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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2024**

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.) |

**8430 Spires Way , Frederick , Maryland 21701**
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common stock, par value $0.01 per share | TOMZ | Nasdaq Capital Market |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

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

As of August 1, 2024, the registrant had 20,015,205 shares of common stock outstanding.

**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2024**

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, or this Form 10-Q, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and we intend that such forward looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Form 10-Q, except for historical information, may be deemed forward-looking statements. You can generally identify forward-looking statements as statements containing the words “will,” “would,” “believe,” “expect,” “estimate,” “anticipate,” “intend,” “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.

Forward-looking statements involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section “Risk Factors” in our most recent annual report on Form 10-K previously filed with the Securities and Exchange Commission on April 1, 2024. 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.

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**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**ASSETS**

| Current Assets: | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Cash and Cash Equivalents | $ 709,110 | $ 2,339,059 |
| Accounts Receivable - net | 3,663,862 | 2,429,929 |
| Other Receivables | 164,150 | 164,150 |
| Inventories (Note 3) | 4,281,614 | 4,627,103 |
| Vendor Deposits (Note 4) | 126,185 | 29,335 |
| Prepaid Expenses | 290,195 | 371,298 |
| Total Current Assets | 9,235,116 | 9,960,874 |
| | | |
| Property and Equipment – net (Note 5) | 983,601 | 1,048,642 |
| | | |
| Other Assets: | | |
| Intangible Assets – net (Note 6) | 1,113,491 | 1,123,246 |
| Operating Lease - Right of Use Asset (Note - 7) | 434,607 | 467,935 |
| Long Term Accounts Receivable - net | 206,240 | 206,240 |
| Other Assets | 638,392 | 550,677 |
| Total Other Assets | 2,392,730 | 2,348,098 |
| Total Assets | $ 12,611,447 | $ 13,357,614 |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts Payable | $ 1,714,489 | $ 1,267,029 |
| Accrued Expenses and Other Current Liabilities (Note 13) | 512,829 | 675,491 |
| Deferred Revenue | 57,192 | - |
| Current Portion of Long-Term Operating Lease | 122,259 | 115,658 |
| Total Current Liabilities | 2,406,769 | 2,058,178 |
| Long-Term Liabilities: | | |
| Long-Term Operating Lease, Net of Current Portion (Note 7) | 579,715 | 642,527 |
| Convertible Notes Payable, net of unamortized debt discount of $ 270,746 and $ 301,985 at June 30, 2024, and December 31, 2023, respectively (NOTE 9) | 2,329,254 | 2,298,015 |
| Total Long-Term Liabilities | 2,908,969 | 2,940,542 |
| Total Liabilities | 5,315,738 | 4,998,720 |
| Commitments and Contingencies (Note 7 and 11) | | |
| Shareholders' Equity: | | |
| Cumulative Convertible Series A Preferred Stock; par value $ 0.01 per share, 1,000,000 shares authorized; 63,750 shares issued and outstanding at June 30, 2024, and December 31, 2023, respectively | 638 | 638 |
| Cumulative Convertible Series B Preferred Stock; $ 1,000 stated value; 7.5 % Cumulative dividend; 4,000 shares authorized; none issued and outstanding at June 30, 2024, and December 31, 2023, respectively | - | - |
| Common stock: par value $ 0.01 per share, 250,000,000 shares authorized; 20,015,205 and 19,923,955 shares issued and outstanding at June 30, 2024, and December 31, 2023, respectively | 200,152 | 199,240 |
| Additional Paid-In Capital | 58,201,140 | 57,985,245 |
| Accumulated Deficit | ( 51,106,221) | ( 49,826,229) |
| Total Shareholders' Equity | 7,295,709 | 8,358,894 |
| Total Liabilities and Shareholders' Equity | $ 12,611,447 | $ 13,357,614 |

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

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

| | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Sales, net | $ 3,013,392 | $ 2,774,699 | $ 4,127,479 | $ 4,356,871 |
| Cost of Sales | 1,158,876 | 1,074,420 | 1,602,295 | 1,715,355 |
| Gross Profit | 1,854,516 | 1,700,279 | 2,525,184 | 2,641,516 |
| | | | | |
| Operating Expenses: | | | | |
| Professional Fees | 84,327 | 111,660 | 282,326 | 248,845 |
| Depreciation and Amortization | 76,554 | 90,560 | 154,475 | 179,336 |
| Selling Expenses | 366,265 | 501,045 | 655,334 | 877,698 |
| Research and Development | 61,614 | 73,728 | 129,585 | 144,248 |
| Consulting Fees | 23,095 | 68,912 | 136,730 | 144,367 |
| General and Administrative | 1,120,849 | 943,314 | 2,271,398 | 2,324,108 |

| | | | | |
|---|---|---|---|---|
| Total Operating Expenses | 1,732,704 | 1,789,219 | 3,629,848 | 3,918,602 |
| Income (loss) from Operations | 121,812 | ( 88,940) | ( 1,104,664) | ( 1,277,086) |
| | | | | |
| Other Income (Expense): | | | | |
| Interest Income | 1,845 | 349 | 11,751 | 1,008 |
| Interest Expense | ( 93,459) | - | ( 187,079) | - |
| Total Other Income (Expense) | ( 91,614) | 349 | ( 175,328) | 1,008 |
| | | | | |
| Income (loss) before income taxes | 30,198 | ( 88,591) | ( 1,279,992) | ( 1,276,078) |
| Provision for Income Taxes (Note 16) | - | - | - | - |
| Net Income (loss) | $ 30,198 | $ ( 88,591) | $ ( 1,279,992) | $ ( 1,276,078) |
| | | | | |
| Net income (loss) Per Common Share | | | | |
| Basic | $ 0.00 | $ ( 0.00) | $ ( 0.06) | $ ( 0.06) |
| Diluted | $ 0.00 | $ ( 0.00) | $ ( 0.06) | $ ( 0.06) |
| | | | | |
| Basic Weighted Average Common Shares Outstanding | 19,984,875 | 19,823,955 | 19,968,495 | 19,815,336 |
| Diluted Weighted Average Common Shares Outstanding | 22,133,562 | 19,823,955 | 19,968,495 | 19,815,336 |

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



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**TOMI ENVIRONMENTAL SOLUTIONS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

| | For the six months ended June 30, 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Series A Preferred | | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total Shareholders' Equity |
| | Shares | Amount | Shares | Amount | | | |
| Balance at January 1, 2024 | 63,750 | $ 638 | 19,923,955 | $ 199,240 | $57,985,245 | $ ( 49,826,229) | $ 8,358,894 |
| Warrants and Options Exercised | | | 31,250 | 312 | 27,188 | | 27,500 |
| Common Stock Issued for Services Provided | | | 60,000 | 600 | 44,400 | | 45,000 |
| Equity Compensation | | | | | 144,307 | | 144,307 |
| Net Loss for the six months ended June 30, 2024 | | | | | | ( 1,279,992) | ( 1,279,992) |
| Balance at June 30, 2024 | 63,750 | $ 638 | 20,015,205 | $ 200,152 | $58,201,140 | $ ( 51,106,221) | $ 7,295,709 |

| | For the six months ended June 30, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Series A Preferred | | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total Shareholders' Equity |
| | Shares | Amount | Shares | Amount | | | |
| Balance at January 1, 2023 | 63,750 | $ 638 | 19,763,955 | $ 197,640 | 57,673,559 | $ ( 46,423,637) | $ 11,448,200 |
| Equity Compensation | | | | | 158,833 | | 158,833 |
| Common Stock Issued for Services Provided | | | 60,000 | 600 | 50,400 | | 51,000 |
| Net Loss for the six months ended June 30, 2023 | | | | | | ( 1,276,078) | ( 1,276,078) |
| Balance at June 30, 2023 | 63,750 | $ 638 | 19,823,955 | $ 198,240 | $57,882,792 | $ ( 47,699,715) | $ 10,381,955 |

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

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**TOMI ENVIRONMENTAL SOLUTIONS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

**For the three months ended June 30, 2024**

| | Series A Preferred | | Common Stock | | Additional in Paid | Accumulated | Total Shareholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | Equity |
| Balance at April 1, 2024 | 63,750 | $ 638 | 19,955,205 | 199,552 | $58,012,433 | $ ( 51,136,419) | $ 7,076,204 |
| Equity Compensation | | | | | 144,307 | | 144,307 |
| Common Stock Issued for Services Provided | | | 60,000 | 600 | 44,400 | | 45,000 |
| Net Income for the three months ended June 30, 2024 | | | | | | 30,198 | 30,198 |
| Balance at June 30, 2024 | 63,750 | $ 638 | 20,015,205 | $ 200,152 | $58,201,140 | $ ( 51,106,221) | $ 7,295,709 |

**For the three months ended June 30, 2023**

| | Series A Preferred | | Common Stock | | Additional in Paid | Accumulated | Total Shareholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | Equity |
| Balance at April 1, 2023 | 63,750 | $ 638 | 19,823,955 | $ 198,240 | $57,882,792 | $ ( 47,611,124) | $ 10,470,546 |
| Net Loss for the three months ended June 30, 2023 | | | | | | ( 88,591) | ( 88,591) |
| Balance at June 30, 2023 | 63,750 | $ 638 | 19,823,955 | $ 198,240 | $57,882,792 | $ ( 47,699,715) | $ 10,381,955 |

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

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

| | For the Six Months Ended June 30, 2024 | 2023 |
|---|---|---|
| Cash Flow From Operating Activities: | | |
| Net Loss | $ (1,279,992) | $ (1,276,078) |
| Adjustments to Reconcile Net Loss to | | |
| Net Cash Provided by (Used In) Operating Activities: | | |
| Depreciation and Amortization | 154,475 | 179,336 |
| Amortization of Right of Use Asset | 78,657 | 78,657 |
| Amortization of Deferred Financing Costs | 31,240 | - |
| Equity Compensation Expense | 144,307 | 158,833 |
| Value of Equity Issued for Services | 45,000 | 51,000 |
| Reserve for Bad Debt | (223,371) | (125,000) |
| Changes in Operating Assets and Liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts Receivable | (1,010,563) | (481,810) |
| Inventory | 345,489 | 83,213 |

| | | |
|---|---|---|
| Prepaid Expenses | 81,103 | 97,135 |
| Vendor Deposits | ( 96,850) | 243,593 |
| Other Assets | ( 87,715) | ( 90,437) |
| Increase (Decrease) in: | | |
| Accounts Payable | 406,145 | ( 401,312) |
| Accrued Expenses | ( 121,347) | ( 82,573) |
| Customer Deposits | 57,192 | ( 553,351) |
| Lease Liability | ( 81,943) | ( 79,556) |
| Net Cash Provided (Used in) Operating Activities | ( 1,558,173) | ( 2,198,350) |
| Cash Flow From Investing Activities: | | |
| Purchase of Property and Equipment | ( 99,276) | ( 94,295) |
| Net Cash (Used in) Investing Activities | ( 99,276) | ( 94,295) |

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

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

**(UNAUDITED)**

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2024** | **2023** |
| Cash Flow From Financing Activities: | | |
| Proceeds from Exercise of Stock and Warrants | 27,500 | - |
| Net Cash From Financing Activities: | 27,500 | - |
| Increase (Decrease) In Cash and Cash Equivalents | ( 1,629,949) | ( 2,292,645) |
| Cash and Cash Equivalents - Beginning | 2,339,059 | 3,866,733 |
| Cash and Cash Equivalents – Ending | $ 709,110 | $ 1,574,088 |
| | | |
| Supplemental Cash Flow Information: | | |
| Cash Paid for Interest | $ 148,500 | $ - |

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

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

**NOTE 1. DESCRIPTION OF BUSINESS**

TOMI Environmental Solutions, Inc., a Florida corporation ("TOMI", the "Company", "we", "our" and "us") is a global provider of disinfection and decontamination essentials through our premier Binary Ionization Technology® (BIT™) platform, under which we manufacture, license, service and sell our SteraMist® brand of products, including SteraMist® BIT™, a hydrogen peroxide-based mist and fog. Our solution and process are environmentally friendly as the only biproduct from our decontamination process is oxygen and water in the form of humidity. Our solution is organically listed in the United States and Canada as a sustainably green product with no or very little carbon footprint. Our business is organized into five divisions: Life Sciences, Healthcare, TOMI Service Network, Food Safety and Commercial.

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 (the "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.

Our 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, other service industries including cruise ships, office buildings, hotel and motel rooms, schools, restaurants, military barracks, police and fire departments, prisons, and athletic facilities. Our products are also used in single-family homes and multi-unit residences. Additionally, our products have been listed on the EPA's List N as products that help combat COVID-19 and are actively being used for this purpose.

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

***Basis of Presentation***

The interim unaudited condensed consolidated financial statements included herein, presented in accordance with generally accepted accounting principles utilized in the United States of America ("GAAP"), and stated in U.S. dollars, have been prepared by us, without an audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These financial statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. These unaudited condensed consolidated financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2023 and notes thereto which are included in the annual report on Form 10-K previously filed with the SEC on April 1, 2024 (the "Annual Report"). We follow the same accounting policies in the preparation of interim reports. The results of operations for the interim periods covered by this Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.





***Principles of Consolidation***

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

For the three and six months periods ended June 30, 2024, our net income was $ 30,000 and a net loss of ($ 1,280,000 ) respectively and the cash used in operations for the six months ended June 30, 2024 was $ 1,558,000 . As of June 30, 2024, we had approximately $ 709,000 of cash and cash equivalents. Absent any other action, the Company may require additional liquidity to continue its operations over the next 12 months. However, management has considered its liquidity plans to continue the Company as a going concern and believes substantial doubt is alleviated by managing costs and expenses, raising capital by closing equity and debt offerings and generating additional revenue and funding through increased sales, government grants and other sources.

***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 material effect on previously reported results of operations or financial position.

***Use of Estimates***

The preparation of the condensed consolidated financial statements in conformity with 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 for substantially the full term of the assets or liabilities.

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

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximated fair value because of the short maturity of these instruments.

***Cash and Cash Equivalents***

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. At June 30, 2024, and December 31, 2023, there were no cash equivalents.

***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 evaluation of their status and maintain allowances for potentials credit losses as deemed necessary. 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. For the three and six months ended June 30, 2024, the bad debt expense (recovery) was approximately ($ 80,000 ) and $ 8,000 , respectively. In comparison, for the same periods in 2023, the amounts were approximately ($ 73,000 ) and ($ 19,000 ), respectively. As of June 30, 2024, the allowance for credit losses stood at $ 1,271,000 , down from $ 1,495,000 as of December 31, 2023.

Long-term trade accounts receivable, are principally amounts arising from the sale of goods and services with a contractual maturity date or realization period of greater than one year and are recognized as "Long-Term Accounts Receivable" in our Consolidated Balance Sheet.

***Inventories***

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

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 $ 95,000 as of June 30, 2024 and December 31, 2023.

***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***

We recognize a right-of-use (“ROU”) asset and lease liability for all leases with terms of more than 12 months, in accordance with ASC 842. We utilize the short-term lease recognition exemption for all asset classes as part of our on-going accounting under ASC 842. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities. Recognition, measurement and presentation of expenses depends on classification as a finance or operating lease.

As a lessee, we utilize the reasonably certain threshold criteria in determining which options we will exercise. Furthermore, our lease payments are based on index rates with minimum annual increases. These represent fixed payments and are captured in the future minimum lease payments calculation. In determining the discount rate to use in calculating the present value of lease payments, we used our incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments.

We have also elected the practical expedient to not separate lease and non-lease components for all asset classes, meaning all consideration that is fixed, or in-substance fixed, will be captured as part of our lease components for balance sheet purposes. Furthermore, all variable payments included in lease agreements will be disclosed as variable lease expense when incurred. Generally, variable lease payments are based on usage and common area maintenance. These payments will be included as variable lease expense in the period in which they are incurred.

***Accounts Payable***

As of June 30, 2024, one vendor accounted for approximately 55 % of accounts payable. As of December 31, 2023, two vendors accounted for approximately 59 % of accounts payable.

For the three and six months ended June 30, 2024, two vendors accounted for 82 % and 73 % of cost of sales, respectively. For the three and six months ended June 30, 2023, two vendors accounted for 77 % of cost of sales, 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 manufacturers assume the warranty against product defects 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 June 30, 2024, and December 31, 2023, our warranty reserve was $ 30,000 . (See Note 14).

***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 FASB ASC Topic 740, Income Taxes guidance for income taxes. Net deferred tax benefits have been fully reserved at June 30, 2024 and December 31, 2023.

***Net Income (Loss) Per Share***

Basic net income or (loss) per share is computed by dividing our net income or (loss) by the weighted average number of shares of common stock outstanding during the period presented. Diluted income or (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. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator may have to adjust for any dividends and income or loss associated with potentially dilutive securities that are assumed to have resulted in the issuance of shares of common stock and the denominator may have to adjust to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued during the period to reflect the potential dilution that could occur from shares of common stock issuable through a contingent shares issuance arrangement, stock options, warrants, or convertible preferred stock. For purposes of determining diluted earnings per common share, the treasury stock method is used for stock options, and warrants, and the if-converted method is used for convertible preferred stock and convertible debt as prescribed in FASB ASC Topic 260.

Potentially dilutive securities for the six months ended of June 30, 2024 consisted of 2,080,000 shares of common stock from convertible debentures, 2,765,846 shares of common stock issuable upon exercise of outstanding warrants, 805,042 shares of common stock issuable upon outstanding options and 63,750 shares of common stock issuable upon conversion of outstanding shares of Preferred A stock ("Convertible Series A Preferred Stock").

Potentially dilutive securities for the three months ended of June 30, 2023 consisted of 2,773,585 shares of common stock issuable upon exercise of outstanding warrants, 610,500 shares of common stock issuable upon vesting and exercise and 63,750 shares of common stock issuable upon conversion of outstanding shares of Convertible Series A Preferred Stock.

Options, warrants, preferred stock and shares associated with the conversion of debt to purchase approximately 5.7 million and 3.4 million shares of common stock were outstanding at June 30, 2024 and 2023, respectively.



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| | For the Three Months Ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| Net Income (Loss) | $ 30,198 | ( 88,591 ) |
| Adjustments for convertible debt - as converted | | |
| Interest on convertible debt net of effective tax rate (28%) | 67,290 | - |
| Net income (loss) attributable to common shareholders | $ 97,488 | ( 88,591 ) |
| Weighted average number of shares of common stock outstanding: | | |
| Basic | 19,984,875 | 19,823,955 |
| Diluted | 22,128,625 | 19,823,955 |
| Net income (loss) attributable to common shareholders per share: | | |
| Basic | $ 0.00 | $ ( 0.00) |
| Diluted | $ 0.00 | $ ( 0.00) |

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

| | For the Three Months Ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| Numerator: | | |
| Net Income (Loss) | $ 30,198 | ( 88,591 ) |
| Denominator: | | |
| Basic weighted-average shares | 19,984,875 | 19,823,955 |
| Effect of dilutive securities | | |
| Warrants | 4566 | - |
| Convertible Debt | 2,080,000 | - |
| Options | 371 | - |
| Preferred Stock | 63,750 | - |
| Diluted Weighted Average Shares | 22,133,562 | 19,823,955 |
| Net income (loss) attributable to common shareholders per share: | | |
| Basic | $ 0.00 | $ ( 0.00) |
| Diluted | $ 0.00 | $ ( 0.00) |

The following table sets forth the number of potential shares of common stock that have been excluded from diluted net income per share net (loss) income per share because their effect was anti-dilutive:

| | For the Three Months Ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| Options | 2,734,596 | - |
| Warrants | 798,000 | - |
| | 3,532,596 | - |

Note: Warrants, options, convertible and preferred stock for the six months ended June 30, 2024 and for the six months ended June 30, 2023, are not included in the computation of diluted weighted average shares as such inclusion would be anti-dilutive.

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***Revenue Recognition***

We recognize revenue in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers. We recognize 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.

We 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. Shipping and handling costs charged to customers are included in Product Revenues. The associated expenses are treated as fulfillment costs and are included in Cost of Revenues. Revenues are reported net of sales taxes collected from Customers.

*Disaggregation of Revenue*

The following table presents our approximate revenues disaggregated by revenue source.



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*Product and Service Revenue*

| | For the three months ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| SteraMist Product | $ 2,728,000 | $ 2,272,000 |
| Service and Training | 285,000 | 503,000 |
| Total | $ 3,013,000 | $ 2,775,000 |

*Revenue by Geographic Region*

| | For the three months ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| United States | $ 2,621,000 | $ 2,602,000 |
| International | 392,000 | 173,000 |
| Total | $ 3,013,000 | $ 2,775,000 |

*Product and Service Revenue*

| | For the six months ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| SteraMist Product | $ 3,471,000 | $ 3,548,000 |
| Service and Training | 656,000 | 809,000 |
| Total | $ 4,127,000 | $ 4,357,000 |

*Revenue by Geographic Region*

| | For the six months ended June 30, (Unaudited) | |
|---|---|---|
| | 2024 | 2023 |
| United States | $ 3,283,000 | $ 3,730,000 |
| International | 844,000 | 627,000 |
| Total | $ 4,127,000 | $ 4,357,000 |





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.

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 June 30, 2024, and December 31, 2023, 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.

The valuation methodology used to determine the fair value of options and warrants issued as compensation during the period is the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the options. Risk–free interest rates are calculated based on continuously compounded risk–free rates for the appropriate term. The expected term of the Company's warrants has been determined utilizing the "simplified" method for awards that qualify as "plain-vanilla" warrants. The dividend yield is assumed to be zero as the Company has never paid or declared any cash dividends on its common stock, par value $0.01 (the "Common Stock") and does not intend to pay dividends on its Common Stock in the foreseeable future. The expected forfeiture rate is estimated based on management's best assessment.



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On July 7, 2017, our shareholders approved the Company's Amended and Restated 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 2,000,000 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 us at the time of the award, and awards under the 2016 Plan are expressly conditioned upon such agreements. In May 2024, 2024, we issued 60,000 shares of Common Stock to members of our Board out of the 2016 Plan.

***Concentrations of Credit Risk***

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

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

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the three and six months ended June 30, 2024 and 2023.

***Advertising and Promotional Expenses***

Advertising and promotional costs are expensed in the period they are incurred. For the three and six months ended June 30, 2024, advertising and promotional expenses included in selling expenses were approximately $ 65,000 and $ 157,000 , respectively. For the same periods in 2023, these expenses were approximately $ 142,000 and $ 339,000 , respectively.





***Research and Development Expenses***

Research and development expenses are expensed in the period they are incurred. For the three and six months ended June 30, 2024, these expenses were approximately $ 62,000 and $ 130,000 , respectively. For the same periods in 2023, research and development expenses were approximately $ 74,000 and $ 144,000 , 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***

*Recently issued accounting pronouncements not yet adopted*

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in us including the additional required disclosures when adopted. We are currently evaluating the provisions of this ASU and expect to adopt them for the year ending December 31, 2024.

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU will result in the required additional disclosures being included in our consolidated financial statements, once adopted.





**NOTE 3. INVENTORIES**

Inventories consist of the following at (rounded to the nearest thousandth):

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Finished Goods | $ 3,520,000 | $ 3,796,010 |
| Raw Materials | 857,000 | 711,776 |
| Inventory Reserve | ( 95,000) | ( 95,000) |
| Total | $ 4,282,000 | $ 4,627,000 |

**NOTE 4. VENDOR DEPOSITS**

At June 30, 2024 and December 31, 2023, we maintained vendor deposits of $ 126,185 and $ 29,335 respectively, for open purchase orders for inventory.

**NOTE 5. PROPERTY AND EQUIPMENTx**

Property and equipment consist of the following at:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Furniture and fixtures | $ 458,651 | $ 364,819 |
| Equipment | 2,269,185 | 2,269,185 |
| Vehicles | 66,170 | 66,170 |
| Computer and software | 312,000 | 306,656 |
| Leasehold improvements | 393,381 | 393,381 |
| Tenant Improvement Allowance | 405,000 | 405,000 |
| Total cost of property and equipment | 3,904,387 | 3,805,211 |
| Less: Accumulated depreciation | 2,920,786 | 2,756,569 |
| Property and Equipment, net | $ 983,601 | $ 1,048,642 |

For the three and six months ended June 30, 2024, depreciation was $ 71,677 and $ 144,720 , respectively. For the three and six months ended June 30, 2023, depreciation was $ 86,786 and $ 171,789 , respectively. For the three and six months ended June 30, 2024 and 2023, amortization of tenant improvement allowance was $ 9,798 and $ 19,597 , respectively and was recorded as lease expense and included within general and administrative expense on the consolidated statement of operations.



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**NOTE 6. 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 $ 4,878 and $ 9,755 for the three and six months ended June 30, 2024, respectively. Amortization expense was $ 3,773 and $ 7,547 for the three and six months ended June 30, 2023, respectively.

Definite life intangible assets consist of the following:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Intellectual Property and Patents | $ 3,196,396 | $ 3,196,396 |
| Less: Accumulated Amortization | 2,913,768 | 2,904,013 |
| Patents, net | $ 282,628 | $ 292,383 |

Indefinite life intangible assets consist of the following:

| | | |
|---|---|---|
| Trademarks | 830,863 | 830,863 |
| Total Intangible Assets, net | $ 1,113,491 | $ 1,123,246 |

Approximate future amortization is as follows (rounded to nearest thousandth):

| Year Ended: | Amount |
|---|---|
| July 1 – December 31, 2024 | $ 10,000 |
| December 31, 2025 | 20,000 |
| December 31, 2026 | 20,000 |
| December 31, 2027 | 20,000 |
| December 31, 2028 | 20,000 |
| Thereafter | 193,000 |
| Total | $ 283,000 |

**NOTE 7. 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 commenced in December 2018 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. A 7 % discount rate was determined using our incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments. 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 condensed consolidated balance sheet:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| **Operating leases:** | | |

**Assets:**

| | | |
|---|---|---|
| Operating lease right-of-use asset | $ 434,607 | $ 467,935 |
| **Liabilities:** | | |
| Current Portion of Long-Term Operating Lease | $ 122,259 | $ 115,658 |
| Long-Term Operating Lease, Net of Current Portion | 579,715 | 642,527 |
| Total Right of Use Liability | $ 701,974 | $ 785,185 |

The components of lease expense are as follows and are included within general and administrative expense on our condensed consolidated statement of operations:

| | For the Three Months Ended June 30, 2024 (Unaudited) | For the Three Months Ended June 30, 2023 (Unaudited) |
|---|---|---|
| Operating lease expense | $ 39,329 | $ 39,329 |

| | For the Six Months Ended June 30, 2024 (Unaudited) | For the Six Months Ended June 30, 2023 (Unaudited) |
|---|---|---|
| Operating lease expense | $ 78,657 | $ 78,657 |

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

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Weighted-average remaining lease term: | | |
| Operating leases | 4.50 years | 5.00 years |
| Discount rate: | | |
| Operating leases | 7.00% | 7.00% |



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

| | For the Three Months Ended June 30, 2024 (Unaudited) | For the Three Months Ended June 30, 2023 (Unaudited) |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | $ 41,577 | $ 40,366 |

| | For the Six Months Ended June 30, 2024 Unaudited) | For the Six Months Ended June 30, 2023 (Unaudited) |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | $ 81,944 | $ 79,557 |

As of June 30, 2024, the maturities of our operating lease liability are as follows:

| **Year Ended:** | **Operating Lease** |
|---|---|
| July 1 – December 31, 2024 | $ 83,154 |
| December 31, 2025 | 170,051 |
| December 31, 2026 | 175,153 |
| December 31, 2027 | 180,408 |
| December 31, 2028 | 185,819 |
| Thereafter | 33,751 |
| Total minimum lease payments | 828,336 |
| Less: Interest | 126,362 |
| Imputed value of lease obligations | 701,974 |
| Less: Current portion | 122,259 |
| Long-term portion of lease obligations | $ 579,715 |

**NOTE 8. CLOUD COMPUTING SERVICE CONTRACT**

In May 2020, we entered into a cloud computing service contract with a vendor. The contract provides for annual payments in the amount of $ 30,409 and has a term of 5 years. The annual contract payments are capitalized as a prepaid expense and amortized over a twelve-month period.

We have incurred implementation costs of $ 66,857 in connection with the cloud computing service contract which have been capitalized in prepaid expenses and other assets as of June 30, 2024. In accordance with ASU No. 2018-15, such implementation costs are being amortized over the remaining contract terms beginning January 1, 2021, which was when the cloud-based service contract was placed in service. Amortization expense for the three and six months ended June 30, 2024 and 2023 were $ 3,766 and $ 7,531 , respectively.

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**NOTE 9. CONVERTIBLE DEBT**

In October and November 2023, we entered into a Securities Purchase Agreement (the "SPA") with certain accredited investors (collectively, the "Investors") pursuant to which we agreed to sell and issue to the Investors in a private placement transaction (the "Private Placement") in one or more closings up to an aggregate principal amount of $ 5,000,000 of Convertible Notes (the "Notes"). As of December 31, 2023, we issued and sold an aggregate of $ 2,600,000 of Notes to certain Investors pursuant to the SPA.

In October and November 2023, we sold and issued pursuant to the SPA convertible promissory notes (the "Notes") to purchase an aggregate of 2,080,000 shares of common stock at an exercise price of $ 1.25 per share in exchange for aggregate gross proceeds of $ 2,600,000 . The Notes mature and are due on the fifth anniversary of the issuance date in October and November of 2028. The Notes bear simple interest at a rate of 12 % per annum, payable in equal monthly installments. The Notes are convertible into shares of our Common Stock, at the option of the holder, at a conversion price of $1.25 per share, which shall not exceed $1.55 per share. In addition, we can require Investors to convert the Notes at the then current conversion price at any time after 90 days from the issue date if the Common Stock has a closing bid price of $1.55 per share or higher on any twenty (20) days within a thirty (30) day period of consecutive trading days, or if a "fundamental change" occurs (as defined in the Securities Purchase Agreement) . The Notes are unsecured and senior to other indebtedness subject to certain exceptions. Interest expense related to the Notes for the three and six months ended June 30, 2024 was $ 78,000 and $ 156,000 , respectively. Interest expense related to the Notes for the three and six months ended June 30, 2023 were $ 0 and $ 0 , respectively

Amortization of deferred financing costs were $ 15,620 and $ 31,240 for the three and six months ended June 30, 2024, respectively, Amortization of deferred financing costs were $ 0 and $ 0 for the three and six months ended June 30, 2023, respectively which has been included with interest expense on the statement of operations.

Convertible notes consist of the following at:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Convertible notes | $ 2,600,000 | $ 2,600,000 |
| Less: Debt issuance costs | ( 312,399) | ( 312,398) |
| Accumulated amortization | 41,653 | 10,413 |
| Convertible notes, net | $ 2,329,254 | $ 2,298,015 |

**NOTE 10. 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 by us 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.

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***Convertible Series A Preferred Stock***

Our authorized Convertible Series A Preferred Stock, $ 0.01 par value, consists of 1,000,000 shares. At June 30, 2024 and December 31, 2023, there were 63,750 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 June 30, 2024 and December 31, 2023, 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 January 2023, we issued 60,000 shares of Common Stock valued at approximately $ 51,000 to members of our Board pursuant to our equity plan (see Note 12).

In May 2024, we issued 60,000 shares of Common Stock valued at approximately $ 45,000 to members of our Board pursuant to our equity plan (see Note 12).

***Stock Options***

In May 2024, we issued options to purchase 225,000 shares of Common Stock to Officers at an exercise price of $ 0.75 per share pursuant to an employment agreement. The options were valued at $ 144,308 and have a contractual term of 10 years. We utilized the Black-Scholes model to fair value the options received by Officers with the following assumptions: volatility, 125 %; expected dividend yield, 0 %; risk free interest rate, 4.35 %; and a contractual term of 10 years. The grant date fair value of each share of Common Stock underlying the options was $ 0.64 .

The following table summarizes stock options outstanding as of June 30, 2024 and December 31, 2023:

| | June 30, 2024 (Unaudited) | | December 31, 2023 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 617,542 | $ 1.38 | 413,000 | $ 1.65 |
| Granted | 225,000 | 0.75 | 217,042 | 0.82 |
| Exercised | ( 31,250) | 0.88 | - | - |
| Expired | ( 6,250) | 0.80 | ( 12,500) | - |
| Outstanding, end of period | 805,042 | $ 1.23 | 617,542 | $ 1.38 |

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Options outstanding and exercisable by price range as of June 30, 2024 were as follows:

| Outstanding Options | | Average Weighted Remaining Contractual Life in Years | Exercisable Options | |
|---|---|---|---|---|
| Range | Number | | Number | Weighted Average Exercise Price |
| $ 0.71 | 7,042 | 3.56 | 7,042 | $ 0.71 |
| $ 0.75 | 225,000 | 9.88 | 225,000 | $ 0.75 |
| $ 0.80 | 21,250 | 1.70 | 21,250 | $ 0.80 |
| $ 0.85 | 210,000 | 8.58 | 210,000 | $ 0.85 |
| $ 0.96 | 12,500 | 0.52 | 12,500 | $ 0.96 |
| $ 1.12 | 270,000 | 8.56 | 270,000 | $ 1.12 |
| $ 1.93 | 10,500 | 3.56 | 10,500 | $ 1.93 |
| $ 2.16 | 5,000 | 1.50 | 5,000 | $ 2.16 |
| $ 4.40 | 12,500 | 2.55 | 12,500 | $ 4.40 |
| $ 7.06 | 31,250 | 2.25 | 31,250 | $ 7.06 |
| | 805,042 | 8.14 | 805,042 | $ 1.23 |

***Stock Warrants***

The following table summarizes the outstanding common stock warrants as of June 30, 2024 and December 31, 2023:

| | June 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | (Unaudited) | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of period | 2,772,096 | $ 2.25 | 2,792,335 | $ 2.25 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Expired | ( 6,250) | ( 1.12) | ( 20,239) | ( 1.11) |
| Outstanding, end of period | 2,765,846 | $ 2.26 | 2,772,096 | $ 2.25 |

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Warrants outstanding and exercisable by price range as of June 30, 2024 were as follows:

| Outstanding Warrants | | | Exercisable Warrants | |
|---|---|---|---|---|
| Exercise Price | Number | Average Weighted Remaining Contractual Life in Years | Number | Weighted Average Exercise Price |
| $ 0.64 | 31,250 | 9.39 | 31,250 | $ 0.64 |
| $ 0.80 | 125,000 | 9.58 | 125,000 | $ 0.80 |
| $ 0.96 | 442,708 | 8.39 | 442,708 | $ 0.96 |
| $ 1.20 | 156,250 | 0.59 | 156,250 | $ 1.20 |
| $ 1.68 | 1,434,721 | 2.25 | 1,434,721 | $ 1.68 |
| $ 2.18 | 172,167 | 2.25 | 172,167 | $ 2.18 |
| $ 4.00 | 28,750 | 6.82 | 28,750 | $ 4.00 |
| $ 6.95 | 375,000 | 6.26 | 375,000 | $ 6.95 |
| | 2,765,846 | 4.13 | 2,765,846 | $ 2.26 |

There were no unvested warrants outstanding as of June 30, 2024.

**NOTE 11. 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 June 30, 2024 and December 31, 2023, there were no claims against us for product liability.

**NOTE 12. CONTRACTS AND AGREEMENTS**

***Director Compensation***

In January 2023, we increased the annual fee to the non-employee members of our Board to $ 48,000 , to be paid in cash on a quarterly basis, with the exception of the audit committee chairperson, whose annual fee was increased to $ 54,600 , also to be paid in cash on a quarterly basis. Non-employee Director compensation also includes the annual issuance of our Common Stock.

For the six months ended June 30, 2023, we issued an aggregate of 60,000 shares of Common Stock that were valued at approximately $ 51,000 to members of our Board.

For the three months ended June 30, 2024, we issued an aggregate of 60,000 shares of Common Stock that were valued at approximately $ 45,000 to members of our Board.

***Manufacturing Agreement***

In June 2020, we entered into a manufacturing agreement with Planet Innovation Products, Pty Ltd ("PI"). The agreement does not provide for any minimum purchase commitments and is for a term of three years. The agreement also provides for a warranty against product defects.

**NOTE 13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

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

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Commissions | $ 160,415 | $ 200,837 |
| Payroll and related costs | 185,617 | 201,009 |
| Director fees | 37,650 | 37,650 |
| Sales Tax Payable | 20,411 | 5,707 |
| Accrued warranty (Note 14) | 30,000 | 30,000 |
| Other accrued expenses | 78,736 | 71,898 |
| Total | $ 512,829 | $ 675,491 |

**NOTE 14. ACCRUED WARRANTY**

Our manufacturers assume the warranty against product defects from date of sale, 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.

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The following table presents warranty reserve activities at:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Beginning accrued warranty costs | $ 30,000 | $ 68,000 |
| Provision for warranty expense | 5,772 | 26,911 |
| Settlement of warranty claims | ( 5,772) | ( 64,911) |
| Ending accrued warranty costs | $ 30,000 | $ 30,000 |

**NOTE 15. INCOME TAXES**

For the three and six months ended June 30, 2024 and 2023, our provision for income tax was $ 0 . 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 FASB ASC Topic 740, Income Taxes. As of June 30, 2024 and December 31, 2023, we recorded a valuation allowance of $ 7,851,000 and $ 7,539,000 , respectively for the portion of the deferred tax assets that we do not expect to be realized. Management believes that based on the available information, it is more likely than not that the remaining U.S. deferred tax assets will not be realized, such that a full of 100% 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.

**NOTE 16. CUSTOMER CONCENTRATION**

Two customers accounted for 54 % of net revenue for the three months ended June 30, 2024. Three customers accounted for 57 % of net revenue for the three months ended June 30, 2023.

Two customers accounted for 41 % of our revenue for the six months ended June 30, 2023. Two customers accounted for 30 % of our revenue for the six months ended June 30, 2023.

As of June 30, 2024 three customers accounted for 44 % of our gross accounts receivable. As of December 31, 2023, two customers accounted for 27 % of our gross accounts receivable.



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

*This Management's Discussion and Analysis of Financial Condition and Results of Operations (this "MD&A") and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements are not guaranteeing future performance and the TOMI Environmental Solutions, Inc. (the "Company," "TOMI," "we," and "our") actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of the Company's annual report on Form 10-K for the year ended December 31, 2023, filed with the U.S. Securities and Exchange Commission (the "SEC") on April 1, 2024 (the "Annual Report") under the heading "Risk Factors." The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

*Unless otherwise stated, all information presented herein is based on the Company's fiscal calendar, and references to particular years, quarters, months or periods refer to the Company's fiscal years ended in December and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "TOMI" as used herein refers collectively to TOMI Environmental Solutions, Inc. unless otherwise stated.*

*The following MD&A should be read in conjunction with the Annual Report filed with the SEC and the condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Form 10-Q.*

**Quarterly Highlights**

*Business Update*

For the first time since the end of 2020, our outlier year due to the COVID-19 pandemic, we surpassed $3 million in our quarterly sales.

In the second quarter of 2024, we achieved profitability and improved financial results through revitalized revenue growth and strategic reductions in operating expenses. We expanded our customer base and secured significant agreements and new partnerships.

During the second quarter of 2024, TOMI reported a 170% increase in revenue, amounting to $3,013,000, a sequential growth of $1,900,000 compared to the first quarter of 2024. This growth was primarily driven by higher mobile equipment sales, a product mix not seen since the 2022 year, with our mobile SteraMist equipment accounting for over 60% of our revenue in the second quarter of 2024.

Our quarterly revenue increased by 9% and SteraMist product-based revenue, mobile and custom engineered equipment increased by 20% in the second quarter this year, when compared to the same period last year. In fact, as of June 30, 2024, we have nearly matched the total number of mobile equipment sales realized throughout the entire calendar year of 2023.

Our second quarter international revenue grew by 130%, driven by new customers in Canada, Mexico, the Philippines, and the United Arab Emirates, compared to the same period in 2023.

Our total recognized revenue and backlog for the first and second quarters of 2024 amounted to $5,100,000, consisting of approximately $4,100,000 in recognized revenue and a sales backlog of approximately $1,000,000 at the end of June 2024.

During the second quarter, management implemented cost reduction initiatives that lowered our operating expenses by 3% compared to the same period last year. Additionally, our operating expenses in the second quarter of 2024 decreased by 9% compared to the first quarter of 2024 as a result of our cost-cutting measures.

With increased revenue and lower operating expenses, we reported a profit of approximately $30,000. This represents a significant milestone for the company and a major improvement compared to both the first quarter of this year and the second quarter of 2023.

We continue to pursue innovative solution and new markets for our versatile and environmentally friendly SteraMist iHP technology.

This year the service decontamination sector experienced a change within one of our primary competitors, which has resulted in an influx of additional leads for our company. On March 7, 2024, we announced an expansion in its SteraMist iHP Corporate Service contracts through the addition of new partners including the University of Texas and Rising Pharmaceutical. This strategic growth continued into the second quarter with the onboarding of Cornell, GlaxoSmithKline, and additional ThermoFisher facilities. These new customers reaffirm iHP's position as a leading decontamination technology provider to corporate clients within the life sciences industry.

To expand our reach and increase our presence in the western United States, we entered a partnership with EMAQ. EMAQ has made a substantial investment of over $1,000,000 in SteraMist iHP equipment and will serve as our partner to expand iHP services in this region. This should lead to significant increases in solution sales in the sector with the expansion of the western part of the United States, helping us to increase the sales of razor blades using the razor/razor blade model. Where our SteraMist delivery systems represent the razor and our proprietary BIT Solution represents the razor blade.

Demand for our CES systems continues to grow as well as our portfolio of systems that have been built. In February 2024, we announced the signing of a new contract for a SteraMist iHP Custom Engineered System (CES) installation with a California-based life sciences company. The contracted iHP Custom Engineered System (CES) is valued at approximately $600,000. This system, featuring six applicators, will be integrated into a clinical suite, and is expected to be fully installed by the end of the third quarter in 2024.

During the three months ended June 30, 2024, we received an order for our CES system with a global leader in advanced laboratory services. This customer purchased two additional Environment Systems to their original fleet of two Environment Systems and a seven (7) applicator iHP Custom Engineered System (CES), which is slated for installation by the end of the year.

To date, we have received 19 orders for CES systems. With the successful completion of each project, our iHP technology is rapidly gaining popularity as the preferred decontamination solution for pharmaceutical and biotech companies. Further, as we continue to install our technology in new CES projects, the product line evolves into a comprehensive turnkey solution.

We believe our industry is experiencing a shift towards modular cleanroom requirements which may benefit our business operations. The adaptability and efficiency offered by our iHP technology align perfectly with the changing needs of cleanroom setups. This trend allows us to capitalize on the increasing demand for flexible and scalable cleanroom solutions, further enhancing the relevance and value of our products within the industry.

We believe our growing portfolio of CES systems will give us a competitive edge in the Life Sciences market segment, improving our brand recognition. This should create new business and sales opportunities for us. In addition, after our installed CES projects are fully qualified and established for use, and our portfolio grows, we anticipate this will have a positive impact on our long-term recurring BIT solution sales thus providing the potential to enhance our operating margins, further strengthening our position in the industry, and supporting sustainable growth.

Second quarter BIT Solution sales increased by approximately 36% compared to the second quarter of 2023 and by 185% sequentially over the first quarter of 2024.

During the second quarter we maintained an active focus on digital marketing initiatives and business development plans with existing customers. In an effort to optimize our budget, we reduced our participation in tradeshows and redirected resources towards more effective lead generation strategies such as referrals and references. While tradeshows offer valuable networking opportunities, we have found that for the short-term TOMI SteraMist's strong reputation generates sufficient interest through other channels. These alternative approaches have proven to be more cost-effective and efficient in driving new business and expanding our customer base.

We are steadily increasing our presence in the food safety marketplace primarily from tradeshows we attended in the past. As stated, we must demonstrate that we are a viable solution for this industry, and we are currently conducting numerous feasibility studies with both small and large companies. We have entered the coffee industry with Mayorga Coffee and Organea Terra SRL, the desserts and ice cream industry with Lakeview Farms and Crank and Boom, egg white food manufacturing, pet food production and packaging, and a few agribusinesses have joined in adding iHP SteraMist to their sanitization standard operating procedures.

To further demonstrate the effectiveness of SteraMist iHP technology in the food industry, TOMI is also excited to announce collaborative efforts with several esteemed establishments on new studies that explore the broader applications and benefits of SteraMist iHP technology. We are working with one of the world's leading oleoresin production companies out of Spain directly applying iHP on spices such as pepper, thyme, and paprika to reduce salmonella. A multinational corporation in food and beverage processing is operating iHP at two of their international sites. Preliminary results show no contamination after treatment with iHP, and continued testing is expected to lead to company wide acceptance. These studies have also created further opportunities through introductions to their suppliers. A third new initiative is one with a leader in consumer goods production of health, hygiene, and nutrition products. TOMI is developing a specialized application of spraying their conveyor belts simplifying the decontamination of packaged items against salmonella and listeria.

On April 3, 2024, we announced the company has received the Gold Safety Award from Highwire. The award is presented to TOMI in recognition of the Company achieving a score of between 85-94 on the Highwire Safety Assessment. Highwire's Safety Assessment reviews a company's historic and current safety performance. The program provides a thorough, objective, and consistent evaluation of company performance so clients and contractors can identify, monitor, and mitigate risks more effectively. The results provide a strong indicator of how a contractor values safety and serve as a reliable predictor of future performance.

In evaluating sales related performance, management analyzes our revenue recognized for GAAP purposes which is presented in our quarterly and annual statement of operations as well as our sales orders we receive from customers during those same accounting periods. We define a "sales order" as a document we generate for our internal use in processing a customer order. Our sales orders essentially translate the format of the customer purchase orders we receive from our customers into the format used by us. We also evaluate our "customer sales backlog" which is defined as pending sales orders where revenue has not yet been recognized. Management believes analyzing the sales order and backlog metrics are useful in measuring our overall sales and business development performance as it gauges the overall volume of sales and business development activities.

*Product Development*

Our recent products developed and launched are as follows:

SteraMist Engineering continues to make strides collaborating with key manufactures of cleanroom technology and equipment developing a turnkey seamless decontamination integration to chambers, cabinets, passthroughs, isolators, cage washers, heat sterilizers, hot cells and more. TOMI begins this endeavor with a project management, turnkey modular solution, and process design consulting firm that we have partnered with in one of our previous CES projects.

In collaboration with certain partners, TOMI proudly introduced the SteraMist Integration System (SIS) product line tailored for enclosure decontamination. The inaugural offering, the Stand-Alone model, previously recognized as the Select Plus, has swiftly gained traction in the market, particularly catering to the Biosafety Cabinet (BSC) segment. This innovative solution offers customers seamless setup and versatility, making it an ideal choice for spaces necessitating a single-applicator decontamination fog.

We are actively engaged in discussions with numerous manufacturers to ensure the seamless integration of our SIS Manufacturer line. Our efforts are focused on finding the ideal end user in collaboration with our partners to facilitate the development of a comprehensive package. Once finalized, this standardized solution will significantly expand our reach within the Life Sciences sector.

The SteraMist Hybrid, an integral component of the SteraMist Environment System, SteraMist Hybrid is designed with capabilities to communicate with a facility. The system is strategically positioned in a centralized location of the facility through a docking station and features our newly designed permanently mounted stainless steel applicators.

Recently, TOMI successfully installed the first SteraMist Hybrid at Indigo Pharmaceutical, Inc.'s existing research facility, which selected the SteraMist Hybrid because it met the client's strict delivery timeline while adhering to the facility's budget constraints. We remain in specification discussions with Indigo for a Custom Engineered System for a future site dedicated to injectables.

Building upon our successful partnership with Indigo, we continued to cultivate strong relationships within our existing network. In July, the same consultant who introduced Indigo brought BeSpoke Pharmaceuticals, a compounding pharmacy, to our attention. We successfully delivered a Hybrid system to BeSpoke, with installation imminent. Like Indigo, BeSpoke has committed to a marketing initiative to promote our Hybrid product line. These strategic partnerships underscore the effectiveness of our focused approach to business development. By prioritizing existing relationships and leveraging referrals, we are generating tangible results and accelerating revenue growth compared to traditional lead generation methods such as tradeshows.

The SteraMist Transport has seen positive reception of its SteraMist Transport unit, an all-in-one dual voltage fogging product designed to treat a wide variety of vehicle sizes with an application time of only 20 minutes per 1,000 cubic feet. The initial batch of this innovative product is currently in a soft launch phase and was sold for live practical assessment with an existing international customer and domestic distributor.

TOMI launched its fourth generation SteraMist Environment System. The 24-volt model, allows for universal outlet usage and convert even more of the hydrogen peroxide BIT Solution to hydroxyl radicals thus lowering $H_2O_2$ PPM levels allowing for faster turnaround time. In addition, the unit has eight (8) outputs where four (4) are dedicated to our regular process of Constant or Pulse Injection, Dwell, and Aeration along with a light beacon status bar and four (4) are programmable to meet the customer needs for any external equipment they may desire to work with the system. This system is currently on the market and remains to be one of our most popular quoted product lines, has been implemented by customers, and is receiving praise for its further developments.

Our SteraMist® BIT™ solution product line is currently made up of a 32-ounce bottle for the SteraPak, a ten (10) liter, five (5) gallon, 55-gallon drum for our custom built-ins and our traditional one (1) gallon bottle. This brings the BIT Solution product line to a total of five (5) options provided to our customers, which will benefit our razor/razor-blade business model. Where our SteraMist delivery systems represent the razor and our proprietary BIT Solution represents the razor blade.

We expect these new products and service introductions will positively impact our net sales, cost of sales and operating expenses during this fiscal year.

***Overview***

TOMI Environmental Solutions, Inc. ("TOMI," "we," "our," or the "Company") is a global leader in bacteria decontamination and infectious disease control, offering environmentally friendly solutions for indoor air and surface disinfection and decontamination. Our flagship product, SteraMist, uses our patented and registered Binary Ionization Technology ("BIT") to deliver a low-percentage (7.8%) hydrogen peroxide-based fog or mist to affect all indoor environments and surface areas.

Developed under a grant from the United States Defense Advanced Research Projects Agency ("DARPA"), SteraMist generates ionized Hydrogen Peroxide ("iHP") using cold plasma science. BIT transforms a sole active ingredient hydrogen peroxide solution into iHP through a high voltage atmospheric cold plasma arc, producing submicron to 3-micron hydroxyl radical particles that effectively treat surfaces and environments with the same velocity and characteristics of a gas. Our innovative and novel process ensures eradication of pathogens with a 6-log (99.9999%) and greater kill rate, effectively leaving no harmful by-products lingering in the treated area. SteraMist's innovative methodology, inspired from atmospheric chemistry, not only guarantees effectiveness but also maintains a commitment to environmental sustainability by ensuring the only by-product from the process is oxygen and humidity, a complete package of benefits unmatched in its industry.

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We owe our success to the collaborative efforts of Titan Defense and DARPA who uncovered a superior technology that mimics nature's cleansing mechanism, bringing this natural phenomenon indoors providing a competitive edge that exceeds the capabilities of our competition in the healthcare disinfection, life sciences decontamination, and food safety sanitization markets.

***The Science Behind the Technology***

Introducing a revolutionary approach to disinfection and decontamination, our technology offers a streamlined and effective solution. By harnessing the power of atmospheric chemistry, our process converts 7.8% hydrogen peroxide into a plasma-generated hydroxyl radical, achieving a 6-log and greater kill of pathogens leaving only oxygen and humidity as by-products. It is a simple yet effective solution that sets a new standard for global cleaning disinfection decontamination practices.

BIT technology was initially developed in response to weaponized anthrax spore attacks, and detailed testing performed by DARPA demonstrated the success of the technology in neutralizing chemical warfare agents. BIT, a TOMI patented process 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 hydroxyl radicals (".OH"). The .OH damages pathogenic and resistant organisms (such as bacteria, bacteria spores, viruses, mold spores, other fungi, and yeast) via oxidation of proteins, carbohydrates, and lipids and rendering the building blocks of nature's amino acids, DNA and RNA inactive – leading to complete cellular disruption.

The unique alteration of the chemistry occurs only once BIT solution passes through the atmospheric cold plasma arc, which causes the breaking of the double bond of a hydrogen peroxide molecule and results in an .OH hydroxyl radical known as iHP. This patented process allows these hydroxyl radicals to exist in high concentrations without rapidly recombining and losing reactivity, while seeking all surfaces within the proximity of the resulting mist or fog.

TOMI has and continues to adapt this innovative technology into an everyday solution for use by multiple industries. Under the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"), we are mandated to register our disinfectants with the Environmental Protection Agency ("EPA") and specific state regulatory bodies. SteraMist BIT was EPA-registered (#90150-2) in June 2015 as a hospital-healthcare and broad-spectrum surface disinfectant for misting/fogging applications. We achieved a cutting-edge claim on the EPA label and was coined as the first equipment + solution combination hospital-healthcare disinfectant on the market and maintain the claim as the only EPA Registered Solution + Equipment combination that provides the unique technology of hydrogen peroxide ionization.

Today our EPA registered BIT solution is manufactured at an EPA-registered solution blender and our product performance is supported by Good Laboratory Practice ("GLP") efficacy data which includes mold control and air/surface remediation with claims to combat Staphylococcus, Pseudomonas, MRSA, Salmonella, H1N1, Clostridium difficile spores, and Norovirus. In March 2020, our EPA label was updated to include claims against Emerging Viral Pathogens, meeting criteria for both Enveloped and Large Non-enveloped viruses. In 2021, SteraMist BIT 0.35% hydrogen peroxide received its EPA registration (#90150-3), and on June 2, 2022, SteraMist was added to its seventh EPA's List, List Q for combating rare or novel viruses like Monkeypox virus and SARS-CoV-2 variants causing COVID-19.

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TOMI continuous to build its portfolio of feasibility studies with renowned and trusted partners. In 2023, the U.S. Department of Defense's BSAT Biorisk Program Office and the Department of Homeland Security's Science and Technology Directorate's Plum Island Animal Disease Center published a report demonstrating that iHP is an effective tool for decontamination of biological toxoids and dangerous pathogens that may disrupt our world. We maintain registrations in all 50 states, Washington D.C., Canada, and approximately 40 other countries. These endorsements signify our commitment to safeguarding our world against any potential threats.

***Industries & Market Segments***

SteraMist products are designed to address a wide spectrum of industries using iHP. Our operations consist of five main divisions based on our current target industries: Life Sciences, Hospital-HealthCare, *TOMI Service Network*, Food Safety, and Commercial. Launched in sequential order as listed to either strategically address the needs and/or ensure compliance with the specific regulations governing each industry segment.

*Life Sciences*

SteraMist iHP is designed to be tailored to provide a complete 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.

The life sciences sector demands rigorous decontamination procedures to ensure the integrity and safety of pharmaceutical products, medical devices, and research environments. With the evolving landscape of the pharmaceutical market, there is an increasing demand for fully automated decontamination products that offer quick turnaround times to minimize downtime and expedite production cycles.

The life sciences industry was among the first to embrace the Company's innovative decontamination solutions, recognizing the limitations of traditional methods and effects on progress. Our current portfolio of life science customers, including Fortune 100 companies, has been able to overcome the constraints imposed by outdated practices, paving the way for enhanced efficiency, safety, and productivity in their operations. Their early adoption of our SteraMist iHP lays a solid foundation for our future expansion. By demonstrating the effectiveness and value in a highly regulated and demanding sector, we establish credibility and trust that can facilitate broader adoption across other facilities, companies, and even industries.

The insights gained from working closely with life sciences companies also inform our product development and service offerings, enabling us to better meet the evolving needs of markets. In today's pharmaceutical market, characterized by rapid innovation, stringent regulatory requirements, and global competition-efficiency and speed are paramount. Pharmaceutical companies, including Contract Development and Manufacturing Organizations ("CDMO"), are under pressure to streamline their operations while maintaining high standards of quality and compliance.

According to industry statistics, the global pharmaceutical market is projected to grow steadily, with emerging markets playing an increasingly significant role in driving growth. As their operations expand globally, there is a growing need for decontamination solutions that can deliver consistent fast results across the dynamic and ever-changing landscape of manufacturing and production facilities and research laboratories.





By offering fully automated products and services tailored to the unique requirements of pharmaceutical manufacturers and CDMOs, TOMI aims to support their efforts in maintaining the highest standards of quality, safety, and efficiency on a global scale.

*Hospital-Healthcare*

TOMI focuses on the Hospital-Healthcare Market by providing high quality of safety to patients and personnel by disinfecting operating rooms, pharmacies, ambulances, and emergency environments throughout a healthcare facility.

Healthcare facilities worldwide should prioritize disinfection to mitigate the risk of healthcare-associated infections ("HAI"), enhance patient safety, and maintain a sterile environment conducive to healing. According to the World Health Organization, HAIs affect millions of patients globally each year, leading to prolonged hospital stays, increased healthcare costs, and deaths.

In 2024, it is estimated that approximately 7-10% of patients admitted to healthcare facilities worldwide will acquire at least one HAI during their stay. This translates to millions of cases annually, with significant economic burdens and human costs. Furthermore, the emergence of antimicrobial-resistant pathogens poses a growing threat, exacerbating the challenge of infection control in healthcare settings.

Effective disinfection measures, including the use of advanced technologies like SteraMist, are essential for reducing the incidence of HAIs and safeguarding patient health. By implementing rigorous disinfection protocols, healthcare facilities can significantly reduce the risk of infections, improve patient outcomes, and promote public health, but may also reduce healthcare costs and enhances the overall quality of care provided.

TOMI will intensify its efforts to penetrate the healthcare market by forging strategic partnerships and advocating for the adoption of advanced disinfection technologies. By collaborating with key stakeholders, including healthcare providers, facility managers, group purchasing organizations ("GPO") like Vizient and regulatory bodies, we can promote the integration of SteraMist as a complementary solution to manual cleaning practices. Emphasizing the efficiency, efficacy, and cost-effectiveness of SteraMist in eliminating pathogens and reducing the risk of healthcare-associated infections will be essential in gaining traction in the market. Additionally, investing in targeted marketing campaigns and educational initiatives to raise awareness about the benefits of automated disinfection processes can help overcome resistance to change and accelerate market penetration.

*TOMI Service Network ("TSN") New Program Offering*

TSN is an expansive network consisting of professionals who are exclusively licensed and trained to use the SteraMist products. TOMI trains and services a wide array of professional remediation companies in the use of SteraMist. The TSN addressed many cleaning protocols that changed permanently due to the COVID-19 pandemic, and our network plays a significant role in facilitating and maintaining these protocols. COVID-19 highlighted the limitations of reactive approaches to cleanliness and hygiene. Recognizing this, TOMI is now championing a proactive approach to disinfection. While the pandemic may have initially spurred reactive measures, we are advocating for a shift towards proactive, ongoing disinfection protocols.

Through consistent and persistent efforts, we are slowly but steadily changing minds across all industries that individuals interact with in their daily lives. By emphasizing the importance of maintaining clean and safe environments as a preemptive measure providing long-term benefits of proactive disinfection in ensuring the health and well-being of their employees, customers, and communities, rather than merely reacting to immediate threats, we are promoting a culture of preventive healthcare. To do this more widely, we needed to offer something more than the *SPC* to the world.

The SteraMist Pro Certified (SPC) program, signifies a significant step towards industry excellence. Our aim is to establish a standard that reflects a commitment to continuous improvement, adherence to evolving disinfection and biohazard response norms, and dedication to setting benchmarks in the field.

Central to our mission is ensuring that the SPC program resonates with consumers by placing their needs at the forefront, portraying the certification as user-centric rather than SteraMist-centric. This approach is crucial in garnering recognition and legitimacy for the certification.

In optimizing our communication, offerings, and requirements, we are prioritizing the categorization of Certification participants: Individuals, Sole Proprietors/Small Businesses, Franchises, and Internal/Departments. This classification will enable us to tailor our approach and support to meet the specific needs and challenges faced by each group. Our TOMI Service Network members and many current customers may fall within these categorizations and all that are eligible will be offered to join the SPC program.

As we move forward, the SteraMist Pro Certified (SPC) program will encompass a comprehensive set of criteria to ensure industry-leading standards. This includes:

1. SteraMist equipment ownership: Demonstrating a commitment to utilizing SteraMist technology for effective disinfection.

2. Public health commitment: Upholding a dedication to safeguarding public health through rigorous disinfection practices.

3. Training excellence: Ensuring thorough and ongoing training for personnel involved in disinfection procedures.

4. Employee awareness and training: Fostering a culture of awareness and competence among staff regarding disinfection protocols.

5. Equipment maintenance assurance: Guaranteeing the proper maintenance and upkeep of SteraMist equipment to optimize performance.

6. Internal self-audit program: Implementing regular self-assessment processes to monitor and improve disinfection practices.

7. Customer feedback innovation: Embracing customer feedback to drive innovation and enhance service delivery.

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8. Continuous improvement documentation: Documenting efforts to continuously enhance disinfection practices and procedures.

9. Environmental sustainability commitment: Incorporating environmentally sustainable practices into disinfection operations.

10. Emergency response plan with risk assessment: Developing comprehensive plans and risk assessments to effectively respond to emergencies.

The SPC program seeks to ensure certified entities are equipped to deliver disinfection decontamination while prioritizing public health, safety, and environmental sustainability.

*Food Safety*

Every day there are news articles around the world pertaining to the contamination of food supply. Unsafe food containing harmful bacteria, viruses, parasites, or chemical substances causes more than 200 diseases. It also creates a vicious cycle of disease and malnutrition, particularly affecting infants, young children, elderly and the sick. With the global population explosion, severe worldwide avian flu pandemics resulting in the unnecessary culling of bird flocks, unusually high number of accidents resulting in the destruction of dozens of storages, packing and processing food plants, in the U.S. alone, we anticipate an increase in the demand for a mechanical way to sanitize the food supply. TOMI, in cooperation with the USDA, demonstrated that our technology offers a consistent, quick, and effective solution.

Sanitation procedures must be implemented regularly and effectively to maintain cleanliness and prevent cross-contamination throughout the food processing chain. This includes proper cleaning and sanitizing of food preparation areas, storage facilities, transportation vehicles, and equipment used in food production. New challenges to food safety will continue to emerge, largely due to changes in the environment, new and emergent bacteria, toxins, and antimicrobial resistance. Food Safety presents an opportunity for significant growth for TOMI with continued product research and compliance testing.

Compliance with food safety regulations is essential for food businesses to protect public health, uphold consumer trust, and meet legal requirements. Regulatory agencies such as the United States Food and Drug Administration (“FDA”) and the European Food Safety Authority, as well as the Canadian Safe Food for Canadians Act and Safe Food, establish and enforce sanitation standards to ensure the safety and quality of the food supply. Failure to comply with sanitation regulations can result in fines, product recalls, legal actions, and damage to the reputation of food businesses. Therefore, adherence to sanitation practices is paramount in the food industry to mitigate risks and maintain food safety standards.

We have made significant strides in boosting brand awareness within the food safety industry through targeted promotion and marketing initiatives. Leveraging a similar strategy to what proved successful in the Life Sciences sector, we focused on building a customer base through referrals and feasibility studies, gradually expanding our reach. By fostering relationships with key supporters of our technology and remaining patient in our approach, we have finally laid a foundation and expect to continue to expand and grow our presence in this critical market segment.

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In line with adopting a proactive approach through our TOMI Service Network, it’s imperative for the entire commercial world to follow suit. Proactive disinfection practices not only ensure the health and safety of employees, customers, and visitors but also safeguard business continuity and reputation. Our Commercial division includes, but is not limited to, use sites such as aviation, airports, police and fire, prisons, manufacturing companies, automobile, gymnasiums, cruise ships, shipping ports, preschool education, primary and secondary schools, colleges including dormitories, all modes of public and private transportation, regulatory consulting agencies, retail, housing and recreation, and of course emergency preparedness for counties and cities use of SteraMist throughout such communities.

SteraMist disinfection helps prevent the spread of harmful pathogens, including bacteria and viruses, reducing the risk of illnesses and infections among individuals. This is particularly crucial in shared spaces such as offices, retail stores, and restaurants where people gather regularly. A healthy and safe work environment promotes employee well-being and productivity. By reducing absenteeism due to illness and creating a comfortable workspace, disinfection measures contribute to a more efficient and effective workforce. For businesses in the service industry, such as hotels, restaurants, and retail stores, providing a clean and hygienic environment is essential for delivering a positive customer experience. Cleanliness influences customer perceptions and can impact loyalty and repeat business. Disinfection helps mitigate the risk of liability claims associated with poor health and safety practices. Implementing proactive disinfection measures can minimize the potential for legal and financial repercussions resulting from health-related incidents.

TOMI, in conjunction with its partners, collaborators, and industry associations, is proactively educating the community on the importance of preventive disinfection through verbal explanation and visual demonstrations of the impact of maintaining a clean environment. We engage in targeted social media campaigns, offer training programs and workshops on best practices, and share case studies of real-life examples highlighting the long-term benefits in promoting health and safety for a successful business.

By further implementing these strategies and our reach, we can effectively convey the importance of proactive disinfection and inspire action among businesses and individuals to prioritize cleanliness and hygiene in commercial settings.

The Company is committed to further expanding its marketing, advertising, and educational campaigns aimed at its customer base and driving adoption of our SteraMist iHP product line across all our industries: Life Sciences, Hospital-Healthcare, TOMI Service Network, Food Safety, and Commercial. We will continue to innovate and develop tailored products to meet the specific needs of each, ensuring seamless implementation and optimal performance. Our dedicated team of technicians and representatives will continue to provide comprehensive training, maintenance, and servicing of capital equipment worldwide, supporting customers in maximizing the benefits of our patented technology. Additionally, TOMI will continue to offer protocol development and implementation services for SteraMist iHP, recognizing its critical role in various settings, particularly in pandemic preparedness scenarios.

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**Business Highlights and Recent Events**

***Revenues:***

Total revenue for the three months ended June 30, 2024, was $3,013,000, a 170% increase of $1,900,000 compared to $1,114,000 for the three months ended March 31, 2024. Additionally, revenue for the three months ended June 30, 2024, was up 9% from $2,775,000 in the same period in 2023, reflecting an increase of $238,000. This growth was driven by higher sales of SteraMist products and Custom Engineered Systems.

SteraMist product-based revenue, which is primarily comprised of our mobile and CES equipment, was up 20% in the second quarter of the current year, when compared to the same prior year period.

Our second-quarter international revenue grew by 130%, driven by new customers in Canada, Mexico, the Philippines, and the United Arab Emirates, compared to the same period in 2023.

We believe that we possess the best technologies in the world in the disinfection and decontamination space. The COVID-19 pandemic along with the needs of the pharmaceutical and vivarium space has provided us with the opportunity and experience to implement a clear strategy to develop and manufacture additional products to add to our portfolio. In addition, we continue to move our BIT technology as a standard in disinfection and decontamination globally. This should lead to increased market share, profitability, and capability strength.

Our products are an environmentally friendly solution, and our processes address the concerns of sustainability. Customers are requesting and discussing the positive results of our product and the environmentally friendly results compared to the caustic and environmentally unfriendly results of many other disinfectants.

SteraMist has established a successful track record in fighting pandemics and outbreaks and implementing SteraMist for emergency preparedness is vital. The COVID-19 pandemic took the world by surprise, and history has shown that other pandemics and viruses are likely to follow. Using a proven and trusted disinfectant for emergency outbreaks and daily for preventative maintenance, such as SteraMist, can alleviate the threat of infections from spreading and could stop a possible outbreak.

***2024 Events:***

On April 15, 2024, we announced our attendance at Interphex 2024 showcasing our new innovations. Interphex 2024 provides an opportunity for a wide range of biotechnology industry leaders to discover SteraMist's groundbreaking iHP technology which was held in New York City on April 16-18, 2024.

One June 6, 2024, we announced comprehensive cost reduction initiatives to align the Company's cost structure with targeted profitability objectives. The Company's operational cash savings initiatives include a modification of compensation arrangement for our executive officers, pursuant to which executives will reduce their compensation by 30% of their current cash compensation for the remainder of 2024, and an optimization of our consulting arrangement, under which we terminated select external consulting agreements, with remaining consultants agreeing to reduce their consultant fees.

On June 13, 2024, we announced two recent sales in the Life Sciences sector, underscoring the Company's successful strategic expansion in the sector and growth potential. The first purchase agreement, signed with one of the largest private pharmaceutical companies in the world, includes the acquisition of a SteraMist Environment System and TOMI validation services for the client's vivarium facility in Mexico. The second purchase agreement arises from the Company's collaboration with a trusted partner with decades of experience in big pharma. This partnership facilitated the sale of the first Hybrid System to Indigo Pharmaceutical, Inc. as announced in September 2023. Continuing this momentum, the partner has now successfully sold another SteraMist Hybrid System to BeSpoke Pharmaceuticals, a Nevada-based manufacturer targeting 503B products.

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On July 24, 2024, we announced that EMAQ Group, Inc. purchased twenty (20) SteraMist Environment Systems, generating $1,180,280 in revenue which was recognized in the second quarter of 2024. This strategic partnership aims to enhance the market penetration of SteraMist iHP decontamination solutions within the pharmaceutical industry and is expected to grant SteraMist iHP technology the significant traction it deserves, delivering decontamination solutions that meet the stringent demands of the pharmaceutical sector.

***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. 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 EPA, all 50 states in the United States, and multiple countries worldwide. We have received or are in the process of receiving Conformité Européene (“CE”) marks in the European Economic Area (“EEA”) and are approved by Underwriters Laboratory (“UL”).

Our portfolio includes more than 25 Utility or Design Patents worldwide which expire at various dates through the year 2038 for both method and system claims on SteraMist® BIT™, as well as design of devices. We continue to pursue further claims to additional capabilities in on-going United States and worldwide patent applications. We have obtained four related United States utility patents, giving us protection of our technology until the year 2038. We are further pursing patent protection for our backpack decontamination units and mobile carts in the United States . We have obtained utility patents for our technologies in diverse countries such as Brazil, Japan, Korea, Israel, Australia, Taiwan, Canada, Mexico, Europe, Singapore, New Zealand, and, currently pending, in the UK, and continue to pursue protections all over the world.

We have submitted utility patent applications in multiple jurisdictions and countries, including Europe, China, Brazil, Korea and Australia for further additional applications of SteraMist BIT, and a related application has already been determined novel and inventive in Taiwan, Japan, Israel, New Zealand, Australia and Singapore. We have recently filed new patent pending applications on novel uses and enhancements of our technology in the United States. We have been awarded a design patent on our surface-mounted applicator device in the United States, China, Japan, Taiwan, and Korea. We have filed and have been granted or have pending acceptance on 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 the United States, China, Hong Kong, Europe, United Kingdom, Singapore, Taiwan, Vietnam, Canada, South Korea, and Japan. We are also pursuing IP protection for further applications of our SteraMist BIT in diverse fields in multiple jurisdictions, such as food decontamination and, in installed systems for the application of iHP for the protection of buildings post outbreak or after a biological attack. With worldwide attention on the etiology of SARs CoV2 coming from a lab leak, attention on the prevention and control of a leak or mishap should be on the mind of all the biological labs managers around the world. The fact that iHP and our BIT platform can be incorporated in new or existing buildings to create an "immune building" should assist in further lab applications of SteraMist in the biosecurity industry in the future. Our current patents with claims to systems already serve to provide protection for our technology in this area and our on-going pending applications will further enhance the scope of our intellectual property. Initial findings for our filed improvement applicator designs in cell biology may be followed by designation applications in many countries.





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 today, we have over two hundred trademarks or trademark applications, (word and/or logo) registered or pending across the globe. TOMI registers marks in eight 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, Class 40 for Chemical Decontamination and Manufacturing Services, and Class 41 for Providing Education Training and information related to biological and bacterial decontamination services. Recently, we have expanded our trademark protection into India.

*Financial Operations Overview*

Our financial position as of June 30, 2024 and December 31, 2023, respectively, was as follows:

| | June 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| Total shareholders' equity | $ 7,296,000 | $ 8,359,000 |
| Cash and cash equivalents | $ 709,000 | $ 2,339,000 |
| Deferred Revenue | $ 57,000 | $ - |
| Accounts receivable – Current, net | $ 3,664,000 | $ 2,430,000 |
| Inventories | $ 4,282,000 | $ 4,627,000 |
| Prepaid expenses | $ 290,000 | $ 371,000 |
| Vendor Deposits | $ 126,000 | $ 29,000 |
| Other Receivables | $ 164,000 | $ 164,000 |
| Accounts receivable – Long Term, net | $ 206,000 | $ 206,000 |
| Current liabilities – Excluding Deferred Revenue | $ 2,350,000 | $ 2,058,000 |
| Long-term liabilities – Convertible Notes | $ 2,329,000 | $ 2,298,000 |
| Long-term liabilities – Other | $ 580,000 | $ 643,000 |
| Working Capital | $ 6,828,000 | $ 7,903,000 |

During the six months ended June 30, 2024, our debt and liquidity positions were affected by the following:

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- Net cash used in operations of approximately $1,558,000.

***Results of Operations for the Three and Six Months Ended June 30, 2024 Compared to the Three and Six Months Ended June 30, 2023:***

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| Revenue, Net | $3,013,000 | $2,775,000 | $ 238,000 | $ 4,127,000 | $ 4,357,000 | $ (230,000) |
| Gross Profit | 1,855,000 | 1,700,000 | 155,000 | 2,525,000 | 2,642,000 | (117,000) |
| Total Operating Expenses (1) | 1,733,000 | 1,789,000 | (56,000) | 3,630,000 | 3,919,000 | (289,000) |
| Income (Loss) from Operations | 122,000 | (89,000) | 211,000 | (1,105,000) | (1,277,000) | 172,000 |
| Total Other Income (Expense) | (92,000) | - | (92,000) | (175,000) | 1,000 | (176,000) |
| Provision for (benefit from) Income Taxes | - | - | - | - | - | - |
| Net Income (Loss) | $ 30,000 | $ (89,000) | 119,000 | $(1,280,000) | $(1,276,000) | (4,000) |
| Basic Net Income (Loss) per share | $ 0.00 | $ (0.00) | $ 0.00 | $ (0.06) | $ (0.06) | $ 0.00 |
| Diluted Net Income (Loss) per share | $ 0.00 | $ (0.00) | $ 0.00 | $ (0.06) | $ (0.06) | $ 0.00 |

*Revenue*

Total revenue for the three months ended June 30, 2024 and 2023, was $3,013,000 and $2,775,000, respectively, representing an increase of $238,000 or 9% compared to the same prior year period. Product based revenues for the six months ended June 30, 2024 and 2023, were $4,127,000 and $4,357,000, representing a decrease of $230,000 or 5% when compared to the same prior year period. The decrease in product based revenue was attributable to the timing of customer orders and the related revenue recognition.

As customers mature through the product and adoption cycle and our sales pipeline converts to revenue, we expect to generate more predictable sales quarter over quarter. Further, as the COVID-19 pandemic has subsided, we expect that the demand for our products and services will continue as we are building a team to address the post COVID-19 pandemic market opportunities.

*Product and Service Revenue*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| SteraMist Product | $2,728,000 | $2,272,000 | $ 456,000 | $3,471,000 | $3,548,000 | $ (77,000) |
| Service and Training | 285,000 | 503,000 | (218,000) | 656,000 | 809,000 | (153,000) |
| Total | $3,013,000 | $2,775,000 | $ 238,000 | $4,127,000 | $4,357,000 | $ (230,000) |

SteraMist Product-based revenues for the three months ended June 30, 2024 and 2023, were $2,728,000 and $2,272,000, representing an increase of $456,000 or 20% when compared to the same prior year period. The increase in revenue was attributable to the higher equipment revenue in the current year period as a result of the timing of customer orders and the related revenue recognition. For the six months ended June 30, 2024 and 2023, our total revenue was $3,471,000 and $3,548,000, respectively, representing a decrease of $77,000, or 2% compared to the same prior year period.

Our service-based revenue for the three months ended June 30, 2024 and 2023, was $285,000 and $503,000, respectively, representing a decrease of $218,000 or 43%. For the six months ended June 30, 2024 and 2023, our service-based revenue was $656,000 and $809,000, representing a decrease of $153,000 or 19% when compared to the same prior period in 2023. The decrease in service revenue was due to timing of emergency service work that occurred in the same prior period.

*Revenue by Geographic Region*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| United States | $2,621,000 | $2,602,000 | $ 19,000 | $3,283,000 | $3,730,000 | $ (447,000) |
| International | 392,000 | 173,000 | 219,000 | 844,000 | 627,000 | 217,000 |
| Total | $3,013,000 | $2,775,000 | $ 238,000 | $4,127,000 | $4,357,000 | $ (230,000) |

Our domestic revenue for the three months ended June 30, 2024 and 2023 was $2,621,000 and $2,602,000, respectively, an increase of $19,000 or 1%, when compared to the same prior year period. For the six months ended June 30, 2024 and 2023, our domestic revenue was $3,283,000 and $3,730,000, representing a decrease of $447,000 or 12% when compared to the same prior period in 2023.

Internationally, our revenue for the three months ended June 30, 2024 and 2023, was approximately $392,000 and $173,000, respectively, representing an increase of $219,000 or 127% when compared to the same prior year period. For the six months ended June 30, 2024 and 2023, our international revenue was $844,000 and $627,000, representing an increase of $217,000 or 35% when compared to the same prior period in 2023.

*Cost of Sales*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| Cost of Sales | $1,159,000 | $1,074,000 | $ 85,000 | $1,602,000 | $1,715,000 | $ (113,000) |

Cost of sales was $1,159,000 and $1,074,000 for the three months ended June 30, 2024 and 2023, respectively, an increase of $85,000 or 8%, compared to the prior year. The increase in cost of sales was primarily due to the higher sales. Our gross profit as a percentage of sales for the three months ended June 30, 2024 was 62% compared to 61% in the same prior period, respectively.

Cost of sales was $1,602,000 and $1,715,000 for the six months ended June 30, 2024 and 2023, respectively, a decrease of $113,000, or 7%, compared to the prior year.

*Professional Fees*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| Professional Fees | $ 84,000 | $ 112,000 | $ (28,000) | $ 282,000 | $ 249,000 | $ 33,000 |

Professional fees are comprised mainly of legal, accounting, and financial consulting fees.

Professional fees were $84,000 and $112,000 for the three months ended June 30, 2024 and 2023, respectively, a decrease of approximately $28,000 or 25%, in the current year period. The decrease in professional fees was due to lower legal fees incurred in the current year period due to costs incurred in connection with our intellectual property and the related timing of when those services were rendered.

Professional fees were $282,000 and $249,000 for the six months ended June 30, 2024 and 2023, respectively, an increase of approximately $33,000, or 13%, in the current year period. The increase in professional fees was primarily due to higher legal fees we incurred in connection with distributor and OEM agreements.

*Depreciation and Amortization*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | $ | 2024 | 2023 | $ |
| Depreciation and Amortization | $ 77,000 | $ 91,000 | $ (14,000) | $ 154,000 | $ 179,000 | $ (25,000) |

Depreciation and amortization were approximately $77,000 and $91,000 for the three months ended June 30, 2024 and 2023, respectively, representing a decrease of $14,000 or 15%.

Depreciation and amortization were approximately $154,000 and $179,000 for the six months ended June 30, 2024 and 2023, respectively, representing a decrease of $25,000, or 14%.

The decrease in depreciation expense is due to a lower amount of fixed assets being depreciated in the current year periods when compared to the same prior year periods.

*Selling Expenses*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | **2024** | **2023** | **$** | **2024** | **2023** | **$** |
| Selling Expenses | $ 366,000 | $ 501,000 | $ (135,000) | $ 655,000 | $ 878,000 | $ (223,000) |

Selling expenses for the three months ended June 30, 2024 were approximately $366,000, as compared to $501,000 for the quarter ended June 30, 2023, representing a decrease of approximately $135,000 or 27%. The decline in selling expenses is due to lower sales commission incurred in the current year period due to less sales generated by third party representatives.

Selling expenses for the six months ended June 30, 2024 were approximately $655,000, as compared to $878,000 for the quarter ended June 30, 2023, representing a decrease of approximately $223,000 or 25%. The decline in selling expenses is due to lower sales commission incurred in the current year period due to less sales generated by third party representatives.

*Research and Development*

| | For The Three Months Ended June 30, | | Change | For The Six Months Ended June 30, | | Change |
|---|---|---|---|---|---|---|
| | **2024** | **2023** | **$** | **2024** | **2023** | **$** |
| Research and Development | $ 62,000 | $ 74,000 | $ (12,000) | $ 130,000 | $ 144,000 | $ (14,000) |

Research and development expenses for the three months ended June 30, 2024 were approximately $62,000, as compared to $74,000 for the quarter ended June 30, 2023, representing a decrease of approximately $12,000 or 16%.

Research and development expenses for the six months ended June 30, 2024 were approximately $130,000, as compared to $144,000 for the quarter ended June 30, 2023, representing a decrease of approximately $14,000, or 10%.

The decline in research and development expenses is due to the timing projects that occurred in the prior period, which did not recur in the same current year period.

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*Consulting Fees*

| | For The Three Months Ended June 30, 2024 | For The Three Months Ended June 30, 2023 | Change $ | For The Six Months Ended June 30, 2024 | For The Six Months Ended June 30, 2023 | Change $ |
|---|---|---|---|---|---|---|
| Consulting Fees | $ 23,000 | $ 69,000 | $ (46,000) | $ 137,000 | $ 144,000 | $ (7,000) |

Consulting fees were $23,000 and $69,000 for the three months ended June 30, 2024 and 2023, respectively, representing a decrease of $46,000 or 67%, in the current quarter period.

Consulting fees were $137,000 and $144,000 for the six months ended June 30, 2024 and 2023, respectively, representing a decrease of $7,000, or 5%, in the current quarter period.

The decrease in consulting fees is due to termination of select external consulting agreements, with remaining consultants agreeing to reduce their consultant fees, as part of our cost-reduction measures in June 2024.

*General and Administrative Expense*

| | For The Three Months Ended June 30, 2024 | For The Three Months Ended June 30, 2023 | Change $ | For The Six Months Ended June 30, 2024 | For The Six Months Ended June 30, 2023 | Change $ |
|---|---|---|---|---|---|---|
| General and Administrative | $1,121,000 | $ 943,000 | $ 178,000 | $2,271,000 | $2,324,000 | $ (53,000) |

General and administrative expenses include salaries and payroll taxes, rent, insurance expense, utilities, office expense, product registration costs, equity compensation and bad debt expense.

General and administrative expenses were $1,121,000 and $943,000 for the three months ended June 30, 2024 and 2023, respectively, an increase of $178,000 or 19% in the current period. The increase is attributable to higher equity based on compensation in the current year period as well as a charge associated with shares issued to our board of directors in the current period which did not occur in the prior period.

General and administrative expenses were $2,271,000 and $2,324,000 for the six months ended June 30, 2024 and 2023, respectively, a decrease of $53,000, or 2% in the current period. The decrease in general and administrative expenses was attributable to a decrease in Executive compensation.

*Other Income and Expense*

| | For The Three Months Ended June 30, 2024 | For The Three Months Ended June 30, 2023 | Change $ | For The Six Months Ended June 30, 2024 | For The Six Months Ended June 30, 2023 | Change $ |
|---|---|---|---|---|---|---|
| Interest Income | $ 2,000 | $ - | $ 2,000 | $ 12,000 | $ 1,000 | $ 11,000 |
| Interest Expense | $ (93,000) | $ - | $ (93,000) | $ (187,000) | $ - | $ (187,000) |
| Other Income (Expense) | $ (91,000) | $ - | $ (91,000) | $ (175,000) | $ 1,000 | $ (176,000) |

Interest income was approximately $2,000 and $0 for the three months ended June 30, 2024 and 2023.

Interest income was approximately $12,000 and $1,000 for the six months ended June 30, 2024 and 2023, respectively.

Interest expense was $93,000 and $0 for the three months ended June 30, 2024 and 2023, respectively.

Interest expense was $187,000 and $0 for the six months ended June 30, 2024 and 2023, respectively.

The interest expense is attributable to the convertible notes.

***Liquidity and Capital Resources***

As of June 30, 2024, we had cash and cash equivalents of approximately $709,000 and working capital of $6,828,000. Our principal capital requirements are to fund operations, invest in research and development and capital equipment, and the continued costs of compliance with public company reporting requirements. We have historically funded our operations through funds generated through operations and debt and equity financings. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and may include operating and financial covenants that would restrict our operations. We cannot be certain that any financing will be available in the amounts we need or on terms acceptable to us, if at all.

For the six months ended June 30, 2024 and 2023, we incurred losses from operations of ($1,105,000) and ($1,277,000), respectively. Cash used in operations for the six months ended June 30, 2024 and 2023 was ($1,558,000) and ($2,198,000), respectively.

A breakdown of our statement of cash flows for the six months ended June 30, 2024 and 2023 is provided below:

| | For The Six Months Ended June 30, 2024 | For The Six Months Ended June 30, 2023 |
|---|---|---|
| Net Cash Provided (Used) in Operating Activities | $ (1,558,000) | $ (2,198,000) |
| Net Cash Used in Investing Activities | $ (99,000) | $ (94,000) |
| Cash Flow From Financing Activities: | $ 28,000 | $ - |

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*Operating Activities*

Cash used in operations for the six months ended June 30, 2024 and 2023 was $1,558,000 and $2,198,000, respectively.

*Investing Activities*

Cash used in investing activities for the six months ended June 30, 2024 and 2023 was $99,000 and $94,000, respectively. The increase was attributable to higher property and equipment purchased in the current year period.

*Financing Activities*

Cash provided by financing activities for six months ended June 30, 2024 and 2023 was $28,000 and $0, respectively. The increase is attributable to the proceeds from the exercise of stock options.

*Liquidity*

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

- ramp up and expansion of our internal sales force and manufacturer's representatives;
- length of our sales cycle;
- global and regional response to the outbreak of infectious diseases;
- expansion into new territories and markets; and
- timing of orders from distributors.

We could incur operating losses and an increase of costs related to the continuation of product and technology development, sales expense as we continue to grow our sales teams, inventory as we continue to ensure we have products needed and geographic presence, tooling capital expenditures as we ramp up and streamline our production and administrative activities including compliance with the Sarbanes-Oxley Act of 2002 Section 404.

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 global revenue in all verticals;
- continue research and development and add new products to our "Stera" product line;
- source alternative lower cost suppliers;
- expansion of international distributors; and
- continued growth in all of our verticals.

During 2023 and 2024, we experienced increased demand for our CES where we collect deposits upon the execution of the contract. The deposits we receive fund the production for the CES and improve our overall liquidity through the duration of the project. We believe our sales for our CES will continue to grow in 2024 and improve our financial results from a liquidity perspective as well as improve our operating margins due to the higher recurring solution sales we see for our CES system.

We expect that the cash we generate from our core operations will generally be sufficient to cover our future capital expenditures and to pay down our near-term debt obligations.

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 may consider financing transactions to fund our operations if opportunities arise. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making acquisitions or capital expenditures. Debt financing would also result in fixed payment obligations.

On November 7, 2023, we entered into a Securities Purchase Agreement (the “SPA”) with certain accredited investors (collectively, the “Investors”) pursuant to which we agreed to sell and issue to the Investors in a private placement transaction (the “Private Placement”) in one or more closings up to an aggregate principal amount of $5,000,000 (the “Notes”). As of November 7, 2023, we issued and sold an aggregate of $2,600,000 of Notes to certain Investors pursuant to the SPA.

The gross proceeds from the transaction are approximately $2,600,000, before deducting the placement agent's fees and other estimated offering expenses. The initial closing of the Private Placement occurred on November 7, 2023.

The Notes are due on the fifth anniversary of the issuance date of the Notes and bear simple interest at a rate of 12% per annum, payable in equal monthly installments. The Notes are convertible into shares of our Common Stock, at the option of the holder, at a conversion price of $1.25 per share, which shall not exceed $1.55 per share. In addition, we can require Investors to convert the Notes at the then current conversion price at any time after 90 days from the issue date if the Common Stock has a closing bid price of $1.55 per share or higher on any twenty days within a thirty day period of consecutive trading days, or if a "fundamental change" occurs (as defined in the SPA). The Notes are unsecured and senior to other indebtedness subject to certain exceptions.

***Critical Accounting 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 estimates 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 estimates 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). We recognize 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.

We 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. Shipping and handling costs charged to customers are included in Product Revenues. The associated expenses are treated as fulfillment costs and are included in Cost of Revenues. Revenues are reported net of sales taxes collected from customers.

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.

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.

Estimated allowances for sales returns are recorded as sales are recognized. We use a specific identification method based on subsequent product return activity and historical average calculation to estimate the allowance for sales returns.

*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 June 30, 2024, and December 31, 2023 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.

*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 credit losses 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 net realizable value 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.

*Long-Lived Assets Including Acquired Intangible Assets*

We assess long-lived assets for potential impairments at the end of each year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating long-lived assets for impairment, we measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If our long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. We base the calculations of the estimated fair value of our long-lived assets on the income approach. For the income approach, we use an internally developed discounted cash flow model that includes, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. We had no long-lived asset impairment charges for the three and six months ended June 30, 2024 and 2023.

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*Recently issued accounting pronouncements not yet adopted*

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in us including the additional required disclosures when adopted. We are currently evaluating the provisions of this ASU and expect to adopt them for the year ending December 31, 2024.

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU will result in the required additional disclosures being included in our consolidated financial statements, once adopted.

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

Not Applicable.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our 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 quarterly report on Form 10-Q. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

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

**Limitations on Effectiveness of Controls and Procedures**

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

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## PART II: OTHER INFORMATION

**Item 1. Legal Proceedings**.

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

**Item 1A. Risk Factors.**

You should carefully consider the information described in the "Risk Factors" section of our Annual Report for the fiscal year ended December 31, 2023, as filed with the SEC on April 1, 2024. Except as set forth below, there have been no material changes to the risk factors we previously disclosed in our filings with the SEC, including the Annual Report. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

*10b5-1 Arrangements*

To the best of the Company's knowledge during the fiscal quarter ended June 30, 2024, no director or officer (as defined in Rule 16a-1(f) of the Securities Exchange Act) of the Company adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements.

**Item 6. Exhibits.**

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

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**SIGNATURES**

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

**TOMI ENVIRONMENTAL SOLUTIONS, INC.**

Date: August 1, 2024

By: /s/ HALDEN S. SHANE
Halden S. Shane
Chief Executive Officer

(Principal Executive Officer)

Date: August 1, 2024

By: /s/ JOE RZEPKA
Joe Rzepka
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)



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**EXHIBIT INDEX**

| Exhibit Number | Description of Exhibit | Form | File No. | Date | Exhibit | Filed Herewith |
|---|---|---|---|---|---|---|
| 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# | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 32.2# | Certification of the 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 |

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

**EXHIBIT 31.1**

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

I, Halden S. Shane, certify that:

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

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

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

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

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

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

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

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

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

   (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.

Date: August 1, 2024

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

**EXHIBIT 31.2**

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

I, Joe Rzepka, certify that:

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

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

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

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

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

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

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

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

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

    (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.

Date: August 1, 2024

/s/ Joe RZEPKA
Joe Rzepka
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**EXHIBIT 32.1**

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

In connection with the quarterly report of TOMI Environmental Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on Date: August 1, 2024 (the “Report”), I, Halden S. Shane, Chief Executive Officer of the Company, certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2024

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

**EXHIBIT 32.2**

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

In connection with the quarterly report of TOMI Environmental Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission Date: August 1, 2024 (the “Report”), I, Joe Rzepka, Chief Financial Officer of the Company, certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2024

/s/ JOE RZEPKA
Joe Rzepka
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)