

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Ecoark Holdings, Inc.

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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 September 30, 2019

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___ to ___

Commission File No. 000-53361

Ecoark Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

30-0680177

(IRS Employer
Identification No.)

5899 Preston Road #505, Frisco, TX 75034

(Address of principal executive offices) (Zip Code)

(479) 259-2977

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former 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 | ZEST | OTCQB |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 at least the past 90 days. Yes No

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

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

There were 68,771,586 shares of the Registrant's \$0.001 par value common stock outstanding as of November 15, 2019.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Dollars in thousands, except per share data) | |
|---|--|-------------------|
| | September 30, 2019 (Unaudited) | March 31, 2019 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (\$15 pledged as collateral for credit) | \$ 449 | \$ 244 |
| Accounts receivable, net of allowance of \$569 and \$573 as of September 30, 2019 and March 31, 2019, respectively | 53 | 520 |
| Prepaid expenses and other current assets | 216 | 900 |
| Current assets held for sale | - | 23 |
| Total current assets | 718 | 1,687 |
| NON-CURRENT ASSETS | | |
| Goodwill | 3,223 | - |
| Property and equipment, net | 676 | 824 |
| Other assets | 25 | 27 |
| Total non-current assets | 3,924 | 851 |
| TOTAL ASSETS | \$ 4,642 | \$ 2,538 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 663 | \$ 1,416 |
| Accrued liabilities | 872 | 828 |
| Note payable | 2,335 | 1,350 |
| Notes payable – related parties | 403 | - |
| Derivative liabilities | 2,242 | 3,104 |
| Current liabilities held for sale | - | 34 |
| Total current liabilities | 6,515 | 6,732 |
| NON-CURRENT LIABILITIES | | |
| | - | - |
| COMMITMENTS AND CONTINGENCIES | | |
| Total liabilities | 6,515 | 6,732 |
| STOCKHOLDERS' DEFICIT (Numbers of shares rounded to thousands) | | |
| Preferred stock, \$0.001 par value; 5,000 shares authorized; 2 issued | - | - |
| Common stock, \$0.001 par value; 100,000 shares authorized, 62,648 shares issued and 62,063 shares outstanding as of September 30, 2019 and 52,571 shares issued and 51,986 shares outstanding as of March 31, 2019 | 63 | 53 |
| Additional paid-in-capital | 121,656 | 113,310 |
| Accumulated deficit | (121,921) | (115,886) |
| Treasury stock, at cost | (1,671) | (1,671) |
| Total stockholders' deficit | (1,873) | (4,194) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 4,642 | \$ 2,538 |

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

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|-------------------------------------|--------------------|-----------------------------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| CONTINUING OPERATIONS: | | | | |
| REVENUES | \$ 44 | \$ 286 | \$ 79 | \$ 1,039 |
| COST OF REVENUES | 16 | 207 | 61 | 637 |
| GROSS PROFIT | 28 | 79 | 18 | 402 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 1,683 | 2,493 | 3,232 | 4,584 |
| Depreciation, amortization, and impairment | 71 | 308 | 148 | 617 |
| Research and development | 788 | 771 | 1,685 | 1,641 |
| Total operating expenses | 2,542 | 3,572 | 5,065 | 6,842 |
| Loss from continuing operations before other expenses | (2,514) | (3,493) | (5,047) | (6,440) |
| OTHER INCOME (EXPENSE): | | | | |
| Change in fair value of derivative liabilities | (960) | 715 | (16) | 1,036 |
| Loss on exchange of warrants for common stock | (839) | - | (839) | - |
| (Interest expense), net of interest income | (76) | 4 | (135) | (7) |
| Total other income (expenses) | (1,875) | 719 | (990) | 1,029 |
| LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES | (4,389) | (2,774) | (6,037) | (5,411) |
| DISCONTINUED OPERATIONS: | | | | |
| Loss from discontinued operations | - | (576) | - | (1,166) |
| Gain on disposal of discontinued operations | - | - | 2 | - |
| Total discontinued operations | - | (576) | 2 | (1,166) |
| PROVISION FOR INCOME TAXES | - | - | - | - |
| NET LOSS | \$ (4,389) | \$ (3,350) | \$ (6,035) | \$ (6,577) |
| NET LOSS PER SHARE | | | | |
| Basic and diluted: Continuing operations | \$ (0.07) | \$ (0.07) | \$ (0.10) | \$ (0.13) |
| Discontinued operations | - | (0.01) | - | (0.02) |
| Total | \$ (0.07) | \$ (0.08) | \$ (0.10) | \$ (0.15) |
| SHARES USED IN CALCULATION OF NET LOSS PER SHARE | | | | |
| Basic and diluted | 61,967 | 50,500 | 58,227 | 49,739 |

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

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)
SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(Dollar amounts and number of shares in thousands)

| | Preferred | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total |
|--|-----------|-------------|---------------|--------------|----------------------------------|------------------------|-------------------|-------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at March 31, 2019 | - | \$ - | 52,571 | \$ 53 | \$ 113,310 | \$ (115,886) | \$ (1,671) | \$ (4,194) |
| Shares issued – Trend Holdings acquisition | - | - | 5,500 | 5 | 3,231 | - | - | 3,236 |
| Share-based compensation | - | - | - | - | 582 | - | - | 582 |
| Net loss for the period | - | - | - | - | - | (1,646) | - | (1,646) |
| Balance at June 30, 2019 | - | - | 58,071 | 58 | 117,123 | (117,532) | (1,671) | (2,022) |
| Shares issued in exchange for warrants | - | - | 4,277 | 4 | 3,289 | - | - | 3,293 |
| Shares issued for services rendered | - | - | 300 | 1 | 210 | - | - | 211 |
| Preferred stock issuance | 2 | - | - | - | 404 | - | - | 404 |
| Share-based compensation | - | - | - | - | 630 | - | - | 630 |
| Net loss for the period | - | - | - | - | - | (4,389) | - | (4,389) |
| Balance at September 30, 2019 | <u>2</u> | <u>\$ -</u> | <u>62,648</u> | <u>\$ 63</u> | <u>\$ 121,656</u> | <u>\$ (121,921)</u> | <u>\$ (1,671)</u> | <u>\$ (1,873)</u> |
| Balance at March 31, 2018 (Restated) | - | \$ - | 49,468 | \$ 49 | \$ 108,585 | \$ (102,236) | \$ (1,618) | \$ 4,780 |
| Shares-based compensation | - | - | 65 | 1 | 1,086 | - | - | 1,087 |
| Shares purchased from employees in lieu of taxes | - | - | - | - | - | - | (23) | (23) |
| Net loss for the period | - | - | - | - | - | (3,227) | - | (3,227) |
| Balance at June 30, 2018 (Restated) | - | - | 49,533 | 50 | 109,671 | (105,463) | (1,641) | 2,617 |
| Shares issued | - | - | 2,969 | 3 | 1,646 | - | - | 1,649 |
| Shares-based compensation | - | - | 350 | - | 1,014 | - | - | 1,014 |

| | | | | | | | | |
|--|---|------|--------|-------|------------|--------------|------------|----------|
| Shares purchased from employees in lieu of taxes | - | - | - | - | - | - | (19) | (19) |
| Net loss for the period | - | - | - | - | - | (3,350) | - | (3,350) |
| Balance at September 30, 2018 (Restated) | - | \$ - | 52,537 | \$ 53 | \$ 112,331 | \$ (108,813) | \$ (1,660) | \$ 1,911 |

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

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended | |
|--|------------------------|------------|
| | September 30, | |
| | 2019 | 2018 |
| | (Dollars in thousands) | |
| | (Restated) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (6,035) | \$ (6,577) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, amortization and impairment | 148 | 617 |
| Share-based compensation - services rendered | 522 | 200 |
| Share-based compensation – employees | 900 | 1,900 |
| Change in fair value of derivative liabilities | 16 | (1,036) |
| Loss on exchange of warrants for common stock | 839 | |
| Commitment fees on credit facility advances | 34 | |
| Loss from discontinued operations | - | 1,166 |
| Gain on sale of discontinued operations | (2) | - |
| Cash acquired in acquisition | 3 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 467 | 1,401 |
| Inventory | - | (147) |
| Prepaid expenses and other current assets | 717 | 48 |
| Other assets | 1 | - |
| Accounts payable | (753) | (1,134) |
| Accrued liabilities | 9 | (226) |
| Net cash used in operating activities of continuing operations | (3,134) | (3,788) |
| Net cash used in discontinued operations | - | (1,114) |
| Net cash used in operating activities | (3,134) | (4,902) |
| Cash flows from investing activities: | | |
| Proceeds from sale of Magnolia Solar | 5 | - |
| Purchases of property and equipment | - | (18) |
| Net cash provided by (used in) investing activities of continuing operations | 5 | (18) |
| Net cash used in investing activities of discontinued operations | - | (166) |
| Net cash provided by (used in) investing activities | 5 | (184) |
| Cash flows from financing activities: | | |
| Proceeds from credit facility | 951 | - |
| Advances from related parties | 403 | - |
| Proceeds from issuance of preferred stock, net of fees | 1,980 | |
| Proceeds from issuance of common stock, net of fees | - | 4,221 |
| Repayment of debt | - | (500) |
| Purchase of treasury shares from employees for tax withholdings | - | (42) |
| Net cash provided by financing activities | 3,334 | 3,679 |
| NET INCREASE (DECREASE) IN CASH | 205 | (1,407) |
| Cash - beginning of period | 244 | 3,730 |
| Cash - end of period | \$ 449 | \$ 2,323 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid for interest | \$ - | \$ 11 |
| Cash paid for income taxes | \$ - | \$ - |
| SUMMARY OF NONCASH ACTIVITIES: | | |
| Exchange of common stock for warrants | \$ 3,293 | \$ - |
| Assets acquired via acquisition of Trend Discovery Holdings, Inc.: | | |
| Receivables | \$ 10 | \$ - |
| Other assets | \$ 1 | \$ - |
| Goodwill | \$ 3,223 | \$ - |

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

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2019

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ecoark Holdings, Inc. (“Ecoark Holdings” or the “Company”) is an innovative AgTech company that is focused on modernizing the post-harvest fresh food supply chain for a wide range of organizations including growers, distributors and retailers. Ecoark Holdings is a holding company that supports the businesses of its subsidiaries. Ecoark Holdings is the parent company of Trend Discovery Holdings, LLC, Ecoark, Inc. and Magnolia Solar Inc. (through its sale in May 2019).

Trend Discovery Holdings, LLC (“Trend Holdings”) is a holding company which earns management fees and whose primary asset is Trend Discovery Capital Management. Trend Discovery Capital Management manages several entities including Trend Discovery LP and Trend Discovery SPV I. Trend Discovery LP is a hybrid hedge fund. Trend Discovery LP primarily invests in early-stage startups.

Ecoark, Inc. (“Ecoark”) is the parent company of Zest Labs, Inc. and Pioneer Products, LLC.

Zest Labs, Inc. (“Zest Labs”) is located in San Jose, California and offers freshness management solutions for food retailers, restaurants, growers, processors and suppliers. It is the parent company of 440labs, Inc.

440labs, Inc. (“440labs”) is located near Boston, Massachusetts and is a software development and information solutions provider for cloud, mobile, and IoT (Internet of Things) applications.

Pioneer Products, LLC (“Pioneer Products” or “Pioneer”) was involved in the selling of recycled plastic products and the owner of Sable Polymer Solutions, LLC. Pioneer ceased operations in early 2019.

Sable Polymer Solutions, LLC (“Sable”) was located in Flowery Branch, Georgia and specialized in the sale, purchase, and processing of post-consumer and post-industrial plastic materials. The key assets of Sable were sold in March 2019.

Magnolia Solar Inc. (“Magnolia Solar”) is principally engaged in the development of nanotechnology-based, high-efficiency, thin-film technology that can be deposited on a variety of substrates, including glass and flexible structures. Magnolia Solar was sold in May 2019.

Principles of Consolidation

The condensed consolidated financial statements of Ecoark Holdings and its subsidiaries and the accompanying notes included in this Quarterly Report on Form 10-Q are unaudited. In the opinion of management, all adjustments necessary for the fair presentation of the condensed consolidated financial statements have been included. Such adjustments are of a normal, recurring nature. The condensed consolidated financial statements, and the accompanying notes, are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and do not contain certain information included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2019. Therefore, the interim condensed consolidated financial statements should be read in conjunction with that Annual Report on Form 10-K.

Reclassifications

The Company has reclassified certain amounts in the September 30, 2018 condensed consolidated financial statements to be consistent with the September 30, 2019 presentation. Reclassifications relating to the discontinued operations are described in Note 2. The reclassifications had no impact on net loss or net cash flows for the six months ended September 30, 2018.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2019

Segment Information

The Company follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280-10 *Segment Reporting*. This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making internal operating decisions. The Company and its Chief Operating Decision Makers determined that the Company’s operations effective with the May 31, 2019, acquisition of Trend Holdings now consist of two segments, Trend Holdings and Zest Labs.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02 and later updated with ASU 2019-01 in March 2019 *Leases (Topic 842)*. The ASU’s change the accounting for leased assets, principally by requiring balance sheet recognition of assets under lease arrangements. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. On adoption, the Company recognized additional operating liabilities of approximately \$99, with corresponding right of use assets of \$99 based on the present value of the remaining minimum rental payments under leasing standards for existing operating leases.

In June 2018, the FASB issued ASU 2018-07 *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. The Company adopted ASU 2018-07 effective April 1, 2019. The adoption did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04 *Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. This ASU is intended to simplify the subsequent measurement of goodwill by eliminating “Step 2” from the goodwill impairment test. It is effective for annual reporting periods, and interim reporting periods within those years, beginning after December 15, 2019. It is not possible to determine or estimate the impact on our consolidated financial statements at this time.

There were other updates recently issued which represent technical corrections to the accounting literature or application to specific industries or transactions that are not expected to have a material impact, if any impact, on the Company’s financial position, results of operations or cash flows.

Going Concern

The Company has experienced losses from operations resulting in an accumulated deficit of \$121,921 since inception. The accumulated deficit together with losses of \$6,035 for the six months ended September 30, 2019, and net cash used in operating activities in the six months ended September 30, 2019 of \$3,134, have resulted in the uncertainty of the Company’s ability to continue as a going concern.

These condensed consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable period of time.

The Company has raised additional capital through various offerings in addition to a credit facility. The Company’s ability to raise additional capital through future equity and debt securities issuances is unknown. Obtaining additional financing and the successful development of the Company’s strategic plan to achieve profitability are necessary for the Company to continue operations. There can be no assurance that such capital will be available or on terms acceptable to the Company. The Company intends to further develop its product offerings and customer bases and has opportunities from the Trend Holdings acquisition. The Company’s plans to achieve profitability include evaluating the cost structure and processes of its operations, both at the margin and operating expense levels, as well as pursuing additional strategic acquisitions and dispositions. The ability to successfully resolve these factors raises substantial doubt about the Company’s ability to continue as a going concern as determined by management. The condensed consolidated financial statements of the Company do not include any adjustments that may result from the outcome of the uncertainties.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2019

NOTE 2: DISCONTINUED OPERATIONS

As a result of receiving letters of intent for the sale of key assets of Sable, Pioneer and Magnolia Solar, and the approval by the Company's Board in May 2018 to sell the assets, those assets were included in assets held for sale and their operations included in discontinued operations. All discontinued operations have been sold or ceased operations by September 30, 2019, so there are no remaining assets or liabilities of the discontinued operations.

Carrying amounts of major classes of assets and liabilities classified as held for sale and included as part of discontinued operations in the condensed consolidated balance sheet as of March 31, 2019 consisted of the following:

| | | |
|-------------------------------------|-----------|-----------|
| Other current assets | \$ | 23 |
| Current assets – held for sale | <u>\$</u> | <u>23</u> |
| Accounts payable | \$ | 23 |
| Accrued liabilities | | 11 |
| Current liabilities – held for sale | <u>\$</u> | <u>34</u> |

Major line items constituting loss from discontinued operations in the condensed consolidated statements of operations consisted of the following:

| | Six months ended | |
|-----------------------------------|-------------------------|-----------------|
| | September 30, | |
| | <u>2019</u> | <u>2018</u> |
| Revenue | \$ - | \$ 2,479 |
| Cost of revenue | - | 2,845 |
| Gross loss | - | (366) |
| Operating expenses | - | 224 |
| Loss from discontinued operations | <u>\$ -</u> | <u>\$ (590)</u> |
| Non-cash expenses | <u>\$ -</u> | <u>\$ 61</u> |

After consideration of all the evidence, both positive and negative, management has recorded a full valuation allowance due to the uncertainty of realizing income tax benefit for all periods presented, and the income tax provision for all periods presented was considered immaterial. Thus, no separate tax provision or benefit relating to discontinued operations is included here or on the face of the condensed consolidated statements of operations.

Non-cash expenses above consist principally of depreciation, amortization and impairment expense. Capital expenditures of discontinued operations were principally at Sable and amounted to \$0 and \$166 for the six months ended September 30, 2019 and 2018, respectively.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2019

NOTE 3: RESTATEMENTS

In connection with the preparation of the Company's consolidated financial statements as of and for the fiscal year ended March 31, 2019, the Company identified inadvertent errors in the accounting for certain embedded derivative liabilities associated with warrants issued as a part of capital raises in 2017 and 2018. In connection with those capital raises, proceeds (net of fees) were accounted for as equity. Upon further evaluation, the Company determined that a portion of the capital raised should have been accounted for as liabilities with fair value changes recorded in the Company's consolidated statements of operations. Accordingly, the Company restated its previously issued consolidated financial statements and the related disclosures for the fiscal year ended March 31, 2018 and interim periods in fiscal years 2018 and 2019 as well as an adjustment to the opening balance sheet for the first interim period of fiscal 2018 (the "Restated Periods"). The adjustment to the opening balance sheet as of April 1, 2017 consisted of establishing a current derivative liability of \$3,351, offset by a reduction in additional paid-in-capital of \$4,180 and a reduction of accumulated deficit of \$829.

The categories of misstatements and their impact on previously reported consolidated financial statements are described below:

Derivative Liability: The recognition, measurement and presentation and disclosure related to the warrants issued in conjunction with reserved private placements of the Company's common stock.

Stockholders' Deficit: The measurement and presentation and disclosure related to the derivative liability associated with the warrants issued in conjunction with the reserved private placements originally classified as additional paid in capital.

Change in Fair Value of Derivative Liabilities: The recognition, measurement and presentation and disclosure related to changes in the fair value of the derivative liability

In addition to the restatement of the financial statements, certain information within the notes to the financial statements referred to below that were included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2019 were impacted. Therefore, the interim condensed consolidated financial statements should be read in conjunction with that Annual Report on Form 10-K.

Note 1: Organization and Summary of Significant Accounting Policies

Note 9: Warrant Derivative Liabilities

Note 13: Stockholders' Equity (Deficit)

Note 18: Fair Value Measurements

The financial statement misstatements reflected in previously issued consolidated financial statements did not impact cash flows from operations, investing, or financing activities in the Company's consolidated statements of cash flows for any period previously presented, however they did impact individual line items.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2019

Comparison of restated financial statements to financial statements as previously reported

The following tables compare the Company's previously issued Consolidated Balance Sheet, Consolidated Statement of Operations and Consolidated Statement of Cashflows for the periods ended September 30, 2018 to the corresponding restated consolidated financial statements for those periods.

CONSOLIDATED BALANCE SHEET

| | <u>September 30, 2018</u> | <u>Restatement Adjustments</u> | <u>September 30, 2018</u> |
|--|-------------------------------|------------------------------------|-------------------------------|
| | <u>(As Reported)</u> | | <u>(Restated)</u> |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash (\$35 pledged as collateral for credit) | \$ 2,323 | | \$ 2,323 |
| Accounts receivable, net of allowance of \$87 | 1,216 | | 1,216 |
| Prepaid expenses and other current assets | 217 | | 217 |
| Current assets held for sale | 768 | | 768 |
| Total current assets | <u>4,524</u> | | <u>4,524</u> |
| NON-CURRENT ASSETS | | | |
| Property and equipment, net | 2,297 | | 2,297 |
| Intangible assets, net | 1,269 | | 1,269 |
| Non-current assets held for sale | 1,137 | | 1,137 |
| Other assets | 27 | | 27 |
| Total non-current assets | <u>4,730</u> | | <u>4,730</u> |
| TOTAL ASSETS | <u>\$ 9,254</u> | | <u>\$ 9,254</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ 1,243 | | \$ 1,243 |
| Accrued liabilities | 869 | | 869 |
| Warrant derivative liabilities | | \$ 5,228 | 5,228 |
| Current liabilities held for sale | 3 | | 3 |
| Total current liabilities | <u>2,115</u> | <u>5,228</u> | <u>7,343</u> |
| COMMITMENTS AND CONTINGENCIES | | | |
| Total liabilities | <u>2,115</u> | <u>5,228</u> | <u>7,343</u> |
| STOCKHOLDERS' EQUITY (Numbers of shares rounded to thousands) | | | |
| Preferred stock, \$0.001 par value; 5,000 shares authorized; none issued | | | |
| Common stock, \$0.001 par value; 100,000 shares authorized, 49,533 shares issued and 48,972 shares outstanding | 53 | | 53 |
| Additional paid-in-capital | 128,740 | (16,409) | 112,331 |
| Accumulated deficit | (119,994) | 11,181 | (108,813) |
| Treasury stock, at cost | (1,660) | | (1,660) |
| Total stockholders' equity | <u>7,139</u> | <u>(5,228)</u> | <u>1,911</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 9,254</u> | <u>\$ -</u> | <u>\$ 9,254</u> |

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
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CONSOLIDATED STATEMENT OF OPERATIONS

| | Three Months Ended September 30, 2018 | | | Six Months Ended September 30, 2018 | | |
|---|--|----------------------------|------------|--|----------------------------|------------|
| | (As Reported) | Restatement Adjustments | (Restated) | (As Reported) | Restatement Adjustments | (Restated) |
| | | | | | | |
| CONTINUING OPERATIONS: | | | | | | |
| REVENUES | \$ 286 | | \$ 286 | \$ 1,039 | | \$ 1,039 |
| COST OF REVENUES | 207 | | 207 | 637 | | 637 |
| GROSS PROFIT (LOSS) | 79 | | 79 | 402 | | 402 |
| OPERATING EXPENSES: | | | | | | |
| Selling, general and administrative | 2,493 | | 2,493 | 4,584 | | 4,584 |
| Depreciation, amortization, and impairment | 308 | | 308 | 617 | | 617 |
| Research and development | 771 | | 771 | 1,641 | | 1,641 |
| Total operating expenses | 3,572 | | 3,572 | 6,842 | | 6,842 |
| Loss from continuing operations before other expenses | (3,493) | | (3,493) | (6,440) | | (6,440) |
| OTHER INCOME (EXPENSE): | | | | | | |
| Change in fair value of derivative liability | | \$ 715 | \$ 715 | | \$ 1,036 | 1,036 |
| (Interest expense), net of interest income | 4 | | 4 | (7) | | (7) |
| Total other expenses | 4 | 715 | 719 | (7) | 1,036 | 1,029 |
| LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES | (3,489) | 715 | (2,774) | (6,447) | 1,036 | (5,411) |
| DISCONTINUED OPERATIONS: | | | | | | |
| Loss from discontinued operations | (576) | | (576) | (1,166) | | (1,166) |
| Gain on disposal of discontinued operations | - | | - | - | | - |
| Total discontinued operations | (576) | | (576) | (1,166) | | (1,166) |
| PROVISION FOR INCOME TAXES | - | | - | - | | - |
| NET LOSS | \$ (4,065) | 715 | \$ (3,350) | \$ (7,613) | 1,036 | \$ (6,577) |
| NET LOSS PER SHARE | | | | | | |
| Basic and diluted: Continuing operations | \$ (0.07) | | \$ (0.07) | \$ (0.13) | | \$ (0.13) |
| Discontinued operations | (0.01) | | (0.01) | (0.02) | | (0.02) |
| Total | \$ (0.08) | | \$ (0.08) | \$ (0.15) | | \$ (0.15) |
| SHARES USED IN CALCULATION OF NET LOSS PER SHARE | | | | | | |
| Basic and diluted | 50,500 | | 50,500 | 49,739 | | 49,739 |

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CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six Months Ended September 30, 2018 | | |
|---|--|----------------------------|-----------------|
| | As Reported | Restatement Adjustments | Restated |
| Cash flows from operating activities: | | | |
| Net loss | \$ (7,613) | \$ 1,036 | \$ (6,577) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation, amortization and impairment | 617 | | 617 |
| Shares of common stock issued for services rendered | 200 | | 200 |
| Share-based compensation – stock – employees | 1,900 | | 1,900 |
| Loss from discontinued operations | 1,166 | | 1,166 |
| Change in fair value of derivative liabilities | - | (1,036) | (1,036) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 1,401 | | 1,401 |
| Inventory | (147) | | (147) |
| Prepaid expenses | 13 | | 13 |
| Other current assets | 35 | | 35 |
| Accounts payable | (1,134) | | (1,134) |
| Accrued liabilities | (226) | | (226) |
| Net cash used in operating activities of continuing operations | <u>(3,788)</u> | | <u>(3,788)</u> |
| Net cash used in discontinued operations | <u>(1,114)</u> | | <u>(1,114)</u> |
| Net cash used in operating activities | <u>(4,902)</u> | | <u>(4,902)</u> |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (18) | | (18) |
| Net cash used in investing activities of continuing operations | <u>(18)</u> | | <u>(18)</u> |
| Net cash used in investing activities of discontinued operations | <u>(166)</u> | | <u>(166)</u> |
| Net cash used in investing activities | <u>(184)</u> | | <u>(184)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock, net of fees | 4,221 | | 4,221 |
| Repayment of debt | (500) | | (500) |
| Purchase of treasury shares from employees for tax withholdings | (42) | | (42) |
| Net cash provided by financing activities | <u>3,679</u> | | <u>3,679</u> |
| NET INCREASE (DECREASE) IN CASH | <u>(1,407)</u> | | <u>(1,407)</u> |
| Cash - beginning of period | <u>3,730</u> | | <u>3,730</u> |
| Cash - end of period | <u>\$ 2,323</u> | | <u>\$ 2,323</u> |
| SUPPLEMENTAL DISCLOSURES: | | | |
| Cash paid for interest | \$ 11 | | \$ 11 |
| Cash paid for income taxes | \$ - | | \$ - |

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NOTE 4: REVENUE

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Professional services revenue for the six months ended September 30, 2019 were from management fees earned by Trend Holdings and in 2018 from a project with a major retailer. Several Software as a Service (“SaaS”) projects earned revenue in 2019 and 2018.

The following table disaggregates the Company’s revenue by major source:

| | Six Months Ended | |
|-----------------------|------------------|-----------------|
| | September 30, | |
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Revenue: | | |
| Professional services | \$ 51 | \$ 1,000 |
| Software as a Service | 28 | 39 |
| | <u>\$ 79</u> | <u>\$ 1,039</u> |

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | September 30, 2019 | March 31, 2019 |
|---|-----------------------|-------------------|
| | (Unaudited) | |
| Zest Labs freshness hardware | \$ 2,493 | \$ 2,493 |
| Computers and software costs | 222 | 222 |
| Machinery and equipment | 200 | 200 |
| Total property and equipment | 2,915 | 2,915 |
| Accumulated depreciation and impairment | (2,239) | (2,091) |
| Property and equipment, net | <u>\$ 676</u> | <u>\$ 824</u> |

Depreciation expense for the six months ended September 30, 2019 and 2018 was \$148 and \$340, respectively. Depreciation expense for the three months ended September 30, 2019 and 2018 was \$71 and \$169, respectively.

Property and equipment for Sable was reclassified as assets held for sale as more fully described in Note 2 and accordingly depreciation expense for Sable through May 2018 was included in the loss from discontinued operations.

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NOTE 6: INTANGIBLE ASSETS

Intangible assets consisted of the following:

| | September 30, 2019 | March 31, 2019 |
|---|-------------------------------|---------------------------|
| | (Unaudited) | |
| Goodwill | \$ 3,223 | \$ - |
| Patents | 1,013 | 1,013 |
| Outsourced vendor relationships | 1,017 | 1,017 |
| Non-compete agreements | 340 | 340 |
| Total intangible assets | <u>5,593</u> | <u>2,370</u> |
| Accumulated amortization and impairment | <u>(2,370)</u> | <u>(2,370)</u> |
| Intangible assets, net | <u>\$ 3,223</u> | <u>\$ -</u> |

The goodwill was recorded as part of the acquisition of Trend Holdings more fully described in Note 15. The patents were recorded as part of the acquisition of Zest Labs. The outsourced vendor relationships and non-compete agreements were recorded as part of the acquisition of 440labs. The intangible assets of Zest Labs and 440labs were fully impaired as of March 31, 2019.

Amortization expense for the six months ended September 30, 2019 and 2018 was \$0 and \$276, respectively.

NOTE 7: ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

| | September 30, 2019 | March 31, 2019 |
|--|-------------------------------|---------------------------|
| | (Unaudited) | |
| Vacation and paid time off | \$ 189 | \$ 345 |
| Professional fees and consulting costs | 334 | 150 |
| Accrued interest | 158 | 11 |
| Lease liability | 8 | 95 |
| Payroll and employee expenses | 44 | 50 |
| Legal fees | 72 | 108 |
| Other | 67 | 69 |
| | <u>\$ 872</u> | <u>\$ 828</u> |

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NOTE 8: WARRANT DERIVATIVE LIABILITIES

As described in Note 3, the Company issued common stock and warrants in several private placements in March 2017, May 2017, March 2018 and August 2018. The March and May 2017 and March and August 2018 warrants (collectively the "Derivative Warrant Instruments") are classified as liabilities. The Derivative Warrant Instruments have been accounted for utilizing ASC 815 "Derivatives and Hedging". The Company has incurred a liability for the estimated fair value of Derivative Warrant Instruments. The estimated fair value of the Derivative Warrant Instruments has been calculated using the Black-Scholes fair value option-pricing model with key input variables provided by management, as of the date of issuance, with changes in fair value recorded as gains or losses on revaluation in other income (expense).

The Company identified embedded features in the March and May 2017 warrants which caused the warrants to be classified as a liability. These embedded features included the implicit right for the holders to request that the Company settle the warrants in registered shares. Since maintaining an effective registration of shares is potentially outside the control of the Company, these warrants were classified as liabilities as opposed to equity. The accounting treatment of derivative financial instruments requires that the Company treat the whole instrument as liability and record the fair value of the instrument as derivatives as of the inception date of the instrument and to adjust the fair value of the instrument as of each subsequent balance sheet date.

On October 28, 2019, the Company issued 2,243 shares of the Company's common stock to investors in exchange for the March and May 2017 warrants. Upon the issuance of the 2,243 shares, the March and May 2017 warrants were extinguished.

The Company identified embedded features in the March and August 2018 warrants which caused the warrants to be classified as a liability. These embedded features included the right for the holders to request that the Company cash settle the warrant instruments from the holder by paying to the holder an amount of cash equal to the Black-Scholes value of the remaining unexercised portion of the Derivative Warrant Instruments on the date of the consummation of a fundamental transaction. The accounting treatment of derivative financial instruments requires that the Company treat the whole instrument as liability and record the fair value of the instrument as derivatives as of the inception date of the instrument and to adjust the fair value of the instrument as of each subsequent balance sheet date.

On July 12, 2019, the March and August 2018 warrants were exchanged for 4,277 shares of Company common stock, and all of those warrants were extinguished. The fair value of the shares issued was \$3,293, and the fair value of the warrants was \$2,455 resulting in a loss of \$839 that was recognized on the exchange.

As described further in Note 12 below, on August 22, 2019 the Company issued warrants that can be exercised in exchange for 3,922 shares of Company common stock to investors that invested in shares of Company preferred stock. The fair value of those warrants was estimated to be \$1,576 at inception and \$1,422 as of September 30, 2019. The accounting treatment for those warrants and the related issuance was consistent with that described in this note and in Note 3.

The Company determined our derivative liabilities to be a Level 3 fair value measurement and used the Black-Scholes pricing model to calculate the fair value as of September 30, 2019. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk-free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. Changes to these inputs could produce a significantly higher or lower fair value measurement. The fair value of each warrant is estimated using the Black-Scholes valuation model. The following assumptions were used in September 30, 2019 and March 31, 2019 and at inception:

| | Six Months Ended September 30, 2019 | Year Ended March 31, 2019 | Inception |
|-------------------------|--|--|------------------|
| Expected term | 2.50 - 4.92 years | 3.00 - 4.42 years | 5.00 years |
| Expected volatility | 97% | 96% | 91% - 107% |
| Expected dividend yield | - | - | - |
| Risk-free interest rate | 1.55% | 2.23% | 1.50% - 2.77% |

The Company's derivative liabilities associated with the warrants are as follows:

| | September 30, 2019 | March 31, 2019 | Inception |
|--|-------------------------------|---------------------------|------------------|
| Fair value of 1,000 March 17, 2017 warrants | \$ 280 | \$ 256 | \$ 4,609 |
| Fair value of 1,850 May 22, 2017 warrants | 540 | 505 | 7,772 |
| Fair value of 2,565 March 16, 2018 warrants | - | 1,040 | 3,023 |
| Fair value of 2,969 August 14, 2018 warrants | - | 1,303 | 2,892 |
| Fair value of 3,922 August 22, 2019 warrants | 1,422 | - | 1,576 |
| | <u>\$ 2,242</u> | <u>\$ 3,104</u> | <u>\$ 19,872</u> |

During the six months ended September 30, 2019 and 2018 the Company recognized changes in the fair value of the derivative liabilities of \$(16) and \$1,036, respectively. As described in Note 12 below, the March and August 2018 warrants were exchanged for 4,277 shares of Company common stock and thus were no longer outstanding as of September 30, 2019. See additional details on warrant transactions subsequent to September 30, 2019 in Note 19 below describing that the March and May 2017 warrants were exchanged for 2,243 shares of Company common stock in October 2019, and additional warrants were issued on November 11, 2019.

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NOTE 9: NOTE PAYABLE

On December 28, 2018, the Company entered into a \$10,000 credit facility that includes a loan and security agreement (the "Agreement") where the lender agreed to make one or more loans to the Company, and the Company may make a request for a loan or loans from the lender, subject to the terms and conditions. The Company is required to pay interest biannually on the outstanding principal amount of each loan calculated at an annual rate of 12%. The loans are evidenced by a demand note executed by the Company. The Company is able to request draws from the lender up to \$1,000 with a cap of \$10,000, including the \$1,000 advanced on December 28, 2018 and an additional \$350 advanced through March 31, 2019, and an additional \$985 advanced during the six months ended September 30, 2019. If principal is prepaid, the loans may not be re-borrowed and the cap of \$10,000 shall be reduced. The Company may make a request for a loan or loans from the lender, at any one time and from time to time, from the date of the Agreement until the earlier of (i) demand by the lender or (ii) December 27, 2020 or the earlier termination of the Agreement pursuant to the terms thereof. Loans made pursuant to the Agreement are secured by a security interest in the Company's collateral held with the lender and guaranteed by the Company's subsidiary, Zest Labs.

The Company pays to the lender a commitment fee on the principal amount of each loan requested thereunder in the amount of 3.5% of the amount thereof. The Company also paid an arrangement fee of \$300 to the lender which was paid upon execution of the Agreement. The aforementioned fees were and are netted from proceeds advanced and are recorded as interest expense. Zest Labs is a plaintiff in a litigation styled as *Zest Labs, Inc. vs Walmart, Inc., Case Number 4:18-cv-00500* filed in the United States District Court for the Eastern District of Arkansas (the "Zest Litigation"). The Company agrees that within five days of receipt by Zest Labs or the Company of any settlement proceeds from the Zest Litigation, the Company will pay or cause to be paid over to lender an additional fee in an amount equal to (i) 0.50 multiplied by (ii) the highest aggregate principal balance of the loans over the life of the loans through the date of the payment from settlement proceeds; provided, however, that such additional fee shall not exceed the amount of the settlement proceeds.

Subject to customary carve-outs, the Agreement contains customary negative covenants and restrictions for agreements of this type on actions by the Company including, without limitation, restrictions on indebtedness, liens, investments, loans, consolidation, mergers, dissolution, asset dispositions outside the ordinary course of business, change in business and restriction on use of proceeds. In addition, the Agreement requires compliance by the Company of covenants including, but not limited to, furnishing the lender with certain financial reports and protecting and maintaining its intellectual property rights. The Agreement contains customary events of default, including, without limitation, non-payment of principal or interest, violation of covenants, inaccuracy of representations in any material respect and cross defaults with certain other indebtedness and agreements.

Interest expense on the note for the three and six months ended September 30, 2019 was \$60 and \$122, respectively.

NOTE 10: NOTES PAYABLE - RELATED PARTIES

A board member advanced \$328 to the Company through September 30, 2019, under the terms of a note payable that bears 10% simple interest per annum, and the principal balance along with accrued interest is payable July 30, 2020 or upon demand. Interest expense on the note for the six months ended September 30, 2019 was \$10.

William B. Hoagland, Principal Financial Officer, advanced \$30 to the Company in May 2019 pursuant to a note with the same terms as the note with the board member. Randy May, CEO, advanced \$45 to the Company in August 2019 pursuant to a note with the same terms as the note with the board member. Interest expense on both of these notes was not material.

NOTE 11: LONG-TERM DEBT

The Company had a secured convertible promissory note ("convertible note") bearing interest at 10% per annum, entered into on January 10, 2017 for \$500 with the principal due in one lump sum payment on or before July 10, 2018. The principal along with accrued interest of \$11 was paid on July 2, 2018.

Interest expense on debt for the six months ended September 30, 2019 and 2018 was \$0 and \$11, respectively.

NOTE 12: STOCKHOLDERS' EQUITY

Ecoark Holdings Preferred Stock

On March 18, 2016, the Company created 5,000 shares of "blank check" preferred stock, par value \$0.001. On August 21, 2019 (the "Effective Date"), the Company and two accredited investors entered into a Securities Purchase Agreement pursuant to which the Company sold and issued to the investors an aggregate of 2 shares of Series B Convertible Preferred Stock, par value \$0.001 per share at a price of \$1,000 per share.

Pursuant to the Securities Purchase Agreement, the Company issued to each investor a warrant (a "Warrant") to purchase a number of shares of common stock of the Company, par value \$0.001 per share ("Common Stock"), equal to the number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock purchased by the investor. Each Warrant has an exercise price equal to \$0.51, subject to full ratchet price only anti-dilution provisions in accordance with the terms of the Warrants (the "Exercise Price"), and is exercisable for five years after the Effective Date. In addition, if the market price of the Common Stock on the 11 month anniversary of the closing date of the offering is less than \$0.51, holder of the warrants shall be entitled to receive additional shares of common stock based on the number of shares of common stock that would have been issuable upon conversion of the Series B Convertible Preferred Stock had the initial conversion price been equal to the market price at such time (but not less than \$0.25) less the number of shares of common stock issued or issuable upon exercise of the Series B Convertible Preferred Stock based on the \$0.51 conversion price.

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The Company also agreed to amend the current exercise price of the warrants that the investors received in connection with the Securities Purchase Agreements dated March 14, 2017 (the "March Warrants") and May 22, 2017 (the "May Warrants" and, together with the March Warrants, the "Existing Securities"). The Existing Securities have a current exercise price of \$0.59, which was amended from \$2.50 on July 12, 2019. The current exercise price for the Existing Securities shall be amended to reduce the exercise price to \$0.51 on August 21, 2019, subject to adjustment pursuant to the provisions of the Existing Securities.

Each share of the Series B Preferred Stock has a par value of \$0.001 per share and a stated value equal to \$1,000 (the "Stated Value") and is convertible at any time at the option of the holder into the number of shares of Common Stock determined by dividing the stated value by the conversion price of \$0.51, subject to certain limitations and adjustments (the "Conversion Price").

The Company received gross proceeds from the Private Placement of \$2,000, before deducting transaction costs, fees and expenses payable by the Company. The Company intends to use the net proceeds of the Private Placement to support the Company's general working capital requirements.

As required by the Securities Purchase Agreement, each director and officer of the Company has previously entered into a lock-up agreement with the Company whereby each director and officer has agreed that during the period commencing from the Effective Date until 120 days after the Effective Date, such director or officer will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of or enter into any transaction to dispose of, or establish or increase a put position or liquidate or decrease a call position, with respect to any share of Common Stock or securities convertible, exchangeable or exercisable into, shares of Common Stock. On August 21, 2019, the Company issued 300 shares of common stock to advisors that assisted with the securities purchase agreement and exchange agreement.

On October 15, 2019, nearly all the Series B Preferred Stock shares were converted into 3,761 shares of Common Stock.

On November 11, 2019, the Company and two accredited investors (each an "Investor" and, collectively, the "Investors") entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which the Company sold and issued to the Investors an aggregate of 1 shares of Series C Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), at a price of \$1,000 per share (the "Private Placement").

Pursuant to the Securities Purchase Agreement, the Company issued to each Investor a warrant (a "Warrant") to purchase a number of shares of common stock of the Company, par value \$0.001 per share ("Common Stock"), equal to the number of shares of Common Stock issuable upon conversion of the Series C Preferred Stock purchased by the Investor. Each Warrant has an exercise price equal to \$0.73, subject to full ratchet price only anti-dilution provisions in accordance with the terms of the Warrants (the "Exercise Price"), and is exercisable for five years after the Effective Date. In addition, if the market price of the Common Stock for the five trading days prior to July 22, 2020 is less than \$0.73, holder of the warrants shall be entitled to receive additional shares of common stock based on the number of shares of common stock that would have been issuable upon conversion of the Series C Convertible Preferred Stock had the initial conversion price been equal to the market price at such time (but not less than \$0.25) less the number of shares of common stock issued or issuable upon exercise of the Series C Convertible Preferred Stock based on the \$0.73 conversion price.

Each share of the Series C Preferred Stock has a par value of \$0.001 per share and a stated value equal to \$1,000 (the "Stated Value") and is convertible at any time at the option of the holder into the number of shares of Common Stock determined by dividing the stated value by the conversion price of \$0.73, subject to certain limitations and adjustments (the "Conversion Price").

The Company received gross proceeds from the Private Placement of \$1,000, before deducting transaction costs, fees and expenses payable by the Company. The Company intends to use the net proceeds of the Private Placement to support the Company's general working capital requirements.

As required by the Securities Purchase Agreement, each director and officer of the Company has previously entered into a lock-up agreement with the Company whereby each director and officer has agreed that during the period commencing from the Effective Date until 120 days after the Effective Date, such director or officer will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of or enter into any transaction to dispose of, or establish or increase a put position or liquidate or decrease a call position, with respect to any share of Common Stock or securities convertible, exchangeable or exercisable into, shares of Common Stock.

Ecoark Holdings Common Stock

The Company has 100,000 shares of common stock, par value \$0.001 which were authorized on March 18, 2016. The Company has outstanding warrants as of September 30, 2019 that are exercisable into 7,657 shares of common stock.

On July 12, 2019, the Company entered into an exchange agreement with investors that are the holders of warrants. As a result of a cashless exercise, the Company issued 4,277 shares of the Company's common stock to the investors. Upon the issuance of the 4,277 shares, warrants for 5,677 shares were extinguished. The fair value of the shares issued was \$3,293, and the fair value of the warrants was \$2,455 resulting in a loss of \$839 that was recognized on the exchange. On August 21, 2019, the Company issued 300 shares to advisors that assisted with the securities purchase agreement and exchange agreement.

On October 15, 2019, nearly all the Series B Preferred Stock shares were converted into 3,761 shares of Common Stock. On October 28, 2019, the Company issued 2,243 shares of the Company's common stock to investors in exchange for the March and May 2017 warrants. Upon the issuance of the 2,243 shares, the March and May 2017 warrants were extinguished. On October 31, 2019, the Company issued 120 shares of common stock for services rendered.

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Share-based Compensation

Share-based compensation expense is included in selling, general and administrative expense in the condensed consolidated statements of operations as follows:

| | 2013 Incentive Stock Plan | 2017 Omnibus Incentive Plan | Non-Qualified Stock Options | Common Stock | Total |
|-------------------------------------|--|--|--|---------------------|-----------------|
| Six months ended September 30, 2019 | | | | | |
| Directors | \$ - | \$ 200 | \$ - | \$ - | \$ 200 |
| Employees | - | 231 | 669 | - | 900 |
| Services | - | 111 | - | 211 | 322 |
| | <u>\$ -</u> | <u>\$ 542</u> | <u>\$ 669</u> | <u>\$ 211</u> | <u>\$ 1,422</u> |
| Six months ended September 30, 2018 | | | | | |
| Directors | \$ - | \$ 200 | \$ - | \$ - | \$ 200 |
| Employees | 285 | 286 | 1,329 | - | 1,900 |
| Services | - | - | - | - | - |
| | <u>\$ 285</u> | <u>\$ 486</u> | <u>\$ 1,329</u> | <u>\$ -</u> | <u>\$ 2,100</u> |

NOTE 13: INCOME TAXES

The Company has a net operating loss carryforward for tax purposes totaling approximately \$103,208 at September 30, 2019. Internal Revenue Code Section 382 places a limitation on the amount of taxable income that can be offset by carryforwards after certain ownership shifts.

The provision (benefit) for income taxes for the six months ended September 30, 2019 and 2018 differs from the amount expected as a result of applying statutory tax rates to the losses before income taxes principally due to establishing a valuation allowance to fully offset the potential income tax benefit. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carry-forwards are expected to be available to reduce taxable income. As the achievement of required taxable income is uncertain, the Company has recorded a full valuation allowance against deferred tax assets.

The Company's deferred tax assets are summarized as follows:

| | September 30, 2019 (Unaudited) | March 31, 2019 |
|------------------------------------|---|---------------------------|
| Net operating loss carryover | \$ 21,674 | \$ 23,327 |
| Depreciable and amortizable assets | 1,733 | 1,761 |
| Share-based compensation | 3,852 | 3,586 |
| Accrued liabilities | 57 | 57 |
| Allowance for bad debts | 120 | 120 |
| Warrant derivative liabilities | (2,887) | (2,884) |
| Other | 382 | 381 |
| Total | <u>24,931</u> | <u>26,348</u> |
| Less: valuation allowance | <u>(24,931)</u> | <u>(26,348)</u> |
| Net deferred tax asset | <u>\$ -</u> | <u>\$ -</u> |

After consideration of all the evidence, both positive and negative, management has recorded a full valuation allowance at September 30, 2019 and March 31, 2019, due to the uncertainty of realizing the deferred income tax assets. The valuation allowance decreased by \$1,417 in the six months ended September 30, 2019. The Company has not identified any uncertain tax positions and has not received any significant notices from tax authorities.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
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NOTE 14: CONCENTRATIONS

Concentration of Credit Risk. The Company's customer base for its Zest Lab products is concentrated with a small number of customers. The Company does not generally require collateral or other security to support accounts receivable. To reduce credit risk, the Company performs ongoing credit evaluations on its customers' financial condition. The Company establishes allowances for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. J. Terrence Thompson accounted for more than 10% of the Company's accounts receivable as of September 30, 2019 and March 31, 2019.

Supplier Concentration. Certain of the components and equipment used by the Company in the manufacture of its hardware are available from single-sourced vendors. Shortages could occur in these essential materials and components due to an interruption of supply or increased demand in the industry. If the Company were unable to procure certain components or equipment at acceptable prices, it would be required to reduce its operations, which could have a material adverse effect on its results of operations. In addition, the Company may make prepayments to certain suppliers or enter into minimum volume commitment agreements. Should these suppliers be unable to deliver on their obligations or experience financial difficulty, the Company may not be able to recover these prepayments.

The Company occasionally maintains cash balances in excess of the FDIC insured limit. The Company does not consider this risk to be material.

NOTE 15: ACQUISITION OF TREND DISCOVERY HOLDINGS, INC.

On May 31, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Trend Discovery Holdings Inc., a Delaware corporation ("Trend Holdings") for the Company to acquire 100% of Trend Holdings pursuant to a merger of Trend Holdings with and into the Company (the "Merger"). The Merger was completed as agreed in the Merger Agreement, the Company is the surviving entity in the Merger and the separate corporate existence of Trend Holdings has ceased to exist. Pursuant to the Merger, each of the 1,000 issued and outstanding shares of common stock of Trend Holdings was converted into 5,500 shares of the Company's common stock. No cash was paid relating to the acquisition.

The Company acquired the assets and liabilities noted below in exchange for the 5,500 shares and accounted for the acquisition in accordance with ASC 805. Based on the fair values at the effective date of acquisition the purchase price was recorded as follows (subject to adjustment):

| | | |
|--------------|-----------|--------------|
| Cash | \$ | 3 |
| Receivables | | 10 |
| Other assets | | 1 |
| Goodwill | | 3,223 |
| | <u>\$</u> | <u>3,237</u> |

The Acquisition has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total acquisition consideration price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. The fair value measurements utilize estimates based on key assumptions of the Acquisition, and historical and current market data. The excess of the purchase price over the total of estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. In order to ultimately determine the fair values of tangible and intangible assets acquired and liabilities assumed for Trend Holdings, we may engage a third-party independent valuation specialist, however as of the date of this report, the valuation has not been undertaken. The Company has estimated the preliminary purchase price allocations based on historical inputs and data as of May 31, 2019. The preliminary allocation of the purchase price is based on the best information available and is pending, amongst other things: (i) the finalization of the valuation of the fair values and useful lives of tangible assets acquired; (ii) finalization of the valuations and useful lives for intangible assets; (iii) finalization of the valuation of accounts payable and accrued expenses; and (iv) finalization of the fair value of non-cash consideration.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The Company expects the purchase price allocations for the acquisition of Trend Holdings to be completed by the end of the fourth quarter of fiscal 2020. The Company estimated the fair value of the Company's shares issued on a preliminary basis based on an average of quoted market value.

The goodwill is not expected to be deductible for tax purposes.

The following table shows pro-forma results for the six months ended September 30, 2019 as if the acquisition had occurred on April 1, 2018. These unaudited pro forma results of operations are based on the historical financial statements and related notes of Trend Holdings and the Company.

| | Six Months Ended | |
|--------------------|-------------------------|--------------------|
| | September 30, | |
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Revenues | \$ 90 | \$ 1,076 |
| Net loss | \$ (6,033) | (6,550) |
| Net loss per share | \$ (0.10) | (0.12) |

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
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NOTE 16: COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On August 1, 2018, Ecoark Holdings, Inc. and Zest Labs, Inc. filed a complaint against Walmart Inc. in the United States District Court for the Eastern District of Arkansas, Western Division. The complaint includes claims for violation of the Arkansas Trade Secrets Act, violation of the federal Defend Trade Secrets Act, breach of contract, unfair competition, unjust enrichment, breach of the covenant of good faith and fair dealing, conversion and fraud. Ecoark Holdings and Zest Labs are seeking monetary damages and other related relief to the extent it is deemed proper by the court. The Company does not believe that expenses incurred in pursuing the complaint will have a material effect on the Company's net income or financial condition for the fiscal year ended March 31, 2020 or any individual fiscal quarter. On October 22, 2018, the Court issued an order setting a trial date of June 1, 2020. The order also established deadlines for the completion of fact discovery by October 15, 2019, opening expert reports on October 24, 2019, and dispositive motions, on January 22, 2020. The fact discovery phase is complete and the case is presently in the expert discovery phase.

On December 12, 2018, a complaint was filed against the Company in the Twelfth Judicial Circuit in Sarasota County, Florida by certain investors who invested in the Company before it was public. The complaint alleges that the investment advisors who solicited the investors to invest into the Company made omissions and misrepresentations concerning the Company and the shares. The Company filed a motion to dismiss the complaint which is pending.

Operating Leases

The Company leased operating and office facilities for various terms under long-term, non-cancelable operating lease agreements. The only remaining lease obligation at September 30 is for the Zest Labs facility in San Jose, California that expires in December 2019. Rent expense was as follows for the six months ended September 30:

| | 2019 | 2018 |
|-------------------------|---------------|---------------|
| Continuing operations | \$ 122 | \$ 111 |
| Discontinued operations | - | 207 |
| Total | \$ 122 | \$ 318 |

Rent expense of continuing operations for the three months ended September 30, 2019 and 2018 was \$68 and \$39, respectively. Future minimum lease payments required under the Zest Labs operating lease are \$25. On adoption of ASC 842 Leases beginning April 1, 2019, the Company recognized additional operating liabilities of approximately \$99, with corresponding right of use assets of \$99 based on the present value of the remaining minimum rental payments under leasing standards for existing operating leases.

NOTE 17: FAIR VALUE MEASUREMENTS

The Company measures and discloses the estimated fair value of financial assets and liabilities using the fair value hierarchy prescribed by U.S. generally accepted accounting principles. The fair value hierarchy has three levels, which are based on reliable available inputs of observable data. The hierarchy requires the use of observable market data when available. The three-level hierarchy is defined as follows:

Level 1 – quoted prices for identical instruments in active markets;

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
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Financial instruments consist principally of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, notes payable, and amounts due to related parties. The fair value of cash is determined based on Level 1 inputs. There were no transfers into or out of "Level 3" during the periods ended September 30, 2019 and 2018. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The Company records the fair value of the warrant derivative liabilities disclosed in Note 8 in accordance with ASC 815, *Derivatives and Hedging*. The fair values of the derivatives were calculated using the Black-Scholes Model. The fair value of the derivative liabilities is revalued on each balance sheet date with corresponding gains and losses recorded in other income (expense) in the consolidated statement of operations. Other income (expense) recorded based upon the change in fair value of the derivative liabilities was \$(16) and \$1,036 for the six months ended September 30, 2019 and 2018, respectively, and \$(960) and \$715 for the three months ended September 30, 2019 and 2018, respectively.

The following table presents assets and liabilities that are measured and recognized at fair value on a recurring basis:

| | Level 1 | Level 2 | Level 3 |
|--------------------------------|---------|---------|----------|
| September 30, 2019 | | | |
| Warrant derivative liabilities | - | - | \$ 2,242 |
| March 31, 2019 | | | |
| Warrant derivative liabilities | - | - | \$ 3,104 |

NOTE 18: SEGMENT INFORMATION

The Company follows the provisions of ASC 280-10 *Disclosures about Segments of an Enterprise and Related Information*. This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making operating decisions. As of September 30, 2019, and for the six months ended September 30, 2019, the Company operated in two segments. The segments are Trend Holdings and Zest Labs. Amounts related to discontinued operations are excluded from the amounts in the tables below. The acquisition of Trend holdings on May 31, 2019, caused the reportable segments to change from the previous reporting as a single segment in fiscal 2019. Home office costs are allocated to the two segments based on the relative support provided to those segments.

| Six Months Ended September 30, 2019 | Trend Holdings | Zest Labs | Total |
|--|-----------------|-------------------|-------------------|
| Segmented operating revenues | \$ 52 | \$ 27 | \$ 79 |
| Cost of revenues | - | 61 | 61 |
| Gross profit (loss) | 52 | (34) | 18 |
| Total operating expenses net of depreciation, amortization, and impairment | 200 | 4,717 | 4,917 |
| Depreciation and amortization | - | 148 | 148 |
| Other (income) expense | - | 990 | 990 |
| Income (loss) from continuing operations | <u>\$ (148)</u> | <u>\$ (5,889)</u> | <u>\$ (6,037)</u> |

| Three Months Ended September 30, 2019 | Trend Holdings | Zest Labs | Total |
|--|----------------|-------------------|-------------------|
| Segmented operating revenues | \$ 29 | \$ 15 | \$ 44 |
| Cost of revenues | - | 16 | 16 |
| Gross profit (loss) | 29 | (1) | 28 |
| Total operating expenses net of depreciation, amortization, and impairment | 61 | 2,410 | 2,471 |
| Depreciation and amortization | - | 71 | 71 |
| Other (income) expense | - | 1,875 | 1,875 |
| Income (loss) from continuing operations | <u>\$ (32)</u> | <u>\$ (4,357)</u> | <u>\$ (4,389)</u> |

Segmented assets as of September 30, 2019

| | | | |
|-----------------------------|----------|--------|----------|
| Property and equipment, net | \$ - | \$ 676 | \$ 676 |
| Intangible assets, net | \$ 3,223 | \$ - | \$ 3,223 |
| Capital expenditures | \$ - | \$ - | \$ - |

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
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NOTE 19: SUBSEQUENT EVENTS

On October 15, 2019, nearly all the Series B Preferred Stock shares were converted into 3,761 shares of Common Stock.

On October 28, 2019, the Company entered into an Exchange Agreement with investors (the "Investors") that are the holders of warrants issued in the Company's purchase agreements entered into on (i) March 17, 2017 (the "March Purchase Agreement" and such warrants, the "March Warrants") and (ii) May 26, 2017 (the "May Purchase Agreement" and such warrants, the "May Warrants". The March Warrants and the May Warrants (collectively, the "Existing Securities") were amended to, among other amendments, reduce the exercise price of the Existing Securities to \$0.51.

Subject to the terms and conditions set forth in the Exchange Agreement and in reliance on Section 3(a)(9) of the Securities Act of 1933, as amended (the "Securities Act"), the Company issued 2,243 shares of the Company's common stock to the Investors in exchange for the 2,875 of the Existing Securities. Upon the issuance of the 2,243 shares, the 2,875 Existing Securities were extinguished.

On October 31, 2019, the Company issued 120 shares of common stock for services rendered.

On November 11, 2019, the Company and two accredited investors (each an "Investor" and, collectively, the "Investors") entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which the Company sold and issued to the Investors an aggregate of 1 shares of Series C Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), at a price of \$1,000 per share (the "Private Placement").

Pursuant to the Securities Purchase Agreement, the Company issued to each Investor a warrant (a "Warrant") to purchase a number of shares of common stock of the Company, par value \$0.001 per share ("Common Stock"), equal to the number of shares of Common Stock issuable upon conversion of the Series C Preferred Stock purchased by the Investor. Each Warrant has an exercise price equal to \$0.73, subject to full ratchet price only anti-dilution provisions in accordance with the terms of the Warrants (the "Exercise Price"), and is exercisable for five years after the Effective Date. In addition, if the market price of the Common Stock for the five trading days prior to July 22, 2020 is less than \$0.73, holder of the warrants shall be entitled to receive additional shares of common stock based on the number of shares of common stock that would have been issuable upon conversion of the Series C Convertible Preferred Stock had the initial conversion price been equal to the market price at such time (but not less than \$0.25) less the number of shares of common stock issued or issuable upon exercise of the Series C Convertible Preferred Stock based on the \$0.73 conversion price.

Each share of the Series C Preferred Stock has a par value of \$0.001 per share and a stated value equal to \$1,000 (the "Stated Value") and is convertible at any time at the option of the holder into the number of shares of Common Stock determined by dividing the stated value by the conversion price of \$0.73, subject to certain limitations and adjustments (the "Conversion Price").

The Company received gross proceeds from the Private Placement of \$1,000, before deducting transaction costs, fees and expenses payable by the Company. The Company intends to use the net proceeds of the Private Placement to support the Company's general working capital requirements.

As required by the Securities Purchase Agreement, each director and officer of the Company has previously entered into a lock-up agreement with the Company whereby each director and officer has agreed that during the period commencing from the Effective Date until 120 days after the Effective Date, such director or officer will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of or enter into any transaction to dispose of, or establish or increase a put position or liquidate or decrease a call position, with respect to any share of Common Stock or securities convertible, exchangeable or exercisable into, shares of Common Stock.

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

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including: any projections of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “plan” or “anticipate” and other similar words. Such forward-looking statements may be contained in the sections “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Notes to Condensed Consolidated Financial Statements (Unaudited)” among other places in this Form 10-Q.

Dollar amounts and number of shares below are expressed in thousands, except per share amounts.

Impact of Restatement Adjustments on Other Income and Net Loss of Previously Reported Periods

As more fully described in Note 3 to the condensed consolidated financial statements included in this report, the Company identified inadvertent errors in the accounting for certain embedded derivative liabilities associated with warrants issued as a part of capital raises in 2017 and 2018. In connection with those capital raises, proceeds (net of fees) were accounted for as equity. Upon further evaluation, the Company determined that a portion of the capital raised should have been accounted for as liabilities with fair value changes recorded in the Company’s consolidated statements of operations. Accordingly, the Company has restated its previously issued consolidated financial statements for the fiscal year ended March 31, 2018 and interim periods in fiscal years 2018 and 2019 as well as an adjustment to the opening balance sheet for the first interim period of fiscal 2018 (the “Restated Periods”).

The only impact on the consolidated statements of operations is an adjustment to other income which impacts the net loss for the respective Restated Periods. There is no impact to the income tax provision or net deferred tax asset because both the current tax benefit and deferred tax assets were offset by a full valuation allowance. Impacts to the consolidated balance sheets consisting of establishing derivative liabilities and adjustments to stockholders’ equity are addressed in the Liquidity and Capital Resources section below.

The adjustment to the opening balance sheet as of April 1, 2017 consisted of establishing a current derivative liability of \$3,351, offset by a reduction in additional paid-in-capital of \$4,180 and a reduction of accumulated deficit of \$829.

For the six months ended September 30, 2018, other income increased by \$1,036 with a corresponding reduction in net loss from \$7,613 to \$6,577.

Ecoark Holdings, Inc.

Ecoark Holdings is an innovative AgTech company focused on solutions that reduce food waste and improve delivered freshness and product margins for fresh and perishable foods for a wide range of organizations including growers, processors, distributors and retailers. Ecoark Holdings addresses this through its indirect wholly-owned subsidiary: Zest Labs, Inc. (“Zest Labs” or “Zest”). The Company committed to a plan to focus its business on Zest Labs and divested non-core assets in 2019 that included assets of Pioneer Products, LLC (“Pioneer Products” or “Pioneer”) and Magnolia Solar, Inc. (“Magnolia Solar”). Those assets are reported as held for sale and their operations are reported as discontinued operations in the consolidated financial statements. All discontinued operations have been sold or ceased operations by September 30, 2019, so there are no remaining assets or liabilities of the discontinued operations.

On May 31, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Trend Discovery Holdings Inc., a Delaware corporation (“Trend Holdings”) for the Company to acquire 100% of Trend Holdings pursuant to a merger of Trend Holdings with and into the Company (the “Merger”). The Merger was completed on the May 31, 2019 and as agreed in the Merger Agreement, the Company is the surviving entity in the Merger and the separate corporate existence of Trend Holdings has ceased to exist.

Trend Holding's primary asset is Trend Discovery Capital Management. Trend Discovery Capital Management manages several entities including Trend Discovery LP and Trend Discovery SPV I. Trend Discovery LP is a hybrid hedge fund with a since inception track record of outperforming the S&P 500. Trend Discovery LP primarily invests in early-stage startups. In the near-term, Trend Discovery LP's performance will be driven by its investment in Volans-i, a fully autonomous vertical takeoff and landing ("VTOL") drone delivery platform. Trend Discovery LP currently owns approximately 1% of Volans-i, and has participation rights to future financings to maintain its ownership at 1% indefinitely. More information can be found at flyvoly.com.

Our principal executive offices are located at 5899 Preston Road #505, Frisco, Texas 75034, and our telephone number is (479) 259-2977. Our website address is <http://zestlabs.com/>. Our website and the information contained on, or that can be accessed through, our website will not be deemed to be incorporated by reference in and are not considered part of this report.

Description of Business

Zest Labs

Zest Labs offers freshness management solutions for fresh food growers, suppliers, processors, distributors, grocers and restaurants. Its Zest Fresh solution is a cloud-based post-harvest shelf-life and freshness management solution that improves delivered freshness of produce and protein and reduces post-harvest losses at the retailer due to temperature handling and processing by 50% or more by intelligently matching customer freshness requirements with actual product freshness. It focuses on four primary value propositions – operational efficiency, consistent food freshness, reduced waste, and improved food safety. Zest Fresh empowers workers with real-time analytic tools and alerts that improve efficiency while driving quality consistency through best practice adherence at a pallet level. Zest Labs also offers its Zest Delivery solution that provides real-time monitoring and control for prepared food delivery containers, helping delivery and dispatch personnel ensure the quality and safety of delivered food.

On June 6, 2019, Zest Labs announced a strategic collaboration between AgroFresh and Zest Labs to strengthen their end-to-end solutions. AgroFresh will incorporate Zest Labs' Zest Fresh™ solution into its FreshCloud™ Transit Insights platform. The agreement will utilize both companies' resources and strengths to provide customers with a comprehensive solution that improves operations, increases visibility into produce shelf-life and reduces food waste.

The Zest Fresh value proposition is to reduce fresh food loss by improving quality consistency. In the U.S. produce market, it is reported that roughly 30% of post-harvest fresh food is lost or wasted and therefore not consumed. Both fresh food producers and retailers bear significant expense when harvested food is either rejected due to early spoilage or reduced in value due to early ripening. Zest Labs believes that a significant portion of this waste can be attributed to inconsistent freshness based on variable post-harvest processing and handling. Fresh food producers and retailers manage food distribution and inventory based on the harvest date, with the assumption that all food harvested on the same day will have the same freshness. However, studies have shown that post-harvest handling can have a significant effect on the actual remaining freshness, and if not properly managed, can result in food loss or spoilage ahead of expectations, leading to waste and lost profits. Zest Fresh empowers fresh food producers and retailers to significantly reduce the post-harvest loss by providing real-time guidance to process adherence, intelligent distribution and best handling practices, with a goal of providing significant financial savings to fresh food producers and retailers.

Zest Labs has developed the industry's first freshness metric called the Zest Intelligent Pallet Routing Code ("ZIPR Code"). The ZIPR Code has three main components: Harvest Quality which sets total freshness capacity (for example, 12 days for strawberries), Handling Impact which reflects aging acceleration due to improper handling, and Future Handling which accurately reflects how the product will be handled (for example, store shelf temperature may be 40 degrees Fahrenheit instead of the ideal 34 degrees Fahrenheit).

Zest Fresh is offered to fresh food producers, processors, distributors and retailers with pricing based on the number of pallets managed by Zest Fresh, typically from the field harvest through retail delivery. The Zest Fresh service includes a re-usable wireless Internet of Things (“IoT”) condition sensor that travels with the pallet of fresh food from the field or processor through retail delivery, continuously collecting product condition data. The collected pallet product data is analyzed, using artificial intelligence-based predictive analytics in real time by the Zest Fresh cloud application, with the fresh food producers and retailers accessing data through Zest Fresh web and mobile applications. Zest Fresh provides workers with real-time feedback on the current handling or processing of each pallet, empowering best practice adherence to achieve maximum freshness. Zest Fresh also provides dynamic updates as to actual product freshness for each pallet, enabling intelligent routing and inventory management of each pallet in a manner that ensures optimum delivered freshness. Zest also offers integrated blockchain support to grower and shipper customers via the Zest Fresh platform.

Zest Labs’ Zest Delivery solution helps to manage prepared food delivery from the restaurant through to the customer. Zest Delivery manages the delivery container environment, both monitoring and controlling the product condition. The value of Zest Delivery is to manage prepared meals in an ideal state for consumption, while accommodating extended pre-staging or delivery times. Extended pre-staging times are associated with “instant delivery” services of prepared meals, where the meals are often pre-staged in a delivery area ahead of demand. While pre-staging enables fast demand response time, it can result in prepared meals being staged for extended periods, which can potentially impact quality, value and safety. Zest Delivery monitors and controls the delivery container environment to preserve the prepared meal in ideal, ready to consume condition. Zest Delivery also provides the dispatcher with real-time remote visibility to the condition of available meals and confirming quality prior to dispatch. Zest Delivery provides automated, real-time visibility for a very distributed fleet of drivers, reflecting prepared meal food safety, quality and availability. Zest Delivery is offered to meal delivery companies based on the quantity of delivery containers and frequency of use.

Zest Labs currently holds rights to 69 U.S. patents (with additional patents pending), numerous related foreign patents, and U.S. copyrights relating to certain aspects of its Zest Labs’ software, hardware devices including Radio-Frequency Identification (“RFID”) technology, software, and services. In addition, Zest Labs has registered, and/or has applied to register trademarks and service marks in the U.S. and a number of foreign countries for “Intellex,” the Intellex logo, “Zest,” “Zest Data Services,” and the Zest, Zest Fresh and Zest Delivery logos, ZIPR and numerous other trademarks and service marks. Many of Zest Labs’ products have been designed to include licensed intellectual property obtained from third-parties. Laws and regulations related to wireless communications devices in the jurisdictions in which Zest Labs operates and seeks to operate are extensive and subject to change. Wireless communication devices, such as RFID readers, are subject to certification and regulation by governmental and standardization bodies. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications or delays in product shipment dates.

Although most components essential to Zest Labs’ business are generally available from multiple sources, certain key components including, but not limited to, microprocessors, enclosures, certain RFID or other wireless custom integrated circuits, and application-specific integrated circuits are currently obtained by Zest Labs from single or limited sources, principally in Asia.

Zest Labs is part of a very competitive industry that markets solutions to fresh food supply chain users, such as fresh food growers, producers and retailers. Many other companies that are both more established and command much greater resources compete in this market. While Zest Fresh and Zest Delivery offer new technical approaches and new user value, it remains uncertain if Zest Labs will gain sufficient adoption of its products to make them viable in the market. Further, it is unclear what industry competitors are developing that might address similar user needs. Zest Labs’ products provide a new approach for industry participants, and as with any new approach, adoption is uncertain as many in the industry can be slow to embrace new technology and/or new approaches. These market challenges can lead to extended sales cycles that may include extended pilot testing often at Zest Labs’ expense, for which the outcome remains unclear until the completion of each test. For these reasons, and others, forecasting new business adoption and future revenue can be very difficult and volatile. However, the Company believes that its solutions offer restaurants, fresh food retailers, growers, shippers, processors and distributors an opportunity to differentiate their businesses in ways that the shipment of canned and boxed food products cannot, as competition in the grocery market continues to accelerate.

Competition

Zest Labs operates in markets for products and services that are highly competitive and face aggressive competition in all areas of their business.

The market for cloud-based, real-time supply chain analytic solutions—the market in which Zest Labs competes—is rapidly evolving. There are several new competitors with competing technologies, including companies that have greater resources than Ecoark Holdings, which operate in this space. Some of these companies are subsidiaries of large publicly traded companies that have brand recognition, established relationships with retailers, and own the manufacturing process.

Sales and Marketing

We sell our products and services principally through direct sales efforts and the utilization of third-party agents. Zest Labs has marketing operations and programs for demand generation, public relations, and branding/messaging.

Research and Development

We have devoted a substantial amount of our resources to software and hardware development activities in recent years, principally for the Zest Labs initiatives. Ecoark Holdings believes that, analyzing the competitive factors affecting the market for the solutions and services its subsidiaries provide, its products and services compete favorably by offering integrated solutions to customers. The Company has incurred research and development expenses of \$1,685 and \$1,641 in the six months ended September 30, 2019 and 2018, respectively, to develop its solutions and differentiate those solutions from competitive offerings. Expenses in the three months ended September 30, 2019 and 2018 were \$788 and \$771, respectively. We incurred no capitalized software development costs in the six months ended September 30, 2019 and 2018.

Intellectual Property

Ecoark Holdings and its subsidiaries have had 69 patents issued by the United States Patent and Trademark Office, and additional patent applications are currently pending.

Critical Accounting Policies, Estimates and Assumptions

In reading and understanding the Company's discussion of results of operations, liquidity and capital resources, and the audited financial statements that follow, one should be aware of key policies, judgments and assumptions that are important to the portrayal of financial conditions and results. The Company's continuing operations have not generated sufficient revenues and related cash flows to date to fund the Company's operations. That raises a question as to whether we are a "going concern". Because we have been successful at raising capital and have a substantial credit facility in place, we assume that we will continue operations and thus have not used liquidation accounting which would assume that liquidation was imminent.

Since April 1, 2018, revenues were principally from professional services and more importantly from Software as a Service ("SaaS") arrangements that we expect to be a principal source of revenue in the future. We adopted a new accounting policy for revenue recognition on April 1, 2017 that had no impact on historical reported results, and it positions us for what we expect our business to be in the future. It requires judgment to apply, but in plain English it recognizes revenue when the Company fulfills the obligations it has committed to in agreements with customers. Judgment is also required to estimate the costs associated with those revenues. The transition from Financial Accounting Standards Board Accounting Standard Codification ("ASC") 605 to ASC 606, *Revenue*, was not material to our financial statements.

A significant percentage of our operating expenses results from non-cash share-based compensation, which is typical of technology companies. We have granted shares, options and warrants to employees, consultants and investors as incentives to generate success for the Company instead of making cash payments. The accounting calculations for this type of compensation can be complex and are derived from models like the Black-Scholes option pricing model that requires judgment in making assumptions and developing estimates.

We used the Black-Scholes option pricing model to estimate derivative liabilities associated with warrants issued in conjunction with capital raises. See additional discussion of those transactions in Notes 1 and 3 to the financial statements.

We have also invested heavily in research and development expenses. Those investments have required cash payments principally for the development of our software solutions and the testing of those solutions in our labs and on some customer projects. We have not capitalized any of that development effort, so there are no R&D costs to amortize in the future.

Given the strategic focus on Zest Labs moving forward, we divested the remaining assets and operations that principally consisted of our plastic resin and trash can businesses. The decision to divest approved by our Board resulted in the reclassification of current and historical amounts related to those businesses. Judgment was required to estimate the fair value of the assets that we intended to sell prior to the final sales. We recorded impairments or non-cash write-downs of some of those assets, including intangible assets that include goodwill.

We have been conservative in our treatment of income taxes. Our historical losses have resulted in net operating losses for tax purposes. Applying accounting policies, we have recorded a "valuation allowance" against both current and future tax benefits of the losses. We will not recognize any benefits until such time as we are assured that we will generate taxable income.

RESULTS OF OPERATIONS

Overview

The discussion below addresses the Company's operations and liquidity which were impacted by the acquisition of Trend Holdings in May 2019 as described above. Results from Sable, Pioneer Products and Magnolia Solar are included as discontinued operations in the statements of operations and therefore, the revenues and expenses for these entities are not included in the amounts and discussion of results of continuing operations below, except in the Net Loss summary.

Results of Continuing Operations for the Three Months Ended September 30, 2019 and 2018

Revenues, Cost of Revenues and Margins

Revenues for the three months ended September 30, 2019 were \$44 as compared to \$286 for the three months ended September 30, 2018. Professional services revenues of \$28 in 2019 were from management and other fees earned by Trend Holdings compared to \$250 for the three months ended September 30, 2018 from a project with a large retailer related to freshness solutions. SaaS revenues of \$16 in 2019 and \$36 in 2018 were from projects with produce distributors and growers.

Cost of revenues for the three months ended September 30, 2019 was \$16 as compared to \$207 for the three months ended September 30, 2018 resulting in gross profit of \$28 in 2019 and \$79 in 2018. The gross profit in 2019 was due primarily to fees from Trend Holdings and in 2018 from the SaaS projects at Zest.

Operating Expenses

Operating expenses for three months ended September 30, 2019 were \$2,542 as compared to \$3,572 for the three months ended September 30, 2018. The \$1,030 decrease was due primarily to share-based non-cash compensation which decreased by \$382 to \$630 in the three months ended September 30, 2019 from \$1,012 in the three months ended September 30, 2018. Operating expenses excluding share-based non-cash compensation for the three months ended September 30, 2019 decreased \$648 from the three months ended September 30, 2018 due to decreases in depreciation and amortization, professional fees and consulting, salaries and related costs, and decreases in research and development expenditures.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended September 30, 2019 were \$1,683 compared with \$2,493 for the three months ended September 30, 2018. The \$810 decrease was principally due to a \$382 decrease in share-based non-cash compensation, a decrease in the use of consultants and efforts to control general and administrative costs including salaries and related costs and travel and travel-related expenses.

Salaries and related costs for the three months ended September 30, 2019 were \$813, down \$595 from \$1,408 for the three months ended September 30, 2018. The decrease resulted primarily from a \$460 decrease in share-based non-cash compensation. A portion of that cost was derived from estimates of stock option expense calculated using a Black-Scholes model which can vary based on assumptions utilized and share-based compensation expense from awards of stock grants. Additional information on that equity expense can be found in Note 12 to the condensed consolidated financial statements, which complies with critical accounting policies driven by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 718-10. Decreases in the number of employees and related costs also contributed to the reduction in salaries and related costs.

Professional fees and consulting expenses for the three months ended September 30, 2019 of \$546, were up \$260 from \$286 incurred for the three months ended September 30, 2018 was principally due to increased legal expense and costs related to engagement of consultants during the current period.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment expenses for the three months ended September 30, 2019 were \$71 compared to \$308 for the three months ended September 30, 2018. The \$237 decrease primarily resulted from impairments of the intangible assets and Zest hardware assets recorded as of March 31, 2019.

Research and Development

Research and development expense of \$788 in the three months ended September 30, 2019 was essentially flat compared with \$771 during the same period in 2018. The expense related primarily to the development of the Zest Labs freshness solutions.

Interest Expense

Interest expense, net of interest income, for the three months ended September 30, 2019 was \$76 as compared to interest income of \$4 for the three months ended September 30, 2018. The increase in expense resulted from interest on the credit facility and advances from related parties in 2019.

Net Loss

Net loss for the three months ended September 30, 2019 was \$4,389 as compared to \$3,350 for the three months ended September 30, 2018. The \$1,039 increase in net loss was primarily due to \$1,675 decrease in other income from the change in fair value of warrant derivative liabilities and lower gross profit from professional services, the \$839 loss on exchange of warrants for common stock, offset by the absence of the \$576 loss from discontinued operations incurred in 2018, \$382 decrease in non-cash share-based compensation, the decrease of \$595 of salaries and related costs, and the \$237 decrease in depreciation and amortization expense.

Results of Continuing Operations for the Six Months Ended September 30, 2019 and 2018

Revenues, Cost of Revenues and Margins

Revenues for the six months ended September 30, 2019 were \$79 as compared to \$1,039 for the six months ended September 30, 2018. Professional services revenues of \$52 in 2019 were from management and other fees earned by Trend Holdings compared to \$1,000 for the six months ended September 30, 2018 from a project with a large retailer related to freshness solutions. SaaS revenues of \$28 in 2019 and \$36 in 2018 were from projects with produce distributors and growers.

Cost of revenues for the six months ended September 30, 2019 was \$61 as compared to \$637 for the six months ended September 30, 2018 resulting in gross profit of \$18 in 2019 and \$402 in 2018. The significant gross profit in 2018 was directly related to the margin in professional services from the project with a large retailer. The gross profit in 2019 was due primarily to Trend Holdings fee income.

Operating Expenses

Operating expenses for six months ended September 30, 2019 were \$5,065 as compared to \$6,842 for the six months ended September 30, 2018. The \$1,777 decrease was due primarily to share-based non-cash compensation which decreased by \$678 to \$1,422 in the six months ended September 30, 2019 from \$2,100 in the six months ended September 30, 2018. Operating expenses excluding share-based non-cash compensation for the six months ended September 30, 2019 decreased \$1,099 from the six months ended September 30, 2018 due to decreases in depreciation and amortization, decreases in salaries and related costs and the \$839 loss on exchange of warrants for common stock.

Selling, General and Administrative

Selling, general and administrative expenses for the six months ended September 30, 2019 were \$3,232 compared with \$4,584 for the six months ended September 30, 2018. The \$1,352 decrease was principally due to a \$678 decrease in share-based non-cash compensation, a decrease in the use of consultants and efforts to control general and administrative costs including travel and travel-related expenses.

Salaries and related costs for the six months ended September 30, 2019 were \$1,612, down \$1,408 from \$3,020 for the six months ended September 30, 2018. The decrease resulted primarily from a \$1,003 decrease in share-based non-cash compensation. A portion of that cost was derived from estimates of stock option expense calculated using a Black-Scholes model which can vary based on assumptions utilized and share-based compensation expense from awards of stock grants. Additional information on that equity expense can be found in Note 12 to the condensed consolidated financial statements, which complies with critical accounting policies driven by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 718-10. Decreases in the number of employees and related costs also contributed to the reduction in salaries and related costs.

Professional fees and consulting expenses for the six months ended September 30, 2019 of \$901, were up \$210 from \$748 incurred for the six months ended September 30, 2018 as the engagement of consultants was increased and legal expenses were higher during the current period.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment expenses for the six months ended September 30, 2019 were \$148 compared to \$617 for the six months ended September 30, 2018. The \$469 decrease primarily resulted from impairments of the intangible assets and Zest hardware assets recorded as of March 31, 2019.

Research and Development

Research and development expense increased \$44 to \$1,685 in the six months ended September 30, 2019 compared with \$1,641 during the same period in 2018. The expense related primarily to the development of the Zest Labs freshness solutions.

Interest Expense

Interest expense, net of interest income, for the six months ended September 30, 2019 was \$135 as compared to \$7 for the six months ended September 30, 2018. The increase resulted from interest on the credit facility and advances from related parties in 2019 versus interest on convertible notes in 2018.

Net Loss

Net loss for the six months ended September 30, 2019 was \$6,035 as compared to \$6,577 for the six months ended September 30, 2018. The \$542 decrease in net loss was primarily due to the \$1,052 decrease in other income from the change in fair value of warrant derivative liabilities, the absence of the \$1,166 loss from discontinued operations incurred in 2018, the \$678 decrease in non-cash share-based compensation, the \$469 decrease in depreciation and amortization expense and the \$839 loss on exchange of warrants for common stock, offset by lower gross profit from professional services.

Results of Discontinued Operations

Loss from discontinued operations for the three and six months ended September 30, 2018 was \$576 and \$1,166, respectively. Revenues from discontinued operations for the six months were \$5,126, comprised of \$5,066 for Pioneer and Sable and \$60 for Magnolia Solar. Pioneer had a decrease in sales of consumer trash cans made from recycled materials due to a unit price decrease and fewer promotions by a customer. Losses from discontinued operations for the six months were \$1,116 for Pioneer and Sable and \$50 for Magnolia Solar. Pioneer and Sable losses were driven by lower volumes and a unit price decrease as previously described.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

To date we have financed our operations through sales of common stock and the issuance of debt.

At September 30, 2019 and March 31, 2019, we had cash of \$449 and \$244, respectively, and working capital deficits of \$5,797 at September 30, 2019 and \$5,045 at March 31, 2019. The Company is dependent upon raising additional capital from future financing transactions.

Net cash used in operating activities was \$3,134 for the six months ended September 30, 2019, as compared to net cash used in operating activities of \$4,902 for the six months ended September 30, 2018. Cash used in operating activities is related to the Company's net loss partially offset by non-cash expenses, including share-based compensation and depreciation, amortization and impairments.

Net cash provided by investing activities was \$5 for the six months ended September 30, 2019, as compared to net cash used in investing activities of \$184 for the six months ended September 30, 2018.

Net cash provided by financing activities in 2019 were \$3,334 and in 2018 was \$3,679. Cash provided by financing in 2019 includes \$1,980 in proceeds from the issuance of preferred stock, \$951 draw on the credit facility and \$403 advanced from related parties.

At September 30, 2019, Future minimum lease payments required under operating leases of continuing operations are \$25.

Since our inception, the Company has experienced negative cash flow from operations and may experience significant negative cash flow from operations in the future. We will need to raise additional funds in the future to continue to expand the Company's operations and meet its obligations. The inability to obtain additional capital may restrict our ability to grow and may reduce the ability to continue to conduct business operations as a going concern.

Off-Balance Sheet Arrangements

As of September 30, 2019, and March 31, 2019, we had no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that as of the end of the period covered by this report the Company's disclosure controls and procedures were not effective given the identification of three material weaknesses in controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Principal Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

We have advised our audit committee of three material weaknesses in internal control. The first weakness relates to inadequate segregation of duties consistent with control objectives. In an effort to reduce expenses, the Company reduced its accounting and administrative staff at the parent company level to the extent that achieving desired control objectives were deemed at risk.

The second weakness relates to disclosure controls and violations of the Company's delegation of authority and related policies that were established and approved by the board of directors. The Company continues to work with the board and board committees to communicate and reemphasize Company policies including the delegation of authority to reduce the risk of errors or omissions that could result in inaccurate or incomplete disclosures.

The third weakness relates to the failure to recognize derivative liabilities associated with warrants issued in conjunction with capital raises. The transactions were complex financings heavily dependent upon the use of estimates and assumptions and subjective interpretations of generally accepted accounting principles that are now the subject of a proposed Accounting Standards Update for which the FASB is requesting comments.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently involved in any pending legal proceeding or litigation other than a suit filed by the Company in Arkansas on August 1, 2018, and a suit filed against us in Florida on December 12, 2018. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties or businesses are subject, which would reasonably be likely to have a material adverse effect on the Company.

On August 1, 2018, Ecoark Holdings, Inc. and Zest Labs, Inc. filed a complaint against Walmart Inc. in the United States District Court for the Eastern District of Arkansas, Western Division. The complaint includes claims for violation of the Arkansas Trade Secrets Act, violation of the federal Defend Trade Secrets Act, breach of contract, unfair competition, unjust enrichment, breach of the covenant of good faith and fair dealing, conversion and fraud. Ecoark Holdings and Zest Labs are seeking monetary damages and other related relief to the extent it is deemed proper by the court. The Company does not believe that expenses incurred in pursuing the complaint will have a material effect on the Company's net income or financial condition for the fiscal year ended March 31, 2019 or any individual fiscal quarter. On October 22, 2018, the Court issued an order setting a trial date of June 1, 2020. The order also established deadlines for the completion of fact discovery by October 15, 2019, opening expert reports on October 24, 2019, and dispositive motions, on January 22, 2020. The fact discovery phase is complete, and the case is presently in the expert discovery phase.

On December 12, 2018, a complaint was filed against the Company in the Twelfth Judicial Circuit in Sarasota County, Florida by certain investors who invested in the Company before it was public. The complaint alleges that the investment advisors who solicited the investors to invest into the Company made omissions and misrepresentations concerning the Company and the shares. The Company filed a motion to dismiss the complaint which is pending.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business that were discussed in "Risk Factors" in our Registration Statement on Form S-1 filed with the SEC on October 2, 2019.

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

We did not sell any securities during the quarter ended September 30, 2019, which were not registered under the Securities Act of 1933, as amended.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit No. | Description of Exhibit |
|--------------------|---|
| 31.1* | Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification of Chief 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 | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

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.

Ecoark Holdings, Inc.
(Registrant)

Date: November 18, 2019

By: /s/ RANDY MAY
Randy May
Chief Executive Officer
(Principal Executive Officer)

Date: November 18, 2019

By: /s/ WILLIAM B. HOAGLAND
William B. Hoagland
Principal Financial Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
AND RULE 13A-14 OF THE EXCHANGE ACT OF 1934**

CERTIFICATION

I, Randy May, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ecoark Holdings, 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 (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2019

/s/ Randy May

Randy May
Chief Executive Officer and
Principal Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
AND RULE 13A-14 OF THE EXCHANGE ACT OF 1934**

CERTIFICATION

I, William B. Hoagland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ecoark Holdings, 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 (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2019

/s/ William B. Hoagland

William B. Hoagland
Principal Financial and Accounting Officer

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

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy May, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 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.

Date: November 18, 2019

/s/ Randy May

Randy May
Chief Executive Officer and
Principal Executive Officer

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

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William B. Hoagland, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 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.

Date: November 18, 2019

/s/ William B. Hoagland

William B. Hoagland

Principal Financial and Accounting Officer