

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Ecoark Holdings, Inc.

Form: 10-Q/A

Date Filed: 2019-12-11

Corporate Issuer CIK: 1437491

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended September 30, 2018

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)

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 checked="" 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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
---------------------	-------------------	---

There were 51,970,990 shares of the Registrant's \$0.001 par value common stock outstanding as of November 7, 2018.

Explanatory Note

We are amending this Form 10-Q to correct previous reported amounts and disclosures related to the accounting for warrants in connection with capital raises in March 2017, May 2017, March 2018 and August 2018. The results of the corrections impacted the Company's liabilities, stockholders' equity and its results of operations and earnings per share calculations.

INDEX

	<u>Page No.</u>
<u>Part I. Financial Information</u>	1
Item 1. Condensed Consolidated Financial Statements	1
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	34
<u>Part II. Other Information</u>	35
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3. Default Upon Senior Securities	36
Item 4. Mine Safety Disclosures	36
Item 5. Other Information	36
Item 6. Exhibits	37
Signatures	38

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Table of Contents

Balance Sheets	2
Statements of Operations	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 22

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (RESTATED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)

	September 30, 2018 (Restated) (Unaudited)	March 31, 2018 (Restated)
ASSETS		
CURRENT ASSETS		
Cash (\$35 pledged as collateral for credit)	\$ 2,323	\$ 3,730
Accounts receivable, net of allowance of \$585 and \$87 as of September 30, 2018 and March 31, 2018, respectively	1,216	2,617
Prepaid expenses and other current assets	217	242
Current assets held for sale - (Note 2)	768	645
Total current assets	<u>4,524</u>	<u>7,234</u>
NON-CURRENT ASSETS		
Property and equipment, net	2,297	2,619
Intangible assets, net	1,269	1,545
Non-current assets held for sale - (Note 2)	1,137	1,023
Other assets	27	26
Total non-current assets	<u>4,730</u>	<u>5,213</u>
TOTAL ASSETS	<u>\$ 9,254</u>	<u>\$ 12,447</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,243	\$ 2,350
Accrued liabilities	869	1,080
Derivative liabilities	5,228	3,694
Current portion of long-term debt	-	500
Current liabilities held for sale - (Note 2)	3	43
Total current liabilities	<u>7,343</u>	<u>7,667</u>
NON-CURRENT LIABILITIES		
	<u>-</u>	<u>-</u>
COMMITMENTS AND CONTINGENCIES		
Total liabilities	<u>7,343</u>	<u>7,667</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value; 5,000 shares authorized; none issued	-	-
Common stock, \$0.001 par value; 100,000 shares authorized, 52,537 shares issued and 51,963 shares outstanding as of September 30, 2018 and 49,468 shares issued and 48,923 shares outstanding as of March 31, 2018	53	49
Additional paid-in-capital	112,331	108,585
Accumulated deficit	(108,813)	(102,236)
Treasury stock, at cost	(1,660)	(1,618)
Total stockholders' equity	<u>1,911</u>	<u>4,780</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 9,254</u>	<u>\$ 12,447</u>

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

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (RESTATED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018 (Restated)	2017 (Restated)	2018 (Restated)	2017 (Restated)
CONTINUING OPERATIONS:				
REVENUES	\$ 286	\$ 20	\$ 1,039	\$ 21
COST OF REVENUES	207	20	637	33
GROSS PROFIT (LOSS)	79	-	402	(12)
OPERATING EXPENSES:				
Selling, general and administrative	2,493	8,530	4,584	20,466
Depreciation, amortization, and impairment	308	186	617	306
Research and development	771	1,659	1,641	3,233
Total operating expenses	3,572	10,375	6,842	24,005
Loss from continuing operations before other expenses	(3,493)	(10,375)	(6,440)	(24,017)
OTHER INCOME (EXPENSE):				
Change in fair value of derivative liabilities	715	2,161	1,036	5,507
(Interest expense), net of interest income	4	(11)	(7)	(26)
Total other income (expenses)	719	2,150	1,029	5,481
LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(2,774)	(8,225)	(5,411)	(18,536)
DISCONTINUED OPERATIONS:				
Loss from discontinued operations	(576)	(1,574)	(1,166)	(2,162)
Gain on disposal of discontinued operations	-	-	-	636
Total discontinued operations	(576)	(1,574)	(1,166)	(1,526)
PROVISION FOR INCOME TAXES	-	(7)	-	(7)
NET LOSS	\$ (3,350)	\$ (9,806)	\$ (6,577)	\$ (20,069)
NET LOSS PER SHARE				
Basic and diluted: Continuing operations	\$ (0.07)	\$ (0.18)	\$ (0.13)	\$ (0.42)
Discontinued operations	(0.01)	(0.03)	(0.02)	(0.03)
Total	\$ (0.08)	\$ (0.21)	\$ (0.15)	\$ (0.45)
SHARES USED IN CALCULATION OF NET LOSS PER SHARE				
Basic and diluted	50,500	45,101	49,739	44,184

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) (RESTATED)
(DOLLAR AMOUNTS IN THOUSANDS)

	Six Months Ended	
	September 30,	
	2018	2017
	(Restated)	(Restated)
Cash flows from operating activities:		
Net loss	\$ (6,577)	\$ (20,069)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment	617	306
Shares of common stock issued for services rendered	200	1,645
Share-based compensation – stock – employees	1,900	13,214
Share-based compensation due to employment agreements	-	1,500
Change in fair value of derivative liabilities	(1,036)	(5,507)
Loss from discontinued operations	1,166	2,162
Loss on retirement of assets	-	61
Gain on sale of discontinued operations	-	(636)
Changes in assets and liabilities:		
Accounts receivable	1,401	525
Inventory	(147)	(821)
Prepaid expenses	13	(38)
Other current assets	35	(119)
Other assets	-	4
Accounts payable	(1,134)	(72)
Accrued liabilities	(226)	(1,504)
Net cash used in operating activities of continuing operations	(3,788)	(9,349)
Net cash used in discontinued operations	(1,114)	(1,102)
Net cash used in operating activities	(4,902)	(10,451)
Cash flows from investing activities:		
Proceeds from sale of Eco3d	-	2,029
Purchases of property and equipment	(18)	(22)
Net cash provided by (used in) investing activities of continuing operations	(18)	2,007
Net cash used in investing activities of discontinued operations	(166)	(214)
Net cash provided by (used in) investing activities	(184)	1,793
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of fees	4,221	9,106
Repayment of debt	(500)	
Purchase of treasury shares from employees for tax withholdings	(42)	(780)
Net cash provided by financing activities	3,679	8,326
Net decrease in cash	(1,407)	(332)
Cash - beginning of period	3,730	8,648
Cash - end of period	\$ 2,323	\$ 8,316
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 11	\$ 30
Cash paid for income taxes	\$ -	\$ -
SUMMARY OF NONCASH ACTIVITIES:		
Assets acquired via acquisition of 440labs, Inc.:		
Identifiable intangible assets	\$ -	\$ 1,435
Goodwill	\$ -	\$ 65
Other assets	\$ -	\$ 28

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, 2018

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 Ecoark, Inc. and Magnolia Solar Inc.

Ecoark, Inc. (“Ecoark”) was founded in 2011 and is located in Bentonville, Arkansas, the home office for Ecoark and Ecoark Holdings. Ecoark merged into a wholly-owned subsidiary of Magnolia Solar Corporation (“MSC”) on March 24, 2016, with Ecoark as the surviving entity. At the merger, MSC changed its name to Ecoark Holdings, Inc. Ecoark is the parent company of Eco360, Pioneer Products and Zest Labs (formerly known as Intellex Corporation). Ecoark was also the parent company of Eco3d until it was sold in April 2017, as discussed below.

Eco3d, LLC (“Eco3d”) is located in Phoenix, Arizona and provides customers with 3d technologies. Eco3d was formed by Ecoark in November 2013 and Ecoark owned 65% of the LLC. The remaining 35% was reflected as non-controlling interest until September 2016 when Ecoark Holdings issued shares of stock in exchange for the 35% non-controlling interest. Eco3d provides 3d mapping, modeling, and consulting services for clients in retail, construction, healthcare, and other industries throughout the United States. As described further in Note 2, in March 2017 the Ecoark Holdings Board of Directors (“Ecoark Holdings Board” or “Board”) approved a plan to sell Eco3d, and the sale was completed in April 2017.

Eco360, LLC (“Eco360”) is located in Bentonville, Arkansas and has engaged in research and development activities. Eco360 was formed in November 2014 by Ecoark. Eco360 does not currently have any active operations.

Pioneer Products, LLC (“Pioneer Products” or “Pioneer”) is located in Bentonville, Arkansas and is involved in the selling of recycled plastic products. This subsidiary recovers plastic waste from retail supply chains that is converted to new consumer products from the reclaimed materials, completing a closed loop and reducing waste sent to landfills. Pioneer Products was purchased by Ecoark in 2012. Pioneer Products acquired Sable Polymer Solutions, LLC in a stock transaction on May 3, 2016, so its results are included with Pioneer’s since May 2016. As described in Note 2, in May 2018 the Ecoark Holdings Board approved a plan to sell Pioneer. Any proceeds from a sale are not expected to be material.

Sable Polymer Solutions, LLC (“Sable”) is located in Flowery Branch, Georgia and specializes in the sale, purchase, and processing of post-consumer and post-industrial plastic materials. It provides materials to a variety of suppliers and customers throughout the plastics processing industry, from small extruders, molders and scrap collectors to large corporations. As described in Note 2, in May 2018 the Ecoark Holdings Board approved a plan to sell key assets of Sable. An agreement to sell the assets was executed with an expected closing date of August 31, 2018, however, the buyer purportedly failed to obtain financing under terms acceptable to them and did not close timely, so the Company terminated the agreement. Discussions continue with that buyer and several other interested parties.

Zest Labs, Inc. (“Zest Labs”) is located in San Jose, California and offers freshness management solutions for food retailers, restaurants, growers, processors and suppliers. Its Zest Fresh solution is a cloud-based post-harvest freshness management solution that improves delivered freshness and reduces losses due to temperature handling and processing 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. The Company’s Zest Delivery solution offers dynamic monitoring and control for prepared food delivery containers, helping delivery and dispatch personnel ensure the quality and safety of delivered food. Zest Labs (then known as Intellex Corporation) was purchased by Ecoark in September 2013. Effective October 28, 2016, Intellex Corporation changed its name to Zest Labs, Inc. to align its corporate name with its mission and the brand name of its products and services. Zest Labs acquired 440labs, Inc. in a stock transaction on May 23, 2017.

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. 440labs had been a key development partner with Zest Labs for more than four years prior to the May 2017 acquisition, contributing its expertise in scalable enterprise cloud solutions and mobile applications.

Magnolia Solar Inc. (“Magnolia Solar”) is located in Woburn, Massachusetts and 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 a subsidiary of MSC that merged with Ecoark on March 24, 2016 to create Ecoark Holdings and continues operations as a subsidiary of Ecoark Holdings. As described in Note 2, in May 2018 the Ecoark Holdings Board approved a plan to sell Magnolia Solar. Any proceeds from a sale are not expected to be material.

Fiscal Year-End Change

On January 19, 2017, the Ecoark Holdings Board approved a change from a fiscal year ending on December 31 to a fiscal year ending on March 31 as permitted by the bylaws of Ecoark Holdings. The change applied to all subsidiaries except Eco3d which was sold in April 2017.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

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, 2018. 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, 2017 condensed consolidated financial statements to be consistent with the September 30, 2018 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 and 2017.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. Management evaluates all of the Company's financial instruments, including warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. The Company generally uses a Black-Scholes model, as applicable, to value the derivative instruments at inception and subsequent valuation dates when needed. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is remeasured at the end of each reporting period. The Black-Scholes model is used to estimate the fair value of the derivative liabilities. Applying this accounting policy resulted in restatements of prior periods as more fully described in Note 15.

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. As a result of Sable, Pioneer and Magnolia Solar being classified as discontinued operations, the Company and its Chief Operating Decision Makers determined that the Company's operations now consist of only one segment, Zest Labs.

Recent Accounting Pronouncements Pending Adoption

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02 *Leases (Topic 842)* and ASU 2018-11 *Targeted Improvements* on the same topic. ASU 2016-02 changes 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. The Company does not expect that adoption of ASU 2016-02 will have a material impact on our 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, 2018

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 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 is currently in the process of evaluating the impact of the adoption of ASU 2018-07 on its consolidated financial statements.

There were other updates recently issued, most of which represent technical corrections to the accounting literature or application to specific industries or transactions that are not expected to have a material 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 \$108,813 since inception. The accumulated deficit together with losses of \$6,577 for the six months ended September 30, 2018, and net cash used in operating activities in the six months ended September 30, 2018 of \$4,902, 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 raised additional capital through the issuance of common stock, net of fees, in private placements, issuances under equity purchase agreements and sales of convertible notes of \$12,693 in the year ended March 31, 2018 and \$4,221 in the six months ended September 30, 2018. Portions of the capital raise resulted in recognition of derivative liabilities. The Company's ability to raise additional capital through future equity and debt securities issuances, completion of the divesting of non-core assets and resolution of the lawsuit described in Note 12 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. There can also be no assurance that the Company will have met the SEC's Form S-3 eligibility requirements to use its shelf registration. The Company intends to further develop its product offerings and customer bases. 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.

As more fully described in Note 15, in connection with the preparation of the Company's condensed consolidated financial statements as of and for the six and three months ended September 30, 2018, the Company identified inadvertent errors in the accounting for certain embedded derivative liabilities associated with warrants issued as a part of capital raises. 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 condensed consolidated statements of operations.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

NOTE 2: DISCONTINUED OPERATIONS

On April 14, 2017, the Company sold the assets, liabilities and membership interests in Eco3d to a group led by executives of Eco3d after the Company's Board concluded that Eco3d did not fit the future strategic direction of the Company. The Company received \$2,029 in cash and 560 shares of the Company's common stock (including 525 shares that had been exchanged for the noncontrolling interest in September 2016) that was held by executives of Eco3d, which were canceled upon receipt. In accordance with ASC 205-20 and having met the criteria for "held for sale", the Company had reflected amounts relating to Eco3d as a disposal group classified as held for sale at March 31, 2017 and has included amounts relating to Eco3d as part of discontinued operations. Eco3d had \$188 in revenues and a \$57 loss in the first two weeks of April 2017 that are included in the table below. There was no significant continuing involvement with Eco3d.

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 are included in assets held for sale and their ongoing operations are classified in discontinued operations. An agreement to sell the key assets of Sable was executed with an expected closing date of August 31, 2018, however, the buyer purportedly failed to obtain financing under terms acceptable to them and did not close timely, so the Company terminated the agreement. Discussions continue with that buyer and several other interested parties. Any proceeds from a sale of Pioneer or Magnolia Solar or their assets are not expected to be material.

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 sheets (principally relating to Sable) consisted of the following:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Inventory	\$ 757	\$ 611
Other current assets	11	34
Current assets – held for sale	<u>\$ 768</u>	<u>\$ 645</u>
Property and equipment, net	\$ 1,112	\$ 995
Other assets	25	28
Non-current assets – held for sale	<u>\$ 1,137</u>	<u>\$ 1,023</u>
Accounts payable	\$ 3	\$ 30
Accrued liabilities	-	13
Current liabilities – held for sale	<u>\$ 3</u>	<u>\$ 43</u>

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

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

	Six Months Ended	
	September 30,	
	2018	2017
Revenues	\$ 5,126	\$ 4,578
Cost of revenues	5,606	5,153
Gross loss	(480)	(575)
Operating expenses	686	1,587
Loss from discontinued operations	<u>\$ (1,166)</u>	<u>\$ (2,162)</u>
Non-cash expenses	\$ 52	\$ 1,060

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 costs. Capital expenditures of discontinued operations were principally at Sable and amounted to \$166 and \$214 for the six months ended September 30, 2018 and 2017, respectively.

Gain on the sale of Eco3d of \$636 was recognized in discontinued operations in the three months ended June 30, 2017.

NOTE 3: REVENUES

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which the Company early adopted effective April 1, 2017. No cumulative adjustment to accumulated deficit was required, and the early adoption did not have a material impact on our consolidated financial statements, as no material arrangements prior to the adoption were impacted by the new pronouncement. Revenues for the six months ended September 30 were from Walmart and several Software as a Service ("SaaS") projects in 2018, including a project with Costco, and from SaaS projects and the sale of hardware in 2017. After paying invoices for \$1,000 through June, Walmart has not paid the final \$500. As a result, the Company has established an allowance for doubtful accounts of \$500 until the matter is resolved.

The following table disaggregates the Company's revenues by major source (unaudited):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:				
Walmart	\$ 250	\$ -	\$ 1,000	\$ -
Software as a Service	36	20	39	20
Hardware sales	-	-	-	1
	<u>\$ 286</u>	<u>\$ 20</u>	<u>\$ 1,039</u>	<u>\$ 21</u>

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Zest Labs SaaS hardware	\$ 2,495	\$ 2,477
Computers and software costs	400	400
Machinery and equipment	211	211
Furniture and fixtures	89	89
Leasehold improvements	4	4
Total property and equipment	<u>3,199</u>	<u>3,181</u>
Accumulated depreciation and impairment	<u>(902)</u>	<u>(562)</u>
Property and equipment, net	<u>\$ 2,297</u>	<u>\$ 2,619</u>

During the year ended March 31, 2018 Zest Labs entered into SaaS contracts with customers and \$2,477 of assets previously classified as inventory were reclassified to property and equipment as of March 31, 2018. These assets will be used in the satisfaction of performance obligations to customers and depreciated over estimated useful lives of three to seven years.

Depreciation expense for the six months ended September 30, 2018 and 2017 was \$340 and \$62, respectively. The increase was due to depreciation on the Zest Labs assets described above.

Property and equipment for Sable has been reclassified as assets held for sale as more fully described in Note 2 and accordingly depreciation expense for Sable through May 2018 has been included in the loss from discontinued operations. In accordance with accounting principles, depreciation of Sable assets ceased when classified as held for sale.

NOTE 5: INTANGIBLE ASSETS

Intangible assets consisted of the following:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Patents	\$ 1,013	\$ 1,013
Outsourced vendor relationships	1,017	1,017
Non-compete agreements	340	340
Total intangible assets	<u>2,370</u>	<u>2,370</u>
Accumulated amortization and impairment	<u>(1,101)</u>	<u>(825)</u>
Intangible assets, net	<u>\$ 1,269</u>	<u>\$ 1,545</u>

The outsourced vendor relationships and non-compete agreements were recorded as part of the acquisition of 440 labs described in Note 11 below.

Amortization expense for the six months ended September 30, 2018 and 2017 was \$276 and \$244, respectively. Amortization for the intangible assets related to the discontinued operations for the six months ended September 30, 2017 is included in the loss from discontinued operations.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

NOTE 6: ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	September 30, 2018 <u>(Unaudited)</u>	March 31, 2018
Vacation and paid time off	\$ 285	\$ 278
Professional fees and consulting costs	196	325
Payroll and employee expenses	87	75
Legal fees	89	100
Hardware in transit	-	26
Other	212	276
	<u>\$ 869</u>	<u>\$ 1,080</u>

NOTE 7: 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. The convertible note was part of the financing the Company entered into in the three months ended March 31, 2017.

Interest expense on debt for the six months ended September 30, 2018 and 2017 was \$11 and \$30, respectively.

NOTE 8: 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. No preferred shares have been issued.

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 of 13,751 as of September 30, 2018 that are exercisable into shares of common stock.

In August 2018, the Company completed a reserved private placement agreement related to the issuance and sale of 2,969 shares of common stock that raised \$4,221 (net of fees) to institutional investors. The investors also received 2,969 warrants exercisable into common stock at an exercise price of \$2.09. The Company also provided 208 warrants at an exercise price of \$1.92 to the investment banker in the transaction. Of the total net proceeds of \$4,221, \$2,892 were determined to be warrant liabilities, and \$322 of the fees that were considered related to liabilities were charged to other expense.

On March 16, 2018, the Company had issued 2,500 warrants to institutional investors that purchased 2,500 shares of common stock in a reserved private placement. The warrants had a strike price of \$2.00 and mature in March 2023. In addition, the investment bankers for the transaction received warrants to purchase 88 shares of common stock with the same terms as the investors, and the investment bankers from the May 22, 2017 reserved private placement received warrants to purchase 175 shares of common stock for \$2.10 for up to five years pursuant to an exclusivity clause.

Both the March 16, 2018 and August 14, 2018 warrant issuances resulted in the Company's recognition of derivative liabilities.

In the six months ended September 30, 2018, the Company issued 47 shares of common stock pursuant to stock awards granted from the 2013 Ecoark Holdings Incentive Stock Plan ("2013 Incentive Stock Plan"), net of 29 shares of common stock acquired from employees in lieu of amounts required to satisfy minimum withholding requirements upon vesting of the employees' stock. The Company also issued 25 shares to an advisor to the Company pursuant to a stock award granted from the 2017 Ecoark Holdings Omnibus Incentive Plan ("2017 Omnibus Incentive Plan").

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

Share-based Compensation

The 2013 Incentive Stock Plan was registered on February 7, 2013. Under the 2013 Incentive Stock Plan, the Company may grant incentive stock in the form of stock options, stock awards and stock purchase offers of up to 5,500 shares of common stock to Company employees, officers, directors, consultants and advisors. The type of grant, vesting provisions, exercise price and expiration dates are to be established by the Board at the date of grant.

The 2017 Omnibus Incentive Plan was registered on June 14, 2017. Under the 2017 Omnibus Incentive Plan, the Company may grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other awards. Awards of up to 4,000 shares of common stock to Company employees, officers, directors, consultants and advisors are available under the 2017 Omnibus Incentive Plan. The type of grant, vesting provisions, exercise price and expiration dates are to be established by the Board at the date of grant.

During the year ended March 31, 2018, the Compensation Committee of the Board of Directors of the Company issued non-qualified stock option awards to individuals in replacement of existing restricted stock and restricted stock unit awards previously granted.

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

	<u>2013 Incentive Stock Plan</u>	<u>2017 Omnibus Incentive Plan</u>	<u>Non-Qualified Stock Options</u>	<u>Common Stock</u>	<u>Total</u>
Six months ended September 30, 2018					
Directors	\$ -	\$ 200	\$ -	\$ -	\$ 200
Employees	285	286	1,329	-	1,900
	<u>\$ 285</u>	<u>\$ 486</u>	<u>\$ 1,329</u>	<u>\$ -</u>	<u>\$ 2,100</u>
Six months ended September 30, 2017					
Directors	\$ -	\$ 250	\$ -	\$ -	\$ 250
Employees	11,253	1,961	-	1,500	14,714
Amortization of services cost	1,395	-	-	-	1,395
	<u>\$ 12,648</u>	<u>\$ 2,211</u>	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 16,359</u>

NOTE 9: INCOME TAXES

The Company has a net operating loss carryforward for tax purposes totaling approximately \$95,925 at September 30, 2018. 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, 2018 and 2017 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:

	<u>September 30, 2018</u>	<u>March 31, 2018</u>
	<u>(Unaudited)</u>	
Net operating loss carryover	\$ 22,557	\$ 23,230
Depreciable and amortizable assets	1,184	1,168
Share-based compensation	3,269	2,858
Inventory reserve		3
Accrued liabilities	58	58
Allowance for bad debts	118	13
Change in fair value of derivative liabilities	(218)	(1,956)
Effect of reduction in rate	-	(994)
Other	333	328
Less: valuation allowance	(27,301)	(24,708)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

After consideration of all the evidence, both positive and negative, management has recorded a full valuation allowance at September 30, 2018 and March 31, 2018, due to the uncertainty of realizing the deferred income tax assets. The valuation allowance increased by \$2,593 in the six months ended September 30, 2018. The Company has not identified any uncertain tax positions and has not received any significant notices from tax authorities.

On December 22, 2017, Public Law 115-97, informally referred to as the Tax Cuts and Jobs Act ("TCJA") was enacted into U.S. law. The TCJA provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended, that impact corporate taxation requirements. Effective January 1, 2018, the federal tax rate for corporations was reduced from 35% to 21% for U.S. taxable income. That required a one-time remeasurement of deferred taxes to reflect their value at a lower rate of 21%. Accordingly, the components of deferred tax assets in the table above have been remeasured at 21%. Additionally, the new tax law requires specified research and development or experimentation expenses paid or incurred after December 31, 2021 be capitalized and amortized ratably over a five-year period. That has the potential to impact the Company in the future. We continue to evaluate the impact of the TCJA.

NOTE 10: CONCENTRATIONS

During the six months ended September 30, 2018 and 2017 the Company had one major customer in each period comprising 96% and 83% of sales, respectively. A major customer is defined as a customer that represents 10% or greater of total sales. Additionally, the Company had three customers at September 30, 2018 and March 31, 2018 with accounts receivable balances of 78% of the total accounts receivable. The Company has established an allowance for doubtful accounts for the \$500 receivable from Walmart at September 30, 2018. We do not believe that risk associated with the other customers will have an adverse effect on the business.

In addition, during the six months ended September 30, 2018, the Company had one major vendor comprising 21% of purchases. No such concentration existed in 2017. A major vendor is defined as a vendor that represents 10% or greater of total purchases. Alternative sources exist such that the risk associated with the vendor is not expected to have an adverse effect on the Company. Additionally, the Company had one vendor as of both September 30, 2018 and March 31, 2018 representing 24% and 27%, respectively, of total accounts payable.

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

NOTE 11: ACQUISITION OF 440labs, Inc.

On May 18, 2017, the Company entered into an exchange agreement (the "Exchange Agreement") with Zest Labs, 440labs, Spherelt, LLC, a Massachusetts limited liability company ("Spherelt") and three of 440labs' executive employees. Pursuant to the Exchange Agreement, on May 23, 2017 the Company acquired all of the shares of 440labs in exchange for 300 shares of the Company's common stock issued to Spherelt. 440labs' three executive employees signed employment agreements pursuant to which each of the three executive employees received 100 shares of the Company's common stock and became employed by Zest Labs.

No cash was paid relating to the acquisition of 440labs. 440labs is a software development and information solutions provider for cloud, mobile, and IoT applications. 440labs' experienced leadership and engineering teams will augment Zest Labs' development of modern, enterprise scale solutions that robustly connect to distributed IoT deployments. 440labs blends onshore and offshore resources to optimize development and provide extended runtime operations coverage, critical to broad-based deployments.

The Company acquired the assets and liabilities noted below in exchange for the 300 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:

Identifiable intangible assets	\$	1,435
Goodwill		65
	<u>\$</u>	<u>1,500</u>

The primary business of 440labs is providing development services to Zest Labs. In consolidation, the revenues of 440labs prior to the acquisition would have been eliminated against the expenses of Zest Labs that were paid to 440labs, resulting in an insignificant impact to the net losses of the Company. The goodwill is not expected to be deductible for tax purposes. The goodwill was tested for impairment and written off in the quarter ended March 31, 2018 along with the intangible asset related to one of the executive employees who resigned from the Company.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

NOTE 12: COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On August 1, 2018, Ecoark Holdings and Zest Labs filed a complaint against Walmart Inc. in the United States District Court for the Eastern District of Arkansas, Western Division (the "Court"). 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 damages of more than two billion dollars 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.

On June 20, 2018, a complaint against the Company and certain affiliates was filed by Ridgeline, LLC in the U.S. District Court - Northern District of California. The complaint refers to an advisory agreement dated January 1, 2015 with Ecoark, Inc., a subsidiary of the Company, in which Ridgeline was to provide advice and consultation to Ecoark, Inc. in exchange for consulting fees, expenses and a warrant to purchase equity in Ecoark, Inc. The complaint seeks judgment for compensatory damages in excess of \$75, specific performance regarding delivery of a warrant, attorney's fees, interest and other relief. The Company has filed a motion to dismiss the complaint, and Company counsel has advised us that it is remote that the complaint, if decided adversely to or settled by the Company, will result in a liability material to the Company's financial condition or results of operations.

Operating Leases

The Company leases many of its operating and office facilities for various terms under long-term, non-cancelable operating lease agreements. These leases expire at various dates through 2020. Rent expense for continuing operations was \$111 and \$152 in the six months ended September 30, 2018 and 2017, respectively. Future minimum lease payments required under the operating leases for continuing operations are as follows: fiscal 2019 - \$74 and fiscal 2020 - \$113. Including the lease at Sable would result in minimum lease payments in the following fiscal years of \$266 in 2019, \$496 in 2020, \$386 in 2021, \$389 in 2022 and \$293 in 2023.

NOTE 13: WARRANT DERIVATIVE LIABILITIES

As described herein, the Company issued common stock and warrants in 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 Derivative Warrant Instruments 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.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

On the date of inception, the fair value of the March 2017 warrants of \$4,609 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.13% an expected term of 5.0 years, an expected volatility of 107% and a 0% dividend yield. At March 31, 2017, the fair value of the March 2017 warrants of \$3,351 was determined using the Black-Scholes Model based on a risk-free interest rate of 1.93% an expected term of 4.9 years, an expected volatility of 105% and a 0% dividend yield. At March 31, 2018, the fair value of the March 2017 warrants of \$537 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.56% an expected term of 4.0 years, an expected volatility of 91% and a 0% dividend yield. At September 30, 2018, the fair value of the March 2017 warrants of \$486 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.94% an expected term of 3.5 years, an expected volatility of 96% and a 0% dividend yield. This includes the adjustment related to the change in strike price as a result of the ratchet provision.

On the date of inception, the fair value of the May 2017 warrants of \$7,772 was determined using the Black-Scholes Model based on a risk-free interest rate of 1.80% an expected term of 5.0 years, an expected volatility of 101% and a 0% dividend yield. At March 31, 2018, the fair value of the May 2017 warrants of \$1,001 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.56% an expected term of 4.17 years, an expected volatility of 91% and a 0% dividend yield. At September 30, 2018, the fair value of the May 2017 warrants of \$942 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.94% an expected term of 3.67 years, an expected volatility of 96% and a 0% dividend yield. This includes the adjustment related to the change in strike price as a result of the ratchet provision.

On the date of inception, the fair value of the March 2018 warrants of \$3,023 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.65% an expected term of 5.0 years, an expected volatility of 91% and a 0% dividend yield. At March 31, 2018, the fair value of the March 2018 warrants of \$2,156 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.56% an expected term of 5.0 years, an expected volatility of 91% and a 0% dividend yield. At September 30, 2018, the fair value of the March 2018 warrants of \$1,701 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.94% an expected term of 4.5 years, an expected volatility of 96% and a 0% dividend yield. This includes the adjustment related to the change in strike price as a result of the ratchet provision.

On the date of inception, the fair value of the August 2018 warrants of \$2,892 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.77% an expected term of 5.00 years, an expected volatility of 97% and a 0% dividend yield. At September 30, 2018, the fair value of the August 2018 warrants of \$2,099 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.94% an expected term of 4.92 years, an expected volatility of 96% and a 0% dividend yield. This includes the adjustment related to the change in strike price as a result of the ratchet provision.

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

	September 30, 2018	March 31, 2018	Inception
Fair value of 1,000 March 17, 2017 warrants	\$ 486	\$ 537	\$ 4,609
Fair value of 1,875 May 22, 2017 warrants	942	1,001	7,772
Fair value of 2,565 March 16, 2018 warrants	1,701	2,156	3,023
Fair value of 2,969 August 14, 2018 warrants	2,099	-	2,892
	<u>\$ 5,228</u>	<u>\$ 3,694</u>	<u>\$ 18,296</u>

During the six months ended September 30, 2018 and 2017 the Company recognized changes in the fair value of the derivative liabilities of \$1,036 and \$5,507, 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, 2018

NOTE 14: 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.

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, 2017 and March 31, 2017. 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 of the warrant derivative liabilities disclosed in Note 13 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.

The following table presents assets and liabilities that are measured and recognized at fair value on a recurring basis as of and for the periods September 30, 2018 and March 31, 2018:

September 30, 2018	Level 1	Level 2	Level 3	Total Gains and (Losses)
Warrant derivative liabilities	-	-	\$ 5,228	\$ 1,036
March 31, 2018				
Warrant derivative liabilities	-	-	\$ 3,694	\$ 9,316

NOTE 15: RESTATEMENTS

In connection with the preparation of the Company’s consolidated financial statements as of and for the six and three months ended September 30, 2018, 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 is restating herein its previously issued condensed consolidated financial statements and the related disclosures for the six and three months ended September 30, 2018 and 2017, 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 derivatives liability of \$3,351, offset by a reduction in additional paid-in-capital of \$4,180 and a reduction of accumulated deficit of \$829.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

The categories of misstatements and their impact on previously reported condensed consolidated financial statements for the periods is 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 following notes to the financial statements have been restated to reflect the corrections of misstatements discussed above as well as to add disclosure language as appropriate:

Note 1: Organization and Summary of Significant Accounting Policies

Note 13: Warrant Derivative Liabilities

Note 14: Fair Value Measurements

The financial statement misstatements reflected in previously issued condensed 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, 2018

Comparison of restated financial statements to financial statements as previously reported

The following tables compare the Company's previously issued Condensed Consolidated Balance Sheet, Condensed Consolidated Statements of Operations, and Consolidated Statement of Cashflows as of and for the six and three months ended September 30, 2018 to the corresponding restated condensed consolidated financial statements for that period.

	September 30, 2018	(Dollars in thousands, except per share data)	
		Restatement Adjustment	September 30, 2018
	As Reported		As Restated
ASSETS			
CURRENT ASSETS			
Cash (\$35 pledged as collateral for credit)	\$ 2,323	\$ -	\$ 2,323
Accounts receivable, net of allowance of \$585	1,216	-	1,216
Prepaid expenses	217	-	217
Current assets held for sale	768	-	768
Total current assets	<u>4,524</u>	<u>-</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>-</u>	<u>4,730</u>
TOTAL ASSETS	<u>\$ 9,254</u>	<u>-</u>	<u>\$ 9,254</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	\$ 1,243	\$ -	\$ 1,243
Accrued liabilities	869	-	869
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>
NON-CURRENT LIABILITIES			
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, 52,537 shares issued and 51,963 shares outstanding as of September 30, 2018	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
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

	Six Months Ended September 30, 2018 <u>As Reported</u>	Restatement Adjustment	Six Months Ended September 30, 2018 <u>As Restated</u>
CONTINUING OPERATIONS:			
REVENUES	\$ 1,039	\$ -	\$ 1,039
COST OF REVENUES	<u>637</u>	<u>-</u>	<u>637</u>
GROSS PROFIT (LOSS)	402	-	402
OPERATING EXPENSES:			
Selling, general and administrative	4,584	-	4,584
Depreciation, amortization and impairment	617	-	617
Research and development	<u>1,641</u>	<u>-</u>	<u>1,641</u>
Total operating expenses	<u>6,842</u>	<u>-</u>	<u>6,842</u>
Loss from continuing operations before other expenses	(6,440)	-	(6,440)
OTHER INCOME (EXPENSE):			
Change in fair value of derivative liabilities	-	1,036	1,036
Interest expense, net of interest income	<u>(7)</u>	<u>-</u>	<u>(7)</u>
Total other income (expenses)	<u>(7)</u>	<u>1,036</u>	<u>1,029</u>
LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	<u>(6,447)</u>	<u>1,036</u>	<u>(5,411)</u>
DISCONTINUED OPERATIONS:			
Income (loss) from discontinued operations	(1,166)	-	(1,166)
Gain on disposal of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>
Total discontinued operations	<u>(1,166)</u>	<u>-</u>	<u>(1,166)</u>
PROVISION FOR INCOME TAXES	-	-	-
NET LOSS	<u>(7,613)</u>	<u>1,036</u>	<u>(6,577)</u>
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-
NET LOSS ATTRIBUTABLE TO CONTROLLING INTEREST	<u>\$ (7,613)</u>	<u>\$ 1,036</u>	<u>\$ (6,577)</u>
NET LOSS PER SHARE			
Basic and diluted: Continuing operations	\$ (0.13)	\$ -	\$ (0.13)
Discontinued operations	<u>(0.02)</u>	<u>-</u>	<u>(0.02)</u>
Total	<u>\$ (0.15)</u>	<u>\$ -</u>	<u>\$ (0.15)</u>
SHARES USED IN CALCULATION OF NET LOSS PER SHARE			
Basic and diluted	49,739	-	49,739

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

	Three Months Ended September 30, 2018 <u>As Reported</u>	Restatement Adjustment	Three Months Ended September 30, 2018 <u>As Restated</u>
CONTINUING OPERATIONS:			
REVENUES	\$ 286	\$ -	\$ 286
COST OF REVENUES	<u>207</u>	<u>-</u>	<u>207</u>
GROSS PROFIT (LOSS)	79	-	79
OPERATING EXPENSES:			
Selling, general and administrative	2,493	-	2,493
Depreciation, amortization and impairment	308	-	308
Research and development	771	-	771
Total operating expenses	<u>3,572</u>	<u>-</u>	<u>3,572</u>
Loss from continuing operations before other expenses	(3,493)	-	(3,493)
OTHER INCOME:			
Change in fair value of derivative liabilities	-	715	715
Interest expense, net of interest income	4	-	4
Total other income	<u>4</u>	<u>715</u>	<u>719</u>
LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	<u>(3,489)</u>	<u>715</u>	<u>(2,774)</u>
DISCONTINUED OPERATIONS:			
Income (loss) from discontinued operations	(576)	-	(576)
Gain on disposal of discontinued operations	-	-	-
Total discontinued operations	<u>(576)</u>	<u>-</u>	<u>(576)</u>
PROVISION FOR INCOME TAXES	-	-	-
NET LOSS	(4,065)	715	(3,350)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-
NET LOSS ATTRIBUTABLE TO CONTROLLING INTEREST	<u>\$ (4,065)</u>	<u>\$ 715</u>	<u>\$ (3,350)</u>
NET LOSS PER SHARE			
Basic and diluted: Continuing operations	\$ (0.07)	\$ -	\$ (0.07)
Discontinued operations	<u>(0.01)</u>	<u>-</u>	<u>(0.01)</u>
Total	<u>\$ (0.08)</u>	<u>\$ -</u>	<u>\$ (0.08)</u>
SHARES USED IN CALCULATION OF NET LOSS PER SHARE			
Basic and diluted	50,500		50,500

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

	Six Months Ended September 30, 2018 <u>As Reported</u>	Restatement Adjustment	Six Months Ended September 30, 2018 <u>As Restated</u>
Cash flows from operating activities:			
Net loss attributable to controlling interest	\$ (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
Change in value of derivative liabilities		(1,036)	(1,036)
(Income) loss from discontinued operations	1,166		1,166
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>-</u>	<u>(3,788)</u>
Net cash used in discontinued operations	<u>(1,114)</u>	<u>-</u>	<u>(1,114)</u>
Net cash used in operating activities	<u>(4,902)</u>	<u>-</u>	<u>(4,902)</u>
Cash flows from investing activities:			
Net cash used in investing activities – discontinued operations	(166)	-	(166)
Purchases of property and equipment	(18)	-	(18)
Net cash used in investing activities	<u>(184)</u>	<u>-</u>	<u>(184)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of fees	4,221	-	4,221
Purchase of treasury shares from employees	(42)	-	(42)
Repayments of debt	(500)	-	(500)
Net cash provided by financing activities	<u>3,679</u>	<u>-</u>	<u>3,679</u>
NET DECREASE IN CASH	<u>(1,407)</u>	<u>-</u>	<u>(1,407)</u>
Cash - beginning of period	3,730	-	3,730
Cash - end of period	<u>\$ 2,323</u>	<u>\$ -</u>	<u>\$ 2,323</u>
SUPPLEMENTAL DISCLOSURES:			
Cash paid for interest	\$ 11	\$ -	\$ 11
Cash paid for income taxes	\$ -	\$ -	\$ -

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2018

NOTE 16: SUBSEQUENT EVENTS

Subsequent to September 30, 2018, the Company has issued 11 shares of common stock pursuant to stock awards granted from the 2013 Incentive Stock Plan. The Company acquired 4 shares of common stock from the employees in lieu of amounts required to satisfy minimum withholding requirements upon vesting of the employees' stock.

Refer to Note 12 above for developments in legal proceedings.

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/A.

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

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. The subsidiary Eco3d, LLC (“Eco3d”) was sold on April 14, 2017 and is also reported as held for sale and discontinued operations in the consolidated financial statements. The Company has 20 employees of continuing operations and no employees of discontinued operations as of the date of this filing.

Our principal executive offices are located at 5899 Preston Road #505, Frisco, TX 75034, and our telephone number is (479) 259-2977. Our website address is www.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 food retailers and restaurants, growers, processors, distributors and suppliers. Its Zest Fresh solution is a cloud-based post-harvest shelf-life and freshness management solution that improves delivered freshness of products 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.

Zest Labs was previously known as Intellex Corporation. Effective on October 28, 2016, Intellex Corporation changed its name to Zest Labs, Inc. to align its corporate name with its mission and the brand name of its products and services.

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 dynamically determines the actual shelf life of the tracked product, differentiated from the assumed shelf life reflected by date labels. Zest Labs has found that for most produce, the implied shelf life from date labels can be wrong roughly 30% of the time. As produce date labels are typically the same date for all product harvested on the same day, roughly 30% of the product harvested may have less shelf life than reflected on the date label. The ZIPR Code addresses this shortcoming with its dynamic shelf life determination based on actual handling at the pallet level. The ZIPR code empowers better decisions on routing and customer determination, significantly reducing waste due to early spoilage.

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 67 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.

On May 18, 2017, the Company entered into an exchange agreement (the “Exchange Agreement”) with Zest Labs, 440labs, Inc., a Massachusetts corporation (“440labs”), Spherelt, LLC, a Massachusetts limited liability company (“Spherelt”) and three of 440labs’ executive employees. Pursuant to the Exchange Agreement, on May 23, 2017 the Company acquired all of the shares of 440labs in exchange for 300 shares of the Company’s common stock issued to Spherelt. 440labs is a cloud and mobile software developer which is now a subsidiary of Zest Labs. 440labs’ three executive employees signed employment agreements pursuant to which each of the three executive employees received 100 shares of the Company’s common stock and became employed by Zest Labs.

The acquisition of 440labs in May 2017 allowed Zest Labs to internally maintain its software development and information solutions for cloud, mobile, and IoT applications. 440labs had been a key development partner with Zest Labs for more than four years prior to the May 2017 acquisition, contributing its expertise in scalable enterprise cloud solutions and mobile applications.

Discontinued Operations

Pioneer Products is located in Bentonville, Arkansas and is involved in the selling of recycled plastic products. This subsidiary recovers plastic waste from retail supply chains that is converted to new consumer products from the reclaimed materials, completing a closed loop and reducing waste sent to landfills. Pioneer Products was purchased by Ecoark in 2012. Pioneer Products acquired Sable Polymer Solutions, LLC in a stock transaction on May 3, 2016, so its results are included with Pioneer’s since May 2016. In May 2018 the Ecoark Holdings Board approved a plan to sell Pioneer. Any proceeds from a sale are not expected to be material.

Sable is located in Flowery Branch, Georgia and specializes in the sale, purchase and processing of post-consumer and post-industrial plastic materials. It provides products to a variety of suppliers and customers throughout the plastics processing industry, from small extruders, molders and scrap collectors to large corporations. In May 2018 the Ecoark Holdings Board approved a plan to sell key assets of Sable. An agreement to sell the Sable assets was executed with an expected closing date of August 31, 2018, however, the buyer purportedly failed to obtain financing under terms acceptable to them and did not close timely, so the Company terminated the agreement. Discussions continue with that buyer and several other interested parties.

Magnolia Solar is located in Woburn, Massachusetts and 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. In May 2018 the Ecoark Holdings Board approved a plan to sell Magnolia Solar. Any proceeds from a sale are not expected to be material.

Competition

The Company’s subsidiaries operate 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 such as IBM, Oracle and SAP, 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.

Pioneer Products competes in the market for recycled products to support sustainability programs of its customers. There are currently hundreds of sustainability programs available in the market. These programs are offered through retailers, manufacturers, and service providers. Several competitors operating in this industry are vertically integrated and offer recycled products similar to those sold by Pioneer.

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 \$1,641 and \$3,233 in the six months ended September 30, 2018 and 2017, respectively, to develop its solutions and differentiate those solutions from competitive offerings. We incurred no capitalized software development costs in the six months ended September 30, 2018 and 2017.

Intellectual Property

Ecoark Holdings and its subsidiaries have had 67 patents issued by the United States Patent and Trademark Office, and additional patent applications are currently pending.

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

As more fully described in Note 15 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 condensed consolidated statements of operations. Accordingly, the Company is restating its previously issued condensed consolidated financial statements for the six and three months ended September 30, 2018 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 condensed 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 derivatives 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 three months ended June 30, 2017, other income increased by \$3,346 with a corresponding reduction in net loss from \$13,609 to \$10,263.

For the three and six months ended September 30, 2017, other income increased by \$2,161 and \$5,507, respectively, with corresponding reductions in net loss from \$11,967 to \$9,806 and from \$25,576 to \$20,069, respectively.

For the three and nine months ended December 31, 2017, other income increased by \$1,738 and \$7,245, respectively, with corresponding reductions in net loss from \$10,017 to \$8,279 and from \$35,593 to \$28,348, respectively.

For the year ended March 31, 2018, other income increased by \$9,316 with a corresponding reduction in net loss from \$42,152 to \$32,836.

For the three months ended June 30, 2018, other income increased by \$321 with a corresponding reduction in net loss from \$3,548 to \$3,227.

For the three and six months ended September 30, 2018, other income increased by \$715 and \$1,036, respectively, with corresponding reductions in net loss from \$4,065 to \$3,350 and from \$7,613 to \$6,577, respectively.

Critical Accounting Policies, Estimates and Assumptions

In reading and understanding the Company's discussion of results of operations, liquidity and capital resources, and the accompanying financial statements, 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, we assume that we will continue operations and thus have not used liquidation accounting which would assume that liquidation was imminent.

Our revenues from periods prior to fiscal 2018 were generated principally from the sale of hardware. In the six months ended September 30, 2018, revenues were principally from a professional services project 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 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.

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 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 research and development costs to amortize in the future.

Given the strategic focus on Zest Labs moving forward, we are in the process of divesting the remaining assets and operations that principally consist of our plastic resin and trash can business. 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 intend to sell. We have 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 440labs in May 2017 and the sale of Eco3d in April 2017 as described above. Results from Eco3d, 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, 2018 and 2017

Revenues, Cost of Revenues and Margins

Revenues for the three months ended September 30, 2018 were \$286 as compared to \$20 for the three months ended September 30, 2017. Revenues of \$250 for the three months ended September 30, 2018 were from Walmart. Walmart has not paid that amount nor \$250 earned in the first fiscal quarter after paying \$1,000 in prior months. Accordingly, we have established an allowance for doubtful accounts in the amount of \$500 in the event that Walmart does not pay these amounts. SaaS revenues of \$36 in 2018 were from projects with Costco and produce distributors and growers, while the revenue in 2017 was from produce growers and distributors.

Cost of revenues for the three months ended September 30, 2018 was \$207 as compared to \$20 for the three months ended September 30, 2017 resulting in gross profit of \$79 in 2018 and zero margin in 2017. The significant increase in gross profit in 2018 was directly related to Walmart.

Operating Expenses

Operating expenses for the three months ended September 30, 2018 were \$3,572 as compared to \$11,494 for the three months ended September 30, 2017. The \$6,803 decrease was due primarily to non-cash share-based compensation which decreased by \$5,595. Operating expenses excluding non-cash share-based compensation for the three months ended September 30, 2018 decreased \$1,208 from the three months ended September 30, 2017 due to decreases in selling, general and administrative expenses and research and development expenditures, each as described below.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended September 30, 2018 were \$2,493 compared with \$8,530 for the three months ended September 30, 2017. The \$6,037 decrease was principally due to a \$5,595 decrease in non-cash share-based compensation. Excluding non-cash share-based compensation for the three months ended September 30, 2018, selling general and administrative expenses decreased \$442 from \$1,923 for the three months ended September 30, 2017 to \$1,481 for the three months ended September 30, 2018, due to decreases in salaries and related costs, a decrease in the use of consultants and efforts to control general and administrative costs including travel and travel-related expenses offset by a \$500 charge for allowance for doubtful accounts related to a Walmart receivable in 2018.

Salaries and related costs for the three months ended September 30, 2018 were \$1,408, down \$5,902 from \$7,310 for the three months ended September 30, 2017. The decrease resulted primarily from a \$5,211 decrease in non-cash share-based compensation along with reductions in staff and salaries of employees that reduced cash expenditures. A portion of the share-based compensation 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 8 to the condensed consolidated financial statements, which complies with critical accounting policies driven by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 718-10.

Professional fees and consulting expenses for the three months ended September 30, 2018 of \$286, were down \$535 from \$821 incurred for the three months ended September 30, 2017 as the engagement of consultants was significantly decreased during the current period.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment expenses for the three months ended September 30, 2018 were \$308 compared to \$186 for the three months ended September 30, 2017. The \$122 increase primarily resulted from depreciation on the \$2,477 of assets previously classified as inventory that were reclassified to property and equipment as of March 31, 2018 as Zest Labs entered into SaaS contracts and the amortization of the identifiable intangible assets related to the 440labs acquisition in 2017.

Research and Development

Research and development expense decreased by \$888 to \$771 in the three months ended September 30, 2018 compared with \$1,659 during the same period in 2017. The reduction in costs related primarily to the maturing of development of the Zest Labs freshness solutions and payments to reimburse Walmart for costs associated with work on a project in 2017 that did not recur in 2018.

Interest Expense

Interest income, net of interest expense for the three months ended September 30, 2018 was \$4 as compared to net interest expense of \$11 for the three months ended September 30, 2017. The change resulted from paying off convertible notes in July 2018 and the resulting elimination of interest expense.

Net Loss

Net loss for the three months ended September 30, 2018 was \$3,350 as compared to \$9,806 for the three months ended September 30, 2017. The \$6,456 decrease in net loss was primarily due to the \$5,595 decrease in non-cash share-based compensation, a decrease in professional fees and a decrease in research and development expenditures, plus a \$998 decrease in loss from discontinued operations and the change in fair value of derivative liabilities.

Results of Continuing Operations for the Six Months Ended September 30, 2018 and 2017

Revenues, Cost of Revenues and Margins

Revenues for the six months ended September 30, 2018 were \$1,039 as compared to \$21 for the six months ended September 30, 2017. Revenues of \$1,000 for the six months ended September 30, 2018 were from Walmart. Walmart has not paid \$500 after paying \$1,000 in prior months. Accordingly, we have established an allowance for doubtful accounts in the amount of \$500 in the event that Walmart does not pay these amounts. SaaS revenues of \$39 in 2018 were from projects with Costco and produce distributors and growers, while the revenue in 2017 was from projects with produce growers and distributors plus the sale of hardware.

Cost of revenues for the six months ended September 30, 2018 was \$637 as compared to \$33 for the six months ended September 30, 2017 resulting in gross profit of \$402 in 2018 and gross loss of \$12 in 2017. The significant increase in gross profit in 2018 was directly related to Walmart. The gross loss in 2017 was due primarily to royalties for cross license agreements on patents imbedded with Zest freshness solutions intellectual property.

Operating Expenses

Operating expenses for the six months ended September 30, 2018 were \$6,842 as compared to \$24,005 for the six months ended September 30, 2017. The \$17,163 decrease was due primarily to non-cash share-based compensation which decreased by \$14,259. Excluding non-cash share-based compensation for the six months ended September 30, 2018, operating expenses decreased \$2,904 due to decreases in selling, general and administrative expenses and research and development expenditures, each as described below.

Selling, General and Administrative

Selling, general and administrative expenses for the six months ended September 30, 2018 were \$4,584 compared with \$20,466 for the six months ended September 30, 2017. The \$15,882 decrease was principally due to a \$14,259 decrease in non-cash share-based compensation, a decrease in salaries and related costs, a decrease in the use of consultants and efforts to control general and administrative costs including travel and travel-related expenses offset by the \$500 charge related to the Walmart receivable.

Salaries and related costs for the six months ended September 30, 2018 were \$3,025, down \$13,903 from \$16,928 for the six months ended September 30, 2017. The decrease resulted primarily from a \$12,814 decrease in non-cash share-based compensation along with reductions in staff and salaries of employees that reduced cash expenditures. A portion of the share-based compensation 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 8 to the condensed consolidated financial statements, which complies with critical accounting policies driven by ASC 718-10.

Professional fees and consulting expenses for the six months ended September 30, 2018 of \$748 were down \$2,011 from \$2,759 incurred for the six months ended September 30, 2017 as the engagement of consultants was significantly decreased during the current period.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment expenses for the six months ended September 30, 2018 were \$617 compared to \$306 for the six months ended September 30, 2017. The \$311 increase primarily resulted from depreciation on the \$2,477 of assets previously classified as inventory that were reclassified to property and equipment as of March 31, 2018 as Zest Labs entered into SaaS contracts and the amortization of the identifiable intangible assets related to the 440labs acquisition in 2017.

Research and Development

Research and development expense decreased by \$1,592 to \$1,641 in the six months ended September 30, 2018 compared with \$3,233 during the same period in 2017. The reduction in costs related primarily to the maturing of development of the Zest Labs freshness solutions and payments to reimburse Walmart for costs associated with work on a project in 2017 that did not recur in 2018.

Interest Expense

Interest expense, net of interest income, for the six months ended September 30, 2018 was \$7 as compared to \$26 for the six months ended September 30, 2017. The decrease in interest expense resulted from a decrease in convertible notes from \$600 to \$500 that had an annual interest rate of 10%. The remaining \$500 debt outstanding was paid in full in July 2018, eliminating interest expense.

Net Loss

Net loss for the six months ended September 30, 2018 was \$6,577 as compared to \$20,069 for the six months ended September 30, 2017. The \$13,492 decrease in net loss was primarily due to the \$14,259 decrease in non-cash share-based compensation, and decreases in salaries, professional fees and research and development expenditures and a \$996 decrease in loss from discontinued operations offset by the absence of the gain on sale of Eco3d of \$636 in April 2017 and the change in fair value of derivative liabilities.

Results of Discontinued Operations

On April 14, 2017, the Company sold the assets, liabilities and membership interests in Eco3d to a group led by executives of Eco3d after the Company's Board concluded that Eco3d did not fit the future strategic direction of the Company. In accordance with ASC 205-20 and having met the criteria for "held for sale", the Company had included amounts relating to Eco3d as part of discontinued operations in the three and six months ended September 30, 2017. In addition, 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 are included in assets held for sale and their ongoing operations are classified in discontinued operations in all periods presented.

Loss from discontinued operations for the three months ended September 30, 2018 was \$576. Revenues from discontinued operations were \$2,647, all from Pioneer and Sable. This represented a 40% increase over 2017 driven by a 1.4 million pound increase in shipments at Sable. Offsetting this, 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 were \$558 for Pioneer and Sable and \$18 for Magnolia Solar. The reduction in net loss from discontinued operations of nearly \$1,000 in 2018 compared with 2017 was principally due to the absence of an impairment charge taken in 2017 and improvements in Sable operations in 2018.

For the three months ended September 30, 2017 loss from discontinued operations was \$1,574. Revenues from discontinued operations were \$1,885 for Pioneer and Sable. Losses from discontinued operations were \$1,531 for Pioneer and Sable, including an impairment charge of \$770, plus \$43 for Magnolia Solar.

Loss from discontinued operations for the six months ended September 30, 2018 was \$1,166. Revenues from discontinued operations were \$5,126, a 12% increase over 2017, comprised of \$5,066 for Pioneer and Sable and \$60 for Magnolia Solar. Sable shipments increased by 1.9 million pounds, while 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 were \$1,116 for Pioneer and Sable and \$50 for Magnolia Solar. The reduction in net loss from discontinued operations of nearly \$1,000 in 2018 compared with 2017 was principally due to the absence of an impairment charge taken in 2017 and improvements in Sable operations in 2018.

For the six months ended September 30, 2017, loss from discontinued operations was \$2,162. Revenues from discontinued operations were \$188 for Eco3d and \$4,390 for Pioneer and Sable, including the impairment charge of \$770, for a total of \$4,578. Losses from discontinued operations were \$57 for Eco3d and \$2,084 for Pioneer and Sable and \$21 at Magnolia Solar.

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, 2018 and March 31, 2018, we had cash of \$2,323 and \$3,730, respectively, and a working capital deficit of \$2,819 at September 30, 2018 compared with a working capital deficit of \$433 at March 31, 2018. The increase in the working capital deficit is the result of the net cash used in operating activities. The Company is dependent upon raising additional capital from future financing transactions, the sale of Sable or other assets and or resolution of the lawsuit with Walmart and the recognition of the derivative liability.

Net cash used in operating activities was \$4,902 for the six months ended September 30, 2018, as compared to net cash used in operating activities of \$10,451 for the six months ended September 30, 2017. 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 used in investing activities was \$184 for the six months ended September 30, 2018, as compared to net cash provided by investing activities of \$1,793 for the six months ended September 30, 2017 which included \$2,029 proceeds from the sale of Eco3d.

Net cash provided by financing activities in 2018 was \$3,679 compared with \$8,326 in 2017, primarily from the issuance of common stock, net of fees, of \$4,221 in 2018 and \$9,106 in 2017. The Company paid off \$500 of debt in July 2018 which completely eliminated all debt from our balance sheet. And we purchased treasury shares from employees for tax withholdings of \$42 in 2018 and \$780 in 2017.

At September 30, 2018, future minimum lease payments required under operating leases of continuing operations by fiscal year are as follows: \$2019 - \$74 and 2020 - \$113. Including the lease at Sable would result in minimum lease payments in the following fiscal years of \$266 in 2019, \$496 in 2020, \$386 in 2021, \$389 in 2022 and \$293 in 2023.

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 Company raised additional capital through the issuance of common stock, net of fees, in private placements, issuances under equity purchase agreements and sales of convertible notes of \$12,693 in the year ended March 31, 2018 and \$4,221 in the six months ended September 30, 2018, primarily through the issuance of registered common stock using a Form S-3 filed with the U.S. Securities and Exchange Commission.

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. Further, there can also be no assurance that the Company will meet the SEC's Form S-3 eligibility requirements to use its shelf registration aggregate if the market value of the outstanding common stock held by the Company's non-affiliates remains below \$75 million.

Generating capital through completion of the divesting of non-core assets and resolution of the lawsuit against Walmart described in Legal Proceedings elsewhere in this quarterly report is also uncertain. 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 September 30, 2018 and March 31, 2018, 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

As required by Rule 13a-15 under the Exchange Act, as of September 30, 2018, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's current management, including the Company's Chief Executive Officer and Principal Financial Officer (Principal Financial and Accounting Officer), who 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 violations of the Company's delegation of authority and related policies that were established and approved by the board of directors. The Company is working 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 accounting for warrants issued in connection with capital raises. The weakness caused us to restate our financial statements. The Company has plans to work with management and consultants to correct the reports that were previously issued and ensure proper reporting in the future.

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, a suit filed against us in California on June 20, 2018, and a suit we filed in Maryland to collect a receivable from a customer. 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 damages of more than two billion dollars 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.

On June 20, 2018, a complaint against the Company and certain affiliates was filed by Ridgeline, LLC in the U.S. District Court - Northern District of California. The complaint refers to an advisory agreement dated January 1, 2015 with Ecoark, Inc., a subsidiary of the Company, in which Ridgeline was to provide advice and consultation to Ecoark, Inc. in exchange for consulting fees, expenses and a warrant to purchase equity in Ecoark, Inc. The complaint seeks judgment for compensatory damages in excess of \$75, specific performance regarding delivery of a warrant, attorney's fees, interest and other relief. Company counsel has advised us that it is remote that the complaint, if decided adversely to or settled by the Company, will result in a liability material to the Company's financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business that were discussed in Part I. "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2018 filed with the SEC on June 28, 2018.

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

We did not sell any securities during the quarter ended September 30, 2018, which were not registered under the Securities Act of 1933, as amended.

The following table contains information regarding shares of common stock withheld from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon vesting of the employees' stock during the three months ended September 30, 2018. The shares of common stock withheld to satisfy tax withholding obligations may be deemed purchases of such shares required to be disclosed pursuant to this Item 2.

<u>(Number of shares in thousands)</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Amount of Shares That May Yet Be Purchased</u>
July 1, 2018 to July 31, 2018	5	\$ 1.59		
August 1, 2018 to August 31, 2018	4	\$ 1.42		
September 1, 2018 to September 30, 2018	4	\$ 1.17		

(1) The average price paid per share is the weighted-average of the fair market prices at which we calculated the number of shares withheld to cover tax withholdings for the employees.

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: December 10, 2019

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

Date: December 10, 2019

By: /s/ WILLIAM B. HOAGLAND
William B. Hoagland
Principal Financial and Accounting 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/A 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: December 10, 2019

/s/ Randy May

Randy May
Chief Executive Officer
(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, Jay Oliphant, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A 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: December 10, 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/A for the quarterly period ended September 30, 2018, 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: December 10, 2019

/s/ Randy May

Randy May
Chief Executive Officer
(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/A for the quarterly period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Oliphant, 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: December 10, 2019

/s/ William B. Hoagland

William B. Hoagland

Principal Financial and Accounting Officer