160 SteraMist® with BIT™ technology units in the field, allows for rapid deployment for use in the control of a biological outbreak and border security nationally and internationally upon short notice.

Food Safety

Food Safety is one of our newest and potentially largest targeted markets, as we believe it presents an opportunity for substantial growth. This is in light of the implementation and enforcement of new and existing rules in the United States under the FDA Food Safety Modernization Act and in Canada under the Safe Food for Canadians Act and the Safe Food for Canadians Regulations, the latter two of which became effective in January 2019. This is in part due to the increased focus on concerns within the food safety industry in North America and abroad. Our consultants have submitted to the regulatory bodies a request to expand our current labels from the treatment of food processing machinery, restaurants and food contact areas, to include direct food and crop applications using a 1% acceptable concentration of hydrogen peroxide that is already approved for direct food use by the USDA and EPA.

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

- Growing crops
- Seeds
- Packaging facilities
- Food storage (produce, meats, fish)
- Food transportation vehicles
- Food processing plants
- Grocery stores
- Cannabis labs, grow-houses, extraction facilities and retail shops

In each area, our main objective is to prevent and/or minimize food decay without utilizing harsh chemicals that leave toxic residues. This could create an opportunity to supplement, or replace, current pesticides and fungicides currently being used by these industry leaders.

Business Highlights and Recent Events

Customers:

Globally, we have added fifty-four (54) new customers across all our divisions for the year ended December 31, 2019. This represents a thirteen (13%) percent increase over the calendar year 2018.

Our Hospital-Healthcare division added sixteen (16) new facilities for the year ended December 31, 2019 which represents 167% increase compared to the prior year.

Our Life Sciences customer base showed continued growth with the addition of twenty-six (26) new customers for the year ended December 31, 2019. This represents a 13% increase compared to the prior year.

Our Food Safety division added three (3) new Food Safety customers for the year ended December 31, 2019, an increase of 100% compared to the prior year.

Revenues:

For the year ended December 31, 2019, we had record annual revenue since our inception. Our total revenues for the years ended December 31, 2019 and 2018 was approximately $6,347,000 and $5,585,000, respectively, representing an increase of $762,000, or 14% compared to the prior year.

SteraMist product-based revenues for the years ended December 31, 2019 and 2018, were approximately $4,999,000 and $4,652,000, representing an increase of $347,000 or 7% when compared to the prior year. The growth is attributable to an increase in our mobile equipment orders and higher solution sales in 2019.

Our service-based revenue achieved a record level representing another milestone for the year ended December 31, 2019. Our service-based revenue for the years ended December 31, 2019 and 2018 were $1,348,000 and $933,000, respectively, representing an increase of $415,000 or 44% when compared to the prior year. The increase in our service-based revenue was due to increased service engagements for the year ended December 31, 2019 when compared to the prior year.

In 2019, our domestic revenue for the years ended December 31, 2019 and 2018 was $5,002,000 and $4,197,000, respectively, an increase of $805,000, or 19% when compared to the prior year. The increase was due to increased demand for our equipment, solution and services.

Our Hospital-Healthcare revenues grew by 120% for the year ended December 31, 2019 when compared to the prior year. The growth was attributable to the increase in the number of facilities added during the year. We anticipate continued growth moving into 2020.

Our Life Sciences revenue experienced continued growth 4% for the year ended December 31, 2019 when compared to the prior year. The 4% growth reflects a non-recurring custom built-in unit of approximately $600,000 in the third quarter of 2018. Year over year, we experienced increased solution and mobile equipment orders.

Significant Contracts:

In January 2019, TOMI and Arkema Inc. a global leader in the hydrogen peroxide industry entered into an exclusive global co-marketing and supply agreement. The agreement provides that the parties will develop the market for TOMI's technology using our SteraMist brand of products for food safety applications, improving the speed and effectiveness of disinfection solutions to the industry.

In April 2019, we entered into an exclusive distribution agreement with an Israeli company, Cleancor Technologies Ltd. ("Cleancor"), an advanced solution company for the industrial cleaning and repair of water and fire damages. Cleancor has already diversified and started a subsidiary named Clean-Bit Environmental Solutions and has begun implementing marketing strategies resulting in a robust pipeline in the health care, food industry, defense, and medical cannabis verticals.

In May 2019, we received a order for mobile equipment of over $400,000 for the Kansas Department of Health in the United States.

In July 2019, we announced the implementation of SteraMist® iHP™ Plasma Decontamination Chamber at the University of Houston and a partnership with Lynx Product Group.

In December 2019, we shipped our seventh (7th) SteraMist® custom engineered system. This is the second permanent room system for installation into our United Kingdom based customer's facility.

Service Projects:

In September 2019, we were engaged by Los Angeles County – USC (LAC + USC) Medical Center to remediate Aspergillus mold that had appeared within a critical sterilization area of the facility.

In August 2019, we were awarded a service project with a niche pharmaceutical company that develops, manufactures and markets generic and branded prescription pharmaceuticals as well as animal and consumer health products with a focus on injectables. The iHP™ Service team treated the 170,000 cubic foot space, including classified and non-classified areas. We were engaged again in the fourth quarter by the same niche pharmaceutical company to perform a similar treatment.

Events:

We exhibited at the annual conference of the Association of Professionals in Infection Control (APIC) with our new booth creating the largest presence we have had at a tradeshow. The SteraMist® Hospital Cart was on display as well as multiple educational presentations to infection preventionists. The show provided many valuable leads and our new exhibit received considerable praise. This presence added two new hospital clients in the third quarter and four in the fourth quarter.

We exhibited at our first veterinary conference, bringing on our first animal hospital customer in the third quarter, demonstrating the versatility and ever-expanding verticals SteraMist® disinfection technology may be implemented in.

We exhibited at the 70th annual American Association for Laboratory Animal Science (AALAS) National Meeting in Denver Colorado.

To increase our presence in the Food Safety industry, we exhibited at the Fruit Attraction 2019, an international trade show that focuses on the fruit and vegetable industry.

In November 2019, we exhibited at International Sanitary Supply Association (ISSA) North America expo in Las Vegas Nevada.

Subsequent Events:

SARS CoV-2 coronavirus. On March 11, 2020 the World Health Organization declared the SARS CoV-2 coronavirus a global pandemic and recommended containment and mitigation measures worldwide. We have been identified as a disinfectant and decontamination vendor by various agencies and countries. The outbreak has increased the demand for TOMI products and services. We have been working relentlessly with organizations to address the concerns and provide solutions for disinfecting and decontamination of the SARS CoV-2 coronavirus. The financial statements included in this Annual Report do not reflect any of the Company's SARS CoV-2 coronavirus related sales and services revenue that occurred since the pandemic outbreak in 2020 and which will be reported in the ensuing quarterly report.

Following are the significant events during the first quarter 2020:

- January 29, 2020 – TOMI SteraMist® prepared to deploy to fight SARS CoV-2 coronavirus.
- February 4, 2020 - TOMI Receives China CDC Registration Making SteraMist® the Disinfection Industry Standard in China
- February 27, 2020 - SteraMist® Takes the Fight to the SARS CoV-2 coronavirus. Worldwide - China, Hong Kong, Thailand, Singapore, Israel and the United Kingdom
- March 2, 2020 - SteraMist® Declared Official Decontamination Technology of Seoul City Metropolitan Transit Systems
- March 10, 2020 - SteraMist® is Mobilized to Aid in the Control SARS-CoV-2 coronavirus in Daegu-Kyungbuk Province, South Korea
- March 11, 2020 - SteraMist® is Prepared to Fight SARS-CoV-2 coronavirus in Thailand
- March 16, 2020 - SteraMist® Deployed to Fight SARS-CoV-2 coronavirus in United States
- March 18, 2020 – SteraMist® has qualified to meet the EPA Emerging Viral Pathogen Guidance for Antimicrobial Pesticides with the SteraMist® Environment System for room fogging/misting against SARS-CoV-2 coronavirus, the novel coronavirus that causes COVID-19.

During the first quarter of 2020, we have experienced the following:

- Sold substantially all of our inventory, with a backlog and demand for 91 additional units,
- New equipment orders require a 50% deposit,
- Increased demand on solution re-orders as disinfecting and decontamination procedures have increased exponentially across the world,
- Service revenue exploded as the outbreak spread and demand for disinfecting and decontamination services increased,
- Exclusivity in TSN was revoked as demand surged and new providers requested equipment, solution and training to provide disinfecting and decontamination services,
- New channels were opened as decontamination and disinfecting processes are updated and implemented, including but not limited to, fire departments, morgues, FAA, police departments, county and state health departments, cruise ships, infectious disease research facilities, military and ambulances,
- Convertible notes with a principal balance of $4,500,000 were converted into 8,333,333 shares of our common stock at a conversion price of $0.54 per share, the remaining outstanding balance of $500,000 was repaid.
- Staffing – increased demand has severely taxed our existing team and resources to meet the current demands resulting in hiring and onboarding additional employees.

Certifications:

During 2019, we added compounding pharmacy customers, which are FDA 503B outsourcing facilities that meets all rigorous national standards with quality sterile products. The FDA created this new designation of compounding pharmacy to establish a new level of patient care and safety, and these facilities must comply with strict cGMP (current good manufacturing practices) guidelines, which is the same standards that pharmaceutical manufacturers follow. We have continued to add new pharmacy customers in the third quarter of 2019. With the addition of the two new pharmacy customers in the third quarter of 2019 we now have four compounding pharmacy customers.

During 2019, we were audited by Pfizer Global Supply Manufacturing and Supplier Quality Assessments and were reported to be “Acceptable”, allowing us to continue expanding SteraMist® implementation into Pfizer facilities. Our management has further focused and allocated resources towards expanding quality control procedures and protocols based on recommendations received during the audit. Pfizer approved a press release of how SteraMist is being used in multiple facilities across the United States as a result of passing the Pfizer Global Supply Agreement Audit. In the third quarter, we fulfilled new orders and finalized a new piece of custom commercial research laboratory equipment for Pfizer utilizing our BIT™ technology platform.

Research Studies

We continue to participate in a large multi-year federal funded study, known as the “SHIELD study”, that compares hospital manual cleans to a SteraMist® mechanical clean. Preliminary results collected by the current hospitals in the study is showing a decrease in the transference of pathogens resulting in HAIs and C. *difficile* infections in the rooms that used SteraMist® for their terminal clean, as compared to the rooms that have been manually cleaned. The University of Michigan, a recognized teaching university hospital, joined the California hospitals in this Shield Study in the fourth quarter, allowing for additional collection of data to validate the value of SteraMist® technology in hospitals.

At the annual meeting of the American Association for Laboratory Animal Science (“AALAS”) this October in Denver, the University of Iowa and Iowa State University presented a study about our technology and the effect of iHP™ on pinworms members of the University of Iowa and Iowa State University were available in the poster section of the conference and answered questions from the many AALAS members about our excellent results. A published paper will be shortly released in a major scientific journal.

The United States Department of Agriculture (USDA) submitted another paper for publication titled “Cold Plasma Enhances the Efficacy of ionized Hydrogen Peroxide in Reducing Populations of *Salmonella* Typhimurium and *Listeria innocua* on Grape Tomatoes, Apples, Cantaloupe and Romaine Lettuce” In July 2019, the author presented the paper, and a poster was shown at the International Association of Food Protection (IAFP). This was a successful introduction of SteraMist® to this audience and many are interested in further testing and research of the technology. The poster and presentation focused on the urgent need of a decontamination technology, such as SteraMist® to enhance microbial safety of fresh produce. Greater reductions were documented when ionized hydrogen peroxide was passed through the plasma arc and greater than 5 log reductions of *Salmonella* were achieved. We are looking forward to the publication of this paper in a recognized international food safety journal.

Product Development

We have added three new products to our growing line of products:

- A single applicator build-in unit for decontamination chambers and cage washers, which was recently successfully validated at the University of Houston.

- A decontamination cart for a Pfizer facility. We will be designing and engineering a second SteraMist® mobile decontamination cart for this same facility by the second quarter of 2020.

- A stainless-steel mobile 90-degree applicator and the answer to the mobile treatment and decontamination of BSC cabinets and isolators. The 90 degree applicator product has led to a partnership with a large design and manufacturing company of washing and contamination control systems, and we plan on installing an all-in-one disinfection solution to Gnotobiotic Housings with our partner.

During 2019, we continued our focus on improving our SteraMist® Environment System and the development of a proprietary software that will be integrated into the next generation of SteraMist® equipment, both mobile and permanent. The new software will improve communication between our equipment and the end user's system, provide improved reporting results and simplify the overall usage of the system itself. During the first quarter of 2019, we reached feasibility with the software being developed. We are in the final testing and validation phase of the new Environment System prototype, expecting to begin commercialization in 2020.

We are in the design phase with our partner Arkema and their client (a global food storage and safety company) on an engineered concept for the decontamination of large industrial food warehouse facilities. The concept is a six (6) applicator fully automated fogging system permanently mounted on a hydraulic lift that is capable of coverage in high-volume spaces. We are in early phases of the project and don't have an expected commercialization date.

Registrations & Intellectual Property (IP):

In January 2019, TOMI received a no objection letter from Canada, amending its BIT™ Solution registration to include Salmonella and Norovirus. Our Canadian label now holds similar efficacy claims with our U.S. EPA label.

In February 2019, we added our Canadian label to the Organic Materials Review Institute ("OMRI") certifying that our product meets the Canadian organic standards. On May 15, 2019, our BIT™ solution disinfectant was listed and certified with the OMRI in compliance with the USDA National Organic Program. Thus, our product is now listed as an OMRI Listed© product and appears on the OMRI Products List© and the OMRI Canada Products List©.

We have been actively pursuing registration in mainland China. We successfully passed the Chinese Center for Disease Control and Prevention ("Chinese CDC") requirements for registration. In addition, we have strengthened our intellectual property in the region, submitting trademarks and patent registrations. We successfully passed all eighteen (18) testing measures required, including many microbiological tests. All of the toxicity studies demonstrated that our BIT™ fog was classified as a non-toxic substance. In the second quarter of 2019, we were made aware of the final materials needed for the dossier that is required by the Chinese CDC for registration of our product. The finalization of our dossier was submitted in the third quarter of 2019, which included the successful shipping and custom clearance to the region, and all the necessary custom declaration forms have been certified. The pre-CDC approval has been commented on by the Chinese CDC. After a three (3) year-long submission process, in January 2020, we received confirmation that two (2) separate registrations - SteraMist® equipment registration and BIT™ solution registration - has been officially approved and registered with the China CDC.

Our 90-degree surface mounted applicator device was allowed and published in the Philippines. We have submitted this design patent in multiple countries and expect the others to follow shortly in publication. This additional design patent compliments our design patents portfolio, including our permanent modular applicator, decontamination cart, and our two decontamination chambers.

In August and September 2019, we published and filed two new utility patents. These utility patents were originally filed in 2017 and 2018. The published patents included both the system claims (US15/858,446) and the method claims (US16/127,915) and were published with the USPTO in the third quarter of 2019.

In November 2019, we registered two new design patents entitled "Surface Mounted Applicator Device" in Europe and Japan.

Financial Operations Overview

Our financial position as of December 31, 2019 and 2018, respectively, was as follows:

	December 31, 2019	December 31, 2018
Total shareholders' equity	$ 890,000	$ 2,995,000
Cash and cash equivalents	$ 897,000	$ 2,005,000
Accounts receivable, net	$ 1,495,000	$ 2,146,000
Inventories, net	$ 2,315,000	$ 2,682,000
Prepaid expenses	$ 188,000	$ 302,000
Deposits	$ 141,000	$ 109,000
Current liabilities (excluding convertible notes)	$ 1,302,000	$ 1,700,000
Convertible notes payable, net	$ 5,000,000	$ 4,982,000
Long-term liabilities (excluding convertible notes)	$ 1,034,000	$ 402,000
Working Capital (excluding convertible notes)	$ 3,734,000	$ 5,544,000
Working Capital (including convertible notes)	$ (1,266,000)	$ 5,544,000

During the year ended December 31, 2019, our debt and liquidity positions were affected by the following:

- Net cash used in operations of approximately $814,000.
- Costs incurred to develop software of approximately $126,000.
- Costs incurred related to new utility patents of approximately $22,000.
- Purchase of property and equipment of approximately $146,000.

Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenue, Net	$ 6,347,000	$ 5,585,000
Gross Profit	$ 3,914,000	$ 3,117,000
Total Operating Expenses [(1)]	$ 5,997,000	$ 6,188,000
Loss from Operations	$ (2,083,000)	$ (3,070,000)
Total Other Income (Expense)	$ (214,000)	$ (160,000)
Net Loss	$ (2,298,000)	$ (3,230,000)
Basic (loss) per share	$ (0.02)	$ (0.03)
Diluted (loss) per share	$ (0.02)	$ (0.03)

(1) Includes approximately $114,000 and $77,000 in non-cash equity compensation expense for the years ended December 31, 2019 and 2018, respectively.

Sales

During the years ended December 31, 2019 and 2018, we had net revenue of approximately $6,347,000 and $5,585,000, respectively, representing an increase in revenue of approximately $762,000 or 14%. The increase in sales in the current year period was attributable to large equipment orders from new customers, and steady repeat solution orders from our existing customer base.

Our products are early in the product and customer adoption cycle. We continue to see strong reorders for solution from our existing customers. The purchase of additional equipment is at a slower pace due to the assessment and integration of our technology into our customers' on-going operations. Our new customer pipeline is very strong. As customers mature through the product and adoption cycle and our sales pipeline converts to sale wins, we expect to have more predictable sales quarter over quarter.

Net Revenue

Product and Service Revenue

	For the year ended December 31,	
	2019	2018
SteraMist® Product	$ 4,999,000	$ 4,652,000
Service and Training	1,348,000	933,000
Total	$ 6,347,000	$ 5,585,000

Revenue by Geographic Region

	For the year ended December 31,	
	2019	2018
United States	$ 5,002,000	$ 4,197,000
International	1,345,000	1,388,000
Total	$ 6,347,000	$ 5,585,000

Cost of Sales

During the years ended December 31, 2019 and 2018, our cost of sales were approximately $2,433,000 and $2,467,000, respectively, representing a decrease of approximately $34,000 or 1%. The primary reason for the decrease in cost of sales is attributable to the product mix in the current year period as compared to the prior year period and our inventory reserve that was recorded in the fourth quarter of 2018. Our gross profit margins as a percentage of sales for the years ended December 31, 2019 and 2018 was 61.7% and 55.8%, respectively. The increase in 2019 as compared to the prior period was a result of the customer and product mix in sales and our inventory reserve established in 2018

Professional Fees

Professional fees for the year ended December 31, 2019 were approximately $364,000, as compared to $330,000 for the prior year, representing an increase of approximately $34,000, or 10%. Professional fees are comprised of legal, accounting and financial consulting fees. The primary reason for the increase is attributable to legal fees incurred in connection with filing and maintenance of our trademarks and utility patents on a domestic and international basis.

Depreciation and Amortization

Depreciation and amortization were approximately $716,000 and $635,000 for the years ended December 31, 2019 and 2018, respectively, representing an increase of $81,000, or 13%. The increase in depreciation expense is attributable to additional property, equipment and leasehold improvements.

Selling Expenses

Selling expenses for the year ended December 31, 2019 were approximately $1,655,000, as compared to $1,360,000 for the year ended December 31, 2018, representing an increase of approximately $295,000 or 22%. We continue to invest and allocate resources into our sales, marketing and advertising initiatives and have increased efforts in the current year in order to further develop our brand recognition and grow our base of customers. During the first half of 2019, we contracted with various national sales groups. Our selling expenses increased in the current period as a result of the following:

- Higher salaries due to increases in headcount in our sales department.
- Onboarding and training of new sales independent sales representatives.
- Commissions impact due to the plan implemented with the national sales groups as well as the product mix for the existing teams.
- Increased tradeshow expenses for the year ended December 31, 2019 compared to the same prior year period.
- The acquisition of a new high-tech 30x40 tradeshow booth
- Continual efforts in advertising within targeted publications, Google search engine optimized campaigns, and organic brand awareness.
- Continued investment in our Social Media presence across all platforms.

Selling expenses represent selling salaries and wages, trade show fees, commissions, advertising and marketing expenses.

Research and Development

Research and development expenses for the year ended December 31, 2019 were approximately $341,000, as compared to $916,000 for the year ended December 31, 2018, representing a decrease of approximately $575,000, or 63%. The primary reason for the decrease is attributable to the timing of costs related to testing and studies that occurred in the same prior period.

*Equity Compensation Expens*e

Equity compensation expense for the year ended December 31, 2019 was approximately $114,000, as compared to $77,000 for the year ended December 31, 2018, representing a increase of approximately $37,000 or 48%. The increase in equity compensation expense relates to the timing of certain issuances that occurred in the prior period. Equity compensation expense is incurred upon the issuance of warrants and stock options. On the date of a grant, we determine the fair value of the award and recognize compensation expense over the requisite service period, which is generally the vesting period of the award. The fair value of the award is calculated using the Black-Scholes Method option-pricing model.

Consulting Fees

Consulting fees for the year ended December 31, 2019 were approximately $127,000, as compared to $141,000 for the year ended December 31, 2018, representing a decrease of approximately $14,000, or 10%.

General and Administrative Expense

General and administrative expense includes salaries and payroll taxes, rent, insurance expense, utilities, office expense and product registration costs. General and administrative expense was approximately $2,681,000 and $2,729,000 for the years ended December 31, 2019 and 2018, respectively, representing a decrease of approximately $48,000 or 2%.

Other Income and Expense

Gain on redemption of convertible note was $150,000 for the year ended December 31, 2018.

Amortization of debt discount was approximately $18,000 and $38,000 during the years ended December 31, 2019 and 2018, respectively. Amortization of debt discount consists of the amortization of debt discount on the $6,000,000 principal amount of Notes issued in March and May 2017. The debt discount was amortized over the life of the Notes utilizing the effective interest method.

Induced conversion costs of approximately $57,000 for the year ended December 31,2018 were incurred in connection with the conversion of $700,000 convertible note payable.

Interest income for the years ended December 31, 2019 and 2018 was approximately $3,000 and $7,000, respectively.

Interest expense for the years ended December 31, 2019 and 2018 was approximately $200,000 and $222,000 respectively. Interest expense for the years ended December 31, 2019 and 2018 consisted of the interest incurred on the $6,000,000 principal amount of Notes issued in March and May 2017.

Net Loss

Net loss for the years ended December 31, 2019 and 2018 was approximately ($2,298,000) and ($3,230,000), respectively. Net loss per common share, basic and diluted, for the years ended December 31, 2019 and 2018 was ($0.02) and ($0.03), respectively. The primary reasons for the decreased net loss can be attributed to the changes in the items when comparing 2019 to 2018:

- Higher revenue and gross profit of approximately $763,000 and $796,000, respectively;
- Lower operating expenses of approximately $191,000, offset by
- Higher other expense of approximately $54,000

Liquidity and Capital Resources

As of December 31, 2019, we had cash and cash equivalents of approximately $897,000. Our working capital before consideration of the convertible notes payable of $5,000,000 was $3,734,000. Working capital after consideration of the convertible notes payable was ($1,266,000). Our principal capital requirements are to fund operations, invest in research and development and capital equipment, and the continued costs of public company filing requirements. We have historically funded our operations through debt and equity financings.

In March and May 2017, we raised gross proceeds of $6,000,000 through a private placement of the Notes. We issued the Notes in two tranches of $5,300,000 and $700,000, respectively, which originally were scheduled to mature on August 31, 2018 and November 8, 2018, respectively, unless earlier redeemed, repurchased or converted.

In 2018, a portion of the Notes aggregating $1,000,000 principal were either converted to equity or paid.

On March 30, 2019, the remaining holders of the Notes agreed to extend the maturity dates of their Notes with an aggregate principal amount of $5,000,000 to April 3, 2020. As of March 30, 2020, convertible notes with a principal balance of $4,500,000 were converted into 8,333,333 shares of our common stock at a conversion price of $0.54 per share and the remaining outstanding balance of $500,000 was repaid. The conversion and repayment of the notes mitigates any going concern uncertainties.

For the years ended December 31, 2019 and 2018, we incurred losses from operations of approximately $2,083,000 and $3,070,000, respectively. The cash used in operations was approximately $814,000 and $1,767,000 for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

- Expanding our label with the EPA to further our product registration internationally;
- Continued expansion of our internal sales force and manufacturer representatives in an effort to drive domestic revenue in all hospital-healthcare verticals;
- Continued expansion of our internal sales force and manufacturer representatives in an effort to drive global revenue in the life science verticals;
- Expansion of international distributors; and
- Continued growth of TSN, our new Forensic Restoration FRST sub-division and new growth in the food safety market which includes using SteraMist® for increasing the storage time of pre- and post-harvest produce and increasing transportation shelf life by installing SteraMist® in semitrucks and ships that are transporting food.

We believe that our existing balance of cash and cash equivalents and amounts expected to be provided by operations will provide us with sufficient financial resources to meet our cash requirements for operations, working capital and capital expenditures over the next twelve months. We cannot make any assurances that management's strategies will be effective or that any additional financing will be completed on a timely basis, on acceptable terms or at all. Our inability to successfully implement our strategies or to complete any other financing may mean that we would have to significantly reduce costs and/or delay projects, which would adversely affect our business, customers and program development, and would adversely impact us.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings. Sufficient funds may not be available to us at all or on attractive terms when needed from these sources. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interests of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. We may require additional capital beyond our currently anticipated amounts.

Operating Activities

Cash used in operating activities for the years ended December 31, 2019 and 2018 was approximately $814,000 and $1,767,000, respectively. Cash used in operating activities decreased in 2019 approximately $953,000 compared to the prior year period primarily as a result of the collection of accounts receivable and the decline in inventory.

Investing Activities

Cash used in investing activities for the years ended December 31, 2019 and 2018 was approximately $293,000 and $628,000, respectively. Cash used in investing activities decreased $335,000 compared to the prior year period primarily due to equipment, furniture and leasehold improvements acquired in connection with our new facility in the prior year period.

Financing Activities

Cash used in financing activities for the year ended December 31, 2019 was $0.

Cash used in financing activities for the year ended December 31, 2018 consisted of the $150,000 paid in connection with the redemption of convertible notes payable with a principal balance of $300,000.

Financing Activities

Subsequent liquidity events:

As of March 30, 2020, convertible notes with a principal balance of $4,500,000 were converted into 8,333,333 shares of our common stock at a conversion price of $0.54 per share and the remaining outstanding balance of $500,000 was repaid. The conversion and repayment of the notes mitigates any going concern uncertainties.

SARS CoV-2 coronavirus. On March 11, 2020 the World Health Organization declared the SARS CoV-2 coronavirus a global pandemic and recommended containment and mitigation measures worldwide. We have been identified as a disinfectant and decontamination vendor by various agencies and countries. The outbreak has increased the demand for TOMI products and services. We have been working relentlessly with organizations to address the concerns and provide solutions for disinfecting and decontamination of the virus. The financial statements included in this Annual Report do not reflect any of the Company's SARS CoV-2 coronavirus related sales and services revenue that occurred since the pandemic outbreak in 2020 and which will be reported in the ensuing quarterly report.

During the first quarter of 2020, we have experienced the following:

- Sold substantially all of our inventory, with a backlog and demand for 91 additional units,
- New equipment orders require a 50% deposit,
- Increased demand on solution re-orders as disinfecting and decontamination procedures have increased exponentially across the world,
- Service revenue exploded as the outbreak spread and demand for disinfecting and decontamination services increased,
- Exclusivity in TSN was revoked as demand surged and new providers requested equipment, solution and training to provide disinfecting and decontamination services,
- New channels were opened as decontamination and disinfecting processes are updated and implemented, including but not limited to, fire departments, morgues, FAA, police departments, county and state health departments, cruise ships, infectious disease research facilities, military and ambulances,
- Convertible notes with a principal balance of $4,500,000 were converted into 8,333,333 shares of our common stock at a conversion price of $0.54 per share and the remaining outstanding balance of $500,000 was repaid.
- Staffing – increased demand has severely taxed our existing team and resources to meet the current demands resulting in hiring and onboarding additional employees.

The changes to our business during the first quarter of 2020 have significantly changed our working capital outlook. The increase for the demand of our products and services is generating increased revenue and cashflow along with the conversion of $4.5 million of our debt during 2020 will have a large impact on our working capital. The increases are offset with the cash required to engage our supply chain and order inventory. We anticipate the increase in demand for our product and services will continue throughout 2020 and will have a positive impact on our working capital.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is 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

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company recognizes revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with customers we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) we satisfy the performance obligation(s). At contract inception, we assess the goods or services promised within each contract, assess whether each promised good or service is distinct and identify those that are performance obligations.

The Company must use judgment to determine: a) the number of performance obligations based on the determination under step (ii) above and whether those performance obligations are distinct from other performance obligations in the contract; b) the transaction price under step (iii) above; and c) the stand-alone selling price for each performance obligation identified in the contract for the allocation of transaction price in step (iv) above.

Title and risk of loss generally pass to our customers upon shipment. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor, and we have no further obligations related to bringing about resale. Revenues are reported net of sales taxes collected from Customers.

Disaggregation of Revenue

The following table presents our revenues disaggregated by revenue source.

Net Revenue

Product and Service Revenue

	For the year ended December 31,	
	2019	2018
SteraMist® Product	$ 4,999,000	$ 4,652,000
Service and Training	1,348,000	933,000
Total	$ 6,347,000	$ 5,585,000

Revenue by Geographic Region

	For the year ended December 31,	
	2019	2018
United States	$ 5,002,000	$ 4,197,000
International	1,345,000	1,388,000
Total	$ 6,347,000	$ 5,585,000

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

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

Costs to Obtain a Contract with a Customer

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses.

Contract Balances

As of December 31, 2019, and December 31, 2018 we did not have any unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Arrangements with Multiple Performance Obligations

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

Significant Judgments

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

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 accounts receivable, inventory, fair values of financial instruments, intangible assets, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of our assets and liabilities.

Fair Value Measurements

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

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

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

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximated fair value because of the short maturity of these instruments. The recorded value of convertible debt approximates its fair value as the terms and rates approximate market rates (See Note 8).

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, held at financial institutions and other liquid investments with original maturities of three months or less. At times, these deposits may be in excess of insured limits.

Accounts Receivable

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

Inventories

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

We expense costs to maintain certification to cost of goods sold as incurred.

We review inventory on an ongoing basis, considering factors such as deterioration and obsolescence. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories may not be usable.

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.

Leases

In February 2016, the FASB issued ASU No. 2016-02 ("ASC 842"), *Leases*, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. Subsequently, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, ASU No. 2018-11, *Targeted Improvements*, ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*, and ASU 2019-01, *Codification Improvements*, to clarify and amend the guidance in ASU No. 2016-02. ASC 842 eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. This standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We adopted ASC 842 as of January 1, 2019 using the modified retrospective basis with a cumulative effect adjustment as of that date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to carry forward the historical determination of contracts as leases, lease classification and not reassess initial direct costs for historical lease arrangements. Accordingly, previously reported financial statements, including footnote disclosures, have not been recast to reflect the application of the new standard to all comparative periods presented.

Operating lease assets are included within operating lease right-of-use assets, and the corresponding operating lease liabilities are recorded as current portion of long-term operating lease, and within long-term liabilities as long-term operating lease, net of current portion on our consolidated balance sheet as of December 31, 2019.

We have elected not to present short-term leases on the consolidated balance sheet as these leases have a lease term of 12 months or less at lease inception and do not contain purchase options or renewal terms that we are reasonably certain to exercise. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of our leases do not provide an implicit rate of return, we used our incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments.

Capitalized Software Development Costs

In accordance with ASC 985-20 regarding the development of software to be sold, leased, or marketed, the Company expenses such costs as they are incurred until technological feasibility has been established, at and after which time those costs are capitalized until the product is available for general release to customers. The periodic expense for the amortization of capitalized software development costs will be included in cost of sales.

Accrued Warranties

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

Income Taxes

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

Net Loss Per Share

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

Equity Compensation Expense

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

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

Concentrations of Credit Risk

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

Long-Lived Assets Including Acquired Intangible Assets

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the years ended December 31, 2019 and 2018.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

None.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report on Form 10-K, beginning on page F-1, and are incorporated by reference herein.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. 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 Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC'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, our Principal Executive Officer and Principal Financial Officer have 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 Annual Report on 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.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Our management recognizes that any control system, no matter how well designed and operated, is based upon certain judgments and assumptions and cannot provide absolute assurance that its objectives will be met. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Similarly, an evaluation of controls cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

Management's Annual 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) under 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.

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 on Form 10-K, our internal control over financial reporting was effective. Our internal control over financial reporting was not subject to attestation by our independent registered public accounting firm as we are not an accelerated filer, nor a large accelerated filer.

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 directors and executive officers and their ages and positions as of March 15, 2020 are presented below.

Name	Age	Position
Halden S. Shane	75	Chief Executive Officer and Chairman of the Board
Elissa J. Shane	40	Chief Operating Officer
Nick Jennings	44	Chief Financial Officer
Harold W. Paul	71	Director, Secretary
Walter C. Johnsen	69	Director
Kelly J. Anderson	52	Director
Lim Boh Soon	64	Director

Halden S. Shane: Dr. Shane has been our Chief Executive Officer and Chairman of the Board since October 15, 2007, when we commenced our current operations. 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. Dr. Shane received his Bachelor of Science degree from the University of Miami in 1969, his Bachelor of Medical Science degree from California College of Podiatric Medicine in 1971, and his Doctor of Podiatric Medicine Degree from the California College of Podiatric Medicine in 1973. He is Board Certified by the American Board of Podiatric Surgery, American Board of Orthopedics, and the American Board of Quality Assurance and Review. Dr. Shane brings to our Board experience in in the medical and finance industries.

Elissa J. Shane: Ms. Shane has been our Chief Operating Officer since January 2018. Previously, she served as our Chief Regulatory and Compliance Officer from September 2015 to December 2017 and as our Corporate Secretary in 2016. From January 2014 to September 2015, Ms. Shane served as a paralegal with Levi Lubarsky Feigenbaum & Weiss LLP, where she worked with the firm's managing partners and staff attorneys and directed all operational aspects of the litigation cycle from inception through appeal. From September 2009 to January 2014, she served as a paralegal with Olshan Frome Wolosky LLP, where she managed all regulatory and compliance issues, litigation procedures and advertising and promotional matters. Ms. Shane received a B.A. in Psychology and Communications with a minor in Economics from the University of Southern California in 2001.

Nick Jennings: Mr. Jennings has been our Chief Financial Officer since October 2014. From July 2014 until his employment by the Company, Mr. Jennings was self-employed and provided consulting, accounting and tax compliance services to private-owned companies. From November 2006 until June 2014, Mr. Jennings was a senior manager at Richardson Kontogouris Emerson LLP, where he worked with various public and private companies providing services in a variety of business areas including tax compliance, tax consulting, general accounting, and business assurance. 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.

Harold W. Paul: Mr. Paul has been one of our directors since June 2009 and currently acts as our Corporate Secretary. 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. Mr. Paul brings to our Board experience as a director of public companies and with the United States securities laws.

Walter C. Johnsen: Mr. Johnsen has been one of our directors since January 2016. Since January 1, 2007, Mr. Johnsen has served as Chairman of the Board and Chief Executive Officer of Acme United Corporation, a leading worldwide supplier of innovative branded cutting, measuring and safety products in the school, home, office, hardware & industrial markets. From November 30, 1995 to December 31, 2006, he held the titles of President and Chief Executive Officer at Acme United. Mr. Johnsen previously served as Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor. Mr. Johnsen holds a Bachelor of Science in Chemical Engineering and a Master of Science in Chemical Engineering from Cornell University, and a Master of Business Administration from Columbia University. Mr. Johnsen brings to our Board experience with business and operations.

*Kelly J. Anderson***:** Ms. Anderson has been one of our directors since January 2016. Ms. Anderson is a partner in C Suite Financial Partners, a financial consulting services company dedicated to serving private, public, private equity, entrepreneurial, family office and government-owned firms in all industries. Between July 2014 and March 2015, Ms. Anderson was CFO of Mavenlink, a SaaS company. Between October 2012 and January 2014, Ms. Anderson was Chief Accounting Officer of Fisker Automotive. Between April 2010 and February 2012, Ms. Anderson was the President and Chief Financial Officer of T3 Motion, Inc., ("T3"), an electric vehicle technology company. Between March 2008 and April 2010, she served as T3's Executive Vice President and Chief Financial Officer, and as a director from January 2009 until January 2010. From 2006 until 2008, Ms. Anderson was Vice President at Experian, a leading credit reporting agency. From 2004 until 2006, Ms. Anderson was Chief Accounting Officer for TripleNet Properties and its affiliates. From 1996 to 2004, Ms. Anderson held senior financial positions with The First American Corp., a Fortune 500 title insurance company. Ms. Anderson is an inactive California CPA and a 1989 graduate of the College of Business and Economics at California State University, Fullerton. Ms. Anderson brings to our Board experience in finance.

Dr. Lim Boh Soon: Dr. Lim has been one of our directors since January 2018. Dr. Lim has more than 25 years of experience in the banking and finance industry. For more than the past five years, he has been and continues to be a fellow of the Singapore Institute of Directors, and is currently an independent non-executive director on the board of two publicly-listed companies on the Singapore Stock Exchange – since October 2015, he has been a director of Jumbo Group Limited. In addition, Dr. Lim has worked in various senior management positions for several regional and multi-national organizations, including UBS Capital Asia Pacific Limited, The NatSteel Group, Rothschild Ventures Asia Limited and The Singapore Technologies Group. Dr. Lim was also a member of the Regional Investment Committee for UBS AG in Asia. Dr. Lim graduated with a First-Class Honors in Mechanical Engineering from The University of Strathclyde in the United Kingdom (formerly The Royal College of Science & Technology) in 1981 and obtained his Doctor of Philosophy in Mechanical Engineering from The University of Strathclyde in the United Kingdom in 1985.

Family Relationships

Ms. Elissa J. Shane, our Chief Operating Officer, is the daughter of Dr. Halden Shane, our Chief Executive Officer and Chairman of the Board.

Board Composition

Our Board currently consists of five members. Our bylaws provide that our directors will hold office until their successors have been duly elected and qualified. Our Board is responsible for the business and affairs of our Company and considers various matters that require its approval. Our executive officers are appointed by our Board and serve at its discretion.

Scientific Advisory Board

In February 2017, we approved and announced the formation of the TOMI Scientific Advisory Board. The Scientific Advisory Board operates under the terms of a written Advisory Board Charter. The role of TOMI's Scientific Advisory Board will be to:

(1) constructively challenge and help develop proposals on strategy;
(2) attend Scientific Advisory Board meetings;
(3) accept responsibility, publicly and, where necessary, in writing when required to do so under any act, regulation or code of conduct;
(4) scrutinize the performance of management in meetings, prepare agreed goals and objectives, and monitor the reporting of performance on technological and regulatory trends that will impact our business;
(5) set forth our strategic goals with respect to scientific research and development and liaise with us to ensure we obtain the necessary resources to meet our objectives, in scientific research and development;
(6) devote time to developing and refreshing the knowledge of our Company's technology, products and mission in "Innovating for a Safer World"; and
(7) uphold the highest standards of integrity and probity, and support us in maintaining the appropriate culture, values and behaviors.

The Scientific Advisory Board consists of the following members:

Miguel A. Grimaldo, MEng: Miguel A. Grimaldo, MEng is an Assistant Professor in the Department of Pathology, Director of Institutional Biocontainment Resources at the University of Texas Medical Branch ("UTMB") and the Director of the Biocontainment Engineering Division for the Galveston National Laboratory. His responsibilities include the review of all design, construction, commissioning and operation of High and Maximum containment laboratories as well as to ensure regulatory compliance and to conduct ongoing evaluation and recertification on all critical containment features, equipment and operations for Biosafety Level 3 (BSL-3), Animal Biosafety Level 3 (ABSL-3) and Biosafety Level 4 (BSL-4) laboratory facilities at UTMB. He is also a member of the UTMB Institutional Biosafety Committee. He has served as Committee Member for development of the ANSI Z9.14-2014 Standard- Testing and Performance-Verification Methodologies for Ventilation Systems for Biosafety Level 3 (BSL-3) and Animal Biosafety Level 3 (ABSL3) facilities as well as for the 2016 Edition of the National Institute of Health (NIH) - Design Requirements Manual (DRM) for Biomedical Laboratories and Animal Research Facilities. Mr. Grimaldo routinely serves as Biocontainment Advisor for containment laboratories nationally and internationally on design, construction and operations and also routinely contributes to a technical column in the American Biological Safety Association (ABSA) journal, Applied Biosafety, entitled, "Containment Talk". Mr. Grimaldo obtained his Masters of Engineering from the University of Louisville and Bachelor of Science degrees in Agricultural Engineering and Agricultural Economics from Texas A&M University.

Dr. Helene Paxton, MS, MT(ASCP), PhD, CIC: Dr. Helene Paxton, MS, MT(ASCP), PhD, CIC, is an Infection Preventionist, owner of Bio Guidance, LLC, adjunct biology professor at Rowan University and Director of Infection Prevention at Saint Francis Healthcare. She is Infection Control Certified (CIC), board certified as an International Medical Laboratory Scientist and holds a PhD in Epidemiology. Dr. Paxton has over 40 years of experience in medical devices and infectious disease consulting. Dr. Paxton obtained her PhD from Kennedy Western University and her MS from Bowling Green State University.

Audit Committee

Our Audit Committee was established in June 2009 and currently is comprised of Ms. Anderson, Mr. Paul and Dr. Lim. Ms. Anderson serves as chairperson of the Audit Committee. The Company relies on the exemption related to Mr. Paul's lack of standing as a financial expert, since a majority of the Audit Committee was comprised of financial experts and does not believe the committee composition materially affects its ability to act independently. The Audit Committee operates under a written charter, which is available at http://investor.tomimist.com/corporate-governance/audit-committee-charter. The purpose of the Audit Committee is to assist the Board in monitoring the integrity of the annual, quarterly and other financial statements of the Company, the independent auditor's qualifications and independence, the performance of the Company's independent auditors and the compliance by the Company with legal and regulatory requirements. The Audit Committee also reviews and approves all related-party transactions. Our Board has determined that Ms. Anderson is an "audit committee financial expert" as defined by the regulations promulgated by the SEC.

Code of Ethics

The Board adopted a Code of Ethics in 2008 that applies to, among other persons, Board members, officers (including our Chief Executive Officer), contractors, consultants and advisors. Our Code of Ethics, which is available at http://investor.tomimist.com/corporate-governance/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

Summary Compensation Table

The following table sets forth the total compensation paid to or earned by our named executive officers for the years ended December 31, 2019 and 2018, respectively:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option/ Warrant Awards ($) (1)	All Other Compensation ($)	Total ($)
Halden S. Shane	2019	360,000	—	—	89,654(2)	—	449,654
Chairman and CEO (2)	2018	360,000	40,000(7)	—	17,932(3)	—	417,932
Elissa J. Shane (4)	2019	200,000	7,500(7)	—	23,595(4)	9,000(4)	240,095
COO	2018	200,000	20,000(7)	—	36,474(5)	9,000(4)	265,474
Nick Jennings (6)	2019	155,000	5,000(7)	—	4,483(6)	—	164,483
CFO	2018	155,000	10,000(7)	—	—	—	165,000

(1) The amounts shown in this column represent the aggregate grant date fair value of stock, option and/or warrant award, as applicable, granted during the year computed in accordance with FASB ASC Topic 718. See Note 2 of the notes to our audited consolidated financial statements contained in this Annual Report on Form 10-K for a discussion of valuation assumptions made in determining the grant date fair value of the awards.

(2) During the year ended December 31, 2019, we issued Dr. Shane five-year warrant to purchase an aggregate of 1,000,000 shares of common stock as executive compensation. The exercise price of the warrant was $0.10 per share, based on the three-day trailing VWAP on the date of issuance. Utilizing the Black-Scholes pricing model, we determined the fair value of the warrants issued to Dr. Shane was approximately $90,000, with the following assumptions: volatility, 143%; expected dividend yield, 0%; risk free interest rate, 2.58%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrants was $0.09. We recognized equity-based compensation to Dr. Shane of approximately $90,000 on the warrants during the year ended December 31, 2019 pursuant to an employment agreement. Please refer to Item 11 Employment Agreements for additional details of Dr. Shane’s annual compensation.

(3) During the year ended December 31, 2018, we issued Dr. Shane five-year warrants to purchase an aggregate of 250,000 shares of common stock as executive compensation. The exercise price of the warrant was $0.08 per share, based on the three-day trailing VWAP on the date of issuance. Utilizing the Black-Scholes pricing model, we determined the fair value of the warrants issued to Dr. Shane was approximately $18,000, with the following assumptions: volatility, 142%; expected dividend yield, 0%; risk free interest rate, 2.95%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrants was $0.07. We recognized equity-based compensation to Dr. Shane of approximately $18,000 on the warrants during the year ended December 31, 2018.

(4) During the year ended December 31, 2019, we accrued the value of Ms. Shane's options to purchase an aggregate of 250,000 shares of common stock as executive compensation. The exercise price of the option was $0.10 and $0.12 per share. Utilizing the Black-Scholes pricing model, we determined the fair value of the option issued to Ms. Shane was approximately $24,000, with the following assumptions: volatility, 135%; expected dividend yield, 0%; risk free interest rate, 1.64%; and a life of 5 years. The grant date fair value of each share of common stock underlying the options was $0.09 and $0.10. We recognized equity-based compensation to Ms. Shane of approximately $24,000 on the options during the year ended December 31, 2019. The other compensation in the amount of $9,000 represents an auto allowance pursuant to Ms. Shane’s employment agreement. Please refer to Item 11 Employment Agreements for additional details of Ms. Shane’s annual compensation.

(5) In connection with the execution of Ms. Shane’s employment agreement, on January 5, 2018, we issued her an option under the 2016 Plan to purchase 100,000 shares of common stock. The exercise price of the option was $0.12 per share, based on the closing price of our common stock on the date of issuance. Utilizing the Black-Scholes pricing model, we determined the fair value of the option issued to Ms. Shane was approximately $12,000, with the following assumptions: volatility, 146%; expected dividend yield, 0%; risk free interest rate, 2.27%; and a life of 5 years. The grant date fair value of each share of common stock underlying the option was $0.12. In addition, pursuant to her employment agreement, on January 3, 2019, we issued her an option under the 2016 Plan to purchase 250,000 shares of common stock. The exercise price of the option was $0.11 per share, based on the closing price of our common stock on the date of issuance. Utilizing the Black-Scholes pricing model, we determined the fair value of the option issued to Ms. Shane was approximately $25,000, with the following assumptions: volatility, 144%; expected dividend yield, 0%; risk free interest rate, 2.47%; and a life of 5 years. The grant date fair value of each share of common stock underlying the option was $0.10. The option was accrued for as of December 31, 2018. We recognized total equity-based compensation to Ms. Shane of approximately $37,000 on the options during the year ended December 31, 2018.

(6) During the year ended December 31, 2019, we issued Mr. Jennings options to purchase an aggregate of 50,000 shares of common stock as executive compensation. The exercise price of the option was $0.10 per share. Utilizing the Black-Scholes pricing model, we determined the fair value of the option issued to Mr. Jennings was approximately $4,000, with the following assumptions: volatility, 143%; expected dividend yield, 0%; risk free interest rate, 2.58%; and a life of 5 years. The grant date fair value of each share of common stock underlying the options was $0.09. We recognized equity-based compensation to Mr. Jennings of approximately $4,000 on the options during the year ended December 31, 2019. Please refer to Item 11 Employment Agreement for additional details of Mr. Jennings’ annual compensation.

(7) In December 2018, the compensation committee approved cash bonuses to the CEO, COO and CFO which were paid in 2019.
In December 2019, the compensation committee approved cash bonuses to the COO and CFO which were paid in 2019.

Outstanding Equity Awards at 2019 Fiscal Year-End

The following table sets forth certain information with respect to outstanding warrants to purchase common stock previously awarded to our named executive officers as of December 31, 2019.

	Option Awards				
Name	Number of Securities Underlying Unexercised Warrants/Options Exercisable (#)	Number of Securities Underlying Unexercised Warrants/Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Warrants (#)	Warrant Exercise Price ($)	Warrant Expiration Date
Halden S. Shane	2,000,000(1)	—	—	$ 0.30	2/11/2020-2/11/2021
	250,000(2)	—	—	$ 0.50	3/31/2021
	250,000(3)	—	—	$ 0.42	6/30/2021
	250,000(4)	—	—	$ 0.32	9/30/2021
	250,000(5)	—	—	$ 0.27	12/30/2021
	250,000(8)	—	—	$ 0.10	7/17/2022
	3,500,000(9)	—	—	$ 0.12	12/22/2022
	250,000(11)	—	—	$ 0.08	11/19/2023
	1,000,000(12)	—	—	$ 0.10	1/26/2024
Elissa J. Shane	100,000(10)	—	—	$ 0.12	1/5/2023
Nick Jennings	200,000(6)	—	—	$ 0.30	10/1/2020-10/1/2021
	100,000(7)	—	—	$ 0.55	1/26/2021

(1) Warrants vested in increments of 1,000,000 on 2/11/2015 and 2/11/2016 and have a term of 5 years
(2) Warrants vested on 3/31/2016 and have a term of 5 years
(3) Warrants vested on 6/30/2016 and have a term of 5 years
(4) Warrants vested on 9/30/2016 and have a term of 5 years
(5) Warrants vested on 12/30/2016 and have a term of 5 years
(6) Warrants vested in increments of 100,000 on 10/1/2015 and 10/1/2016 and have a term of 5 years
(7) Warrants vested on 1/26/2016 and have a term of 5 years
(8) Warrants vested on 7/17/2017 and have a term of 5 years
(9) Warrants vested on 12/22/2017 and have a term of 5 years
(10) Options vested on 1/5/2018 and have a term of 5 years
(11) Warrants vested on 11/19/2018 and have a term of 5 years
(12) Warrants vested on 1/26/2019 and have a term of 5 years

Employment Agreements, Termination of Employment and Change-in-Control Arrangements

Except as described below, we currently have no employment agreements with any of our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control.

Employment Agreements

We have entered into employment agreements with each of the named executive officers and generally include the named executive officer's initial base salary and an indication of equity compensation opportunities.

Halden S. Shane

On January 15, 2016, we entered into an employment agreement with Dr. Shane, effective January 1, 2016. The agreement provides for a base annual salary of $360,000. The agreement also provides for the quarterly issuance of an option to purchase 250,000 shares of common stock in 2016 with an exercise price equal to the three-day trailing volume weighted average price of our common stock. In the event Dr. Shane is terminated for any reason or becomes disabled or dies, any options he holds at such time will become cashless and will be entitled to piggyback registration and exercise immediately. Dr. Shane is also entitled to performance bonuses, subject to the achievement of certain objectives, including (i) a minimum semi-annual grant of stock options to purchase up to 250,000 shares of common stock and (ii) a cash bonus, determined in the sole discretion of the Board. The agreement also provides that we will reimburse Dr. Shane for certain business and entertainment expenses, including the use of an automobile.

In the event Dr. Shane is terminated as CEO as a result of a change in control, Dr. Shane will be entitled to a lump sum payment of two year's salary at the time of such termination and will be granted an option to purchase 3,000,000 shares of common stock that are cashless and, when exercised, will have piggyback registration or demand registration rights, and if applicable, any and all outstanding stock grants will be accelerated and be fully vested.

The Board may terminate Dr. Shane for cause by written notification to Dr. Shane; provided, however, that no termination for cause will be effective unless Dr. Shane has been provided with prior written notice and opportunity for remedial action and fails to remedy within 30 days thereof, in the event of a termination by the Company (i) by reason of willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, the Company, (ii) by reason of material breach of his employment agreement and (iii) by reason of gross negligence or intentional misconduct with respect to the performance of duties under the agreement. Upon termination for cause, Dr. Shane will be immediately paid an amount equal to his gross salary. The Board may terminate Dr. Shane other than for cause at any time upon giving notice to Dr. Shane. Upon such termination, Dr. Shane will be immediately paid an amount equal to his gross salary.

Elissa J. Shane

On January 5, 2018, in connection with her appointment as our Chief Operating Officer, we entered into an employment agreement with Elissa J. Shane, effective January 1, 2018. Pursuant to her employment agreement, Ms. Shane will receive an annual base salary of at least $200,000, subject to annual review and discretionary increase by the Compensation Committee of the Board. Ms. Shane is eligible to receive an annual cash bonus and other annual incentive compensation, and the agreement provides that we will issue Ms. Shane annually an option to purchase at least 250,000 shares of common stock pursuant to the 2016 Plan. Additionally, in connection with the execution of her employment agreement, on January 5, 2018, we issued Ms. Shane an option under the 2016 Plan to purchase 100,000 shares of common stock at an exercise price of $0.12 per share. Her employment agreement also provides that we will reimburse Ms. Shane for reasonable and necessary business and entertainment expenses that she incurs in performing her duties. During the term of her employment, Ms. Shane will also be entitled to up to four weeks of paid vacation time annually, which will accrue up to six weeks, and to participate in our benefit plans and programs, including but not limited to all group health, life, disability and retirement plans. Ms. Shane is also entitled to the sum of $750 per month as a vehicle allowance. The initial term of her employment agreement is three years, which may be automatically extended for successive one-year terms, unless either party provides the other with 120 days' prior written notice of its intent to terminate the agreement.

Nick Jennings

On September 2, 2015, we entered into a new employment agreement with Mr. Jennings, which superseded his prior agreement, pursuant to which he continues to serve as our Chief Financial Officer. Mr. Jennings' annual salary is $132,000, which is reviewed annually. On January 26, 2016, we issued Mr. Jennings a five-year warrant to purchase up to 100,000 shares of common stock at an exercise price of $0.55 per share. The agreement also provided for the issuance of an additional five-year warrant to purchase 100,000 shares of common stock in 2016, however, this provision was modified to grant a salary increase in lieu of the options. In January 2018, Mr. Jennings' annual salary was increased to $155,000 per year. Mr. Jennings is also entitled to additional equity compensation based upon superior performance of his responsibilities, as determined by the Board in its sole discretion. The agreement also provides that we will reimburse Mr. Jennings for certain business and entertainment expenses. In the event of a change in control of the Company that results in his termination, Mr. Jennings will be entitled to a lump sum payment of one year's salary and all equity awards will be accelerated and fully vested. In the event his employment is terminated other than for cause, Mr. Jennings will receive an amount equal to his annual salary as of such termination date after the second employment anniversary.

Director Compensation

Each of our non-employee directors receives cash fees and stock as compensation for their service on the Board and the committees of the Board on which they are a member. The tables below set forth cash and stock compensation earned by each non-employee director during the fiscal year ended December 31, 2019.

Name	Fees earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Other Compensation ($)	Total ($)
Harold W. Paul (1)	40,000	11,000	—	72,000	123,000
Walter Johnsen (2)	40,000	11,000	—	—	51,000
Kelly Anderson (3)	45,000	11,000	—	—	56,000
Lim Boh Soon (4)	40,000	11,000	—	—	51,000

(1) Mr. Paul also received $72,000 in cash compensation in exchange for legal services rendered during 2019. In January 2019, we issued Mr. Paul 100,000 shares of common stock that were valued at $11,000.

(2) Mr. Johnsen was elected to the Board on January 29, 2016. The term of his agreement as director commenced on February 1, 2016 for up to two years and until a successor is elected, or resignation or removal. Our agreement with Mr. Johnsen provides for an annual fee in the amount of $40,000 paid on a quarterly basis and an annual grant of shares of common stock. In January 2019, we issued Mr. Johnsen 100,000 shares of common stock that were valued at $11,000.

(3) Ms. Anderson was elected to the Board on January 29, 2016 and serves as the chairperson of our Audit Committee. The term of her agreement as director commenced on February 1, 2016 for up to two years and until a successor is elected, or resignation or removal. Our agreement with Ms. Anderson provides for an annual fee in the amount of $45,000 paid on a quarterly basis and an annual grant of shares of common stock. In January 2019, we issued Ms. Anderson 100,000 shares of common stock that were valued at $11,000.

(4) Mr. Lim was elected to the Board on January 29, 2018. The term of his agreement as director commenced on February 1, 2018 for up to three years and until a successor is elected, or resignation or removal. Our agreement with Mr. Lim provides for an annual fee in the amount of $40,000 paid on a quarterly basis and an annual grant of shares of common stock. In January 2019, we issued Mr. Lim 100,000 shares of common stock that were valued at $11,000.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT ANDRELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

We currently maintain one compensation plan: the 2016 Plan. The 2016 Plan was approved by the Board on January 29, 2016 and received shareholder approval on July 7, 2017. The 2016 Plan authorizes the issuance of 5,000,000 shares of common stock. On August 25, 2015, the Board terminated the 2008 Plan, which we had maintained previously and which our shareholders had approved. Accordingly, we will issue future awards under the 2016 Plan.

The following table provides information as of December 31, 2019 with respect to compensation plans under which our equity securities are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans(3)
Equity compensation plans approved by security holders	620,000(1)	$ 0.32	3,480,000
Equity compensation plans not approved by security holders	11,625,000(2)	$ 0.40	—
Total	12,245,000	$ 0.36	—

(1) Prior to August 25, 2015, we granted awards under the 2008 Plan.
(2) Represents shares of common stock issuable upon the exercise of warrants issued to executive officers, employees and consultants in exchange for services rendered.
(3) On July 7, 2017, the 2016 Plan received shareholder approval, which permits the grant up to 5,000,000 shares of common stock

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to the beneficial ownership of our common stock and Series A preferred stock (together, “Voting Stock”) as of March 24, 2020 for:

- each person (or group of affiliated persons) known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock or Series A preferred stock;
- each of our directors and nominees for election to the Board;
- each of the executive officers named in the summary compensation table; and
- all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the following table have sole voting and investment power with respect to all shares of Voting Stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 133, 517,083 shares of common stock and 510,000 shares of Series A preferred stock outstanding at March 24, 2020. In computing the number of shares of Voting Stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of Voting Stock subject to options, warrants or other convertible securities held by that person or entity that are currently exercisable or releasable or that will become exercisable or releasable within 60 days of March 24, 2020. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Except as otherwise noted, the address of each person or entity in the following table is c/o TOMI Environmental Solutions, Inc., 9454 Wilshire Blvd., Penthouse, Beverly Hills, CA 90212.

	Shares Beneficially Owned				
	Common Stock		Series A Preferred Stock		
	Shares	% of Class	Shares	% of Class	% of Total VotingPower(1)
Named Executive Officers and Directors:					
Halden S. Shane, CEO and Chairman of the Board	28,595,048(2)	20. 0%	510,000	100%	20.3%
Elissa J. Shane, Chief Operating Officer	2,491,310(3)	1.7%			1.7%
Nick Jennings, Chief Financial Officer	462,145(4)	*	—	—	*
Harold W. Paul, Secretary, Director	1,559,774(5)	1.1%	—	—	1.1%
Walter Johnsen, Director	350,000(6)	*	—	—	*
Kelly Anderson, Director	350,000(7)	*	—	—	*
Lim Boh Soon, Director	790,190(8)	*	—	—	*
All current directors and executive officers as a group (7 persons)	34,598,467(9)	24. 2%	510,000	100%	24.5%
5% Beneficial Owners:					
Lau Sok Huy	17,361,111(10)	13.0%	—	—	13.0%
Ah Kee Wee	11,666,669(11)	8.7%	—	—	8.7%

* Denotes ownership of less than 1%

(1) Percentage of total voting power represents voting power with respect to all shares of our common stock and Series A preferred stock, as a single class. The holders of common stock and Series A preferred stock are each entitled to one vote per share.

(2) Consists of (i) 18,845,048 shares of common stock held of record by Dr. Shane, (ii) 1,500,000 shares of common stock held of record by the Shane Family Trust, (iii) 1,000,000 shares of common stock held of record by Belinha Shane and (iv) 8,250,000 shares of common stock issuable upon the exercise of warrants to purchase common stock held by Dr. Shane that are exercisable within 60 days of March 24, 2020. Dr. Shane is a co-trustee of the Shane Family Trust and may be deemed to share voting and investment power over the securities held by the trust. Belinha Shane is Dr. Shane's wife. Dr. Shane disclaims ownership of such shares held by his wife, except to the extent of his pecuniary interest.

(3) Consists of (i) 1,891,310 shares of common stock held of record by Ms. Shane and (ii) 600,000 shares of common stock issuable upon the exercise of options to purchase common stock held by Ms. Shane that are exercisable within 60 days of March 24, 2020.

(4) Consists of (i) 112,145 shares of common stock held of record by Mr. Jennings and (ii) 350,000 shares of common stock issuable upon the exercise of warrants and options to purchase common stock held by Mr. Jennings that are exercisable within 60 days of March 24, 2020.

(5) Consists of (i) 1,514,774 shares of common stock held of record by Mr. Paul and (ii) 45,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of March 24, 2020.

(6) Consists of (i) 325,000 shares of common stock held of record by Mr. Johnsen and (ii) 25,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of March 24, 2020.

(7) Consists of (i) 325,000 shares of common stock held of record by Ms. Anderson and (ii) 25,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of March 24, 2020.

(8) Consists of 790,190 shares of common stock held of record by Dr. Lim.

(9) Consists of (i) 25,303,467 shares of common stock, (ii) 8,550,000 shares of common stock issuable upon the exercise of warrants to purchase common stock and (iii) 745,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of March 24, 2020.

(10) Based on Form 3 filed with the SEC by Lau Sok Huy on January 24, 2018.

(11) Based on information reported by Mr. Wee to the Company. Consists of (i) 8,666,669 shares of common stock and (ii) 3,000,000 shares of common stock issuable upon the exercise of warrants to purchase common stock held by Mr. Wee that are exercisable within 60 days of March 24, 2020.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change in control of our Company.

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

Transactions with Related Persons

None.

Independence of the Board

Based upon information submitted by Mr. Johnsen, Ms. Anderson, Dr. Lim and Mr. Paul the Board has determined that each of them is "independent" for purposes of OTC Governance Guidelines for directors. Mr. Shane is not an independent director. No director will be considered "independent" unless the Board affirmatively determines that the director has no direct or indirect material relationship with the Company.

Our Board has three separate standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

We have made each of our committee charters available on our website at http://investor.tomimist.com/.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Accountant Fees

The following table presents the aggregate fees billed for audit and other services provided by our independent registered public accounting firm, Wolinetz, Lafazan & Company, P.C, during the 2019 and 2018 fiscal years:

	For the Fiscal Years Ended December 31,	
	2019	2018
Audit Fees (1)	$ 122,000	$ 108,000
Audit-Related Fees (2)	—	—
Tax Fees (3)	—	—
All Other Fees (4)	—	—
Total	$ 122,000	$ 108,000

(1) Audit Fees- 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.
(2) Audit-Related Fees- Audit-related fees represent professional services rendered for assurance and related services by Wolinetz, Lafazan & Company, P.C. that were reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.
(3) Tax Fees- Tax fees represent professional services rendered by the accounting firm for tax compliance, tax advice, and tax planning.
(4) All Other Fees- All other fees represent fees billed for products and services provided by Wolinetz, Lafazan & Company, P.C other than the services reported for the other categories.

Pre-Approval Policies and **Procedures of the Audit Committee**

Consistent with the rules and regulations promulgated by the Securities and Exchange Commission, the Audit Committee approves the engagement of our independent registered public accounting firm and is also required to pre-approve all audit and non-audit expenses. All of the services described above were approved by the Audit Committee in accordance with its procedure. We do 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) Financial Statements. See Index to Financial Statements and Schedule on page F-1.

(2) Schedules to Financial Statements. All financial statement schedules have been omitted because they are either inapplicable or the information required is provided in our consolidated financial statements and the related 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 (or incorporated by reference herein) 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.

Date: March 30, 2020

By: /s/ Halden S. Shane
Halden S. Shane
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

The undersigned directors and officers of TOMI Environmental Solutions, Inc. constitute and appoint Halden S. Shane and Nick Jennings, or either of them, as their true and lawful attorney and agent with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorney and agent may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments hereto; and we do hereby ratify and confirm all that said attorney and agent shall do or cause to be done by virtue hereof. 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.

Signature	Title	Date
/s/ HALDEN S. SHANE **Halden S. Shane**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30, 2020
/s/ NICK JENNINGS **Nick Jennings**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2020
/s/ HAROLD W. PAUL **Harold W. Paul**	Director	March 30, 2020
/s/ WALTER C. JOHNSEN **Walter C. Johnsen**	Director	March 30, 2020
/s/ KELLY J. ANDERSON **Kelly J. Anderson**	Director	March 30, 2020
/s/ LIM BOH SOON **Lim Boh Soon**	Director	March 30, 2020

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Form	File No.	Date	Exhibit	Filed Herewith
3.1	Articles of Restatement of the Registrant, effective October 6, 2009	S-1	333-162356	10/6/09	3.1	
3.2	Articles of Amendment of Articles of Incorporation of the Registrant, effective October 24, 2011	8-K	000-09908	10/24/11	3.1(a)	
3.3	Amended Bylaws of the Registrant, adopted effective November 2, 2007	10-Q	000-09908	5/16/16	3.2	
3.4	Amendment to Amended Bylaws of the Registrant, adopted effective January 29, 2016	8-K	000-09908	2/1/16	3.2	
10.1+	2016 Equity Incentive Plan, as adopted by the Registrant's Board of Directors on January 29, 2016	10-Q	000-09908	5/16/16	10.6	
10.2+	Offer Letter, dated January 15, 2016, by and between the Registrant and Dr. Halden Shane	10-Q	000-09908	5/16/16	10.1	
10.3+	Employment Agreement, dated February 8, 2016, by and between the Registrant and Robert Wotczak	10-Q	000-09908	5/16/16	10.2	
10.4+	Offer Letter, dated September 2, 2015, by and between the Registrant and Nick Jennings	10-Q	000-09908	5/16/16	10.3	
10.5+	Offer Letter, dated September 2, 2015, by and between the Registrant and Norris Gearhart	10-Q	000-09908	5/16/16	10.4	
10.6+	Form of Appointment to the Board of Directors as Independent Director of the Registrant	10-Q	000-09908	5/16/16	10.5	
10.7	Restated Manufacturing and Development Agreement, dated November 10, 2016, by and between the Registrant and RG Group	10-Q	000-09908	9/30/16	10.1	
10.8+	Employment Agreement, entered into as of January 5, 2018, by and between the Registrant and Elissa J. Shane, effective as of January 1, 2018	8-K	000-09908	1/18/18	10.1	
14.1	Code of Ethics	10-K	000-09908	3/31/07	14	
21.1	Subsidiaries of the Registrant					X
24.1	Power of Attorney (included in signature page)					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1#	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X

+Indicates a management contract or compensatory plan.

#The information in Exhibit 32.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act (including this report), unless the Registrant specifically incorporates the foregoing information into those documents by reference.

TOMI ENVIRONMENTAL SOLUTIONS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of
TOMI Environmental Solutions, Inc.

Opinion on the Consolidated Financial Statements

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

Basis for Opinion

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

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

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

WOLINETZ, LAFAZAN & COMPANY, P.C.

We have served as the Company's auditor since 2007.
Rockville Centre, New York
March 30, 2020

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:	December 31, 2019	December 31, 2018
Cash and Cash Equivalents	$ 897,223	$ 2,004,938
Accounts Receivable - net	1,494,658	2,145,622
Inventories (Note 3)	2,315,214	2,682,014
Deposits	141,052	109,441
Prepaid Expenses	187,664	301,797
Total Current Assets	5,035,811	7,243,812
Property and Equipment – net (Note 4)	1,367,864	1,588,591
Other Assets:		
Intangible Assets – net (Note 5)	939,010	1,235,816
Operating Lease - Right of Use Asset (Note - 6)	674,471	-
Capitalized Software Development Costs - net (Note 7)	94,278	-
Other Assets	114,033	11,395
Total Other Assets	1,821,792	1,247,211
Total Assets	$ 8,225,467	$ 10,079,614
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 713,222	$ 1,133,649
Accrued Expenses and Other Current Liabilities (Note 13)	450,112	415,199
Accrued Officers Compensation	-	70,000
Accrued Interest (Note 8)	66,667	66,667
Customer Deposits	-	1,486
Current Portion of Long-Term Operating Lease	71,510	-
Deferred Rent	-	13,215
Convertible Notes Payable, net of discount of $0		
at December 31, 2019 (Note 8)	5,000,000	-
Total Current Liabilities	6,301,511	1,700,216
Long-Term Liabilities:		
Long-Term Operating Lease, Net of Current Portion (Note 6)	1,034,413	-
Deferred Rent and Tenant Improvement Allowances	-	401,734
Convertible Notes Payable, net of discount of $17,534 at		
December 31, 2018 (Note 8)	-	4,982,466
Total Long-Term Liabilities	1,034,413	5,384,200
Total Liabilities	7,335,924	7,084,416
Commitments and Contingencies	-	-
Shareholders' Equity:		
Cumulative Convertible Series A Preferred Stock;		
par value $0.01 per share, 1,000,000 shares authorized; 510,000 shares issued		
and outstanding at December 31, 2019 and December 31, 2018	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, 2019 and December 31, 2018	-	-
Common stock; par value $0.01 per share, 250,000,000 and 200,000,000		
shares authorized at December 31, 2019 and December 31, 2018, respectively;		
124,700,418 and 124,290,418 shares issued and outstanding		
at December 31, 2019 and December 31, 2018, respectively.	1,247,004	1,242,904
Additional Paid-In Capital	43,136,683	42,948,705
Accumulated Deficit	(43,499,244)	(41,201,511)
Total Shareholders' Equity	889,543	2,995,198
Total Liabilities and Shareholders' Equity	$ 8,225,467	$ 10,079,614

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

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Years Ended December 31,	
	2019	**2018**
Sales, net	$ 6,347,160	$ 5,584,612
Cost of Sales	2,433,243	2,467,114
Gross Profit	3,913,917	3,117,498
Operating Expenses:		
Professional Fees	363,789	329,674
Depreciation and Amortization	716,165	634,671
Selling Expenses	1,654,564	1,360,430
Research and Development	340,582	916,003
Equity Compensation Expense (Note 9)	114,222	77,242
Consulting Fees	126,693	140,858
General and Administrative	2,681,146	2,728,840
Total Operating Expenses	5,997,161	6,187,718
Loss from Operations	(2,083,244)	(3,070,220)
Other Income (Expense):		
Gain on Redemption of Convertible Note	-	150,000
Amortization of Debt Discounts	(17,534)	(38,091)
Induced Conversion Costs	-	(57,201)
Interest Income	3,045	6,928
Interest Expense	(200,000)	(221,878)
Total Other Income (Expense)	(214,489)	(160,242)
Net Loss	$ (2,297,733)	$ (3,230,462)
Loss Per Common Share		
Basic and Diluted	$ (0.02)	$ (0.03)
Basic and Diluted Weighted Average Common Shares Outstanding	124,690,062	123,574,672

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

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Series A Preferred		Common Stock				
	Shares	Amount	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Equity
Balance at December 31, 2017	510,000	$ 5,100	122,049,958	$ 1,220,499	$42,139,675	$(37,971,049)	$ 5,394,225
Equity Compensation					31,522		31,522
Common Stock Issued for Services Provided			362,500	3,625	33,875		37,500
Conversion of Notes Payable and Accrued Interest into Common Stock			1,877,960	18,780	686,432		705,212
Induced Conversion Costs					57,201		57,201
Net Loss for the year ended December 31, 2018						(3,230,461)	(3,230,461)
Balance at December 31, 2018	510,000	5,100	124,290,418	1,242,904	42,948,705	(41,201,510)	2,995,198
Equity Compensation					146,878		146,878
Common Stock Issued for Services Provided			410,000	4,100	41,100		45,200
Net Loss for the year ended December 31, 2019						(2,297,733)	(2,297,733)
Balance at December 31, 2019	510,000	$ 5,100	124,700,418	$ 1,247,004	$43,136,683	$(43,499,243)	$ 889,543

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

TOMI ENVIRONMENTAL SOLUTIONS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31,	
	2019	**2018**
Cash Flow From Operating Activities:		
Net Loss	$ (2,297,733)	$ (3,230,462)
Adjustments to Reconcile Net Loss to		.
Net Cash Used In Operating Activities:		
Depreciation and Amortization	716,165	634,671
Amortization of Lease Liability	157,315	-
Amortization of Debt Discount	17,534	38,091
Amortization of Software Costs	31,426	-
Equity Compensation Expense	114,222	31,522
Value of Equity Issued for Services	45,200	37,500
Induced Conversion Costs	-	57,201
Reserve for Bad Debt	(190,000)	(200,000)
Inventory Reserve	-	100,000
Gain on Redemption of Convertible Note	-	(150,000)
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Accounts Receivable	840,964	(109,673)
Inventory	348,226	629,023
Prepaid Expenses	78,269	(88,170)
Deposits	(31,611)	(109,441)
Security Deposits	-	(6,695)
Other Assets	(154,330)	-
Increase (Decrease) in:		
Accounts Payable	(420,427)	381,919
Accrued Expenses	67,569	148,063
Accrued Interest	-	(8,122)
Accrued Officer Compensation	(70,000)	70,000
Deferred Rent	-	9,168
Customer Deposits	(1,486)	(1,576)
Lease Liability	(65,753)	-
Net Cash Used in Operating Activities	(814,451)	(1,766,980)
Cash Flow From Investing Activities:		
Capitalized Software Costs	(125,704)	-
Capitalized Patent Costs	(21,980)	-
Purchase of Property and Equipment	(145,580)	(628,085)
Net Cash Used in Investing Activities	(293,264)	(628,085)

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

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

	For the Year Ended December 31, 2019	2018
Cash Flow From Financing Activities:		
Repayment of Principal Balance on Convertible Note	$ -	$ (150,000)
Net Cash Used in Financing Activities	-	(150,000)
Decrease In Cash and Cash Equivalents	(1,107,715)	(2,545,065)
Cash and Cash Equivalents - Beginning	2,004,938	4,550,003
Cash and Cash Equivalents – Ending	$ 897,223	$ 2,004,938
Supplemental Cash Flow Information:		
Cash Paid for Interest	$ 200,000	$ 230,000
Cash Paid for Income Taxes	$ 800	$ 800
Non-Cash Investing and Financing Activities:		
Accrued Equity Compensation	$ 32,656	$ -
Transfer of equipment from inventory to property and equipment	$ 18,574	$ 107,846
Patent and Trademark Costs Reclassified from Other Assets to Intangible Assets, net	$ 51,692	$ 56,792
Establishment of Tenant Improvement Allowance	$ -	$ 405,000
Abandonment of Fully Depreciated Property and Equipment	$ -	$ 66,428
Conversion of Convertible Note Payable and Accrued Interest into Common Stock	$ -	$ 705,212

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

NOTE 1. DESCRIPTION OF BUSINESS

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Reclassification of Accounts

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

Use of Estimates

The preparation of 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 accounts receivable, inventory, fair values of financial instruments, intangible assets, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of our assets and liabilities.

Fair Value Measurements

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

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

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

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximated fair value because of the short maturity of these instruments. The recorded value of convertible debt approximates its fair value as the terms and rates approximate market rates (See Note 8).

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, held at financial institutions and other liquid investments with original maturities of three months or less. At times, these deposits may be in excess of insured limits.

Accounts Receivable

Our accounts receivable are typically from credit worthy customers or, for certain international customers, are supported by pre-payments. For those customers to whom we extend credit, we perform periodic evaluations of them and maintain allowances for potential credit losses as deemed necessary. We have a policy of reserving for doubtful accounts based on our best estimate of the amount of potential credit losses in existing accounts receivable. We periodically review our accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Bad debt expense for the years ended December 31, 2019 and 2018 was $32,721 and $96,929, respectively.

At December 31, 2019 and December 31, 2018, the allowance for doubtful accounts was $110,000 and $300,000, respectively.

As of December 31, 2019, three customers accounted for 37% of accounts receivable.

As of December 31, 2018, two customers accounted for 37% of accounts receivable. One customer accounted for 13% of net revenues for the year ended December 31, 2018.

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.

We expense costs to maintain certification to cost of goods sold as incurred.

We review inventory on an ongoing basis, considering factors such as deterioration and obsolescence. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories may not be usable. Our reserve for obsolete inventory was $100,000 as of December 31, 2019 and 2018.

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.

Leases

In February 2016, the FASB issued ASU No. 2016-02 (“ASC 842”), *Leases*, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. Subsequently, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, ASU No. 2018-11, *Targeted Improvements*, ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*, and ASU 2019-01, *Codification Improvements*, to clarify and amend the guidance in ASU No. 2016-02. ASC 842 eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. This standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We adopted ASC 842 as of January 1, 2019 using the modified retrospective basis with a cumulative effect adjustment as of that date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to carry forward the historical determination of contracts as leases, lease classification and not reassess initial direct costs for historical lease arrangements. Accordingly, previously reported financial statements, including footnote disclosures, have not been recast to reflect the application of the new standard to all comparative periods presented.

Operating lease assets are included within operating lease right-of-use assets, and the corresponding operating lease liabilities are recorded as current portion of long-term operating lease, and within long-term liabilities as long-term operating lease, net of current portion on our consolidated balance sheet as of December 31, 2019.

We have elected not to present short-term leases on the consolidated balance sheet as these leases have a lease term of 12 months or less at lease inception and do not contain purchase options or renewal terms that we are reasonably certain to exercise. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of our leases do not provide an implicit rate of return, we used our incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments.

Adoption of the new lease standard on January 1, 2019 had a material impact on our consolidated balance sheet. The most significant impacts related to the recognition of right-of-use ("ROU") asset of $714,421 and lease liability of $678,556 for our operating lease on the consolidated balance sheet. We also reclassified prepaid expenses of $35,865 and deferred rent balance, including tenant improvement allowances, and other liability balances of $414,949 relating to our existing lease arrangements as of December 31, 2018, into the ROU asset balance as of January 1, 2019. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. The standard did not materially impact our consolidated statement of operations and consolidated statement of cash flows.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2019 for the adoption of the new lease standard was as follows:

	Balances at December 31, 2018	Effect of Adoption of New Lease Standard	Balances at January 1, 2019
Assets			
Prepaid Expenses	$ 301,797	$ (35,865)	$ 265,932
Operating Lease Right of Use Asset	$ -	$ 714,421	$ 714,421
Liabilities			
Deferred Rent	$ 13,215	$ (13,215)	$ -
Current Portion of Long-Term Operating Lease	$ -	$ -	$ -
Deferred Rent and Tenant Improvement Allowances	$ 401,734	$ (401,734)	$ -
Long-Term Operating Lease, Net of Current Portion	$ -	$ 1,093,505	$ 1,093,505
Shareholders’ Equity			
Accumulated Deficit	$ (41,201,511)	$ -	$ (41,201,511)

Capitalized Software Development Costs

In accordance with ASC 985-20 regarding the development of software to be sold, leased, or marketed, the Company expenses such costs as they are incurred until technological feasibility has been established, at and after which time those costs are capitalized until the product is available for general release to customers. The periodic expense for the amortization of capitalized software development costs will be included in cost of sales. Amortization expense for the year ended December 31, 2019 was $31,426.

Accounts Payable

As of December 31, 2019, one vendor accounted for approximately 40% of accounts payable. As of December 31, 2018, three vendors accounted for approximately 63% of accounts payable

One vendor accounted for 72% and 70% of cost of sales for the years ended December 31, 2019 and 2018, respectively.

Accrued Warranties

Accrued warranties represent the estimated costs, if any, that will be incurred during the warranty period of our products. We estimate the expected costs to be incurred during the warranty period and record the expense to the consolidated statement of operations at the date of sale. Our manufacturer assumes the warranty against product defects for one year from date of sale, which we extend to our customers upon sale of the product. We assume responsibility for product reliability and results. As of December 31, 2019, and 2018, our warranty reserve was $30,000.

Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits that are, on a more likely than not basis, not expected to be realized in accordance with Accounting Standards Codification (“ASC”) guidance for income taxes. Net deferred tax benefits have been fully reserved at December 31, 2019 and 2018. 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.

Net Loss Per Share

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

Potentially dilutive securities as of December 31, 2019 consisted of 9,259,250 shares of common stock from convertible debentures, 17,240,523 shares of common stock issuable upon exercise of outstanding warrants, 620,000 shares of common stock issuable upon outstanding options and 510,000 shares of common stock issuable upon conversion of outstanding shares of Preferred A stock (“Convertible Series A Preferred Stock”). Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

Potentially dilutive securities as of December 31, 2018 consisted of 9,259,250 shares of common stock from convertible debentures, 26,550,611 shares of common stock issuable upon exercise of outstanding warrants, 320,000 shares of common stock issuable upon outstanding options and 510,000 shares of common stock issuable upon conversion of outstanding shares of Preferred A stock (“Convertible Series A Preferred Stock”). Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

Diluted net loss per share is computed similarly to basic net loss per share except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential shares of common stock had been issued and if such additional shares were dilutive. Options, warrants, preferred stock and shares associated with the conversion of debt to purchase approximately 27.6 million and 36.6 million shares of common stock were outstanding at December 31, 2019 and December 31, 2018, respectively, but were excluded from the computation of diluted net loss per share due to the anti-dilutive effect on net loss per share.

	For the Year Ended December 31,	
	2019	2018
Net loss	$ (2,297,733)	$ (3,230,462)
Adjustments for convertible debt - as converted		
Interest on convertible debt	200,000	221,878
Amortization of debt discount on convertible debt	17,534	38,091
Net loss attributable to common shareholders	$ (2,080,199)	$ (2,970,473)
Weighted average number of shares of common stock outstanding:		
Basic and diluted	124,690,062	123,574,672
Net loss attributable to common shareholders per share:		
Basic and diluted	$ (0.02)	$ (0.02)

Revenue Recognition

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company recognizes revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with customers we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) we satisfy the performance obligation(s). At contract inception, we assess the goods or services promised within each contract, assess whether each promised good or service is distinct and identify those that are performance obligations.

The Company must use judgment to determine: a) the number of performance obligations based on the determination under step (ii) above and whether those performance obligations are distinct from other performance obligations in the contract; b) the transaction price under step (iii) above; and c) the stand-alone selling price for each performance obligation identified in the contract for the allocation of transaction price in step (iv) above.

Title and risk of loss generally pass to our customers upon shipment. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor, and we have no further obligations related to bringing about resale. Revenues are reported net of sales taxes collected from Customers.

Disaggregation of Revenue

The following table presents our revenues disaggregated by revenue source.

Net Revenue

Product and Service Revenue

	For the year ended December 31,	
	2019	2018
SteraMist Product	$ 4,999,000	$ 4,652,000
Service and Training	1,348,000	933,000
Total	$ 6,347,000	$ 5,585,000

Revenue by Geographic Region

	For the year ended December 31,	
	2019	2018
United States	$ 5,002,000	$ 4,197,000
International	1,345,000	1,388,000
Total	$ 6,347,000	$ 5,585,000

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

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

Costs to Obtain a Contract with a Customer

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses.

Contract Balances

As of December 31, 2019 and 2018 we did not have any unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Arrangements with Multiple Performance Obligations

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

Significant Judgments

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

Equity Compensation Expense

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

On July 7, 2017, our shareholders approved the 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and performance units/shares. Up to 5,000,000 shares of common stock are authorized for issuance under the 2016 Plan. Shares issued under the 2016 Plan may be either authorized but unissued shares, treasury shares, or any combination thereof. Provisions in the 2016 Plan permit the reuse or reissuance by the 2016 Plan of shares of common stock for numerous reasons, including, but not limited to, shares of common stock underlying canceled, expired, or forfeited awards of stock-based compensation and stock appreciation rights paid out in the form of cash. Equity compensation expense will typically be awarded in consideration for the future performance of services to us. All recipients of awards under the 2016 Plan are required to enter into award agreements with the Company at the time of the award; awards under the 2016 Plan are expressly conditioned upon such agreements. For the year ended December 31, 2019 and 2018, we issued 400,000 and 300,000 shares of common stock, respectively, out of the 2016 Plan.

Concentrations of Credit Risk

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

Long-Lived Assets Including Acquired Intangible Assets

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the years ended December 31, 2019 and 2018.

Advertising and Promotional Expenses

We expense advertising costs in the period in which they are incurred. Advertising and promotional expenses included in selling expenses for the years ended December 31, 2019 and 2018 were approximately $144,000 and $204,000, respectively.

Research and Development Expenses

We expense research and development expenses in the period in which they are incurred. For the years ended December 31, 2019 and 2018, research and development expenses were approximately $341,000 and $916,000, respectively.

Shipping and Handling Costs

We include shipping and handling costs relating to the delivery of products directly from vendors to the Company in cost of sales. Other shipping and handling costs, including third-party delivery costs relating to the delivery of products to customers, are classified as a general and administrative expense. Shipping and handling costs included in general and administrative expense were approximately $186,000 and $206,000 for the years ended December 31, 2019 and 2018, respectively.

Business Segments

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

Recent Accounting Pronouncements

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

NOTE 3. INVENTORIES

Inventories consist of the following at:

	December 31, 2019	December 31, 2018
Finished goods	$ 2,364,786	$ 2,782,014
Raw Materials	50,428	-
Inventory Reserve	(100,000)	(100,000)
	$ 2,315,214	$ 2,682,014

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

	December 31, 2019	December 31, 2018
Furniture and fixtures	$ 357,236	$ 277,976
Equipment	1,355,014	1,300,139
Vehicles	60,703	60,703
Computer and software	166,598	143,579
Leasehold improvements	362,898	355,898
Tenant Improvement Allowance	405,000	405,000
	2,707,449	2,543,295
Less: Accumulated depreciation	1,339,585	954,704
	$ 1,367,864	$ 1,588,591

For the years ended December 31, 2019 and 2018, depreciation was $345,687 and $265,163, respectively.

NOTE 5. INTANGIBLE ASSETS

Intangible assets consist of patents and trademarks related to our Binary Ionization Technology. We amortize the patents over the estimated remaining lives of the related patents. The trademarks have an indefinite life. Amortization expense was $370,478 and $369,508 for the years ended December 31, 2019 and 2018, respectively.

Definite life intangible assets consist of the following:

	December 31, 2019	December 31, 2018
Intellectual Property and Patents	$ 2,906,507	$ 2,848,300
Less: Accumulated Amortization	2,479,754	2,109,276
Intangible Assets, net	$ 426,753	$ 739,024

Indefinite life intangible assets consist of the following:

Trademarks	$ 512,257	$ 496,792
Total Intangible Assets, net	$ 939,010	$ 1,235,816

Approximate future amortization is as follows:

Year Ended:	Amount
December 31, 2020	$ 373,000
December 31, 2021	3,000
December 31, 2022	3,000
December 31, 2023	3,000
December 31, 2024	3,000
Thereafter	$ 427,000

NOTE 6. LEASES

In April 2018, we entered into a 10-year lease agreement for a new 9,000-square-foot facility that contains office, warehouse, lab and research and development space in Frederick, Maryland. The lease agreement was scheduled to commence on December 1, 2018 or when the property was ready for occupancy. The agreement provided for annual rent of $143,460, an escalation clause that increases the rent 3% year over year, a landlord tenant improvement allowance of $405,000 and additional landlord work as discussed in the lease agreement. We took occupancy of the property on December 17, 2018 and the lease was amended in March 2019 to provide for a 4-month rent holiday and a commencement date of April 1, 2019. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The balances for our operating lease where we are the lessee are presented as follows within our consolidated balance sheet:

Operating leases:	December 31, 2019
Assets:	
Operating lease right-of-use asset	$ 674,471
Liabilities:	
Current Portion of Long-Term Operating Lease	$ 71,510
Long-Term Operating Lease, Net of Current Portion	$ 1,034,413
	$ 1,105,923

The components of lease expense are as follows within our consolidated statement of operations:

	For the Year Ended December 31, 2019
Operating lease expense	$ 157,315

Other information related to leases where we are the lessee is as follows:

	For the Year Ended December 31, 2019
Weighted-average remaining lease term:	
Operating leases	9.25 years
Discount rate:	
Operating leases	7.00%

Supplemental cash flow information related to leases where we are the lessee is as follows:

	For the Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	$ 65,753

As of December 31, 2019, the maturities of our operating lease liability are as follows:

Year Ended:	Operating Lease
December 31, 2020	146,688
December 31, 2021	151,088
December 31, 2022	155,621
December 31, 2023	160,290
December 31, 2024	165,098
Thereafter	745,183
Total minimum lease payments	1,523,968
Less: Interest	418,045
Present value of lease obligations	1,105,923
Less: Current portion	71,510
Long-term portion of lease obligations	$ 1,034,413

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2018 and under legacy lease accounting (ASC 840), future minimum lease payments under non-cancellable leases as of December 31, 2018 were as follows:

Year Ended:	Operating Lease
December 31, 2019	$ 102,000
December 31, 2020	147,000
December 31, 2021	151,000
December 31, 2022	156,000
December 31, 2023	160,000
Thereafter	923,000
	$ 1,639,000

NOTE 7. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

In accordance with ASC 985-20 we capitalized certain software development costs associated with updating our continuing line of product offerings. Capitalized software development costs consist of the following at:

	December 31, 2019	December 31, 2018
Capitalized Software Development Costs	$ 125,704	$ -
Less: Accumulated Amortization	(31,426)	-
	$ 94,278	$ -

Amortization expense for the year ended December 31, 2019 was $31,426.

NOTE 8. CONVERTIBLE DEBT

In March and May 2017, we closed a private placement transaction in which we issued to certain accredited investors unregistered senior callable convertible promissory notes (the "Notes") and three-year warrants to purchase an aggregate of 999,998 shares of common stock at an exercise price of $0.69 per share in exchange for aggregate gross proceeds of $6,000,000. The Notes bear interest at a rate of 4% per annum. $5,300,000 in principal was originally scheduled to mature on August 31, 2018 and $700,000 in principal was originally scheduled to mature on November 8, 2018, unless earlier redeemed, repurchased or converted. The Notes are convertible at the option of the holder into common stock at a conversion price of $0.54 per share. Subsequent to September 1, 2017, we may redeem the Notes that are scheduled to mature on August 31, 2018 at any time prior to maturity at a price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest as of the redemption date. Prior to November 8, 2018, we may redeem the Notes that are scheduled to mature on such date at any time prior to maturity at a price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest as of the redemption date. Interest on the Notes is payable semi-annually in cash on February 28 and August 31 of each year, beginning on August 31, 2017. Interest expense related to the Notes for the years ended December 31, 2019 and 2018 was $200,000 and $221,878, respectively.

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

The debt discount was amortized over the life of the Notes using the effective interest method. Amortization expense for the years ended December 31, 2019 and 2018, was $17,534 and $38,091, respectively.

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

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

In December 2018, a noteholder redeemed a note with a principal balance of $300,000 in exchange for $150,000 in cash. We recognized a gain on redemption of convertible note income in the amount of $150,000 as a result of the transaction.

On March 30, 2019, the two remaining noteholders agreed to extend the maturity dates of their notes totaling $5,000,000 to April 3, 2020. As part of the extensions, we agreed that if we do not make payment on or before the new maturity dates, after five (5) days written notice, the holders will have the right, but not the obligation, to convert the notes into our common shares at a conversion price of $0.11 per share or a total of 45,454,545 shares. All other provisions of the notes remain unchanged. We determined that the modification of these Notes is not a substantial modification in accordance with ASC 470-50, "Modifications and Extinguishments". Refer to Footnote 16 – subsequent events.

Convertible notes consist of the following at:

	December 31, 2019	December 31, 2018
Convertible notes	$ 5,000,000	$ 5,000,000
Initial discount	(53,873)	(53,873)
Accumulated amortization	53,873	36,339
Convertible notes, net	$ 5,000,000	$ 4,982,466

NOTE 9. SHAREHOLDERS' EQUITY

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

Convertible Series A Preferred Stock

Our authorized Convertible Series A Preferred Stock, $0.01 par value, consists of 1,000,000 shares. At December 31, 2019 and 2018, there were 510,000 shares issued and outstanding. The Convertible Series A Preferred Stock is convertible at the rate of one share of common stock for one share of Convertible Series A Preferred Stock.

Convertible Series B Preferred Stock

Our authorized Convertible Series B Preferred Stock, $1,000 stated value, 7.5% cumulative dividend, consists of 4,000 shares. At December 31, 2019 and 2018, there were no shares issued and outstanding, respectively. Each share of Convertible Series B Preferred Stock may be converted (at the holder's election) into two hundred shares of our common stock.

Common Stock

In November 2019, we amended our Restated Articles of Incorporation, increasing the number of authorized shares of our Common Stock from 200,000,000 to 250,000,000.

During the year ended December 31, 2018, we issued 362,500 shares of common stock valued at $33,500 to members of our Board (see Note 11).

In May 2018, we issued 1,877,960 shares of common stock in connection with the conversion of $705,212 of principal and accrued interest outstanding under a Note (see Note 8).

During the year ended December 31, 2019, we issued 400,000 shares of common stock valued at $44,000 to members of our board of directors (see Note 11) and 10,000 shares of common stock valued at $1,200 to a consultant.

Stock Options

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

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

In January 2019, pursuant to an employment agreement, we issued options to purchase an aggregate of 250,000 shares of common stock to our Chief Operating Officer, valued at $24,694. The options have an exercise price of $0.11 per share and expire in January 2024. The options were valued using the Black-Scholes model using the following assumptions: volatility: 144%; dividend yield: 0%; zero coupon rate: 2.47%; and a life of 5 years. The value of the options was expensed in the fourth quarter of 2018 and included in accrued expenses at December 31, 2018.

In January 2019, we issued options to purchase an aggregate of 50,000 shares of common stock to our Chief Financial Officer, valued at $4,483. The options have an exercise price of $0.10 per share and expire in January 2024. The options were valued using the Black-Scholes model using the following assumptions: volatility: 143%; dividend yield: 0%; zero coupon rate: 2.58%; and a life of 5 years.

The following table summarizes stock options outstanding as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	320,000	$ 0.52	200,000	$ 0.76
Granted	300,000	0.11	120,000	0.12
Exercised	—	—	—	—
Outstanding, end of period	620,000	$ 0.32	320,000	$ 0.52

Options outstanding and exercisable by price range as of December 31, 2019 were as follows:

Outstanding Options			Average Weighted	Exercisable Options	
Range	Number	Remaining Contractual Life in Years		Number	Weighted Average Exercise Price
$ 0.05	20,000	1.03		20,000	$ 0.05
$ 0.10	70,000	5.22		70,000	$ 0.10
$ 0.11	250,000	4.01		250,000	$ 0.11
$ 0.12	100,000	3.03		100,000	$ 0.12
$ 0.27	40,000	5.01		40,000	$ 0.27
$ 0.55	100,000	6.10		100,000	$ 0.55
$ 2.10	40,000	0.01		40,000	$ 2.10
	620,000	4.04		620,000	$ 0.32

Stock Warrants

In November 2018, we issued a warrant to purchase 250,000 shares of common stock to the CEO at an exercise price of $0.08 per share pursuant to his employment agreement with the Company. The warrant was valued at approximately $18,000 and has a term of 5 years. We utilized the Black-Scholes method to fair value the warrant received by the CEO with the following assumptions: volatility, 142%; expected dividend yield, 0%; risk free interest rate, 2.95%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrant was $0.07.

In January 2019, we issued a warrant to purchase 1,000,000 shares of common stock to the CEO at an exercise price of $0.10 per share pursuant to an employment agreement. The warrant was valued at $89,654 and has a term of 5 years. We utilized the Black-Scholes model to fair value the warrant received by the CEO with the following assumptions: volatility, 143%; expected dividend yield, 0%; risk free interest rate, 2.58%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrant was $0.09.

In January 2019, we issued a warrant to purchase 250,000 shares of common stock to an employee at an exercise price of $0.12 per share. The warrant was valued at $21,931 and has a term of 3 years. We utilized the Black-Scholes model to fair value the warrant received by the employee with the following assumptions: volatility, 148%; expected dividend yield, 0%; risk free interest rate, 2.55%; and a life of 3 years. The grant date fair value of each share of common stock underlying the warrant was $0.09. The value of the warrants was expensed in the fourth quarter of 2018 and included in accrued expenses at December 31, 2018.

In April 2019, we issued a warrant to purchase 50,000 shares of common stock to an employee at an exercise price of $0.14 per share. The warrant was valued at $6,116 and has a term of 5 years. We utilized the Black-Scholes model to fair value the warrant received by the employee with the following assumptions: volatility, 134%; expected dividend yield, 0%; risk free interest rate, 2.32%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrant was $0.12.

The following table summarizes the outstanding common stock warrants as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	26,550,611	$ 0.34	35,501,411	$ 0.33
Granted	1,300,000	0.11	250,000	0.08
Exercised	-	-	-	-
Expired	(10,610,088)	(0.23)	(9,200,800)	(0.30)
Outstanding, end of period	17,240,523	$ 0.39	26,550,611	$ 0.34

Warrants outstanding and exercisable by price range as of December 31, 2019 were as follows:

Outstanding Warrants			Exercisable Warrants	
Exercise Price	Number	Average Weighted Remaining Contractual Life in Years	Number	Weighted Average Exercise Price
$ 0.08	250,000	3.90	250,000	$ 0.08
$ 0.10	1,265,000	3.76	1,265,000	$ 0.10
$ 0.12	3,750,000	2.92	3,750,000	$ 0.12
$ 0.14	50,000	4.30	50,000	$ 0.14
$ 0.17	10,000	2.82	10,000	$ 0.17
$ 0.27	250,000	2.00	250,000	$ 0.27
$ 0.29	4,615,525	2.16	4,615,525	$ 0.29
$ 0.30	2,200,000	0.67	2,200,000	$ 0.30
$ 0.32	250,000	1.75	250,000	$ 0.32
$ 0.42	250,000	1.50	250,000	$ 0.42
$ 0.50	250,000	1.25	250,000	$ 0.50
$ 0.55	100,000	1.08	100,000	$ 0.55
$ 0.69	999,998	0.22	999,998	$ 0.69
$ 1.00	3,000,000	0.34	3,000,000	$ 1.00
	17,240,523	1.81	17,240,523	$ 0.39

There were no unvested warrants outstanding as of December 31, 2019.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

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

Product Liability

As of December 31, 2019 and 2018, there were no claims against us for product liability.

NOTE 11. CONTRACTS AND AGREEMENTS

Agreements with Directors

In December 2017, we increased the annual board fee to directors to $40,000, to be paid in cash on a quarterly basis, with the exception of the audit committee chairperson, whose annual fee we increased to $45,000, also to be paid in cash on a quarterly basis. Director compensation also includes the annual issuance of our common stock.

For the year ended December 31, 2018, we issued an aggregate of 362,500 shares of common stock that were valued at $37,500 to members of our board of directors.

For the year ended December 31, 2019, we issued an aggregate of 400,000 shares of common stock that were valued at $44,000 to members of our board of directors.

Other Agreements

In June 2015, we launched the TOMI Service Network (“TSN”). The TSN is a national service network composed of existing full-service restoration industry specialists that have entered into licensing agreements with us to become Primary Service Providers (“PSPs”). The licensing agreements grant protected territories to PSPs to perform services using our SteraMist® platform of products and also provide for potential job referrals to PSPs whereby we are entitled to referral fees. Additionally, the agreement provides for commissions due to PSPs for equipment and solution sales they facilitate to other service providers in their respective territories. As part of these agreements, we are obligated to provide to the PSPs various training, ongoing support and facilitate a referral network call center. As of December 31, 2019, we had entered into 98 licensing agreements in connection with the launch of the TSN. The licensing agreements contain fixed price minimum equipment and solution orders based on the population of the territories granted pursuant to the licensing agreements. The nature and terms of our TSN agreements may represent multiple deliverable arrangements. Each of the deliverables in these arrangements typically represent a separate unit of accounting.

NOTE 12. INCOME TAXES

The Company's income tax expense consisted of:

	For the Year Ended	
	December 31, 2019	December 31, 2018
Current:		
United States	$ -	$ -
Foreign	-	-
	-	-
Deferred:		
United States	-	-
Foreign	-	-
	-	-
Total	$ -	$ -

The Company's net income (loss) before income tax consisted of:

	For the Year Ended	
	December 31, 2019	December 31, 2018
United States	$ (2,297,733)	$ (3,230,462)
Foreign	-	-
Total	$ (2,297,733)	$ (3,230,462)

Our income tax expense differed from the amounts computed by applying the United States statutory corporate income tax rate for the following reasons:

On December 22, 2017, the 2017 Tax Cuts and Jobs Act ("Tax Act") was enacted into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We are required to recognize the effect of the tax law changes in the period of enactment, such as re-measuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. The Tax Act did not give rise to any material impact on the consolidated balance sheets and consolidated statements of operations due to our historical worldwide loss position and the full valuation allowance on our net U.S. deferred tax assets.

In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year from the enactment date. As such, in accordance with SAB 118, we completed our analysis during the fourth quarter of 2018 considering current legislation and guidance resulting in no material adjustments from the provisional amounts recorded during the prior year.

The reconciliation of taxes at the federal and state statutory rate to our provision for income taxes for the years ended December 31, 2019 and 2018 was as follows:

	For the Year Ended	
	December 31, 2019	December 31, 2018
Loss before income tax	$ (2,297,733)	$ (3,230,462)
US statutory corporate income tax rate	28.00%	28.00%
Income tax expense computed at US statutory corporate income tax rate	(643,365)	(904,529)
Reconciling items:		
Change in valuation allowance on deferred tax assets	620,817	741,982
Provision to prior year tax return	6,991	113,068
Incentive stock options and warrants	31,982	21,628
Amortized debt discount	4,910	1,758
Meals and Entertainment	2,005	4,134
Induced Conversion Costs	-	16,016
Other	(23,340)	5,943
Income tax expense	$ -	$ -

Components of our deferred income tax assets (liabilities) are as follows:

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Reserve for Bad Debt	$ 31,000	$ 84,000
Inventory Reserve	28,000	28,000
Accrued Vacation	92,000	52,000
Deferred Rent	-	4,000
Warranty Reserve	8,000	8,000
Intangible Assets	381,000	362,000
Operating lease right-of-use liabilities	310,000	-
Net operating losses	5,223,000	4,718,000
Valuation Allowance	(5,580,000)	(4,959,000)
Deferred Tax Assets	$ 493,000	$ 297,000
Deferred tax liabilities:		
Operating lease right-of-use assets	$ (302,000)	$ -
Property and Equipment	$ (191,000)	(297,000)
	$ (493,000)	$ (297,000)
Net Deferred Tax Assets and Liabilities	$ -	$ -

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. As of December 31, 2019, we recorded a valuation allowance of $5,580,000 for the portion of the deferred tax assets that we do not expect to be realized. The valuation allowance on our net deferred taxes increased by $621,000 during the year ended December 31, 2019, primarily due to U.S. deferred tax assets incurred in the current year that cannot be realized. Management believes that based on the available information, it is more likely than not that the U.S. deferred tax assets will not be realized, such that a valuation allowance is required against U.S. deferred tax assets. 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.

For income tax purposes in the United States, we had available federal net operating loss carryforwards ("NOL") as of December 31, 2019 and 2018 of approximately $19,386,000 and $17,544,000 respectively to reduce future federal taxable income. For income tax purposes in the United States, we had available state NOL carryforwards as of December 31, 2019 and 2018 of approximately $16,463,000 and $14,773,000 respectively to reduce future state taxable income. If any of the NOL's generated prior to 2018 are not utilized, they will expire at various dates through 2037. NOL's generated after 2017 carry forward indefinitely. There may be certain limitations as to the future annual use of the NOLs due to certain changes in our ownership.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. As of December 31, 2019, and 2018, the management of the Company determined there were no reportable uncertain tax positions.

NOTE 13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31, 2019	December 31, 2018
Commissions	$ 112,102	$ 136,631
Payroll and related costs	167,689	144,359
Director fees	41,250	41,250
Sales Tax Payable	21,814	11,296
Accrued warranty (Note 14)	30,000	30,000
Other accrued expenses	77,257	51,663
Total	$ 450,112	$ 415,199

NOTE 14. ACCRUED WARRANTY

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

The following table presents warranty reserve activities at:

	December 31, 2019	December 31, 2018
Beginning accrued warranty costs	$ 30,000	$ 5,000
Provision for warranty expense	2,609	47,454
Settlement of warranty claims	(2,609)	(22,454)
Ending accrued warranty costs	$ 30,000	$ 30,000

NOTE 15. CUSTOMER CONCENTRATION

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

As of December 31, 2019, three customers accounted for 37% of accounts receivable.

As of December 31, 2018, two customers accounted for 37% of accounts receivable. One customer accounted for 13% of net revenues for the year ended December 31, 2018.

NOTE 16. SUBSEQUENT EVENTS

In January 2020, we issued a warrant to purchase 1,250,000 shares of common stock to the CEO at an exercise price of $0.15 per share pursuant to his employment agreement with the Company. The warrant was valued at approximately $164,000 and has a term of 5 years. We utilized the Black-Scholes method to fair value the warrant received by the CEO with the following assumptions: volatility, 136%; expected dividend yield, 0%; risk free interest rate, 1.64%; and a life of 5 years. The grant date fair value of each share of common stock underlying the warrant was $0.13.

In January 2020, we issued two options to purchase an aggregate of 250,000 shares of common stock to the COO at an exercise price of $0.10 and $0.12per share pursuant to her employment agreement with the Company. The options were valued at a total of approximately $24,000 and have a term of 5 years. We utilized the Black-Scholes method to fair value the option received by the COO with the following assumptions: volatility, 135%; expected dividend yield, 0%; risk free interest rate, 1.64%; and a life of 5 years. The grant date fair value of each share of common stock underlying the options was $0.09 and $0.10. The value of the stock option was included in accrued expenses at December 31, 2019.

Pursuant to the agreement with our Board, in January 2020, we issued an aggregate of 400,000 shares of common stock valued at approximately $48,000. The agreements with our Board provide for the annual issuance of shares of our common stock.

In February 2020, our SteraMist® equipment and BIT™ solution was registered with the Chinese Center for Disease Control and Prevention (China CDC).

In March 2020, convertible notes with a principal balance of $4,500,000 were converted into 8,333,333 shares of our common stock at a conversion price of $0.54 per share and the remaining outstanding balance of $500,000 was repaid. The conversion and repayment of the notes mitigates any going concern uncertainties.

In March 2020, we received total proceeds of $57,500 for 83,333 warrants that were exercised at $0.69 per share.

SARS CoV-2 coronavirus

On March 11, 2020 the World Health Organization declared the SARS CoV-2 coronavirus a global pandemic and recommended containment and mitigation measures worldwide. We are monitoring this closely. We have been identified as an essential disinfectant and decontamination vendor by various agencies and countries. Our operations being essential have been materially affected by the coronavirus outbreak to date, as demand for our product and services is increasing. The uncertain nature of its spread globally may impact our business operations resulting from quarantines of employees, customers and suppliers as well as potential travel restrictions in areas affected or may be affected in the future. At this time, the Company is unable to estimate the amount of the impact of this event on its operations, however, expects this could have a material impact on its operations in the coming months.

EXHIBIT 21.1

Subsidiaries of TOMI Environmental Solutions, Inc.

TOMI Environmental Solutions, Inc., a Nevada corporation

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

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 control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer(s) 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 the 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.

TOMI ENVIRONMENTAL SOLUTIONS, INC.

Date: March 30, 2020

By: /s/ Halden S. Shane
Halden S. Shane
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

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 control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer(s) 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 the 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.

TOMI ENVIRONMENTAL SOLUTIONS, INC.

Date: March 30, 2020

By: /s/ Nick Jennings
Nick Jennings
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of Halden S. Shane, the Chief Executive Officer, and Nick Jennings, the Chief Financial Officer, of TOMI Environmental Solutions, Inc., hereby certifies in his capacity as an officer of TOMI Environmental Solutions, Inc., that, to his knowledge, the Annual Report of TOMI Environmental Solutions, Inc. on Form 10-K for the fiscal year ended December 31, 2019: (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of TOMI Environmental Solutions, Inc.

TOMI ENVIRONMENTAL SOLUTIONS, INC.

Date: March 30, 2020

By: /s/ Halden S. Shane
Halden S. Shane
Chief Executive Officer
(Principal Executive Officer)

TOMI ENVIRONMENTAL SOLUTIONS, INC.

Date: March 30, 2020

By: /s/ Nick Jennings
Nick Jennings
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)