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

FORM 10-Q

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

For the quarterly period ended **June 30, 2021**

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	**46-0820877**
(State or other jurisdiction of incorporation or organization)	(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)

N/A
(Former name, former address and formal fiscal year, if changed since last report)

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common Stock	TBLT	NASDAQ CAPITAL MARKET
Series A Warrants	TBLTW	NASDAQ CAPITAL MARKET

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

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

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

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

As of August 13, 2021, the registrant had 129,300,090 shares of common stock, $0.0001 par value per share outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TOUGHBUILT INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2021 (UNAUDITED)	December 31, 2020
Assets		
Current Assets		
Cash	$ 20,225,935	$ 2,194,850
Accounts receivable	13,053,918	10,537,395
Factor receivables, net	-	807,648
Inventory	18,579,178	8,915,345
Prepaid assets	1,790,663	1,003,774
Subscription receivable	-	837,025
Total Current Assets	53,649,694	24,296,037
Other Assets		
Property and equipment, net	6,511,025	3,066,924
Other assets	314,582	127,733
Total Assets	$ 60,475,301	$ 27,490,694
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 9,009,282	$ 6,955,218
Accrued expenses	761,045	598,473
Factor loan payable	-	590,950
Total Current Liabilities	9,770,327	8,144,641
Total Liabilities	9,770,327	8,144,641
Commitment and Contingencies		
Shareholders' Equity		
Series C Preferred Stock, $0.0001 par value, 4,268 authorized, 0 issued and outstanding at June 30, 2021 and December 31, 2020	-	-
Series D Preferred Stock, $1,000 par value, 5,775 shares authorized, 0 and 5,775 issued, and outstanding at June 30, 2021 and December 31, 2020, respectively.	-	-
Series E Preferred Stock, $0.0001 par value, 15 authorized, 9 and 0 issued and outstanding at June 30, 2021 and December 31, 2020, respectively	-	-
Common stock, $0.0001 par value, 200,000,000 shares authorized, 81,605,285 and 43,918,831 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	8,161	4,392
Additional paid-in capital	124,934,890	80,103,653
Accumulated deficit	(74,238,077)	(60,761,992)
Total Shareholders' Equity	50,704,974	19,346,053
Total Liabilities and Shareholders' Equity	$ 60,475,301	$ 27,490,694

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues, net of allowances				
Metal goods	$ 5,707,154	$ 3,374,066	$ 10,052,351	$ 5,456,846
Soft goods	10,146,214	3,465,580	18,083,270	5,292,312
Total revenues, net of allowances	15,853,368	6,839,646	28,135,621	10,749,158
Cost of Goods Sold				
Metal goods	4,391,373	2,385,641	7,720,868	3,812,866
Soft goods	8,108,719	2,072,060	13,598,351	3,150,448
Total cost of goods sold	12,500,092	4,457,701	21,319,219	6,963,314
Gross profit	3,353,276	2,381,945	6,816,402	3,785,844
Operating expenses:				
Selling, general and administrative expenses	9,242,946	4,137,943	17,192,727	8,523,897
Research and development	1,429,819	422,072	2,836,204	946,239
Total operating expenses	10,672,765	4,560,015	20,028,931	9,470,136
Loss from operations	(7,319,489)	(2,178,070)	(13,212,529)	(5,684,292)
Other income (expense)				
Interest expense	(102,937)	(341,088)	(263,556)	(589,525)
Total other income (expense)	(102,937)	(341,088)	(263,556)	(589,525)
Net loss	$ (7,422,426)	$ (2,519,158)	$ (13,476,085)	$ (6,273,817)
Redemption of Series D Preferred Stock deemed dividend	-	-	-	(1,295,294)
Net loss attributable to common stockholders	$ (7,422,426)	$ (2,519,158)	$ (13,476,085)	$ (7,569,111)
Basic and diluted net loss per share attributed to common stockholders				
Basic net loss per common share	$ (0.09)	$ (0.11)	$ (0.18)	$ (0.49)
Basic and diluted weighted average common shares outstanding	81,605,285	22,209,152	74,638,153	15,440,558

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

TOUGHBUILT INDUSTRIES, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021 and 2020
(UNAUDITED)

	Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance - January 1, 2020	1,268	$ -	5,775	$ 4,816,485	-		3,300,015	$ 330	$ 41,823,048	$ (43,413,370)	$ 3,226,493
Redemption of Series D Preferred Stock	-	-	(2,212)	(1,844,860)	-		-	-	(1,295,294)	-	(3,140,154)
Issuance of common stock upon Series C preferred conversion	(1,268)	-		-	-		126,800	13	(13)	-	-
Issuance of common stock upon conversion of convertible notes payable	-	-	-	-	-		200,000	20	(186,171)	-	(186,151)
Issuance of common stock and warrants, net of issuance costs	-	-	-	-	-		4,945,000	495	9,388,245	-	9,388,740
Issuance of common stock upon exercise of warrants	-	-	-	-	-		2,407,953	241	(241)	-	-
Stock based compensation expense	-	-	-	-	-				96,490		96,490
Net loss	-	-	-	-	-		-	-	-	(3,754,659)	(3,754,659)
Balance - March 31, 2020	-	$ -	3,563	$ 2,971,625	-		10,979,768	$ 1,099	$ 49,826,064	$ (47,168,029)	$ 5,630,759
Issuance of common stock upon conversion of Series D Preferred Stock	-	-	(3,563)	(2,971,625)	-		3,141,426	314	2,971,311	-	-
Issuance of common stock upon conversion of convertible notes payable	-	-	-	-	-		3,200,000	320	3,091,965	-	3,092,285
Issuance of common stock and warrants	-	-	-	-	-		20,700,000	2,070	18,731,930	-	18,734,000
Issuance of common stock for services	-	-	-	-	-		360,000	36	572,364	-	572,400
Issuance of common stock upon exercise of warrants	-	-	-	-	-		33,437	3	(3)	-	-
Stock based compensation expense	-	-	-	-	-		-	-	227,499	-	227,499
Net loss	-	-	-	-	-		-	-	-	(2,519,158)	(2,519,158)
Balance – June 30, 2020	-	$ -	-	$ -	-		38,414,631	$ 3,842	$ 75,421,130	$ (49,687,187)	$ 25,737,785
January 1, 2021	-	$ -	-	-	-		43,918,831	$ 4,392	$ 80,103,653	$ (60,761,992)	$ 19,346,053
Issuance of common stock upon conversion of warrants	-	-	-	-	-		5,408,540	541	5,407,999	-	5,408,540
Issuance of common stock for services	-	-	-	-	-		150,000	15	188,985	-	189,000
Issuance of common stock	-	-	-	-	-		32,127,914	3,213	39,071,177	-	39,074,390
Stock based compensation expense	-	-	-	-	-		-	-	81,537	-	81,537
Net loss	-	-	-	-	-		-	-	-	(6,053,659)	(6,053,659)
Balance - March 31, 2021	-	$ -	-	$ -	-		81,605,285	$ 8,161	$ 124,853,351	$ (66,815,651)	$ 58,045,861
Issuance of common stock upon conversion of Series D Preferred Stock	-	-	-	-	-		-	-	81,539	-	81,539
Stock based compensation expense	-	-	-	-	-		-	-	-	-	-
Net loss	-	-	-	-	-		-	-	-	(7,422,426)	(7,422,426)
Balance – June 30, 2021	-	$ -	-	$ -	-		81,605,285	$ 8,161	$ 124,934,890	$ (74,238,077)	$ 50,704,974

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

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

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (13,476,085)	$ (6,273,817)
Adjustments to reconcile from net loss to net cash used in operating activities:		
Depreciation	644,098	217,631
Amortization of debt discount and debt issuance cost	-	448,908
Stock-based compensation expense	163,076	323,989
Amortization of capitalized contract costs	213,353	-
Common stock issued for services	189,000	-
Changes in operating assets and liabilities		
Accounts receivable, net	(2,516,523)	(1,011,022)
Factor receivables, net	807,648	(214,322)
Inventory	(9,663,833)	359,902
Prepaid assets	(1,000,242)	(966,196)
Other assets	(186,849)	(5,000)
Accounts payable	2,054,064	(431,819)
Accrued expenses	162,572	39,888
Net cash used in operating activities	(22,609,721)	(7,511,858)
Cash flows from investing activities:		
Proceeds from note receivable	-	3,000,000
Advance for property and equipment	-	(250,000)
Purchases of property and equipment	(4,088,199)	(786,329)
Net cash provided by (used in) investing activities	(4,088,199)	1,963,671
Cash flows from financing activities:		
Proceeds from sales of common stock and warrants, net of costs	-	28,122,740
Proceeds from exercise of warrants	5,408,540	-
Proceeds from issuance of stock, net of costs	39,911,415	-
Proceeds from factor loan payable	-	169,223
Repayments of factor loan payable	(590,950)	-
Repayments of Series D Preferred Stock	-	(3,140,154)
Net cash provided by financing activities	44,729,005	25,151,809
Net increase in cash	18,031,085	19,603,622
Cash, beginning of period	2,194,850	25,063
Cash, end of period	$ 20,225,935	$ 19,628,685
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities:		
Cashless exercise of warrants	$ -	$ 244
Conversion of Series C Preferred Stock to common stock	$ -	$ 13
Conversion of convertible notes payable to common stock	$ -	$ 2,906,134
Conversion of Series D Preferred Stock to common stock	$ -	$ 2,971,311
Issuance of common stock for prepaid services	$ -	$ 572,400

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

TOUGHBUILT INDUSTRIES, INC.
Notes to the Condensed Consolidated Financial Statements
June 30, 2021 and 2020
(Unaudited)

NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

General

The unaudited condensed consolidated financial statements of ToughBuilt Industries, Inc. ("ToughBuilt" or the "Company") as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020 should be read in conjunction with the financial statements for the year ended December 31, 2020 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the Securities Exchange Commission ("SEC") on March 26, 2021 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.

On April 15, 2020, the Company effected a 1-for-10 reverse stock split (the "Reverse Split") of its issued and outstanding common stock. As a result of the Reverse Split, each ten shares of issued and outstanding prior to the Reverse Split were converted into one share of common stock, with fractional shares resulting from the Reverse Split rounded up to the nearest whole number. All share and per share numbers in the unaudited condensed consolidated financial statements and notes below have been revised retroactively to reflect the Reverse Split.

Nature of Operations

In these notes, the terms "we," "our," "ours," "us," "it," "its," "ToughBuilt," and the "Company" refer to ToughBuilt Industries, Inc., a Nevada corporation.

The Company designs and distributes 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 February 24, 2020, the Company closed on the public offering of 0.445 million shares of its common stock, for gross proceeds of $912,250 based upon the overallotment option arising from the closing of its January 28, 2020 public offering. In the January 28, 2020 public offering, the Company sold 4.5 million shares of its common stock and 49.45 million warrants (each exercisable into 1/20 of a share of common stock for a total of 2.4725 million shares of common stock) from which it received gross proceeds of $9,472,250.

On June 12, 2020, the Company closed on the public offering of 1.7 million shares of its common stock, for gross proceeds of $1,683,000 based upon the overallotment option arising from the closing of its June 2, 2020 public offering. In the June 2, 2020 public offering, the Company sold 19 million shares of its common stock and 20.7 million warrants from which it received gross proceeds of $19,017,000.

On January 19, 2021, the Company filed a prospectus supplement dated January 15, 2021 (the "ATM Prospectus Supplement") to the shelf registration statement Form S-3 (File No. 333-251185) declared effective by the SEC on December 15, 2020 (the "First Form S-3") for the offer and sale shares of common stock having an aggregate value of $8,721,746 from time to time through H.C. Wainwright & Co., LLC, as sales agent ("Wainwright"), pursuant to At The Market Offering Agreement, dated December 7, 2020 (the "ATM Agreement"), between the Company and Wainwright. During January 2021, the Company has raised approximately $16,200,000 through the sale of 14.9 million shares of the Company's common stock.

On February 2, 2021, the Company terminated the First S-3 and filed a second registration statement on Form S-3 (File No. 333-252630) (the "Second S-3") containing a base prospectus covering the offering, issuance and sale by the Company of up to $100,000,000 of the Company's common stock, preferred stock, warrants and units; and a sales agreement prospectus covering the offering, issuance and sale by us of up to a maximum aggregate offering price of $100,000,000 (which amount was included in the aggregate offering price set forth in the base prospectus) of the Company's common stock that may be issued and sold under a second At The Market Offering Agreement, dated February 1, 2021, we entered into with Wainwright, as sales agent. The Second S-3 was declared effective by the SEC on February 8, 2021. The Company terminated the First S-3 simultaneously with the filing of the Second S-3. As of the termination of the First S-3, the Company had sold $19,763,121 through the sale of 18,616,339 shares of common stock.

During January to June 2021, the Company has raised approximately $22,800,000 through the sale of 17,165,775 shares of the Company's common stock in connection with the Second ATM Agreement.

As of June 30, 2021, the Company has sold an aggregate of 35,782,113 shares of common stock under the First S-3 and Second S-3 for gross proceeds of $42,563,121.

Risk and Uncertainty Concerning Covid-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the World. We are currently monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread. All of our Chinese facilities were temporarily closed for a period of time. Most of these facilities have been reopened. Depending on the progression of the outbreak, our ability to obtain necessary supplies and ship finished products to customers may be partly or completely disrupted globally. Also, our ability to maintain appropriate labor levels could be disrupted. If the coronavirus continues to progress, it could have a material negative impact on our results of operations and cash flow, in addition to the impact on its employees. We have concluded that while it is reasonably possible that the virus could have a negative impact on the results of operations, the specific impact is not readily determinable as of the date of these consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity

As of June 30, 2021, the Company's principal sources of liquidity consisted of approximately $20.2 million of cash and future cash generated from operations. 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 consolidated 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 consolidated 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 consolidated financial statements.

On July 14, 2021, the Company raised gross proceeds of $40,000,000 in a registered direct offering pursuant to a Form S-3 involving the sale of shares and warrants to several institutional and accredited investors.

The net proceeds to the Company from the offering were approximately $36,325,000, after deducting placement agent fees and expenses payable by the Company. The Company intends to use the net proceeds from the Offering for working capital purposes. See "Note 10. Subsequent Events; Registered Direct Offering on Form S-3."

Basis of Presentation

These interim condensed consolidated 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 consolidated financial statements requires management to make assumptions and estimates that impact the amounts reported. These interim consolidated condensed financial statements, 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 June 30, 2021 and 2020; however, certain information and footnote disclosures normally included in our audited annual financial statements, as included in the Company's interim condensed consolidated 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, 2020.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Toughbuilt Industries UK Limited. All intercompany balances and transaction are eliminated.

Reclassifications

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported total assets or net loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of condensed consolidated 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 consolidated 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, notes 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 June 30, 2021 and December 31, 2020.

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 June 30, 2021 and December 31, 2020, 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 June 30, 2021 and December 31, 2020.

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 June 30, 2021 and 2020, 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 six months ended June 30, 2021 and 2020, 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 Company had no instruments requiring such valuation as of June 30, 2021 and December 31, 2020.

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 – 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.

During 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed, which temporarily removed 80% limitations on net operating loss carryforwards for the years 2019 and 2020.

The Company adopted FASB ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting of Income Taxes," as of January 1, 2021. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The adoption of this guidance did not have a material impact on its financial statements.

Stock Based Compensation

The Company accounts for 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. In addition, as of January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU simplified aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. The adoption of this guidance did not have a material impact on the financial statements.

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.

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 warrants, convertible preferred stock and convertible debentures. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss computation of basic and diluted net loss per common share:				
Net loss	$ (7,422,426)	(2,519,158)	$ (13,476,085)	$ (6,273,817)
Less: Redemption of Series D Preferred Stock deemed dividend	-	-	-	(1,295,294)
Less: Common stock deemed dividend (inducement cost)	-	-	-	-
Net loss attributable to common stockholders	$ (7,422,426)	(2,519,158)	$ (13,476,085)	$ (7,569,111)
Basic and diluted net loss per share:				
Basic and diluted net loss per common share	$ (0.09)	(0.11)	(0.18)	(0.49)
Basic and diluted weighted average common shares outstanding	81,605,285	22,209,152	74,638,153	15,440,558

Potentially dilutive securities that are not included in the calculation of diluted net loss per share because their effect is anti-dilutive are as follows as of June 30, (in common equivalent shares):

	2021	2020
Warrants	16,516,562	21,925,102
Series A & B Notes	-	213,105
Options and restricted stock units	203,135	1,018,853
Total anti-dilutive weighted average shares	16,719,697	23,157,060

No Segment Reporting

The Company operates one reportable segment referred to as the tools segment. A single management team that reports to the Chief Executive Officer comprehensively manages the business. Accordingly, the Company does not have separately reportable segments.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the three months ended June 30, 2021 and 2020 amounted to $2,074,740 and $242,534, respectively. Advertising expense for the six months ended June 30, 2021 and 2020, amounted to $4,226,411 and $484,434, respectively.

Patents

Legal fees and similar costs incurred relating to patents are capitalized and are amortized over their estimated useful life once determined. Such costs amounted to $187,329 as of June 30, 2021, and are included in other assets on the accompanying consolidated balance sheet. Any patent related costs which were expensed for the three and six months ended June 30, 2020 were immaterial.

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 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, 2021, and interim periods within fiscal years beginning after December 15, 2022 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 June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses ("Topic 326")". The ASU introduces a new accounting model, the Current Expected Credit Losses model ("CECL"), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. ASU 2016-13 is effective for annual period beginning after December 15, 2022, including interim reporting periods within those annual reporting periods. The Company is currently evaluating this guidance to determine its impact it may have on its financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU also removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and simplifies the diluted earnings per share calculation in certain areas. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2021, although early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance 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 June 30, 2021 and December 31, 2020 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 June 30, 2021 and December 31, 2020, were $0 and $807,648, respectively.

NOTE 4: PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	June 30, 2021	December 31, 2020
Furniture	$ 272,886	$ 183,672
Computers	734,006	586,749
Production equipment	202,380	182,446
Automobile and transportation	635,542	635,542
Tooling and molds	3,824,997	1,989,366
Application development	1,122,236	93,435
Website design	622,948	507,088
Leasehold Improvements	403,751	42,249
Steelbox	490,000	-
Less: accumulated depreciation	(1,797,721)	(1,153,623)
Property and Equipment, net	$ 6,511,025	$ 3,066,924

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Depreciation expense	$ 348,082	$ 132,707	$ 644,098	$ 217,631

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.

The Company entered into a lease for office space at 8669 Research Drive, in Irvine, CA, which is to replace the current corporate headquarters. The lease commenced on December 1, 2019 with no rent due until April 1, 2020. From April 1, 2020 through March 31, 2025, base rent will be due on the first of each month in the amount of $25,200 escalating annually on December 1 of each year to $29,480 beginning December 1, 2023. The Company paid an initial amount of $68,128 comprising the rent for April 2020, a security deposit and the amount due for property taxes, insurance and association fees.

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

For the years ending December 31,	Building leases
2021 (remaining)	$ 252,225
2022	343,821
2023	341,653
2024	358,085
Thereafter	89,521
	$ 1,385,305

The Company recorded rent expense of $222,384 and $121,806 and $438,937 and $327,894 for the three and six months ended June 30, 2021 and 2020, respectively. The Company recorded a slotting expense of $83,334 and $83,334 and $166,668 and $166,668 for the three and six months ended June 30, 2021 and 2020, 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 was 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.

The Company's former Chief Financial Officer was appointed on June 14, 2019, with whom the Company entered into a verbal consulting arrangement at $10,000 per month. Effective July 2, 2020 such former Chief Financial Officer resigned from the Company.

Effective July 1, 2020, the Company and the Chief Financial Officer agreed to a salary of $230,000 per annum.

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.

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 reasonable estimated, the Company recognizes an expense for the estimated loss.

Edwin Minassian v. Michael Panosian and Toughbuilt Industries, Inc., Los Angeles Superior Court Case No. EC065533.

On August 16, 2016, Plaintiff Edwin Minassian filed a complaint against Defendants ToughBuilt Industries, Inc. (the "Company") and Michael Panosian in the Superior Court of California, County of Los Angeles, Case No. EC065533. The complaint alleges breach of oral contracts to pay Plaintiff for consulting and finder's fees, and to hire him as an employee. The complaint further alleged claims of fraud and misrepresentation relating to an alleged payment in exchange for stock in the Company. The complaint seeks unspecified monetary damages, declaratory relief, stock in the Company, and other relief according to proof.

On April 12, 2018, the Court entered judgments of default 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.

The Company and Panosian satisfied the judgments on September 14, 2018 by payment of $252,949 to Plaintiff Minassian and by issuing Plaintiff Minassian 376,367 shares of common stock of the Company. On October 18, 2018, the Company and Panosian filed a Notice of Appeal from the Order denying their motion for relief from the above-referenced 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 ToughBuilt's motion for relief from the default judgment and directing the trial court to grant ToughBuilt's motion for relief, including allowing Toughbuilt to file an Answer and contest Minassian's claims.

The appellate court recently issued a remittitur officially transferring the matter from the appellate court back to the trial court for further proceedings consistent with its ruling, and the Company and Panosian have filed an Answer to the Complaint. The trial court has not yet set a trial date, and discovery in this case is just now beginning. The Company intends to vigorously defend the Complaint and seek to recover the compensation and stock previously paid to satisfy the now vacated default judgment. The Company believes it has a strong position, but cannot quantify the likelihood that it will prevail in the above litigation, or any likely liability or recoveries, because of the current status of the case and the unpredictability of litigation.

Minassian seeks damages and stock based on a breach of an alleged oral agreement. Discovery is presently ongoing. In addition, Plaintiff Minassian is in violation of a court order for restitution and the Company is engaged in collection efforts to enforce that order. A trial date has been set for April 25, 2022.

Design 1st v. Toughbuilt Industries, Inc., American Arbitration Association

On November 26, 2019, Claimant Design 1st filed a Demand for Arbitration against the Company seeking $169,094 in damages, plus attorney's fees and costs. Claimant contends the Company breached a written contract by failing to pay for design services. The Company filed a Cross-Demand for Arbitration against Claimant seeking $394,956 in damages, plus attorney's and costs alleging Claimant breached the same contract by performing negligent services, failing to meets its obligations under the contract, and fraudulent billing.

The arbitration hearing occurred in April 2021. On July 14, 2021, the arbitrator concluded that neither party was entitled to prevail on their respective claims and rejected all counterclaims. Both parties are required to bear all fees and incurred in connection with the arbitration.

NOTE 6: STOCKHOLDERS' EQUITY (DEFICIT)

At June 30, 2021 and December 31, 2020, the Company had 200,000,000 and 200,000,000 shares of common stock, respectively, and 4,268 shares of Series C preferred stock authorized, both with a par value of $0.0001 per share. In addition, as of June 30, 2021, the Company had 5,775 shares of Series D preferred stock, authorized, and 14 Series E Non-Convertible preferred stock, with a par value of $1,000 per share.

Common Stock and Preferred Stock

On February 24, 2020, the Company closed on the public offering of 0.445 million shares of its common stock, for gross proceeds of $912,250 based upon the overallotment option arising from the closing of its January 28, 2020 public offering. In the January 28, 2020 public offering, the Company sold 4.5 million shares of its common stock and 49.45 million warrants (each exercisable into 1/20 of a share of common stock for a total of 2.4725 million shares of common stock) from which it received gross proceeds of $9,472,250.

On June 12, 2020, the Company closed on the public offering of 1.7 million shares of its common stock, for gross proceeds of $1,683,000 based upon the overallotment option arising from the closing of its June 2, 2020 public offering. In the June 2, 2020 public offering, the Company sold 19 million shares of its common stock and 20.7 million warrants from which it received gross proceeds of $19,017,000.

During 2020, 1,268 shares of Series C Preferred Stock converted into 126,800 shares of the Company's common stock and 3,563 shares of Series D Preferred Stock converted into 3,141,426 shares of the Company's common stock.

During 2020, $3,200,000 principal amount of Notes was converted into the Company's common Stock

During 2020, the Company granted 360,000 shares of common stock to consultants in consideration for services rendered.

On January 19, 2021, the Company filed a prospectus supplement dated January 15, 2021 (the "ATM Prospectus Supplement") to the shelf registration statement Form S-3 (File No. 333-251185) declared effective by the SEC on December 15, 2020 (the "First Form S-3") for the offer and sale shares of common stock having an aggregate value of $8,721,746 from time to time through H.C. Wainwright & Co., LLC, as sales agent ("Wainwright"), pursuant to At The Market Offering Agreement, dated December 7, 2020 (the "ATM Agreement"), between the Company and Wainwright. During January 2021, the Company has raised approximately $16,200,000 through the sale of 14.9 million shares of the Company's common stock.

On February 2, 2021, the Company filed a second registration statement on Form S-3 (File No. 333-252630) (the "Second Form S-3") containing a base prospectus covering the offering, issuance and sale by us of up to $100,000,000 of the Company's common stock, preferred stock, warrants and units; and a sales agreement prospectus covering the offering, issuance and sale by us of up to a maximum aggregate offering price of $100,000,000 (which amount was included in the aggregate offering price set forth in the base prospectus) of the Company's common stock that may be issued and sold under a second At The Market Offering Agreement, dated February 1, 2021, we entered into with Wainwright, as sales agent. The Second Form S-3 was declared effective by the SEC on February 8, 2021.

During January to March 2021, the Company has raised approximately $22,800,000 through the sale of 17,165,775 shares of the Company's common stock in connection with the Second ATM Agreement.

As of June 30, 2021, the Company has sold an aggregate of 35,782,113 shares of common stock under the First S-3 and Second S-3 for gross proceeds of $42,563,121.

On March 26, 2021, the Company filed with the Nevada Secretary of State a certificate of designation therein establishing the Series E Preferred Stock consisting of fifteen (15) shares, and the Company issued nine (9) shares of such preferred stock to an institutional investor pursuant to an exchange agreement, dated November 20, 2020, between the Company and the investor.

Warrants

Placement Agent Warrants

The Company has issued an aggregate of 24,758 warrants to the placement agents to purchase one share of its common stock per warrant at an exercise price of $120 per share for 4,758 warrants and $10 for 20,000 warrants. 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 June 30, 2021 and December 31, 2020, 20,000 warrants issued to the placement agents at an exercise price of $10 and 4,437 at an exercise price of $120are outstanding and are currently exercisable.

Class B Warrants

The holders of the Class B Warrants did not exercise any of their warrants during the six months ended June 30, 2021. Class B Warrants have an exercise price of $120.00 per share and shall expire between October 17, 2021 and May 15, 2023.

As of June 30, 2021 and December 31, 2020, the Company had 26,550 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 42,412 shares of the Company's 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 50,894 shares of its common stock into 50,894 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 $36.70, and the warrants are not exercisable until July 24, 2019, the six-month anniversary of the date of issuance. Each warrant expires on the fifth anniversary of the original issuance date.

As of June 30, 2021 and December 31, 2020, the Company had 519,001 Series A Warrants issued and outstanding.

2020 Offering Warrants

In the January 28, 2020 public offering, the Company sold 49.45 million warrants (each exercisable into 1/20 of a share of common stock for a total of 2.4725 million shares of common stock).In the June 2, 2020 public offering, the Company sold 20.7 million warrants (each exercisable into 1 share of common stock for a total of 20.7 million shares of common stock.) Each warrant expires on the fifth anniversary of the original issuance date. During the six months ended June 30, 2021, 5,408,540 warrants were converted to common stock.

As of June 30, 2021, the Company had 15,371,574 2020 Offering Warrants issued and outstanding.

Exchange

As disclosed in Note 9, on November 20, 2020, the Company and the investor entered into an exchange agreement and issued a warrant to purchase up to an aggregate of 575,000 shares of the Company's common stock for $1.00 per share which expire on August 20, 2024. As of June 30, 2021, such warrant was outstanding.

Equity Incentive Plans

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 200,000 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 12,500 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 12,500 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 $100.00 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 $28,054 for the three months ended June 30, 2020 and $56,108 for the six months ended June 30, 2020. The key valuation assumptions used consist, in part, of the price of the Company's common stock of $3.060 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 June 30, 2021, there was no unrecognized compensation expense.

The 2018 Equity Incentive Plan

Effective July 1, 2018, the Board of Directors and the stockholders of the Company approved and adopted the Company's 2018 Equity Incentive Plan (the "2018 Plan"). The 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 the 2018 Plan is 3.5 million (3,500,000) 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). Currently, no employee will be eligible to receive more than 350,000 shares of common stock (10% of authorized shares under the 2018 Plan) in any calendar year under the 2018 Plan pursuant to the grant of awards. When the Board first adopted the 2018 Plan on July 1, 2018, there were 100,000 shares authorized for issuance under the 2018 Plan. On September 12, 2018, the Board of Directors approved to increase the number of shares of common stock reserved for future issuance under the 2018 Plan from 100,000 shares to 200,000 shares. On June 9, 2019, the Board of Directors approved to increase the authorized shares under the 2018 Plan to 2 million (2,000,000) shares. On February 14, 2020, the Board of Directors approved to increase the number of shares of common stock reserved for future issuance under the 2018 plan to 3.5 million (3,500,000) shares. On September 14, 2018, 100,000 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 key valuation assumptions used consist, in part, of the price of the Company's common stock at $3.90 or $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 of 40% (estimated based on the common stock of comparable public entities)

On April 4, 2020, the Company granted 90,635 restricted stock units to two officers of the Company. These units have the following vesting term: 33% on January 1, 2021, 34% on January 1, 2022 and 33% on January 1, 2023. The fair value of these units as of granted date was $144,110 based upon the closing price of the Company's stock.

The Company recorded compensation expense of $81,539 and $199,446 for the three months ended June 30, 2021 and 2020, respectively. As of June 30, 2021, the unrecognized compensation expense was $214,241 which will be recognized as compensation expense over 1.53 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

During 2020, the Company incurred costs to obtain a contract. Such costs amounted to $853,412. The Company expects to recover those costs through future revenue during the period of the contract. The Company is amortizing these costs over one year which is the stated term of the contract. As of June 30, 2021, the remaining capitalized contract costs amounted to $213,353.

The Company's reserve for sales returns and allowances amounted to $13,000 as of June 30, 2021 and December 31, 2020.

NOTE 8: CONCENTRATIONS

Concentration of Purchase Order Financing

The Company used a third-party financing company for the quarters ended June 30, 2021which 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.

Concentration of Customers

For the three and six months ended June 30, 2021 and 2020, respectively, the Company had the following concentrations of customers:

	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	
					June 30,	December 31,
	2021	2020	2021	2020	2021	2020
Customer 1	37%	0%	37%	0%	34%	39%
Customer 2	16%	18%	17%	21%	12%	6%
Customer 3	7%	20%	8%	20%	3%	16%
Customer 4	9%	19%	9%	19%	12%	8%

Concentration of Suppliers

For the three and six months ended June 30, 2021 and 2020, respectively, the Company had the following concentrations of suppliers:

	Percentage of purchases for the Three Months Ended June 30,		Percentage of purchases for the Six Months Ended June 30,		Percentage of accounts payable as of	
					June 30,	December 31,
	2021	2020	2021	2020	2021	2020
Supplier 1	37%	22%	34%	20%	38%	16%
Supplier 2	14%	34%	18%	30%	13%	15%
Supplier 3	9%	12%	10%	14%	8%	6%
Supplier 4	21%	0%	18%	0%	23%	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 June 30, 2021 and 2020. The Company's bank balances exceeded FDIC insured amounts at times during the six months ended June 30, 2021 and 2020. The Company's bank balance exceeded the FDIC insured amounts as of June 30, 2021 by approximately $20 million.

Geographic Concentration

For the three and six months ended June 30, 2021 and 2020, respectively, the Company had the following geographic concentrations:

	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	
					June 30,	December 31,
	2021	2020	2021	2020	2021	2020
Australia	3%	7%	0%	6%	1%	2%
Canada	4%	6%	4%	7%	6%	5%
Europe	14%	9	11%	9%	15%	10%
United States of America	74%	64%	78%	69%	76%	82%
Other	5%	14%	7%	10%	1%	2%

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.

During 2020, the Company received $3,000,000 in connection with the Investor Note.

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 pre-deliver 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 carve out 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 (file No: 333-233655) covering the resale of the shares underlying the Series A Note, the Series B Note and Warrants which was declared effective by the SEC 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 recoded 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.

On December 23, 2019, the Company entered into an exchange agreement with an institutional investor pursuant to which the investor is exchanging $5.5 million principal amount of its August 19, 2019 Series A Senior Secured Note for 5,775 shares of its Series D Preferred Stock, which was authorized by the Company's Board of Directors on December 21, 2019.

During the year ended December 31, 2020, the Company received $3,000,000 in connection with the Investor Note. Also, during the year ended December 31, 2020, $3,200,000 principal amount of Notes was converted into common stock.

On November 20, 2020, the Company and the investor entered into an exchange agreement (the "Exchange Agreement") whereas the investor exchanged the balance of $2,131,050 of outstanding Notes for the following: an aggregate cash payment of $744,972, an aggregate of 1,850,000 shares of the Company's common stock, a warrant to purchase up to an aggregate of 575,000 shares of the Company's common stock for $1.00 per share, and nine shares of Series E Non-Convertible Preferred Stock of the Company. The Series E Preferred Stock was issued in March 2021. In addition, the Company relinquished their note receivable of $1,480,000 owed from the investor. As a result of this transaction, the Company recorded a loss of $1,810,712.

During April 2020, the Company entered into a promissory note with an approved lender in the principal amount of $399,300. The note was approved under the provisions of the Coronavirus, Aid, Relief and Economic Security Act (the "CARES Act") and the terms of the Paycheck Protection Program of the U.S. Small Business Administration's 7(a) Loan Program ("PPP Loan"). The Company repaid the PPP Loan in full during June 2020.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 16, 2021, the date which the condensed consolidated 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.

Registered Direct Offering on Form S-3

As previously reported by the Company on Form 8-K filed with the SEC on July 14, 2021, on July 11, 2021, the Company entered into a Securities Purchase Agreement, dated July 11, 2021 (the "Agreement") with several institutional and accredited investors (the "Purchasers") pursuant to which the Company agreed to issue and sell in a registered direct offering (the "Offering") an aggregate of 46,029,920 shares (the "Shares") of its common stock and warrants (the "Warrants") to purchase up to an aggregate of 23,014,960 shares of common stock at a combined offering price of $0.869 per share and accompanying warrant, for gross proceeds of approximately $40,000,000. The Warrants have an exercise price equal to $0.81 per share, and are immediately exercisable until the fifth anniversary of the date of issuance.

The net proceeds to the Company from the Offering were approximately $36,325,000, after deducting placement agent fees and expenses payable by the Company. The Company intends to use the net proceeds from the Offering for working capital purposes. The Offering closed on July 14, 2021.

Pursuant to an engagement letter, dated July 10, 2021 (the "Engagement Letter"), with H.C. Wainwright & Co., LLC (the "Placement Agent"), the Company agreed to pay the Placement Agent a cash fee equal to 7.0% of the gross proceeds received in the Offering and a management fee equal to 0.5% of the gross proceeds received in the Offering. The Company also agreed to pay the Placement Agent $25,000 for non-accountable expenses, up to $50,000 for fees and expenses of legal counsel and other reasonable and customary out of-pocket expenses, and $15,950 for clearing fees.

Also pursuant to the Engagement Letter, the Company, in connection with the Offering, issued to the Placement Agent or its designees warrants to purchase an aggregate of 2,761,795 shares of its common stock (which represents 6.0% of the Shares sold to investors in the Offering) at an exercise price equal to 125% of the offering price in the offering, or $1.08625 (the "Placement Agent Warrants"). The Placement Agent Warrants are immediately exercisable until the fifth anniversary of the commencement of sales of the offering.

The Shares sold under the Agreement, the issuance of the Warrants and the Placement Agent Warrants, and the shares issuable pursuant to the Warrants and the Placement Agent Warrants (the "Warrant Shares") were offered and sold pursuant to the Company through a prospectus supplement pursuant to the Company's shelf registration statement on Form S-3 (File No: 333-252630), which was initially filed on February 2, 2021, and declared effective by the Securities and Exchange Commission (the "SEC") on February

8, 2021 (the “Registration Statement”). The Company has filed with the SEC the prospectus supplement, together with the accompanying base prospectus, used in connection with the offer and sale of the securities.

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

The following discussion and analysis is intended to help investors understand our business, financial condition, results of operations, liquidity, and capital resources. You should read this discussion together with our consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q and in conjunction with the Company's Form 10-K for the year ended December 31, 2020. All common share and per common share numbers have been retroactively adjusted to reflect the 1-for-10 reverse stock split effected on April 15, 2020.

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.

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.

Company History

Our Company was incorporated on April 9, 2012 as Phalanx, Inc., in the state of Nevada and changed its name to ToughBuilt Industries, Inc. on December 29, 2015.

Business Overview

We were formed to design, manufacture, and distribute innovative tools and accessories to the building industry. We market and distribute various home improvement and construction product lines for both do-it-yourself ("DIY") and professional markets under the TOUGHBUILT® brand name, within the global multibillion dollar per year tool market. All of our products are designed by our in-house design team. Since our initial launch of product sales seven years ago, we have experienced annual sales growth from approximately $1,000,000 in 2013 to $20,000,000 in 2019 (or $19,090,071 net of allowances).

Since August 2013, pursuant to a Service Agreement, we have been collaborating with Belegal, a Chinese firm, whose team of experts has provided ToughBuilt with additional engineering, sourcing services, and quality control support for our operations in China. Belegal assists us with supply-chain management (process and operations in China) for our operations in China, among other things, facilitating the transmission of our purchase orders to our suppliers in China, conducting "in-process" quality checking and inspection, and shipping end-products manufactured in China to their final destinations. In accordance with the agreement, we pay all of the monthly costs for payroll, overhead and other operation expenses associated with the Belegal's activities on behalf of ToughBuilt.

Our business is currently 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 contractors and workers alike. Our current product line includes two major categories related to this field, with several additional categories in various stages of development, consisting of Soft Goods and Kneepads and Sawhorses and Work Products.

ToughBuilt designs and manages its product life cycles through a controlled and structured process. We involve customers and industry experts from our target markets in the definition and refinement of our product development. Product development emphasis is placed on meeting and exceeding industry standards and product specifications, ease of integration, ease of use, cost reduction, design-for manufacturability, quality, and reliability.

Our mission consists, of providing products to the building and home improvement communities that are innovative, of superior quality derived in part from enlightened creativity for our end users while enhancing performance, improving well-being and building high brand loyalty.

During 2020, we expanded its product line with Lowes. Lowe.ca will now carry a wide array of ToughBuilt products, including but not limited to Cliptech tool belts, bags and totes, knee pads, sawhorses, and Miter Saw Stands. Lowe's Canadian customers will now have the option to purchase ToughBuilt products while they shop online at www.lowes.ca..

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.

Competition

The tool equipment and accessories industry is highly competitive on a worldwide basis. We compete with a significant number of other tool equipment and accessories manufacturers and suppliers to the construction, home improvement and Do-It-Yourself industry, many of which have the following:

- Significantly greater financial resources than we have;
- More comprehensive product lines;
- Longer-standing relationships with suppliers, manufacturers, and retailers;
- Broader distribution capabilities;
- Stronger brand recognition and loyalty; and
- The ability to invest substantially more in product advertising and sales.

Our competitors' greater capabilities in the above areas enable them to better differentiate their products from ours, gain stronger brand loyalty, withstand periodic downturns in the construction and home improvement equipment and product industries, compete effectively on the basis of price and production, and more quickly develop new products. These competitors include DeWalt, Caterpillar, and Samsung Active.

The markets for our mobile products and services are also highly competitive and we are confronted by aggressive competition in all areas of its business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, personal computers and other digital electronic devices. Our competitors who sell mobile devices and personal computers based on other operating systems have aggressively cut prices and lowered their product margins to gain or maintain market share. Our financial condition and operating results can be adversely affected by these and other industry-wide downward pressures on gross margins. Principal competitive factors important to us include price, product features, relative price/performance, product quality and reliability, design innovation, a strong third-party software and peripherals ecosystem, marketing and distribution capability, service and support, and corporate reputation.

We are focused on expanding its market opportunities related to mobile communication and media devices. These industries are highly competitive and include several large, well-funded and experienced participants. We expect competition in these industries to intensify significantly as competitors attempt to imitate some of the features of the Company's products and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. These industries are characterized by aggressive pricing practices, frequent product introductions, evolving design approaches and technologies, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers and businesses. Competitors include Apple, Samsung, and Qualcomm, among others.

Risk and Uncertainty Concerning COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the World. We are currently monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread. All of our Chinese facilities were temporarily closed for a period of time. Most of these facilities have been reopened. Depending on the progression of the outbreak, our ability to obtain necessary supplies and ship finished products to customers may be partly or completely disrupted globally. Also, our ability to maintain appropriate labor levels could be disrupted. If the coronavirus continues to progress, it could have a material negative impact on our results of operations and cash flow, in addition to the impact on its employees. We have concluded that while it is reasonably possible that the virus could have a negative impact on the results of operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations

The three months ended June 30, 2021 compared to the three months ended June 30, 2020.

Revenues

Revenues for the three months ended June 30, 2021 and 2020 were $15,853,368 and $6,839,646, respectively, consisted of metal goods and soft goods sold to customers. Revenues increased in 2021 over 2020 by $9,013,722, or 131.79%, primarily due to wide acceptance of our products in the tools industry and receipt of recurring sales orders for metal goods and soft goods from our existing and new customers, and introduction and sale of new soft goods products to our customers.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2021 and 2020 was $12,500,092 and $4,457,701, respectively. Cost of goods sold increased in 2021 over 2020 by $8,042,391 or 180.42%, primarily due to our increased sales as well as increases 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 2021 was 78.85% as compared to cost of goods sold as a percentage of revenues in 2020 of 65.2%.

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 June 30, 2021 and 2020 were $9,242,946 and $4,137,943, respectively. SG&A Expenses increased in 2021 over 2020 by $5,105,003 or 123.37%, primarily due to hiring additional employees and engaging independent contractors and consultants to grow our existing business and continue our expansion, as well as additional advertising spend. In addition, legal expenses were $320,717 and $93,440 for the three months ended June 30, 2021 and 2020, respectively. SG&A Expense for the quarter ended June 30, 2021 as a percentage of revenues was 58.3% compared to 60.5% for the quarter ended June 30, 2020. We expect our SG&A Expenses will start to increase at a lower rate as our business matures, and we develop economies of scale.

Research and development costs ("R&D") for the three months ended June 30, 2021 and 2020 were $1,429,819 and $422,072, respectively. R&D costs decreased by $1,007,747, or 238.76%. We have incurred additional R&D costs during 2021 as the Company embarks on developing new tools for the construction industry.

Other Expense

Other expense for the three months ended June 30, 2021 and 2020, respectively, consisted of interest expense. The Company recorded interest expense for the three months ended June 30, 2021 of $102,937 and for the three months ended June 30, 2020 of $341,088.

Net Income

Due to factors set forth above, we recorded net loss of $7,422,426 for the three months ended June 30, 2021 as compared to a net loss of $2,519,158 for the three months ended June 30, 2020.

The six months ended June 30, 2021 compared to the six months ended June 30, 2020.

Revenues

Revenues for the six months ended June 30, 2021 and 2020 were $28,135,621 and $10,749,158, respectively, consisted of metal goods and soft goods sold to customers. Revenues increased in 2021 over 2020 by $17,386,463, or 161.75%, primarily due to additional Amazon sales and European sales that we did not have in 2020.

Cost of Goods Sold

Cost of goods sold for the six months ended June 30, 2021 and 2020 was $21,319,219 and $6,963,314, respectively. Cost of goods sold increased in 2021 over 2020 by $14,355,905 or 206.16%, primarily due to our increased sales as well as increases 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 2021 was 75.77% as compared to cost of goods sold as a percentage of revenues in 2020 of 64.78%.

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 six months ended June 30, 2021 and 2020 were $17,192,727 and $8,523,897, respectively. SG&A Expenses increased in 2021 over 2020 by $8,668,830 or 101.7%, primarily due to hiring additional employees, independent contractors and consultants to grow our existing business and continue our expansion, as well as additional advertising spend. SG&A expense in 2021 as a percentage of revenues was 61.11% as compared to SG&A expense in 2020 as a percentage of revenues was 79.30%. We expect our SG&A expense will start to increase at a lower rate as our business matures, and we develop economies of scale.

Research and development costs (the “R&D”) for the six months ended June 30, 2021 and 2020 were $2,836,204 and $946,239, respectively. R&D costs decreased in 2021 over 2020 by $1,889,965 or 199.73%. We have incurred additional R&D costs during 2021 as the Company embarks on developing new tools for the construction industry.

Other Expense

Other expense for the six months ended June 30, 2021 and 2020, respectively, consisted of interest expense. The Company recorded interest expense for the six months ended June 30, 2021 of $263,556 and for the six months ended June 30, 2020 of $589,525.

Net Income

Due to factors set forth above, we recorded net loss of $13,476,085 for the six months ended June 30, 2021 as compared to a net loss of $6,273,817 for the six months ended June 30, 2020.

Liquidity and Capital Resources

We had $20.2 million in cash at June 30, 2021, compared to $2.2 million at December 31, 2020.

Since our inception, we have financed our operations through the sale of equities and debt securities. Since our 2018 initial public offering, we have had several subsequent financings which have enabled us to fund operations. On February 24, 2020, we closed on the public offering of 0.445 million shares of our common stock, for gross proceeds of $912,250 based upon the overallotment option arising from the closing of our January 28, 2020 public offering. In our January 28, 2020 public offering, we sold 4.5 million shares of our common stock and 49.45 million warrants (each exercisable into 1/20 of a share of common stock for a total of 2.4725 million shares of common stock) from which it received gross proceeds of $9,472,250. On June 12, 2020, we closed on the public offering of 1.7 million shares of our common stock, for gross proceeds of $1,683,000 based upon the overallotment option arising from the closing of its June 2, 2020 public offering. In our June 2, 2020 public offering, we sold 19 million shares of our common stock and 20.7 million warrants from which it received gross proceeds of $19,017,000. During January 2021, the Company has raised approximately $16,200,000 through the sale of 14.9 million shares of the Company's common stock. In addition, during January to March 2021, the Company has raised approximately $22,800,000 through the sale of 17,165,775 shares of the Company's common stock in connection with the Second ATM Agreement.

As of June 30, 2021, the Company's principal sources of liquidity consisted of approximately $20.2 million of cash and future cash generated from operations. 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 twelve months from the date of the issuance of the accompanying 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 financial statements. Management is focused on growing the Company's existing product offerings, as well as its customer base, to increase its revenues. The Company cannot give any assurances 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 financial statements.

Subsequent Events

Registered Direct Offering on Form S-3

As previously reported by the Company on Form 8-K filed with the SEC on July 14, 2021, on July 11, 2021, the Company entered into a Securities Purchase Agreement, dated July 11, 2021 (the "Agreement") with several institutional and accredited investors (the "Purchasers") pursuant to which the Company agreed to issue and sell in a registered direct offering (the "Offering") an aggregate of 46,029,920 shares (the "Shares") of its common stock and warrants (the "Warrants") to purchase up to an aggregate of 23,014,960 shares of common stock at a combined offering price of $0.869 per share and accompanying warrant, for gross proceeds of approximately $40,000,000. The Warrants have an exercise price equal to $0.81 per share, and are immediately exercisable until the fifth anniversary of the date of issuance.

The net proceeds to the Company from the Offering were approximately $36,325,000, after deducting placement agent fees and expenses payable by the Company. The Company intends to use the net proceeds from the Offering for working capital purposes. The Offering closed on July 14, 2021.

Pursuant to an engagement letter, dated July 10, 2021 (the "Engagement Letter"), with H.C. Wainwright & Co., LLC (the "Placement Agent"), the Company agreed to pay the Placement Agent a cash fee equal to 7.0% of the gross proceeds received in the Offering and a management fee equal to 0.5% of the gross proceeds received in the Offering. The Company also agreed to pay the Placement Agent $25,000 for non-accountable expenses, up to $50,000 for fees and expenses of legal counsel and other reasonable and customary out of-pocket expenses, and $15,950 for clearing fees.

Also pursuant to the Engagement Letter, the Company, in connection with the Offering, issued to the Placement Agent or its designees warrants to purchase an aggregate of 2,761,795 shares of its common stock (which represents 6.0% of the Shares sold to investors in the Offering) at an exercise price equal to 125% of the offering price in the offering, or $1.08625 (the "Placement Agent Warrants"). The Placement Agent Warrants are immediately exercisable until the fifth anniversary of the commencement of sales of the offering.

The Shares sold under the Agreement, the issuance of the Warrants and the Placement Agent Warrants, and the shares issuable pursuant to the Warrants and the Placement Agent Warrants (the "Warrant Shares") were offered and sold pursuant to the Company through a prospectus supplement pursuant to the Company's shelf registration statement on Form S-3 (File No: 333-252630), which was initially filed on February 2, 2021, and declared effective by the Securities and Exchange Commission (the "SEC") on February 8, 2021 (the "Registration Statement"). The Company has filed with the SEC the prospectus supplement, together with the accompanying base prospectus, used in connection with the offer and sale of the securities.

Cash Flows

	Six Months Ended June 30,	
	2021	2020
Cash flows from (used in) operating activities	$ (22,609,721)	$ (7,511,858)
Cash flows from (used in) investing activities	(4,088,199)	1,963,671
Cash flows from (provided by) financing activities	44,729,005	25,151,809
Net increase (decrease) in cash during period	$ 18,031,085	$ 19,603,622

Cash Flows from (Used in) Operating Activities

Net cash flows used in operating activities for the six months ended June 30, 2021 was $22,609,721, attributable to a net loss of $13,476,085, offset by depreciation expense of $644,098, amortization of capitalized contract costs of $213,353, stock-based compensation expense of $163,076, common stock issued for services of $189,000 and net increase in operating assets of $12,559,801, and net increase in operating liabilities of $2,216,635. Net cash flows used in operating activities for the six months ended June 30, 2020 was $7,511,858, attributable to net loss of $6,273,817, offset by depreciation expense of $217,631, amortization of debt issuance cost of $448,908, stock-based compensation expense of $323,989 and net increase in operating assets of $1,866,638, and net decrease in operating liabilities of $391,931.

Cash Flows from (Used in) Investing Activities

Net cash used in investing activities for the six months ended June 30, 2021 was $4,088,199 attributed to the purchase of property and equipment. Net cash provided by investing activities for the six months ended June 30, 2020 was $1,963,671.

Cash Flows from (Provided by) Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2021 was $44,729,005, primarily attributable to the net cash proceeds of $5,408,540 received from exercise of warrants, cash proceeds of $39,911,958 provided for issuance of stock and repayments of $590,950 from loans payable to factor. Net cash provided by financing activities for the six months ended June 30, 2020 was $25,151,809 primarily attributable to net cash proceeds of $28,122,740 received from the sale of common stock and warrants, cash proceeds of $169,223 received from loans payable to factor and repayments of Series D Preferred Stock of $3,140,154.

Net Increase (Decrease) in Cash During Period

As a result of the activities described above, we recorded a net increase in cash of $18,031,085 and $19,603,622 for the six months ended June 30, 2021 and 2020, respectively.

Off Balance Sheet Arrangements

None.

Seasonality

Our business is a seasonal business as a result of our China-based production. For the first two calendar quarters, we are not able to ship our products from China due to the hiatus as a result of their New Year holidays and also a general downturn in business caused by Covid-19. We make up the lost sales from the first two calendar quarters in the subsequent quarters.

Significant Accounting Policies

See the footnotes to our unaudited financial statements for the quarter ended June 30, 2021 and 2020, 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.

Evaluation of 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 June 30, 2021, we did not maintain effective controls over the control environment, including our internal control over financial reporting.

We did not design written policies and procedures at a sufficient level of precision to support the operating effectiveness of the controls to prevent and detect potential errors. We also did not maintain adequate documentation to evidence the operating effectiveness of certain control activities, and did not maintain proper levels of supervision and review of complex accounting matters. Lastly, we did not maintain appropriate access to certain systems and did not maintain appropriate segregation of duties related to processes associated within those systems.

These control deficiencies resulted in several immaterial misstatements to the preliminary financial statements that were corrected and/or deemed immaterial in the aggregate prior to issuance of the financial statements. These control deficiencies create a reasonable possibility that a material misstatement to the financial statements will not be prevented or detected on a timely basis, and there we concluded that the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of June 30, 2021.

During the three months ended June 30, 2021, we continued to enhance our internal control over financial reporting in an effort to remediate the material weaknesses described above. We are committed to ensuring that our internal control over financial reporting is designed and operating effectively.

Our remediation process includes, but not limited to:

- Investing in IT systems to enhance our operational and financial reporting and internal controls.
- Enhancing the organizational structure to support financial reporting processes and internal controls.
- Providing guidance, education and training to employees relating to our accounting policies and procedures.
- Further developing and documenting detailed policies and procedures regarding business processes for significant accounts, critical accounting policies and critical accounting estimates.
- Establishing effective general controls over IT systems to ensure that information produced can be relied upon by process level controls is relevant and reliable.
- Continuing to work with additional outside consultants in connection with complex accounting matters.

We expect to fully remediate these material weaknesses in the second half of 2021. However, we may discover additional material weaknesses that may require additional time and resources to remediate.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2021 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 below, we are not presently a party to any pending or threatened legal proceedings.

Edwin Minassian v. Michael Panosian and Toughbuilt Industries, Inc., Los Angeles Superior Court Case No. EC065533.

On August 16, 2016, Plaintiff Edwin Minassian filed a complaint against Defendants ToughBuilt Industries, Inc. (the “Company”) and Michael Panosian in the Superior Court of California, County of Los Angeles, Case No. EC065533. The complaint alleges breach of oral contracts to pay Plaintiff for consulting and finder’s fees, and to hire him as an employee. The complaint further alleged claims of fraud and misrepresentation relating to an alleged payment in exchange for stock in the Company. The complaint seeks unspecified monetary damages, declaratory relief, stock in the Company, and other relief according to proof.

On April 12, 2018, the Court entered judgments of default 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.

The Company and Panosian satisfied the judgments on September 14, 2018 by payment of $252,949 to Plaintiff Minassian and by issuing Plaintiff Minassian 376,367 shares of common stock of the Company. On October 18, 2018, the Company and Panosian filed a Notice of Appeal from the Order denying their motion for relief from the above-referenced 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 ToughBuilt's motion for relief from the default judgment and directing the trial court to grant ToughBuilt's motion for relief, including allowing ToughBuilt to file an Answer and contest Minassian's claims.

The appellate court recently issued a remittitur officially transferring the matter from the appellate court back to the trial court for further proceedings consistent with its ruling, and the Company and Panosian have filed an Answer to the Complaint. The trial court has not yet set a trial date, and discovery in this case is just now beginning. The Company intends to vigorously defend the Complaint and seek to recover the compensation and stock previously paid to satisfy the now vacated default judgment. The Company believes it has a strong position, but cannot quantify the likelihood that it will prevail in the above litigation, or any likely liability or recoveries, because of the current status of the case and the unpredictability of litigation.

Design 1st v. Toughbuilt Industries, Inc., American Arbitration Association

On November 26, 2019, Claimant Design 1st filed a Demand for Arbitration against the Company seeking $169,094 in damages, plus attorney's fees and costs. Claimant contends the Company breached a written contract by failing to pay for design services. The Company filed a Cross-Demand for Arbitration against Claimant seeking $394,956 in damages, plus attorney's and costs alleging Claimant breached the same contract by performing negligent services, failing to meets its obligations under the contract, and fraudulent billing.

The arbitration hearing occurred in April 2021. On July 14, 2021, the arbitrator concluded that neither party was entitled to prevail on their respective claims and rejected all counterclaims. Both parties are required to bear all fees and incurred in connection with the arbitration.

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.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

See "Item 2. Liquidity and Capital Resources, Subsequent Events."

ITEM 6. EXHIBITS.

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

Exhibit No.:	Description:
3.1 (1)	Certificate of Designation of the Series E Non-Convertible Preferred Stock, dated March 26, 2021
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.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document filed as Exhibit 101)

(1) Filed as Exhibit 3.1 to Form 8-K filed on April 1, 2021 and incorporated by refence herein.

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: August 16, 2021	By:	*/s/ Michael Panosian*
	Name:	Michael Panosian
	Title:	Chief Executive Officer and Chairman (Principal Executive Officer)
Date: August 16, 2021	By:	*/s/ Martin Galstyan*
	Name:	Martin Galstyan
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECTUIVE OFFICER
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 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 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 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: August 16, 2021

	/s/ Michael Panosian
Name:	Michael Panosian
Title:	Chief Executive Officer and Chairman (Principal Executive Officer)

EXHIBIT 31.2

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

I, Martin Galstyan, 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 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 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 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: August 16, 2021

/s/ Martin Galstyan

Name: Martin Galstyan
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Michael Panosian, the Chief Executive Officer of ToughBuilt Industries, Inc. (the "**Company**"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2021 (the "**Report**") of the Company fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

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

Dated: August 16, 2021

	/s/ Michael Panosian
Name:	Michael Panosian
Title:	Chief Executive Officer
	(Principal Executive Officer)

EXHIBIT 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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Martin Galstyan, the Chief Financial Officer of ToughBuilt Industries, Inc. (the "**Company**"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2021 (the "**Report**") of the Company fully complies with the requirements of Section 13(a)/15(d) of the Securities Exchange Act of 1934; and

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

Dated: August 16, 2021

/s/ Martin Galstyan

Name: Martin Galstyan
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)