

**PROSPECTUS SUPPLEMENT NO. 3**  
**(to prospectus dated May 13, 2019)**

**ToughBuilt Industries, Inc.**

5,582,560 shares of common stock

**This prospectus supplement relates to Registration Statement on Form S-1 (File No. 333-231086) declared effective by the Securities and Exchange Commission on or about May 9, 2019 and does not cover securities beyond those covered by the existing Registration Statement. There are no additional securities being offered under this prospectus supplement – this is merely a document required under the securities laws to update information previously filed in the original prospectus and prior prospectus supplements thereto.**

The selling stockholders may offer and sell the shares covered by the prospectus at prevailing prices quoted on the Nasdaq Capital Market or at privately negotiated prices. The selling stockholders may sell the shares directly or through underwriters, brokers or dealers. The selling stockholders will bear any applicable sales commissions, transfer taxes and similar expenses. We will pay all other expenses incident to the registration of the shares. See “Plan of Distribution” in the prospectus for more information on this topic.

We are filing this prospectus supplement to supplement and amend the information previously included in the prospectus, with the information contained in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 19, 2019. Accordingly, we have attached our Quarterly Report on Form 10-Q to this prospectus supplement. You should read this prospectus supplement together with the prospectus and any prior prospectus supplements thereto, which is to be delivered with this prospectus supplement.

Our common stock is traded on the Nasdaq Capital Market under the symbol “TBLT.” On November 19, 2019, the last reported sale price of our common stock on the Nasdaq Capital Market was \$0.228 per share.

**Investing in our securities involves significant risks, including those set forth in the “Risk Factors” section of the prospectus beginning at page 4.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THE PROSPECTUS OR THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is November 25, 2019

---

---

---

**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 September 30, 2019

OR

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

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

COMMISSION FILE NUMBER 001-38739

**TOUGHBUILT INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

46-0820877  
(I.R.S. Employer  
Identification No.)

25371 Commercentre Drive, Suite 200, Lake Forest, CA 92630  
(Address of principal executive offices) (Zip Code)

(949) 528-3100  
(Registrant's telephone number, including area code)

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 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. (Check one)

Large accelerated filer   
Non-accelerated filer

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

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

<u>Title of each class:</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered:</u>
Common stock	TBLT	NASDAQ CAPITAL MARKET
Class A Units	TBLTU	NASDAQ CAPITAL MARKET
Series A Warrants	TBLTW	NASDAQ CAPITAL MARKET

As of November 18, 2019, the registrant had 29,192,923 shares of common stock, \$0.0001 par value per share outstanding.

---

---

TABLE OF CONTENTS

PART I.	<a href="#">FINANCIAL INFORMATION</a>	3
ITEM 1.	<a href="#">FINANCIAL STATEMENTS</a>	3
	<a href="#">CONDENSED BALANCE SHEETS AT SEPTEMBER 30, 2019 (UNAUDITED) AND DECEMBER 31, 2018</a>	3
	<a href="#">CONDENSED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)</a>	4
	<a href="#">CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)</a>	5
	<a href="#">CONDENSED STATEMENTS OF CASH FLOWS FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)</a>	6
	<a href="#">NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)</a>	7
ITEM 2.	<a href="#">MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	21
ITEM 3.	<a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	26
ITEM 4.	<a href="#">CONTROLS AND PROCEDURES</a>	26
PART II.	<a href="#">OTHER INFORMATION</a>	27
ITEM 1.	<a href="#">LEGAL PROCEEDINGS</a>	27
ITEM 1A.	<a href="#">RISK FACTORS</a>	27
ITEM 2.	<a href="#">UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</a>	27
ITEM 3.	<a href="#">DEFAULTS UPON SENIOR SECURITIES</a>	28
ITEM 4.	<a href="#">MINE SAFETY DISCLOSURES</a>	28
ITEM 5.	<a href="#">OTHER INFORMATION</a>	28
ITEM 6.	<a href="#">EXHIBITS</a>	28
	<a href="#">SIGNATURES</a>	29

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

TOUGHBUILT INDUSTRIES, INC.  
CONDENSED BALANCE SHEETS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	<u>(UNAUDITED)</u>	
Assets		
Current Assets		
Cash	\$ 2,455,323	\$ 5,459,884
Accounts receivable, net	1,674,896	985,854
Factor receivables, net	944,964	1,542,835
Inventory	1,774,439	379,915
Prepaid assets	214,514	222,000
Total Current Assets	<u>7,064,136</u>	<u>8,590,488</u>
Other Assets		
Property and equipment, net	718,339	224,196
Note receivable	4,780,000	-
Other assets	102,429	36,014
Total Assets	<u>\$ 12,664,904</u>	<u>\$ 8,850,698</u>
Liabilities and Shareholders' Equity Deficit		
Current Liabilities		
Accounts payable	\$ 2,045,019	\$ 1,962,901
Accrued expenses	385,735	927,569
Deferred revenue	-	107,776
Factor loan payable	680,668	1,304,512
Warrant derivative	482,489	23,507,247
Convertible notes payable - current	3,625,556	-
Total Current Liabilities	<u>7,219,467</u>	<u>27,810,005</u>
Convertible notes payable - net of current portion	5,273,357	-
Total Liabilities	<u>12,492,824</u>	<u>27,810,005</u>
Shareholders' Equity (Deficit)		
Series C Preferred Stock, \$0.0001 par value, 3,268 and 0 shares authorized, issued, and outstanding at September 30, 2019 and December 31, 2018, respectively. No liquidation preference.	-	-
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 28,120,293 and 9,870,873 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	2,800	987
Additional paid-in capital	41,463,387	20,152,107
Accumulated deficit	(41,294,108)	(39,112,401)
Total Shareholders' Equity (Deficit)	<u>172,079</u>	<u>(18,959,307)</u>
Total Liabilities and Shareholders' Equity (Deficit)	<u>\$ 12,664,903</u>	<u>\$ 8,850,698</u>

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

**TOUGHBUILT INDUSTRIES, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues, net of allowances				
Metal goods	\$ 2,527,734	\$ 1,510,873	\$ 6,443,984	\$ 5,369,713
Soft goods	2,256,353	1,949,277	8,116,914	6,555,916
Total revenues, net of allowances	<u>4,784,087</u>	<u>3,460,150</u>	<u>14,560,898</u>	<u>11,925,629</u>
Cost of Goods Sold				
Metal goods	1,759,091	1,268,825	4,733,524	4,325,522
Soft goods	1,545,027	1,537,216	5,992,769	4,895,549
Total cost of goods sold	<u>3,304,118</u>	<u>2,806,041</u>	<u>10,726,293</u>	<u>9,221,071</u>
Gross profit	<u>1,482,969</u>	<u>654,109</u>	<u>3,834,605</u>	<u>2,704,558</u>
Operating expenses:				
Selling, general and administrative expenses	3,549,480	1,918,613	8,807,483	4,641,290
Litigation expense	-	-	-	1,192,488
Research and development	391,460	591,489	1,521,503	1,446,913
Total operating expenses	<u>3,940,940</u>	<u>2,510,102</u>	<u>10,328,986</u>	<u>7,280,691</u>
Loss from operations	<u>(2,460,970)</u>	<u>(1,885,993)</u>	<u>(6,494,380)</u>	<u>(4,576,133)</u>
Other income (expense)				
Interest expense	(288,152)	(1,152,681)	(456,690)	(2,561,482)
Change in fair value of warrant derivative	59,780	-	4,769,363	-
Total other income (expense)	<u>(228,372)</u>	<u>(1,152,681)</u>	<u>4,312,673</u>	<u>(2,561,482)</u>
Loss before provision for income taxes	<u>(2,689,342)</u>	<u>(3,008,675)</u>	<u>(2,181,707)</u>	<u>(7,137,615)</u>
Provision for income taxes	-	-	-	-
Net loss	<u>(2,689,342)</u>	<u>(3,008,675)</u>	<u>(2,181,707)</u>	<u>(7,137,615)</u>
Basic and diluted net loss per share				
Basic net loss per common share	\$ (0.09)	\$ (0.41)	\$ (0.11)	\$ (0.97)
Basic weighted average common shares outstanding	<u>30,844,557</u>	<u>7,359,000</u>	<u>19,061,790</u>	<u>7,359,000</u>
Diluted net loss per common share	\$ (0.09)	\$ (0.41)	\$ (0.11)	\$ (0.97)
Diluted weighted average common shares outstanding	<u>30,844,557</u>	<u>7,359,000</u>	<u>19,061,790</u>	<u>7,359,000</u>

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

**TOUGHBUILT INDUSTRIES, INC.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**  
**(UNAUDITED)**

	Series C Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
<b>Balance - January 1, 2018</b>	-	\$ -	3,679,500	\$ 368	\$ 1,711,197	\$ (11,460,989)	\$ (9,749,424)
Stock based compensation	-	-	-	-	28,054	-	28,054
Issuance of warrants	-	-	-	-	304,395	-	304,395
Net loss	-	-	-	-	-	(1,412,686)	(1,412,686)
<b>Balance - March 31, 2018</b>	-	\$ -	3,679,500	\$ 368	\$ 2,043,646	\$ (12,873,675)	\$ (10,829,661)
Stock based compensation	-	-	-	-	28,054	-	28,054
Issuance of warrants	-	-	-	-	263,055	-	263,055
Net loss	-	-	-	-	-	(2,716,255)	(2,716,255)
<b>Balance - June 30, 2018</b>	-	\$ -	3,679,500	\$ 368	\$ 2,334,755	\$ (15,589,930)	\$ (13,254,807)
Stock-based compensation expense	-	-	8,334	1	500,933	-	500,934
Stock issued in settlement of litigation	-	-	-	-	939,538	-	939,538
Conversion of Class B convertible preferred stock	-	-	1,366,768	137	4,961,431	-	4,961,568
Issuance of warrants to third parties for capital raise	-	-	-	-	26,843	-	26,843
Conversion of deferred salaries	-	-	136,863	14	650,086	-	650,100
Conversion of convertible debentures	-	-	1,726,678	172	6,267,924	-	6,268,096
Conversion of advance from officer	-	-	42,105	4	199,996	-	200,000
Conversion of notes payable	-	-	215,625	22	782,728	-	782,750
Sale of common stock in public offering	-	-	2,670,000	267	8,013,961	-	8,014,228
Sale of common stock in over-allotment to underwriters	-	-	25,000	2	121,907	-	121,909
Common stock deemed dividend	-	-	-	-	(980,375)	-	(980,375)
Accretion of redeemable convertible preferred stock dividend	-	-	-	-	(3,667,620)	-	(3,667,620)
Net loss	-	-	-	-	-	(23,522,471)	(23,522,471)
<b>Balance - September 30, 2018</b>	-	\$ -	6,191,373	619	17,817,352	(23,522,471)	(5,704,500)
<b>Balance - January 1, 2019</b>	-	\$ -	9,870,873	\$ 987	\$ 20,152,107	\$ (39,112,401)	\$ (18,959,307)
Issuance of common stock upon exercise of Series A Warrants, net of cost	-	-	424,116	42	2,172,638	-	2,172,680
Issuance of common stock as inducement to exercise Series A Warrants	-	-	508,940	51	(51)	-	-
Issuance of common stock upon exercise of Series B warrants	-	-	3,629,045	363	5,635,406	-	5,635,769
Issuance of common stock upon exercise of Placement Agent Warrants	-	-	4,004	-	16,818	-	16,818
Stock based compensation expense	-	-	-	-	105,642	-	105,642
Net income	-	-	-	-	-	500,213	500,213
<b>Balance - March 31, 2019</b>	-	\$ -	14,436,978	\$ 1,443	\$ 28,082,560	\$ (38,612,188)	\$ (10,528,185)
Issuance of Series C preferred stock upon exchange of Series A and Series B warrants	-	-	-	-	3,671,024	-	3,671,024
Issuance of common stock upon exercise of Series B warrants	-	-	8,749,953	876	7,732,587	-	7,733,463
Stock based compensation expense	-	-	-	-	104,121	-	104,121
Net income	-	-	-	-	-	7,422	7,422
<b>Balance - June 30, 2019</b>	-	\$ -	23,186,931	\$ 2,319	\$ 39,590,292	\$ (38,604,766)	\$ 987,845
Issuance of common stock upon Series C preferred (conversion)	-	-	1,000,000	100	(100)	-	-
Issuance of common stock upon exercise of Series B warrants	-	-	3,813,220	381	1,214,758	-	1,215,139
Stock based compensation expense	-	-	-	-	63,437	-	63,437
Warrants issued in connection with convertible notes payable	-	-	-	-	595,000	-	595,000
Net income	-	-	-	-	-	(2,689,342)	(2,689,342)
<b>Outstanding as of September 30, 2019</b>	-	\$ -	28,000,151	\$ 2,800	\$ 41,463,387	\$ (41,294,108)	\$ 172,079

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

**TOUGHBUILT INDUSTRIES, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,181,707)	\$ (7,137,615)
<b>Adjustments to reconcile from net loss to net cash used in operating activities:</b>		
Depreciation	157,652	93,021
Amortization of debt discount and debt issuance cost	198,913	1,443,955
Change in fair value of warrant derivative	(4,769,363)	-
Stock issued in settlement of litigation	-	939,538
Stock-based compensation expense	273,200	654,608
<b>Changes in operating assets and liabilities</b>		
Accounts receivable, net	(689,042)	(826,221)
Factor receivables, net	597,871	437,392
Inventory	(1,394,524)	54,218
Prepaid assets	7,486	5,500
Other assets	(66,415)	8,553
Accounts payable	82,119	1,382,332
Accrued expenses	(541,834)	985,002
Decrease in other current liabilities	-	(25,439)
Increase in accrued liabilities	-	271,392
Deferred revenue	(107,776)	-
<b>Net cash used in operating activities</b>	<b>(8,433,420)</b>	<b>(1,713,764)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(651,795)	-
<b>Net cash used in investing activities</b>	<b>(651,795)</b>	<b>-</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of Series A warrants	2,172,680	-
Proceeds from exercise of Placement Agent warrants	16,818	-
Proceeds from sale of convertible preferred stock, net of costs	-	1,201,157
Cash payment for debt modification	-	(25,000)
Cash payment for public offering cost	-	(38,000)
Proceeds from notes payable, net of costs	4,515,000	752,579
Repayments of factor loan payable	(623,844)	(162,711)
<b>Net cash provided by financing activities</b>	<b>6,080,654</b>	<b>1,728,025</b>
Net (decrease) increase in cash	(3,004,561)	14,261
Cash, beginning of period	5,459,884	44,348
<b>Cash, end of period</b>	<b>\$ 2,455,323</b>	<b>\$ 58,609</b>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ -	\$ -
Income taxes	\$ 800	\$ 800
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Unpaid deferred public offering costs	\$ -	\$ 130,565
Issuance of convertible preferred stock as debt issuance cost	\$ -	\$ 667,023
Issuance of warrants in connection with convertible notes payable	\$ 575,000	\$ 540,429
Debt issuance cost paid with warrants	\$ 20,000	\$ 53,864
Issuance of common stock upon Series C preferred stock conversion	\$ 3,671,024	\$ -
Issuance of Series C preferred stock upon exchange of Series A and Series B warrants	\$ -	\$ -
<b>Additional non-cash items</b>		
Restricted promissory note in connection with convertible notes payable	\$ 4,780,000	\$ -
Original issue discount	\$ 1,720,000	\$ -
Conversion of Series B warrants into common stock	\$ 14,584,371	\$ -

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

**TOUGHBUILT INDUSTRIES, INC.**  
**Notes to the Condensed Financial Statements**  
**September 30, 2019 and 2018**  
**(Unaudited)**

**NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

**General**

The unaudited condensed financial statements of ToughBuilt Industries, Inc. (“ToughBuilt” or the “Company”) as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 should be read in conjunction with the financial statements for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the Securities Exchange Commission (“SEC”) on March 29, 2019 and can also be found on the Company’s website (www.toughbuilt.com). ToughBuilt was incorporated under the laws of the State of Nevada on April 9, 2012 under the name Phalanx, Inc., and on December 29, 2015, Phalanx, Inc. changed its name to ToughBuilt Industries, Inc.

**Nature of Operations**

In these notes, the terms “we”, “our”, “ours”, “us”, “it”, “its”, “ToughBuilt”, and the “Company” refer to ToughBuilt Industries, Inc.

The Company designs and distributes what it believes to be innovative and superior quality tools and accessories to the home improvement community and the building industry. The Company aspires to augment brand loyalty in part from the enlightened creativity of its end users throughout the global tool market industry. The Company holds exclusive patents and licenses to develop, manufacture, market and distribute various home improvement and construction product lines for both Do-it-Yourself (“DIY”) and professional trade markets under the TOUGHBUILT® brand name.

TOUGHBUILT distributes products in the following categories, all designed and engineered in the United States and manufactured by third party vendors in China, with manufacturing being brought online in India and the Philippines:

- tool belts, tool bags and other personal tool organizer products;
- complete line of knee pads for various construction applications; and
- job-site tools and material support products consisting of a full line of miter-saws and table saw stands, saw horses/job site tables and roller stands.

On November 14, 2018, the Company completed its initial public offering (“IPO”), pursuant to which it sold 2,670,000 Class A Units (“Class A Units”), each Unit consisting of one share of common stock, par value \$0.0001 per share, one Series A Warrant to purchase one share of common stock (“Series A Warrant”) and one Series B Warrant to purchase one share of common stock (“Series B Warrant”) at a purchase price of \$5.00 per Class A Unit. The Company received net proceeds from the IPO of \$12,415,500 after deducting underwriting discounts and commission of \$934,500. The Company incurred \$743,765 in expenses related to the IPO.

On December 17, 2018, pursuant to the Underwriting Agreement dated November 8, 2018, by and between the Company and the underwriters named therein (the “Representative”), the Representative on behalf of the underwriters agreed to partially exercise the over-allotment option to purchase an additional 25,000 shares of common stock, par value \$0.0001, at a price of \$4.98 per share, 400,500 Series A Warrants, at a price of \$0.01 per warrant and 400,500 Series B Warrants, at a price of \$0.01 per warrant. The Company received net proceeds from the exercise of over-allotment option of \$121,909 after deducting commission and expenses of \$10,601.

On January 24, 2019, the Company entered into exchange agreements with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock, for total cash proceeds to the Company of \$2,172,680, net of costs of \$159,958. Those investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. These new warrants have terms substantially similar to the terms of the Company’s Series A Warrants, except that the per share exercise price of the new warrants is \$3.67, and the warrants became exercisable July 24, 2019 (see Note 6).

On April 11, 2019, an investor exchanged its Series A Warrant to purchase up to 1,189,560 shares of common stock of the Company and a Series B Warrant to purchase up to 1,005,760 shares of common stock, which Series B Warrants are subject to certain anti-dilution provisions embedded in such Series B Warrants for 4,268 shares of Company’s Series C Convertible Preferred Stock having the rights, preferences and privileges set forth in the Certificate of Designation, filed by the Company with the Secretary of State of Nevada. The shares of Series C Convertible Preferred Stock are convertible into 4,268,000 shares of the Company’s common stock, and rights to convert into common stock are subject to limitations on ownership at any one time of Company common stock up to 9.9% of the issued and outstanding shares of common stock of the Company; otherwise, the Series C Convertible Preferred Stock has no rights not awarded to holders of common stock of the Company.

On April 16, 2019, the Company formed a wholly-owned subsidiary named ToughBuilt Technologies, Inc. dedicated to the continued advancement, production and marketing of Company’s mobile solutions.



On August 19, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor pursuant to which it sold \$11.5 million aggregate principal amount of promissory notes (at an aggregate original issue discount of 15%) to the investor in a transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The first note (the "Series A Note") has a face amount of \$6.72 million for which the investor paid \$5 million in cash. The second note (the "Series B Note" and with the Series A Note, collectively referred to as the "Notes") has a principal amount of \$4.78 million for which the investor paid \$4.78 million in the form of a full recourse promissory note issued by the investor to the Company (the "Investor Note") secured by \$4.78 million in cash or cash equivalents of the investor (i.e. an original issue discount of approximately 15% to the face amount of the Series B Note). No portion of the Series B Note may be converted into shares of our common stock (the "Common Stock") until the corresponding portion of the Investor Note has been prepaid to the Company in cash, at which point in time such portion of the Series B Note shall be deemed "unrestricted". The Investor Note is subject to optional prepayment at any time at the option of the investor and mandatory prepayment, at the Company's option, subject to certain equity conditions, at any time 45 Trading Days after the effectiveness of a resale registration statement (or otherwise the applicability of Rule 144 promulgated under the Securities Act of 1933, as amended). Notwithstanding the foregoing, the Company may not effect a mandatory prepayment if the shares underlying the Series A Note and the portion of the Series B Note that has become unrestricted exceeds 35% of the market capitalization of the Company.

### **Going Concern**

The Company has incurred substantial operating losses since its inception, and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. As reflected in the condensed financial statements, the Company had an accumulated deficit of approximately \$41.3 million at September 30, 2019, a net loss of approximately \$2.2 million, and approximately \$8.4 million of net cash used in operating activities for the nine months ended September 30, 2019. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty. The Company anticipates incurring additional losses until such time, if ever, that it can obtain marketing approval to sell, and then generate significant sales, of its technology that is currently in development. As such it is likely that additional financing will be needed by the Company to fund its operations and to develop and commercialize its technology. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company will seek to obtain additional capital through the sale of debt or equity financings or other arrangements to fund operations; however, there can be no assurance that the Company will be able to raise needed capital under acceptable terms, if at all. The sale of additional equity may dilute existing stockholders and newly issued shares may contain senior rights and preferences compared to currently outstanding shares of common stock. Issued debt securities may contain covenants and limit the Company's ability to pay dividends or make other distributions to stockholders. If the Company is unable to obtain such additional financing, future operations would need to be scaled back or discontinued. Due to the uncertainty in the Company's ability to raise capital, management believes that there is substantial doubt in the Company's ability to continue as a going concern for twelve months from the issuance of these condensed financial statements.

### **Basis of Presentation**

These interim condensed financial statements are unaudited and were prepared by the Company in accordance with generally accepted accounting principles in the United States of America (GAAP) and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X.

The preparation of interim condensed financial statements requires management to make assumptions and estimates that impact the amounts reported. These interim condensed financial statements, in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's results of operations, financial position and cash flows for the interim periods ended September 30, 2019 and 2018; however, certain information and footnote disclosures normally included in our audited annual financial statements, as included in the Company's interim condensed financial statements on Form 10-Q, have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. It is important to note that the Company's results of operations and cash flows for interim periods are not necessarily indicative of the results of operations and cash flows to be expected for a full fiscal year or any other interim period. The information included in this Quarterly Report on Form 10-Q should be read in connection with the financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Use of Estimates**

The preparation of condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the valuation of accounts and factored receivables, valuation of long-lived assets, accrued liabilities, note payable and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

## **Cash**

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. The Company did not have any cash equivalents at September 30, 2019 and December 31, 2018.

## **Accounts Receivable**

Accounts receivable represent income earned from the sale of tools and accessories for which the Company has not yet received payment. Accounts receivable are recorded at the invoiced amount and adjusted for amounts management expects to collect from balances outstanding at period-end. The Company estimates the allowance for doubtful accounts based on an analysis of specific accounts and an assessment of the customer's ability to pay, among other factors. At September 30, 2019 and December 31, 2018, no allowance for doubtful accounts was recorded.

The Company accounts for the transfer of accounts receivable to a third party under a factoring type arrangement in accordance with Accounting Standards Codification ("ASC") 860, "*Transfers and Servicing*". ASC 860 requires that several conditions be met in order to present the transfer of accounts receivable as a sale. Even though the Company has isolated the transferred (sold) assets and has the legal right to transfer its assets (accounts receivable), it does not meet the third test of effective control since its accounts receivable sales agreement with a third-party factor requires it to be liable in the event of default by one of its customers. Because it does not meet all three conditions, it does not qualify for sale treatment of its accounts receivable, and its debt thus incurred is presented as a secured loan liability, entitled "Factor loan payable", on its balance sheet. The Company recorded a sales discount of \$13,000 at September 30, 2019 and \$13,000 at December 31, 2018.

## **Inventory**

Inventory is valued at the lower of cost or net realizable value using the first-in, first-out method. The reported net value of inventory includes finished saleable products that will be sold or used in future periods. The Company reserves for obsolete and slow-moving inventory. At September 30, 2019 and 2018, there were no reserves for obsolete and slow-moving inventory.

## **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the assets which range from three to seven years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related assets when they are placed into service. The Company evaluates property and equipment for impairment periodically to determine if changes in circumstances or the occurrence of events suggest the carrying value of the asset or asset group may not be recoverable. Maintenance and repairs are charged to operations as incurred. Expenditures which substantially increase the useful lives of the related assets are capitalized.

## **Long-lived Assets**

In accordance with ASC 360, "*Property, Plant, and Equipment*", the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset compared to the estimated future undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss equal to the excess of the carrying value over the assets fair market value is recognized when the carrying amount exceeds the undiscounted cash flows. The impairment loss is recorded as an expense and a direct write-down of the asset. No impairment loss was recorded during the three and nine months ended September 30, 2019 and 2018, respectively.

## **Fair Value of Financial Instruments and Fair Value Measurements**

The Company adheres to ASC 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The fair value of the Company's warrant derivative recorded in the Company's financial statements was determined using the Monte Carlo simulation valuation methodology and the quoted price of the Company's common stock in an active market, a Level 3 measurement. Volatility was based on the actual market activity of the Company's peer group. The expected life was based on the remaining contractual term of the warrants, and the risk-free interest rate was based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the warrants' expected life.

The Company calculated the estimated fair value of warrants on the date of issuance and at each subsequent reporting date using the following assumptions:

	<b>Nine Months Ended September 30, 2019</b>
Risk-free interest rate	1.89% - 1.99%
Contractual term (year)	0.1222
Expected volatility	40%

#### ***Level 3 Fair Value Sensitivity***

##### *Warrant derivative*

From time to time, the Company sells common stock warrants that are derivative instruments. The Company does not enter into speculative derivative agreements and does not enter into derivative agreements for the purpose of hedging risks.

The fair value of the warrant derivative includes the estimated volatility and risk-free rate. The higher/lower the estimated volatility, the higher/lower the value of the debt conversion feature liability. The higher/lower the risk-free interest rate, the higher/lower the value of the debt conversion feature liability.

The table below provides a reconciliation of the beginning and ending balances for the warrant derivative which is measured at fair value using significant unobservable inputs (Level 3):

Balance, January 1, 2019	\$ 23,507,247
Series B Warrants exercised during the three months ended March 31, 2019	(5,635,769)
Change in the fair value of warrant derivative	<u>(2,597,899)</u>
Balance, March 31, 2019	<u>\$ 15,273,579</u>
Series B Warrants exercised during the three months ended June 30, 2019	(7,733,463)
Series B Warrants exchanged for Series C Preferred Stock	(3,671,024)
Change in the fair value of warrant derivative	<u>(2,111,684)</u>
Balance, June 30, 2019	<u>\$ 1,757,408</u>
Series B Warrants exercised during the three months ended September 30, 2019	(1,215,139)
Change in the fair value of warrant derivative	<u>(59,780)</u>
Balance, September 30, 2019	<u>\$ 482,489</u>

### Revenue Recognition

The Company recognizes revenues when product is delivered to the customer, and the ownership is transferred. The Company's revenue recognition policy is based on the revenue recognition criteria established under the Financial Accounting Standards Board ("FASB") – Accounting Standards Codification 606 "Revenue From Contracts With Customers" which has established a five-step process to govern contract revenue and satisfy each element is as follows: (1) Identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as you satisfy a performance obligation. The Company records the revenue once all the above steps are completed. See Note 7 for further information on revenue recognition.

### Income Taxes

The Company accounts for income taxes following the asset and liability method in accordance with the ASC 740 "Income Taxes." Under such method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company applies the accounting guidance issued to address the accounting for uncertain tax positions. This guidance clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements as well as provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company classifies interest and penalty expense related to uncertain tax positions as a component of income tax expense. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years that the asset is expected to be recovered or the liability settled. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in its assessment of a valuation allowance.

### Stock Based Compensation

The Company accounts for employee stock-based compensation in accordance with ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units, and employee stock purchases based on estimated fair values.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The Company's determination of fair value using an option-pricing model is affected by the stock price as well as assumptions regarding the number of highly subjective variables.

The Company estimates volatility based upon the historical stock price of the comparable companies and estimates the expected term for employee stock options using the simplified method for employees and directors and the contractual term. The risk-free rate is determined based upon the prevailing rate of United States Treasury securities with similar maturities.

The Company recognizes forfeitures as they occur rather than applying a prospective forfeiture rate in advance.

## Earnings (Loss) Per Share

The Company computes net earnings (loss) per share in accordance with ASC 260, "Earnings per Share". ASC 260 requires presentation of both basic and diluted net earnings per share ("EPS") on the face of the statement of operations. Basic EPS is computed by dividing earnings (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of Class A and B warrants, Series A and B warrants, convertible preferred stock and convertible debentures. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator for diluted loss per share:				
Net loss attributable to common stockholders	\$ (2,749,122)	\$ (3,008,675)	\$ (6,951,070)	\$ (7,137,615)
Less: Change in fair value of warrant derivative	59,780	-	4,769,363	-
Numerator for diluted loss per share	<u>\$ (2,689,342)</u>	<u>\$ (3,008,675)</u>	<u>\$ (2,181,707)</u>	<u>\$ (7,137,615)</u>
Denominator for diluted loss per share:				
Weighted average common shares	30,844,557	7,359,000	19,061,790	7,359,000
Warrants	914,072	-	-	-
Denominator for diluted loss per share	<u>31,758,629</u>	<u>7,359,000</u>	<u>19,061,790</u>	<u>7,359,000</u>

Total weighted average antidilutive shares as of September 30, 2019 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Preferred shares	7,979,000	447,875	2,689,000	352,908
Warrants	11,449,884	364,859	11,838,773	364,859
Options	1,063,419	125,000	1,063,419	125,000
Total anti-dilutive weighted average shares	<u>20,492,303</u>	<u>937,734</u>	<u>15,591,192</u>	<u>842,767</u>

## No Segment Reporting

The Company does not operate with business segments as it has a single business which is distribution of products in the following categories, all designed and engineered in the United States and manufactured by third party vendors in China and commencing in India and the Phillipines:

- tool belts, tool bags and other personal tool organizer products;
- complete line of knee pads for various construction applications; and
- job-site tools and material support products consisting of a full line of miter-saws and table saw stands, saw horses/job site tables and roller stands.

A single management team, that reports to the Chief Executive Officer, comprehensively manages the business.

## Recent Accounting Pronouncements

As an emerging growth company, the Company has elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Securities and Exchange Act of 1934, as amended.

In June 2018, FASB issued Accounting Standards Update ("ASU") ASU 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently in the process of evaluating the impact of this guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 and is to be applied utilizing a modified retrospective approach. The Company is currently evaluating this guidance to determine the impact it may have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is currently evaluating this guidance to determine the impact it may have on its financial statements.

### NOTE 3: FACTOR RECEIVABLES, LETTERS OF CREDIT PAYABLE AND LOAN PAYABLE

In April 2013, the Company entered into a financing arrangement with a third-party purchase order financing company (the “Factor”), whereby the Company assigned to the Factor selected sales orders from its customers in exchange for opening a letter of credit (“LC”) with its vendors to manufacture its products. The Company paid an initial fixed fee of 5% of the cost of products it purchased from the vendor upon opening the LC, and 1% each 30 days thereafter, after the LC is funded by the Factor until such time as the Factor receives the payment from the Company’s customers. The factoring agreement provides for full recourse against the Company for factored accounts receivable that are not collected by the Factor for any reason, and the collection of such accounts receivable is fully secured by substantially all of the receivables of the Company. The factoring advances for the LCs at September 30, 2019 and December 31, 2018 have been treated as a loan payable to third party in the accompanying balance sheets, and total outstanding accounts receivable factored, net of allowance for sales returns, discounts and rebates of \$13,000 as of September 30, 2019 and December 31, 2018, respectively, are set forth below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Factor receivables, beginning balance	\$ 1,085,530	\$ 1,139,981	\$ 1,304,512	\$ 1,076,170
New factorings	613,449	1,131,491	2,423,336	4,123,137
Payments, net of returns and discounts	(1,018,311)	(1,355,242)	(3,047,177)	(4,283,076)
Factor receivables, ending balance	\$ 680,668	\$ 916,230	\$ 680,671	\$ 916,231

### NOTE 4: PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	September 30, 2019	December 31, 2018
Furniture	\$ 101,580	\$ 61,722
Computers	212,342	88,615
Production equipment	75,233	75,233
Tooling and molds	393,275	249,690
Website design	350,125	9,850
Leasehold Improvements	42,249	37,899
Less: accumulated depreciation	(456,465)	(298,813)
Property and Equipment, net	\$ 718,339	\$ 224,196

Depreciation and capitalized costs with respect thereto consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Depreciation expense	\$ 55,741	\$ 31,006	\$ 157,651	\$ 93,021
Capitalized costs	375,241	-	651,795	-

### NOTE 5 – COMMITMENTS AND CONTINGENCIES

On January 3, 2017, the Company executed a non-cancellable operating lease for its principal office with the lease commencing February 1, 2017 for a five (5) year term. The Company paid a security deposit of \$29,297. The lease required the Company to pay its proportionate share of direct costs estimated to be 22.54% of the total property, a fixed monthly direct cost of \$6,201 for each month during the term of the lease, and monthly rental pursuant to the lease terms.

On August 30, 2018, the Company entered into an agreement with a customer to pay a slotting allowance of \$1,000,000 payable in three annual installments of \$333,334 on March 1, 2019, \$333,333 on March 1, 2020 and \$333,333 on March 1, 2021.

Future minimum lease and other commitments of the Company are as follows:

For the years ending December 31,	Slotting Expenses	Building leases	Total
2019 (remaining)	-	87,683	87,683
2020	333,333	180,993	514,326
2021	333,333	187,327	520,660
2022	-	15,655	15,655
	\$ 666,666	\$ 471,658	\$ 1,138,324

The Company recorded rent expense of \$50,110 and \$ 59,540 and \$133,762 and \$ 142,261 for the three and nine months ended September 30, 2019 and 2018, respectively. The Company recorded a slotting expense of \$ 83,334 and \$0 and \$250,002 and \$0 for the three and nine months ended September 30, 2019 and 2018, respectively.

### **Employment Agreements with Officers**

On January 3, 2017, the Company entered into an employment agreement with its President and Chief Executive Officer for a five-year term. The officer received a sign-on-bonus of \$50,000 and is entitled to an annual base salary of \$350,000 to increase by 10% each year commencing on January 1, 2018. The officer was also granted a stock option to purchase 125,000 shares of the Company's common stock at an exercise price of \$10.00 per share.

On January 3, 2017, the Company entered into an employment agreement with its Vice-President of Design and Development for a five-year term. Under the terms of this agreement, the officer received a sign-on-bonus of \$35,000 and is entitled to an annual base salary of \$250,000 beginning on December 1, 2016 to increase by 10% each year commencing on January 1, 2018.

On January 3, 2017, the Company entered into an employment agreement with its Chief Operating Officer and Secretary for a three-year term. Under the terms of this agreement, the officer is entitled to an annual base salary of \$180,000 beginning on January 1, 2017 to increase by 10% each year commencing on January 1, 2018.

On January 3, 2017, the Company entered into an employment agreement with its former Chief Financial Officer for a three-year term, who resigned effective as of June 14, 2019. Under the terms of this agreement, the officer is entitled to an annual base salary of \$250,000 beginning on January 1, 2017 to increase by 10% each year commencing on January 1, 2018. The Company's new Chief Financial Officer was appointed on June 14, 2019, with whom the Company has entered into a verbal consulting arrangement at \$10,000 per month.

The employment agreements also entitle the officers to receive, among other benefits, the following compensation: (i) eligibility to receive an annual cash bonus at the sole discretion of the Board and as determined by the Compensation Committee commensurate with the policies and practices applicable to other senior executive officers of the Company; (ii) an opportunity to participate in any stock option, performance share, performance unit or other equity based long-term incentive compensation plan commensurate with the terms and conditions applicable to other senior executive officers and (iii) participation in benefit plans, practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent available to the Company's other senior executive officers.

### **Litigation Costs and Contingencies**

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business. Other than as set forth below, management is currently not aware of any such legal proceedings or claims that could have, individually or in the aggregate, a material adverse effect on our business, financial condition, or operating results.

On August 16, 2016, Edwin Minassian filed a complaint against the Company and Michael Panosian, our Chief Executive Officer, in the Superior Court of California, County of Los Angeles. The complaint alleges breach of oral contracts to pay Mr. Minassian for consulting and finder's fees, and to hire him as an employee. The complaint further alleges, among other things, fraud and misrepresentation relating to the alleged tender of \$100,000 to the Company in exchange for "a 2% stake in ToughBuilt" of which only \$20,000 was delivered. The complaint seeks unspecified monetary damages, declaratory relief concerning the plaintiff's contention that he has an unresolved 9% ownership stake in ToughBuilt and other relief according to proof.

On April 12, 2018, the Court entered judgments against the Company and Mr. Panosian in the amounts of \$7,080 and \$235,542, plus awarding Mr. Minassian a 7% ownership interest in the Company (the "Judgments"). Mr. Minassian served notice of entry of the judgments on April 17, 2018 and the Company and Mr. Panosian received notice of the entry of the default judgments on April 19, 2018.

On April 25, 2018, the Company and Mr. Panosian filed a motion to have the April 12, 2018 default judgment on Plaintiff's Complaint, the February 13, 2018 defaults, and April 14, 2017 Order for terminating sanctions striking Defendants' Answer set aside on the basis of their former attorney's declaration that his negligence resulted in the default judgment, default, and terminating sanctions being entered against the Company and Mr. Panosian. The motion was denied. On September 13, 2018, the Company and Panosian satisfied the Judgments by the Company making a payment of \$252,950 (which included \$10,303 post judgment interest) to Minassian and by Mr. Panosian issuing him shares reflecting a 7% ownership stake in the Company. On October 18, 2018, the Company and Mr. Panosian filed a Notice of Appeal from the Order denying their motion for relief from the default judgment.

On October 1, 2019, the Second Appellate District of the California Court of Appeal issued its opinion reversing the trial court's order denying the Company's motion for relief from the default judgment and directing the trial court to grant the Company's motion for relief, including allowing the Company to file an Answer and contest Minassian's claims. We expect the appellate court to issue a remittitur officially transferring the matter from the appellate court back to the trial court for further proceedings consistent with its ruling. Upon return to the trial court, the Company intends to vigorously contest Minassian's claims.

The Company has recorded legal expense of \$0 and \$1,192,488 nine months ended September 30, 2019 and 2018, respectively.

In the normal course of business, the Company incurs costs to hire and retain external legal counsel to advise it on regulatory, litigation and other matters. The Company expenses these costs as the related services are received. If a loss is considered and the amount can be reasonably estimated, the Company recognizes an expense for the estimated loss.

#### **NOTE 6: STOCKHOLDERS' EQUITY (DEFICIT)**

As of September 30, 2019 and 2018, the Company had 100,000,000 shares of common stock and 5,000,000 shares of preferred stock authorized, both with a par value of \$0.0001 per share.

On September 13, 2018, the Company effected a reverse stock split (the "Reverse Split") of its issued and outstanding common stock, preferred stock, warrants and options (collectively the "Equity Instruments"). As a result of the Reverse Split, each two units of Equity Instruments issued and outstanding prior to the Reverse Split were converted into one unit of Equity Instrument.

#### **Common Stock and Class A Units**

On January 24, 2019, the Company entered into an exchange agreement with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock for cash proceeds of \$2,172,680 to the Company, net of costs of \$159,958. The two investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. The Company recognized an inducement cost of \$2,137,190 and \$0 for the Series A Warrants conversion for the nine months ended September 30, 2019 and 2018, respectively, as an offset against stockholders' equity. The inducement cost was calculated as being the difference between the fair value of equity instruments surrendered versus equity instruments issued pursuant to the terms of the exchange agreement.

On February 14, 2019, the Company received cash proceeds of \$16,818 from three placement agent warrant holders upon their exercise of 1,402 placement agent warrants to purchase 4,004 Class A Units.

As of September 30, 2019 and December 31, 2018, the Company had 28,120,293 and 9,870,873 shares of common stock issued and outstanding, respectively.

#### **Warrants**

#### **Placement Agent Warrants**

The Company has issued warrants to the placement agents to purchase one share of its common stock at an exercise price of \$12.00 per share. The warrants issued in its October 2016 Private Placement shall expire on October 17, 2021, and the warrants issued in its March 2018 Private Placement, May 2018 Private Placement and August 2018 Financing shall expire on September 4, 2023. The exercise price and number of shares of common stock or other securities issuable on exercise of such warrants are subject to customary adjustment in certain circumstances, including in the event of a stock dividend, recapitalization, reorganization, merger or consolidation of the Company.

As of September 30, 2019, all placement agent warrants, issued prior to the August 19, 2019 financing had been exercised, and the 200,000 warrants issued in the August 19, 2019 financing are the only placement agent warrants which remain outstanding.

As of September 30, 2019 and December 31, 2018, 200,000 warrants and 45,775 warrants, respectively, have been issued to the placement agents and are outstanding and are currently exercisable.

#### **Class B Warrants**

The holders of the Class B Warrants did not exercise any of their warrants during the nine months ended September 30, 2019. Class B Warrants have an exercise price of \$12.00 per share and shall expire between October 17, 2021 and May 15, 2023.

As of September 30, 2019 and December 31, 2018, the Company had 265,500 Class B Warrants issued and outstanding.



### **Series A Warrants and Series B Warrants**

On January 24, 2019, the Company entered into an exchange agreement with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock for total cash proceeds of \$2,172,680 to the Company, net of costs of \$159,958. The two investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. These new warrants have terms substantially similar to the terms of the Company's Series A Warrants, except that the per share exercise price of the new warrants is \$3.67, and the warrants are not exercisable until July 24, 2019, the six-month anniversary of the date of issuance.

For the three and nine months ended September 30, 2019, the holders of 832,623 and 4,988,923 Series B Warrants exercised their rights to convert Series B Warrants into 3,330,492 and 15,709,492 shares of common stock, respectively.

As of September 30, 2019 and December 31, 2018, the Company had 3,856,455 and 5,190,011 Series A Warrants issued and outstanding, respectively.

As of September 30, 2019 and December 31, 2018, the Company had 388,889 and 6,379,571 Series B Warrants issued and outstanding, respectively.

### **August 2019 Warrants**

On August 19, 2019, the Company closed a senior secured convertible note transaction with an institutional investor. As part of the transaction, the Company issued the investor 5,750,000 warrants (the "August 2019 Warrants") with a strike price of \$1.00 and a five year term. As of September 30, 2019 and December 31, 2019, the Company had 5,750,000 and 0 August 2019 warrants issued and outstanding, respectively.

### **Derivative Financial Instruments**

As disclosed elsewhere in these interim condensed financial statements, the Company allocated part of the proceeds of its IPO of the Company's units consisting of common stock and warrants to the Series B warrants issued in connection with the IPO. The valuations of the Series B warrants issued at the time of the initial closing of the IPO on November 14, 2018 and in the subsequent closing of the "greenshoe" on December 17, 2018 (collectively, the "Warrants") were determined using Monte Carlo simulation models. These models use inputs such as the underlying price of the shares issued at the measurement date, volatility, risk free interest rate and expected life of the instrument. The Company has classified the Warrants as a current liability due to certain provisions relating to price adjustments with regard to alternate cashless exercises, as well as the holders' ability to exercise the warrants within twelve months of the reporting date and has accounted for them as derivative instruments in accordance with ASC 815, adjusting the fair value at the end of each reporting period. Additionally, the Company has determined that the warrant derivative should be classified within Level 3 of the fair-value hierarchy by evaluating each input for the Monte Carlo simulation models against the fair-value hierarchy criteria and using the lowest level of input as the basis for the fair-value classification as called for in ASC 820. There are six inputs: closing price of the Company's stock on the day of evaluation; the exercise price of the warrants; the remaining term of the warrants; the volatility of the Company's stock over that term; number of warrants; and the risk-free rate of return. Of those inputs, the exercise price of the warrants and the remaining term are readily observable in the warrant agreements, and the number of warrants is publicly reported in the Company's filings with the SEC. The closing price of the Company's stock would fall under Level 1 of the fair-value hierarchy as it is a quoted price in an active market (ASC 820-10). The risk-free rate of return is a Level 2 input as defined in ASC 820-10, while the historical volatility is a Level 3 input as defined in ASC 820. Since the lowest level input is a Level 3, the Company determined the warrant derivative is most appropriately classified within Level 3 of the fair value hierarchy.

For the three months ended September 30, 2019, the Company recorded a fair value of Series B Warrants exercised of \$1,215,139, and a fair value of pre-tax derivative instrument gain of \$59,780. The resulting derivative instrument liabilities totaled \$482,489 at September 30, 2019. By their terms, management of the Company expects that the Warrants will either be exercised (likely pursuant to the further cashless exercise provision) or expire worthless. The Company measured the warrant derivative between December 31, 2018 and September 30, 2019, respectively, by calculating the fair value of the Warrants at December 31, 2018 and September 30, 2019.

### **The 2016 Equity Incentive Plan**

The 2016 Equity Incentive Plan (the "2016 Plan") was adopted by the Board of Directors and approved by the shareholders on July 6, 2016. The awards per 2016 Plan may be granted through July 5, 2026 to the Company's employees, consultants, directors and non-employee directors provided such consultants, directors and non-employee directors render good faith services not in connection with the offer and sale of securities in a capital-raising transaction. The maximum number of shares of our common stock that may be issued under the 2016 Plan is 2,000,000 shares, which amount will be (a) reduced by awards granted under the 2016 Plan, and (b) increased to the extent that awards granted under the 2016 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2016 Plan). No employee will be eligible to receive more than 125,000 shares of common stock in any calendar year under the 2016 Plan pursuant to the grant of awards.

On January 3, 2017, the Board of Directors of the Company approved and granted to the President/Chief Executive Officer of the Company, an option to purchase One Hundred and Twenty-Five Thousand (125,000) shares of the Company's Common Stock ("Option") under the Company's 2016 Plan. The Option will have an exercise price that is no less than \$10.00 per share and will vest over four (4) years, with 25% of the total number of shares subject to the Option vesting on the one (1) year anniversary of the date of grant and, the remainder vesting in equal installments on the last day of each of the thirty-six (36) full calendar months thereafter. Vesting will depend on the Officer's continued service as an employee with the Company and will be subject to the terms and conditions of the 2016 Plan and the written Stock Option Agreement governing the Option. As of December 31, 2018, the Company estimated the fair value of the options using the Black-Scholes option pricing model was \$448,861. The Company recorded compensation expense of \$28,154 and \$28,054 and \$84,161 and \$56,108, for each of the three and nine months ended September 30, 2019 and 2018, respectively. The key valuation assumptions used consist, in part, of the price of the Company's common stock of \$3.60 at the issuance date; a risk-free interest rate of 1.72% and the expected volatility of the Company's common stock of 315.83% (estimated based on the common stock of comparable public entities). As of September 30, 2019, the unrecognized compensation expense was \$140,169 which will be recognized as compensation expense over 1.25 years.

#### **The 2018 Equity Incentive Plan**

Effective July 1, 2018, the Board of Directors adopted the 2018 Equity Incentive Plan (the "2018 Plan"). This 2018 Plan supplements, and does not replace, the existing 2016 Equity Incentive Plan. Awards may be granted under the 2018 Plan through June 30, 2023 to the Company's employees, officers, consultants, and non-employee directors. The maximum number of shares of our common stock that may be issued under each of the 2018 Plan is 1,000,000 shares, which amount will be (a) reduced by awards granted under the 2018 Plan, and (b) increased to the extent that awards granted under the 2018 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2018 Plan). No employee will be eligible to receive more than 200,000 shares of common stock in any calendar year under the 2018 Plan pursuant to the grant of awards. On September 12, 2018, the Board of Directors approved an increase in the number of shares of common stock reserved for future issuance under this Plan from 1,000,000 shares to 2,000,000 shares and on June 9, 2019, to 20,000,000 shares. On September 14, 2018, 1,000,000 shares of common stock underlying awards under the 2018 Plan were granted to the employees and officers, 25% vesting immediately on the date of grant and 25% vesting each year thereafter on the three subsequent anniversaries of the grant date.

The Company estimated the fair value of the options using the Black-Scholes option pricing model was \$1,241,417. The Company recorded compensation expense of \$68,336 and \$222,089 for the three and nine months ended September 30, 2019. The key valuation assumptions used consist, in part, of the price of the Company's common stock ranging in price from \$3.90 to \$4.29 at the issuance date; a risk-free interest rate ranging of 1.9% and the expected volatility of the Company's common stock ranging from 40% (estimated based on the common stock of comparable public entities). As of September 30, 2019, the unrecognized compensation expense was \$535,424 which will be recognized as compensation expense over 1.95 years.

#### **NOTE 7: REVENUE RECOGNITION AND RESERVE FOR SALES RETURNS AND ALLOWANCES**

The Company's contracts with customers only include one performance obligation (i.e., sale of the Company's products). Revenue is recognized in the gross amount at a point in time when delivery is completed and control of the promised goods is transferred to the customers. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for those goods. The Company's contracts do not involve financing elements as payment terms with customers are less than one year. Further, because revenue is recognized at the point in time goods are sold to customers, there are no contract asset or contract liability balances. The Company does not disclose remaining performance obligations related to contracts with durations of one year or less as allowed by the practical expedient applicable to such contracts.

The Company disaggregates its revenues by major geographic region. See Note 8, Concentrations, Geographic Data, and Sales by Major Customers, for further information.

The Company accounts for fees paid to Amazon for products sold through its Amazon Stores as operating expense.

The Company offers various discounts, pricing concessions, and other allowances to customers, all of which are considered in determining the transaction price. Certain discounts and allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Other discounts and allowances can vary and are determined at management's discretion (variable consideration). Specifically, the Company occasionally grants discretionary credits to facilitate markdowns and sales of slow-moving merchandise, and consequently accrues an allowance based on historic credits and management estimates. Further, the Company allows sales returns, consequently records a sales return allowance based upon historic return amounts and management estimates. These allowances (variable consideration) are estimated using the expected value method and are recorded at the time of sale as a reduction to revenue. The Company adjusts its estimate of variable consideration at least quarterly or when facts and circumstances used in the estimation process may change. The variable consideration is not constrained as the Company has sufficient history on the related estimates and does not believe there is a risk of significant revenue reversal.

The Company also participates in cooperative advertising arrangements with some customers, whereby it allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company's products. Generally, these allowances range from 2% to 5% of gross sales and are generally based upon product purchases or specific advertising campaigns. Such allowances are accrued when the related revenue is recognized. These cooperative advertising arrangements provide a distinct benefit and fair value, and are accounted for as direct selling expenses.

Sales commissions are expensed when incurred as the related revenue is recognized at a point in time and therefore, the amortization period is less than one year. As a result, these costs are recorded as direct selling expenses, as incurred.

The Company has also elected to adopt the practical expedient related to shipping and handling fees which allows the Company to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations. Therefore, shipping and handling activities are considered part of the Company's obligation to transfer the products and therefore are recorded as direct selling expenses, as incurred

The Company's reserve for sales returns and allowances amounted to \$13,000 as of September 30, 2019, compared to \$13,000 as of December 31, 2018.

#### NOTE 8: CONCENTRATIONS

##### Concentration of Purchase Order Financing

The Company used a third-party financing company for the quarters ended September 30, 2019 and 2018, respectively, which provided letters of credit to vendors for a fee against the purchase orders received by the Company for sale of products to its customers. The letters of credit were issued to the vendors to manufacture Company's products pursuant to the purchase orders received by the Company (Note 3).

##### Concentration of Customers

For the three and nine months ended September 30, 2019 and 2018, respectively, the Company had the following concentrations of customers:

	Percentage of Revenues for the Nine Months Ended Sept 30		Percentage of revenues for the Three Months Ended June 30,		Percentage of revenues for the Six Months Ended June 30,		Percentage of accounts receivables as of		
	2019	2018	2019	2018	2019	2018	9/30/2019	June 30, 2019	December 31, 2018
							2019	2019	2018
Customer 1	26%	25%	32%	22%	29%	32%	62%	62%	75%
Customer 2	33%	10%	23%	30%	37%	22%	11%	11%	6%
Customer 3	10%	17%	12%	0%	9%	0%	11%	11%	0%
Customer 4	9%	5%	11%	8%	8%	8%	3%	3%	7%
Customer 5	7%	4%	8%	4%	7%	5%	6%	3%	6%

##### Concentration of Suppliers

For the three and nine months ended September 30, 2019 and 2018, respectively, the Company had the following concentrations of suppliers:

	Percentage of Purchases for the Nine Months Ended Sept 30		Percentage of purchases for the Three Months Ended Sept 30,		Percentage of purchases for the Six Months Ended June 30,		Percentage of accounts payable as of		
	2019	2018	2019	2018	2019	2018	9/30/2019	June 30, 2019	December 31, 2018
							2019	2019	2018
Supplier 1	38%	62%	49%	57%	32%	64%	63%	20%	43%
Supplier 2	17%	8%	19%	9%	16%	8%	18%	31%	17%
Supplier 3	17%	2%	15%	6%	18%	1%	8%	17%	0%
Supplier 4	10%	17%	7%	14%	12%	19%	5%	14%	38%
Supplier 5	10%	0%	11%	0%	10%	0%	7%	18%	0%
Supplier 6	8%	10%	0%	15%	12%	8%	0%	0%	0%

##### Concentration of Credit Risk

The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts through September 30, 2019 and 2018. The Company's bank balances exceeded FDIC insured amounts at times during the three and nine months ended September 30, 2019 and 2018. The Company's bank balance exceeded the FDIC insured amounts during the three and nine months ended as of September 30, 2019.

## Geographic Concentration

For the three and nine months ended September 30, 2019 and 2018, respectively, the Company had the following geographic concentrations:

	Share of revenues for the Three Months Ended September 30,		Share of revenues for the Nine Months Ended September 30,		Share of accounts receivables as of September 30,	
	2019	2018	2019	2018	2019	2018
Australia	9%	10%	8.92%	10.10%	1%	3%
Other	14%	11%	14.5%	10.1%	8%	2%
UK	10%	4%	10.40%	4.23%	10%	0%
USA	66%	76%	66.16%	75.58%	80%	95%

## NOTE 9: SENIOR SECURED CONVERTIBLE NOTES

On August 19, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor pursuant to which it sold \$11.5 million aggregate principal amount of promissory notes (at an aggregate original issue discount of 15%) to the investor in a transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The first note (the "Series A Note") has a face amount of \$6.72 million for which the investor paid \$5 million in cash. The second note (the "Series B Note" and with the Series A Note, collectively referred to as the "Notes") has a principal amount of \$4.78 million for which the investor paid \$4.78 million in the form of a full recourse promissory note issued by the investor to the Company (the "Investor Note") secured by \$4.78 million in cash or cash equivalents of the investor (i.e. an original issue discount of approximately 15% to the face amount of the Series B Note). No portion of the Series B Note may be converted into shares of our common stock (the "Common Stock") until the corresponding portion of the Investor Note has been prepaid to the Company in cash, at which point in time such portion of the Series B Note shall be deemed "unrestricted". The Investor Note is subject to optional prepayment at any time at the option of the investor and mandatory prepayment, at the Company's option, subject to certain equity conditions, at any time 45 Trading Days after the effectiveness of a resale registration statement (or otherwise the applicability of Rule 144 promulgated under the Securities Act of 1933, as amended). Notwithstanding the foregoing, the Company may not effect a mandatory prepayment if the shares underlying the Series A Note and the portion of the Series B Note that has become unrestricted exceeds 35% of the market capitalization of the Company.

The Notes are senior secured obligations of the Company secured by a lien on all assets of the Company, bear no interest (unless an event default has occurred and is continuing) and mature on December 31, 2020. The Notes will be convertible at \$1.00 into a fixed number of shares (the "Conversion Shares"). The Notes are convertible at the Holder's option, in whole or in part, at any time after closing. The Conversion Price will be subject to adjustment for stock dividends, stock splits, anti-dilution and other customary adjustment events.

The Company shall repay the Principal Amount of the Notes in 12 installments, with the first installment starting on February 1, 2020 (each, an "Installment Date"). Installments 1-3 shall be 1/36th of the Principal Amount, Installments 4-6 shall be 1/18th of the Principal Amount and Installments 7-12 shall be 1/8th of the Principal Amount. The repayment amount shall be payable in cash, or, subject to the satisfaction of equity conditions, at the option of the Company, in registered Common Stock or a combination of cash and registered Common Stock. However, if the 30-day volume weighted average price of the Common Stock (the "VWAP") of the Company falls below 50% of the market price of a share of the Company's common stock or the Company fails to satisfy certain other equity conditions, the repayment amount is payable in shares of Common Stock only unless the Investor(s) waive any applicable equity condition. If the Company elects to satisfy all or any portion of an installment in shares of Common Stock, the Company will predeliver such shares of Common Stock to the investor on the 23rd trading day prior to the applicable Installment Date, with a true-up of shares (if necessary) on the Installment Date. Any excess shares of Common Stock shall be applied to subsequent installments.

The shares used to meet a Principal Repayment ("Installment Shares") would be valued at a conversion price calculated as the lesser of (i) 85% of the arithmetic average of the three lowest daily VWAPs of the 20 trading days prior to the payment date or (ii) 85% of the VWAP of the trading day prior to payment date ("Installment Price") with a floor of \$0.10.

All amortization payments shall be subject to the Investors' right to (a) defer some or all of any Installment Payment to a subsequent Installment Date; and (b) at any time during an installment period, convert up to four times the installment amount at the Installment Price; provided shares received pursuant to such accelerated conversions shall be subject to a leak-out provision that solely limits sales of such shares received by the investor in such accelerated conversion (and not any other sales) to the greater of (a) \$500,000 per trading day or (b) 40% of the volume traded on a given day as reported by Bloomberg LP.

Upon completion of a Change of Control, the Holders may require the Company to purchase any outstanding Notes in cash at 125% of par plus accrued but unpaid interest. The Company shall have the right to redeem any and all amounts of the outstanding Note at 125% of the greater of (a) Principal Amount plus accrued but unpaid interest (if any), or (b) Conversion Value plus accrued but unpaid interest (if any) provided the Company has satisfied certain equity conditions. The Company must give the Investor(s) ninety (90) business days' prior notice of any such redemption.

Prior to all outstanding amounts under the Note being repaid in full, the Company will not create any new encumbrances on any of its or its subsidiaries' assets without the prior written consent of the Lender, with a carveout for a working capital facility of which the details are to be determined. The Notes shall also be subject to standard events of default and remedies therefor.

The Company filed a registration statement ("Effectiveness Date") on Form S-1 covering the resale of the shares underlying the Series A Note, the Series B Note and Warrants which was declared effective on October 15, 2019.

In connection with the granting of the Notes, the Company shall issue detachable warrants to the Investor, exercisable in whole or in part at any time during the five years from the date of issuance, in amount equal to 50% of the conversion shares underlying the Notes and have an exercise price of \$1.00 per share. To the extent the Company has a change of control or a spinoff, the warrants provide for a put for the warrants to the Company at their Black- Scholes Valuation. The value of the warrants amounted to \$575,000 and was recorded as debt discount in the accompanying balance sheet.

Until the 3 year anniversary of the maturity date, the investor shall have the right (but not the obligation) to participate in 50% of any subsequent equity or debt issuance. Consummation of the transaction has been subject to certain conditions precedent, including the Company agrees to procure an approval of this transaction at its annual shareholder meeting scheduled no later than 180 days after the Closing Date and agrees to procure voting agreements from principal shareholders prior to closing of the Company.

#### **NOTE 10: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 18, 2019, the date which the condensed financial statements were issued noting the following items that would impact the accounting for events or transactions in the current period or require additional disclosures.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the condensed unaudited financial statements and notes thereto included in Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

### FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may", "should", "could", "would", "predicts", "potential", "continue", "expects", "anticipates", "future", "intends", "plans", "believes", "estimates", and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events and are subject to significant risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our limited operating history;
- our ability to manufacture, market and sell our products;
- our ability to maintain or protect the validity of our U.S. and other patents and other intellectual property;
- our ability to launch and penetrate markets;
- our ability to retain key executive members;
- our ability to internally develop new inventions and intellectual property;
- interpretations of current laws and the passages of future laws; and
- acceptance of our business model by investors.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipate in our forward-looking statements. Please see "Risk Factors" for additional risks which could adversely impact our business and financial performance.

Moreover, new risks regularly emerge and it is not possible for our management to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us on the date of this Quarterly Report on Form 10-Q. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained above and throughout this Quarterly Report on Form 10-Q.

*Prospective investors should read the following discussion and analysis of our financial condition and results of operations together with our condensed unaudited financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements." You should review the "Risk Factors" section of this Quarterly Report on Form 10-Q for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. All share and per share numbers have been retroactively adjusted to reflect the 1-for-2 reverse stock split effected on September 13, 2018.*

### Company History

Our Company was formed on April 9, 2012 as Phalanx, Inc., under the laws of the State of Nevada and changed its name to ToughBuilt Industries, Inc. on December 29, 2015.

### Business Overview

Our Company was formed to design, manufacture and distribute innovative tools and accessories to the building industry. The global tool market industry is a multibillion dollar business.

ToughBuilt's business is based on development of innovative and state of the art products, primarily in tools and hardware category, with particular focus on building and construction industry with the ultimate goal of making life easier and more productive for the contractors and workers alike.

ToughBuilt's current product line includes two major categories related to this field, with several additional categories in various stages of development, consisting of Soft Goods & Kneepads and Sawhorses & Work Products.

## **JOBS Act**

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company," we intend to rely on certain of these exemptions from, without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board (PCAOB) regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an "emerging growth company" until the earliest of (a) the last day of our fiscal year following the fifth anniversary of the IPO, (b) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (c) the last day of our fiscal year in which we are deemed to be a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, or Exchange Act (which would occur if the market value of our equity securities that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter), or (d) the date on which we have issued more than \$1 billion in nonconvertible debt during the preceding three-year period.

## **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

### **For the three months ended September 30, 2019 and 2018 compared to the three months ended September 30, 2018**

#### **Revenues**

Revenues for the three months ended September 30, 2019 and 2018 were \$4,784,087 and \$3,460,150, respectively, consisted of metal goods and soft goods sold to customers. Revenues increased in 2019 over 2018 by \$1,323,937, or 38.3%, primarily due to an increase in sales orders for metal goods and soft goods.

#### **Cost of Goods Sold**

Cost of goods sold for the three months ended September 30, 2019 and 2018 was \$3,304,118 and 2,806,041, respectively. Cost of goods sold increased in 2019 over 2018 by \$498,077 or 17.8%, primarily due to the increase in revenues, increase in materials cost of steel and plastics polyester to manufacture metal goods and soft goods and increase in labor cost in China. Cost of goods sold as a percentage of revenues in 2019 was 69.1% as compared to cost of goods sold as a percentage of revenues in 2018 of 81.1%. We have reduced our cost of goods sold as a percentage of revenue as we have achieved operational efficiencies in production and work with automated state of the art factories to manufacture our product lines.

#### **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses and research and development costs. Selling, general and administrative expenses (the "SG&A Expenses") for the three months ended September 30, 2019 and 2018 were \$3,549,480 and \$1,918,613, respectively. SG&A Expenses increased in 2019 over 2018 by \$1,630,867 or 85%, primarily due to hiring additional employees, independent contractors and consultants to grow our existing business and continue our expansion. SG&A expense in 2019 as a percentage of revenues was 74.2% as compared to SG&A expense in 2018 as a percentage of revenues was 55.4%. We expect our SG&A expense will continue to increase as the Company plans to recruit additional sales and operational staff, expend cash to raise capital for new products development, and acquire a new warehouse/storage facility to expand its operations and maintain finished products inventory on hand.

Research and development costs (the "R&D") for the three months ended September 30, 2019 and 2018 were \$391,460 and \$591,489, respectively. R&D costs decreased in 2019 from 2018 by \$200,029 or 33.8%, primarily due to a slowdown in R&D activities during the first two months of the third quarter. We expect R&D costs to continue to increase and return to levels similar to 2018 as the Company continues to develop new tools for the construction industry.

#### **Other Expense**

Other expense for the three months ended September 30, 2019 and 2018, respectively, consisted of change in the fair value of warrant derivative and interest expense. The Company recorded a gain of \$59,780 and \$0, for the three months ended September 30, 2019 and 2018, respectively, attributed to the change in the fair value associated with our Series B warrant derivative. The Company recorded interest expense for the three months ended September 30, 2019 of \$288,152 and for the three months ended September 30, 2018 of \$1,152,681.

## **Net Income**

Due to factors set forth above, we recorded a net loss of \$2,689,342 for the three months ended September 30, 2019 as compared to a net loss of \$3,008,675 for the three months ended September 30, 2018.

## **For the nine months ended September 30, 2019 and 2018 compared to the nine months ended September 30, 2018**

### **Revenues**

Revenues for the nine months ended September 30, 2019 and 2018 were \$14,560,898 and \$11,925,629, respectively, consisted of metal goods and soft goods sold to customers. Revenues increased in 2019 over 2018 by \$2,635,269, or 22.1 %, primarily due to an increase in sales orders for metal goods and soft goods.

### **Cost of Goods Sold**

Cost of goods sold for the nine months ended September 30, 2019 and 2018 was \$10,726,292 and 9,221,071, respectively. Cost of goods sold increased in 2019 over 2018 by 1,505,221 or 16.3%, primarily due to the increase in revenues, increase in materials cost of steel and plastics polyester to manufacture metal goods and soft goods and increase in labor cost in China. Cost of goods sold as a percentage of revenues in 2019 was 73.7% as compared to cost of goods sold as a percentage of revenues in 2018 of 77.3%.

### **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses and research and development costs. Selling, general and administrative expenses (the "SG&A Expenses") for the nine months ended September 30, 2019 and 2018 were \$8,807,483 and \$4,641,290, respectively. SG&A Expenses increased in 2019 over 2018 by \$4,116,193 or 88.7%, primarily due to hiring additional employees, independent contractors and consultants to grow our existing business and continue our expansion. SG&A expense in 2019 as a percentage of revenues was 60.5% as compared to SG&A expense in 2018 as a percentage of revenues was 38.9%. We expect our SG&A expense will continue to increase as the Company plans to recruit additional sales and operational staff, expend cash to raise capital for new products development, and acquire a new warehouse/storage facility to expand its operations and maintain finished products inventory on hand.

Research and development costs (the "R&D") for the nine months ended September 30, 2019 and 2018 were \$1,521,503 and \$1,446,913, respectively. R&D costs increased in 2019 over 2018 by \$74,590 or 5.2%, primarily due to the costs incurred in developing new tools, a ruggedized mobile device, software applications to run on the mobile device related to construction industry, and stock-based compensation expense and bonuses to R&D management team. We expect R&D costs to continue to increase as the Company embarks on developing new tools for the construction industry.

### **Other Expense**

Other expense for the nine months ended September 30, 2019 and 2018, respectively, consisted of change in the fair value of warrant derivative and interest expense. The Company recorded a gain of \$4,769,363 and \$0, for the nine months ended September 30, 2019 and 2018, respectively, attributed to the change in the fair value associated with our Series B warrant derivative. The Company recorded interest expense for the nine months ended September 30, 2019 of \$456,690 and for the nine months ended September 30, 2018 of \$2,561,482.

## **Net Income**

Due to factors set forth above, we recorded a net loss of \$2,181,707 for the nine months ended September 30, 2019 as compared to a net loss of \$7,137,615 for the nine months ended September 30, 2018.

## **Liquidity and Capital Resources**

We have recently reversed our historical liquidity shortages.

On November 14, 2018, the Company consummated its IPO whereby it sold a total of 2,670,000 Class A Units, each Unit consisting of one share of common stock, par value \$0.0001 per share, and a Series A Warrant to purchase one share of common stock and a Series B Warrant to purchase one share of common stock, on an offer price of \$5.00 for each unit of a share and a Series A Warrant and a Series B Warrant ("Class A Unit"). The Company received net proceeds from the IPO of \$12,415,500 after deducting underwriting discounts and commission of \$934,500. The Company incurred \$743,765 in expenses related to the IPO.

On December 17, 2018, pursuant to the Underwriting Agreement dated November 8, 2018, by and between the Company and the underwriters named therein (the "Representative"), the Representative, on behalf of the underwriters, agreed to partially exercise the over-allotment option to purchase an additional 25,000 shares of Common Stock, par value \$0.0001, at a price of \$4.98 per share, 400,500 Series A Warrants, at a price of \$0.01 per warrant and 400,500 Series B Warrants, at a price of \$0.01 per warrant. The Company received net proceeds from the exercise of over-allotment option of \$121,909 after deducting commission and expenses of \$10,601.

On January 24, 2019, the Company entered into exchange agreements with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock, for total cash proceeds to the Company of \$2,172,680 net of costs of \$159,958. Those investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. These new warrants have terms substantially similar to the terms of the Company's Series A Warrants, except that the per share exercise price of the new warrants is \$3.67, and the warrants are not exercisable until the six-month anniversary of the date of issuance thereof.



On August 19, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor pursuant to which it sold \$11.5 million aggregate principal amount of promissory notes (at an aggregate original issue discount of 15%) to the investor in a transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The first note (the "Series A Note") has a face amount of \$6.72 million for which the investor paid \$5 million in cash. The second note (the "Series B Note" and with the Series A Note, collectively referred to as the "Notes") has a principal amount of \$4.78 million for which the investor paid \$4.78 million in the form of a full recourse promissory note issued by the investor to the Company (the "Investor Note") secured by \$4.78 million in cash or cash equivalents of the investor (i.e. an original issue discount of approximately 15% to the face amount of the Series B Note). No portion of the Series B Note may be converted into shares of our common stock (the "Common Stock") until the corresponding portion of the Investor Note has been prepaid to the Company in cash, at which point in time such portion of the Series B Note shall be deemed "unrestricted". The Investor Note is subject to optional prepayment at any time at the option of the investor and mandatory prepayment, at the Company's option, subject to certain equity conditions, at any time 45 Trading Days after the effectiveness of a resale registration statement (or otherwise the applicability of Rule 144 promulgated under the Securities Act of 1933, as amended).

Although our sales increased by 22.1% during the nine months ended September 30, 2019 compared to the same period in 2018, we are continuing to focus our efforts on increased marketing campaigns, and distribution programs to strengthen the demand for our products globally. Management anticipates that our capital resources will improve and our products gain wider market recognition and acceptance resulting in increased product sales.

We had \$2,455,323 in cash at September 30, 2019 and 2018 as compared to \$5,459,884 at December 31, 2018.

As of September 30, 2019, the Company's principal sources of liquidity consisted of approximately \$2.5 million of cash and future cash generated from operations, and a \$4.6 million balance from its second senior secured promissory note with its August 2019 investor, which proceeds it anticipates it will be able to access in December 2019. The Company believes its current cash balances coupled with anticipated cash flow from operating activities will be sufficient to meet its working capital requirements for at least one year from the date of the issuance of the accompanying interim condensed financial statements. The Company continues to control its cash expenses as a percentage of expected revenue on an annual basis and thus may use its cash balances in the short-term to invest in revenue growth. Based on current internal projections, the Company believes it has and/or will generate sufficient cash for its operational needs, including any required debt payments, for at least one year from the date of issuance of the accompanying interim condensed financial statements. Management is focused on growing the Company's existing product offering, as well as its customer base, to increase its revenues. The Company cannot give assurance that it can increase its cash balances or limit its cash consumption and thus maintain sufficient cash balances for its planned operations or future acquisitions. Future business demands may lead to cash utilization at levels greater than recently experienced. The Company may need to raise additional capital in the future. However, the Company cannot assure that it will be able to raise additional capital on acceptable terms, or at all. Subject to the foregoing, management believes that the Company has sufficient capital and liquidity to fund its operations for at least one year from the date of issuance of the accompanying condensed unaudited financial statements.

## CASH FLOWS

Net cash flows used in operating activities for the nine months ended September 30, 2019 was \$8,433,420, attributable to a net loss of \$2,181,707, offset by depreciation expense of \$157,652, amortization of debt issuance cost of \$198,913, change in the fair value of warrant derivative of \$4,769,363, stock-based compensation expense of \$273,200, and net increase in operating assets of \$2,112,114. Net cash flows used in operating activities for the nine months ended September 30, 2018 was \$1,713,764, attributable to net loss of \$7,137,615, offset by depreciation expense of \$93,021, amortization of original issuance of debt discount and debt issuance cost of \$1,443,955, stock issued in settlement of \$939,538, stock-based compensation expense of \$654,608, and a net decrease in operating assets of \$2,292,729.

Net cash used in investing activities for the nine months ended September 30, 2019 was \$651,795 attributed to the purchase of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2018 was \$0.

Net cash provided by financing activities for the nine months ended September 30, 2019 was \$6,080,654, primarily attributable to proceeds from exercise of Series A warrants of \$2,172,680, proceeds from exercise of Placement Agent warrants of \$16,818, proceeds from sale of common stock of \$142, net proceeds from note receivable of \$4,515,000 less repayments of factor loan payable of \$623,844. Net cash provided by financing activities for the nine months ended September 30, 2018 was \$1,728,025, primarily due to cash received from sale of Class B Convertible Preferred Stock of \$1,201,157 and of notes payable of \$752,579, and net cash payments of \$25,000 for debt modification, \$38,000 for public offering cost and \$162,711 for loans payable.

As a result of the activities described above, we recorded a net decrease in cash of \$3,004,561 and an increase of \$14,261 for the nine months ended September 30, 2019 and 2018, respectively.

## Recent Financings

### January 2019 Warrant Exchange

On January 24, 2019, the Company entered into exchange agreements with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock, for total cash proceeds to the Company of \$2,172,680, net of costs of \$159,958. Those investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. These new warrants have terms substantially similar to the terms of the Company's Series A Warrants, except that the per share exercise price of the new warrants is \$3.67, and the warrants are not exercisable until the six-month anniversary of the date of issuance thereof.

## August 2019 Convertible Note Financing

On August 19, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor pursuant to which it sold \$11.5 million aggregate principal amount of promissory notes (at an aggregate original issue discount of 15%) to the investor in a transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The first note (the "Series A Note") has a face amount of \$6.72 million for which the investor paid \$5 million in cash. The second note (the "Series B Note" and with the Series A Note, collectively referred to as the "Notes") has a principal amount of \$4.78 million for which the investor paid \$4.78 million in the form of a full recourse promissory note issued by the investor to the Company (the "Investor Note") secured by \$4.78 million in cash or cash equivalents of the investor (i.e. an original issue discount of approximately 15% to the face amount of the Series B Note). No portion of the Series B Note may be converted into shares of our common stock (the "Common Stock") until the corresponding portion of the Investor Note has been prepaid to the Company in cash, at which point in time such portion of the Series B Note shall be deemed "unrestricted". The Investor Note is subject to optional prepayment at any time at the option of the investor and mandatory prepayment, at the Company's option, subject to certain equity conditions, at any time 45 Trading Days after the effectiveness of a resale registration statement (or otherwise the applicability of Rule 144 promulgated under the Securities Act of 1933, as amended). Notwithstanding the foregoing, the Company may not effect a mandatory prepayment if the shares underlying the Series A Note and the portion of the Series B Note that has become unrestricted exceeds 35% of the market capitalization of the Company.

The Notes are senior secured obligations of the Company secured by a lien on all assets of the Company, bear no interest (unless an event default has occurred and is continuing) and mature on December 31, 2020. The Notes will be convertible at \$1.00 into a fixed number of shares (the "Conversion Shares"). The Notes are convertible at the Holder's option, in whole or in part, at any time after closing. The Conversion Price will be subject to adjustment for stock dividends, stock splits, anti-dilution and other customary adjustment events.

The Company shall repay the Principal Amount of the Notes in 12 installments, with the first installment starting on February 1, 2020 (each, an "Installment Date"). Installments 1-3 shall be 1/36th of the Principal Amount, Installments 4-6 shall be 1/18th of the Principal Amount and Installments 7-12 shall be 1/8th of the Principal Amount. The repayment amount shall be payable in cash, or, subject to the satisfaction of equity conditions, at the option of the Company, in registered Common Stock or a combination of cash and registered Common Stock. However, if the 30-day volume weighted average price of the Common Stock (the "VWAP") of the Company falls below 50% of the [Market Price (as defined above)]<sup>1</sup> or the Company fails to satisfy certain other equity conditions, the repayment amount is payable in shares of Common Stock only unless the Investor(s) waive any applicable equity condition. If the Company elects to satisfy all or any portion of an installment in shares of Common Stock, the Company will predeliver such shares of Common Stock to the investor on the 23rd trading day prior to the applicable Installment Date, with a true-up of shares (if necessary) on the Installment Date. Any excess shares of Common Stock shall be applied to subsequent installments.

The shares used to meet a Principal Repayment ("Installment Shares") would be valued at a conversion price calculated as the lesser of (i) 85% of the arithmetic average of the three lowest daily VWAPs of the 20 trading days prior to the payment date or (ii) 85% of the VWAP of the trading day prior to payment date ("Installment Price") with a floor of \$0.10.

All amortization payments shall be subject to the Investors' right to (a) defer some or all of any Installment Payment to a subsequent Installment Date; and (b) at any time during an installment period, convert up to four times the installment amount at the Installment Price; provided shares received pursuant to such accelerated conversions shall be subject to a leak-out provision that solely limits sales of such shares received by the investor in such accelerated conversion (and not any other sales) to the greater of (a) \$500,000 per trading day or (b) 40% of the volume traded on a given day as reported by Bloomberg LP.

Upon completion of a Change of Control, the Holders may require the Company to purchase any outstanding Notes in cash at 125% of par plus accrued but unpaid interest. The Company shall have the right to redeem any and all amounts of the outstanding Note at 125% of the greater of (a) Principal Amount plus accrued but unpaid interest (if any), or (b) Conversion Value plus accrued but unpaid interest (if any) provided the Company has satisfied certain equity conditions. The Company must give the Investor(s) ninety (90) business days' prior notice of any such redemption.

Prior to all outstanding amounts under the Note being repaid in full, the Company will not create any new encumbrances on any of its or its subsidiaries' assets without the prior written consent of the Lender, with a carveout for a working capital facility of which the details are to be determined. The Notes shall also be subject to standard events of default and remedies therefor.

The Company filed a registration statement in connection therewith, which was declared effective on October 15, 2019.

In connection with the granting of the Notes, the Company shall issue detachable warrants to the Investor, exercisable in whole or in part at any time during the five years from the date of issuance, in an amount equal to 50% of the conversion shares underlying the Notes and have an exercise price of \$1.00 per share. To the extent the Company has a change of control or a spinoff, the warrants provide for a put for the warrants to the Company at their Black- Scholes Valuation.

Until the 3 year anniversary of the maturity date, the investor shall have the right (but not the obligation) to participate in 50% of any subsequent equity or debt issuance. Consummation of the transaction has been subject to certain conditions precedent, including the Company agrees to procure an approval of this transaction at its annual shareholder meeting scheduled no later than 180 days after the Closing Date and agrees to procure voting agreements from principal shareholders prior to closing of the Company.

#### **Off Balance Sheet Arrangements**

None.

#### **Seasonality**

Our business is a seasonal business as a result of our China-based production. For the first calendar quarter, we are not able to ship our products from China due to the hiatus as a result of their New Year holidays. We make up the lost sales from the first calendar quarter in the subsequent quarters.

#### **Significant Accounting Policies**

See the footnotes to our unaudited financial statements for the quarter ended September 30, 2019 and 2018, included with this quarterly report.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of September 30, 2019, we maintain effective controls over the control environment, including our internal control over financial reporting. Because we are a small company with only two employees in our finance department, we have retained an outside firm to ensure the ability to have adequate segregation of duties in the financial statement preparation process.

We have designed a disclosure controls and procedures regime pursuant to which our management has, among other things:

- (a) identified the definition, objectives, application and scope of our internal control over financial reporting;
- (b) delineated the duties of each member of the group responsible for maintaining the adequacy of our internal control over financial reporting. This group consists of:
  - (i) our Chief Executive Officer; and
  - (ii) our Chief Financial Officer who was engaged to prepare and assure compliance with both our internal control over financial reporting as well as our disclosure controls and procedures and review our disclosure controls and procedures on a regular basis, subject to our management's supervision.

We have also acknowledged that as a result of our IPO and the complex financial instruments involved, we do not have adequate inhouse expertise or manpower to manage all aspects of financial reporting internally. As a result, we have hired outside consultants to assist in this process as needed. In November 2018, we consummated our initial public offering, and are now completing our first full quarter as a fully reporting company. We continue to work with our structure in which we have a chief financial officer and will have a full time controller, in order to continue implementation of required key controls, the necessary steps required for procedures to ensure the appropriate communication and review of inputs necessary for the financial statement closing process, as well as for the appropriate presentation of disclosures within the financial statements. With material, complex and non-routine transactions, management continues to seek guidance from third-party experts and/or consultants to gain a thorough understanding of these transactions and assure proper reporting. The remediation steps taken are subject to the Audit Committee oversight. Our management believes there have been significant improvements of internal controls over financial reporting during the year ended December 31, 2018 and quarter ended September 30, 2019 and 2018, which will ensure adequate segregation of duties which existed as of December 31, 2018 and September 30, 2019 and 2018, and to assure that complex transactions are properly recorded as the business continues to grow. Our management has been actively engaged in planning for, designing and implementing the corrective steps described above to enhance the effectiveness of our disclosure controls and procedures as well as our internal control over financial reporting. Our management, together with the Audit Committee, is committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity, and will take further steps to ensure that personnel are adequate in terms of sophistication and quantity to adequately assure that the financial reporting process is efficient and operated with the sufficient level of integrity to meet and surpass all regulatory standards.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Other than the remediation activities undertaken by us as disclosed above, there have been no changes in our internal control over financial reporting during the quarter ended September 30, 2019 and 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities.

The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. Other than as described in this Item 1., we are not presently a party to any pending or threatened legal proceedings.

On August 16, 2016, Edwin Minassian filed a complaint against the Company and Michael Panosian, our CEO, in the Superior Court of California, County of Los Angeles. The complaint alleges breach of oral contracts to pay Mr. Minassian for consulting and finder's fees, and to hire him as an employee. The complaint further alleges, among other things, fraud and misrepresentation relating to the alleged tender of \$100,000 to the Company in exchange for "a 2% stake in ToughBuilt" of which only \$20,000 was delivered. The complaint seeks unspecified monetary damages, declaratory relief concerning the plaintiff's contention that he has an unresolved 9% ownership stake in ToughBuilt and other relief according to proof.

On April 12, 2018, the Court entered judgments against the Company and Mr. Panosian in the amounts of \$7,080 and \$235,542, plus awarding Mr. Minassian a 7% ownership interest in the Company (the "Judgments"). Mr. Minassian served notice of entry of the judgments on April 17, 2018 and the Company and Mr. Panosian received notice of the entry of the default judgments on April 19, 2018.

On April 25, 2018, the Company and Mr. Panosian filed a motion to have the April 12, 2018 default judgment on Plaintiff's Complaint, the February 13, 2018 defaults, and April 14, 2017 Order for terminating sanctions striking Defendants' Answer set aside on the basis of their former attorney's declaration that his negligence resulted in the default judgment, default, and terminating sanctions being entered against the Company and Mr. Panosian. The motion was denied on August 29, 2018 as a result of a court hearing held on August 3, 2018. On September 13, 2018, the Company and Mr. Panosian satisfied the Judgments by payment of \$252,924.69 (which includes \$10,303.48 post judgment interest) to Mr. Minassian and by issuing him shares reflecting a 7% ownership stake in the Company from management-owned shares. On October 18, 2018, the Company and Mr. Panosian filed a Notice of Appeal in the Superior Court of the State of California, Los Angeles County, with respect to the Order denying their motion for relief from the above-referenced judgment.

On October 1, 2019, the Second Appellate District of the California Court of Appeal issued its opinion reversing the trial court's order denying the Company's motion for relief from the default judgment and directing the trial court to grant the Company's motion for relief, including allowing the Company to file an Answer and contest Minassian's claims. We expect the appellate court to issue a remittitur officially transferring the matter from the appellate court back to the trial court for further proceedings consistent with its ruling. Upon return to the trial court, the Company intends to vigorously contest Minassian's claims.

### ITEM 1A. RISK FACTORS.

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the nine months ended September 30, 2019 and 2018 and subsequent thereto through the date of filing this report, we conducted the following transactions, all exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

On January 24, 2019, the Company entered into exchange agreements with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 424,116 shares of its common stock, for total cash proceeds to the Company of \$2,172,680, net of costs of \$159,958. Those investors also exchanged Series A Warrants to purchase 508,940 shares of its common stock into 508,940 shares of its common stock and received new warrants to purchase an aggregate of 933,056 shares of its common stock. These new warrants have terms substantially similar to the terms of the Company's Series A Warrants, except that the per share exercise price of the new warrants is \$3.67, and the warrants are not exercisable until the six-month anniversary of the date of issuance thereof.

On April 11, 2019, an investor exchanged its Series A Warrants to purchase up to 1,189,560 shares of common stock of the Company and a Series B Warrant to purchase up to 1,005,760 shares of common stock, which Series B Warrants are subject to certain anti-dilution provisions embedded in such Series B Warrants for 4,268 shares of Company's Series C Convertible Preferred Stock having the rights, preferences and privileges set forth in the Certificate of Designation, filed by the Company with the Secretary of State of Nevada. The shares of Series C Convertible Preferred Stock are convertible into 4,268,000 shares of the Company's common stock, and rights to convert into common stock are subject to limitations on ownership at any one time of Company common stock up to 9.9% of the issued and outstanding shares of common stock of the Company; otherwise, the Series C Convertible Preferred Stock has no rights not awarded to holders of common stock of the Company.

On August 19, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor pursuant to which it sold \$11.5 million aggregate principal amount of promissory notes (at an aggregate original issue discount of 15%) to the investor in a transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The first note (the "Series A Note") has a face amount of \$6.72 million for which the investor paid \$5 million in cash. The second note (the "Series B Note" and with the Series A Note, collectively referred to as the "Notes") has a principal amount of \$4.78 million for which the investor paid \$4.78 million in the form of a full recourse promissory note issued by the investor to the Company (the "Investor Note") secured by \$4.78 million in cash or cash equivalents of the investor (i.e. an original issue discount of approximately 15% to the face amount of the Series B Note). No portion of the Series B Note may be converted into shares of our common stock (the "Common Stock") until the corresponding portion of the Investor Note has been prepaid to the Company in cash, at which point in time such portion of the Series B Note shall be deemed "unrestricted". The Investor Note is subject to optional prepayment at any time at the option of the investor and mandatory prepayment, at the Company's option, subject to certain equity conditions, at any time 45 Trading Days after the effectiveness of a resale registration statement (or otherwise the applicability of Rule 144 promulgated under the Securities Act of 1933, as amended). Notwithstanding the foregoing, the Company may not effect a mandatory prepayment if the shares underlying the Series A Note and the portion of the Series B Note that has become unrestricted exceeds 35% of the market capitalization of the Company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

We have no disclosure applicable to this item.

ITEM 5. OTHER INFORMATION.

We have no disclosure applicable to this item.

ITEM 6. EXHIBITS.

(a) Exhibits. The following documents are filed as part of this report:

- 31.1 [Certification of Principal Executive Officer pursuant to Securities Exchange Act rules 13a- 14\(a\) and 15d-14\(a\) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Principal Financial Officer pursuant to Securities Exchange Act rules 13a- 14\(a\) and 15d-14\(a\) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification of Principal Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 Interactive Data Files
  - 101.INS XBRL Instance Document
  - 101.SCH XBRL Schema Document
  - 101.CAL XBRL Calculation Linkbase Document
  - 101.DEF XBRL Definition Linkbase Document
  - 101.LAB XBRL Label Linkbase Document
  - 101.PRE XBRL Presentation Linkbase Document

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.

TOUGHBUILT INDUSTRIES, INC.

Date: November 18, 2019

By: /s/ Michael Panosian

MICHAEL PANOSIAN  
CHIEF EXECUTIVE OFFICER AND CHAIRMAN  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Panosian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ToughBuilt Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2019

*/s/ Michael Panosian*

---

MICHAEL PANOSIAN  
CHIEF EXECUTIVE OFFICER AND CHAIRMAN  
(PRINCIPAL EXECUTIVE OFFICER)

---

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jolie Kahn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ToughBuilt Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2019

*/s/ Jolie Kahn*

---

JOLIE KAHN  
CHIEF FINANCIAL OFFICER  
(PRINCIPAL FINANCIAL OFFICER)

---



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

In connection with the Quarterly Report of ToughBuilt Industries, Inc. (the "Registrant") on Form 10-Q for the three-month period ended September 30, 2019 and 2018 as filed with the Securities and Exchange Commission on the date hereof, I, Michael Panosian, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-Q 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 such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ToughBuilt Industries, Inc.

Dated: November 18, 2019

*/s/ Michael Panosian*

---

Michael Panosian  
Chief Executive Officer  
ToughBuilt Industries, Inc.

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

---

**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 ToughBuilt Industries, Inc. (the "Registrant") on Form 10-Q for the three-month period ended September 30, 2019 and 2018 as filed with the Securities and Exchange Commission on the date hereof, I, Jolie Kahn, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-Q 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 such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ToughBuilt Industries, Inc.

Dated: November 18, 2019

*/s/ Jolie Kahn*

---

Jolie Kahn  
Chief Financial Officer  
ToughBuilt Industries, Inc.

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

---

