

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Ecoark Holdings, Inc.

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

☐ 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)

14-1760865

(IRS Employer
Identification No.)

3333 S Pinnacle Hills Parkway, Suite 220, Rogers AR 72758

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(479) 259-2977**

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 or a smaller reporting company. See the definitions of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☐
Smaller reporting company ☒

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

There were 36,770,654 shares of the Registrant's \$0.001 par value common stock outstanding as of November 11, 2016.

Ecoark Holdings, Inc.
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PART I — FINANCIAL INFORMATION

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		(Dollars in thousands, except per share data)	
		September 30, 2016	December 31, 2015
		(Unaudited)	
ASSETS			
CURRENT ASSETS			
Cash	\$	4,871	\$ 1,962
Investments (up to \$2,000 pledged as collateral for lines of credit)		3,509	-
Accounts receivable, net of allowance of \$134 and \$2 as of September 30, 2016 and December 31, 2015, respectively		3,712	972
Inventory, net of reserves		1,466	743
Prepaid expenses		193	161
Other current assets		164	130
Total current assets		13,915	3,968
NON-CURRENT ASSETS			
Property and equipment, net		3,519	363
Intangible assets, net		2,997	852
Other assets		51	25
Total non-current assets		6,567	1,240
TOTAL ASSETS	\$	20,482	\$ 5,208
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Note payable	\$	1,500	\$ -
Current portion of long-term debt		3,386	3,175
Debt - related parties		679	1,329
Accounts payable		2,402	1,074
Accrued expenses		2,350	503
Accrued interest		85	40
Deferred revenue		162	-
Total current liabilities		10,564	6,121
NON-CURRENT LIABILITIES			
Long-term debt, net of current portion		189	-
COMMITMENTS AND CONTINGENCIES			
Total liabilities		10,753	6,121
STOCKHOLDERS' EQUITY (DEFICIT) (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, 36,631 and 27,706 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively (Restated)		37	28
Additional paid-in-capital (Restated)		61,005	35,796
Subscription receivable		-	(55)
Accumulated deficit		(51,313)	(36,587)
Total stockholders' equity (deficit) before non-controlling interest		9,729	(818)
Non-controlling interest		-	(95)
Total stockholders' equity (deficit)		9,729	(913)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$	20,482	\$ 5,208

See accompanying notes to the unaudited consolidated financial statements.

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

(Dollars in thousands,
except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
REVENUES				
Revenue from product sales	\$ 3,860	\$ 1,185	\$ 7,429	\$ 4,194
Revenue from services	1,379	502	3,349	1,990
	<u>5,239</u>	<u>1,687</u>	<u>10,778</u>	<u>6,184</u>
COST OF REVENUES				
Cost of product sales	3,816	1,192	7,431	4,074
Cost of services	539	199	1,229	647
	<u>4,355</u>	<u>1,391</u>	<u>8,660</u>	<u>4,721</u>
GROSS PROFIT	<u>884</u>	<u>296</u>	<u>2,118</u>	<u>1,463</u>
OPERATING EXPENSES:				
Salaries and salary related costs, including stock based compensation	2,061	768	4,718	2,224
Professional fees and consulting	1,676	351	5,259	1,396
General and administrative	936	383	1,929	1,308
Depreciation and amortization	173	400	378	1,234
Research and development	2,435	764	4,130	2,502
Total operating expenses	<u>7,281</u>	<u>2,666</u>	<u>16,414</u>	<u>8,664</u>
Loss from operations	(6,397)	(2,370)	(14,296)	(7,201)
OTHER EXPENSE:				
Interest expense, net of interest income	(92)	(185)	(286)	(585)
Loss on retirement of assets	(25)	-	(25)	-
LOSS BEFORE PROVISION FOR INCOME TAXES	<u>(6,514)</u>	<u>(2,555)</u>	<u>(14,607)</u>	<u>(7,786)</u>
PROVISION FOR INCOME TAXES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>(6,514)</u>	<u>(2,555)</u>	<u>(14,607)</u>	<u>(7,786)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>52</u>	<u>(34)</u>	<u>119</u>	<u>60</u>
NET LOSS ATTRIBUTABLE TO CONTROLLING INTEREST	<u>\$ (6,566)</u>	<u>\$ (2,521)</u>	<u>\$ (14,726)</u>	<u>\$ (7,846)</u>
NET LOSS PER SHARE				
Basic	\$ (0.18)	\$ (0.11)	\$ (0.61)	\$ (0.34)
Diluted	\$ (0.18)	\$ (0.11)	\$ (0.61)	\$ (0.34)
SHARES USED IN CALCULATION OF NET LOSS PER SHARE (Number of shares in thousands)				
Basic	36,193	23,829	24,214	23,167
Diluted	41,189	24,459	35,795	23,660

See accompanying notes to the unaudited consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)

(Dollar amounts and number of shares in thousands)

	Preferred		Common		Additional Paid-In- Capital	Subscription Receivable	Accumulated Deficit	Non- controlling Interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2015 (Restated)	-	\$ -	27,706	\$ 28	\$ 35,796	(55)	\$ (36,587)	\$ (95)	\$ (913)
Re-issuance of treasury shares for cash, net of expenses	-	-	-	-	200	-	-	-	200
Shares issued for cash in private placement, net of expenses	-	-	4,337	4	17,316	-	-	-	17,320
Shares held by Magnolia Solar Corporation at time of merger	-	-	1,351	1	-	-	-	-	1
Shares issued in exercise of warrants	-	-	87	-	425	-	-	-	425
Cancellation of treasury shares at time of merger	-	-	-	-	58	-	-	-	58
Collection of subscription receivable	-	-	-	-	-	55	-	-	55
Shares issued for services rendered	-	-	625	1	2,499	-	-	-	2,500
Stock-based compensation – options	-	-	-	-	904	-	-	-	904
Shares issued for company acquisition	-	-	2,000	2	3,784	-	-	-	3,786
Shares issued in exchange for noncontrolling interest	-	-	525	1	23	-	-	(24)	-
Net loss for the period	-	-	-	-	-	-	(14,726)	119	\$ (14,607)
Balance at September 30, 2016	-	\$ -	36,631	\$ 37	\$ 61,005	\$ -	\$ (51,313)	\$ -	\$ 9,729

See accompanying notes to the unaudited consolidated financial statements.

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

	(Dollars in thousands)	
	Nine months ended	
	September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss attributable to controlling interest	\$ (14,726)	\$ (7,846)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	497	1,234
Stock-based compensation – options	904	316
Shares of common stock issued for services rendered	2,500	25
Loss on retirement of assets	25	-
Shares of treasury stock re-issued for services rendered	-	498
Cash acquired in merger transaction	17	-
Cash acquired in acquisition	41	-
Change in noncontrolling interest on cash	119	60
Changes in assets and liabilities:		
Accounts receivable	(1,490)	(26)
Inventory	36	(56)
Prepaid expenses	(21)	(40)
Other assets	(34)	-
Accounts payable	548	(283)
Accrued expenses	1,702	231
Accrued interest	40	17
Deferred revenue	162	(82)
Net cash used in operating activities	<u>(9,680)</u>	<u>(5,952)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(631)	(44)
Purchases of short-term investments	(3,500)	-
Collection of notes receivable – related party	-	100
Pre-acquisition advance to Sable Polymer Solutions, LLC	(600)	-
Net cash (used in) provided by investing activities	<u>(4,731)</u>	<u>56</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of fees	17,745	-
Collection of subscription receivable	55	31
Re-issuance of treasury shares for cash, net of expenses	200	5,172
Proceeds from draw down on line of credit	203	-
Repayments of long-term debt	(233)	(134)
Proceeds from issuances of debt - related parties	185	1,876
Repayments of debt - related parties	(835)	(2,524)
Net cash provided by financing activities	<u>17,320</u>	<u>4,421</u>
Net increase (decrease) in cash	<u>2,909</u>	<u>(1,475)</u>
Cash - beginning of period	<u>1,962</u>	<u>2,220</u>
Cash - end of period	<u>\$ 4,871</u>	<u>\$ 745</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 262	\$ 560
Cash paid for income taxes	\$ -	\$ -
SUMMARY OF NONCASH ACTIVITIES:		
Intangibles acquired in merger	\$ 77	\$ -
Retirement of equipment	25	-
Payables assumed in merger	\$ 59	\$ -
Assets and liabilities acquired in acquisition of Sable:		
Receivables, net	\$ 1,250	\$ -
Inventory	\$ 759	\$ -
Property and equipment	\$ 2,822	\$ -
Identifiable intangible assets	\$ 1,028	\$ -
Goodwill	\$ 1,264	\$ -
Other assets	\$ 36	\$ -
Payables and liabilities assumed	\$ 883	\$ -
Debt assumed	\$ 2,531	\$ -
Treasury shares repurchased for removal of guarantee	\$ -	\$ 393

See accompanying notes to the unaudited consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2016

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Organization

Ecoark Holdings, Inc. ("Ecoark Holdings") is an innovative and growth-oriented company founded in 2007 that develops and deploys intelligent technologies and products in order to meet the demand for sustainable, integrated solutions to contemporary business needs. Ecoark Holdings is a holding company that integrates the businesses of its subsidiaries to provide technological solutions in several industries that support ecological conservation through improvements in efficiency or reduction of waste.

Ecoark, Inc. ("Ecoark") was founded in 2011 and is located in Rogers, Arkansas, the home office for Ecoark and Ecoark Holdings. Home office staff members are employees of Ecoark that 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 for Eco3D, Eco360, Pioneer Products and Zest Labs, Inc. (formerly known as Intellex Corporation)

Eco3D, LLC ("Eco3D") is located in Phoenix, Arizona and provides customers with the latest 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 multiple other industries throughout the United States and overseas. Eco3D is transitioning businesses from 2D technology that has existed for hundreds of years, to a world of digital 3D. Eco3D incorporates a variety of 3D technologies to achieve customer goals and objectives. Utilizing several techniques, Eco3D can capture existing conditions – topography, buildings, exterior/interior spaces, etc. – in highly accurate detail that allows for 2D and 3D measurement. These measurements form the basis for analysis, design, documentation, and quality control.

Eco360, LLC ("Eco360") is located in Rogers, Arkansas and is engaged in research and development activities. Eco360 was formed in November 2014 by Ecoark.

Pioneer Products, LLC ("Pioneer Products") is located in Rogers, Arkansas and is involved in the selling of recycled plastic products and other products. In addition to a strong and successful relationship with the world's largest retailer, Pioneer Products also has vendor relationships with other key retailers. As such, Pioneer Products strategically leverages its role as a trusted supplier to these retailers with existing and new products. This subsidiary also recovers plastic waste from retail supply chains and creates new consumer products with the reclaimed materials. Pioneer Products was purchased by Ecoark in 2012. Pioneer Products acquired Sable Polymer Solutions, LLC in a stock transaction on May 3, 2016.

Sable Polymer Solutions, LLC ("Sable") is located in Flowery Branch, Georgia and specializes in the sale, purchase and processing of quality post-consumer and post-industrial plastic materials. It provides products and services to a variety of suppliers and customers throughout the plastics processing industry, from small extruders, molders and scrap collectors to multinational corporations.

Zest Labs, Inc. ("Zest Labs") is located in San Jose, California and provides food retailers and suppliers intelligent, on-demand solutions for retailers and companies that ship and store products for perishable food quality management. Zest Labs' ZEST Data Services is a secure, multi-tenant cloud-based data collection platform for aggregating and real-time permission-based sharing and analysis of information. ZEST Fresh, a fresh food management solution that utilizes the ZEST Data Services platform, focuses on three primary value propositions – consistent food quality, 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 on every pallet. ZEST Delivery 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 purchased by Ecoark in September 2013. 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.

Magnolia Solar Inc. ("Magnolia Solar") is located in Woburn, Massachusetts and is principally engaged in the development and commercialization of its 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.

Principles of Consolidation

The consolidated financial statements include the accounts of Ecoark Holdings and its direct and indirect subsidiaries, collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. The Company is a holding company and holds one hundred percent of Ecoark, Eco360, Pioneer Products (which owns 100% of Sable), Zest Labs, Magnolia Solar and Eco3D (Ecoark owned 65% of Eco3D and the remaining 35% interest was owned by executives of Eco3D until September 2016 when the executives' 35% interest was acquired in exchange for 525 shares of Ecoark Holdings stock).

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
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The Company applies the guidance of Topic 810 "Consolidation" of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") to determine whether and how to consolidate another entity. Pursuant to ASC 810-10-15-10 all majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated except when control does not rest with the parent. Pursuant to ASC 810-10-15-8, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

Noncontrolling Interests

In accordance with ASC 810-10-45, *Noncontrolling Interests in Consolidated Financial Statements*, the Company classifies noncontrolling interests as a component of equity within the consolidated balance sheets. In September 2016 the 35% noncontrolling interest was acquired in exchange for 525 shares of Ecoark Holdings stock which eliminated the noncontrolling interest.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S generally accepted accounting principles ("GAAP") and the rules and regulations of the United States Securities and Exchange Commission ("SEC"). It is Management's opinion, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year. The accounting policies and procedures employed in the preparation of these consolidated financial statements have been derived from the audited financial statements of the Company for the fiscal year ended December 31, 2015, which are contained in the Company's Form S-1/A filed with the SEC on July 27, 2016. The consolidated balance sheet as of December 31, 2015, contained herein, was derived from those consolidated financial statements. As a result of the merger transaction described in Note 2 and in accordance with ASC 805-40-45, the Company has given retroactive effect to certain share calculations by restating amounts for common shares, additional paid-in capital and treasury shares in the December 31, 2015 balance sheet and statements of operations.

Reclassification

The Company has reclassified certain amounts in the 2015 consolidated financial statements to conform with the 2016 presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, Management's estimate of provisions required for non-collectible accounts receivable, obsolete or slow-moving inventory, and determination of the fair value of stock awards issued. Actual results could differ from those estimates.

Cash

Cash consists of cash, demand deposits and money market funds with an original maturity of three months or less. The Company holds no cash equivalents.

Inventory

Inventory is stated at the lower of cost or market. Inventory cost is determined by specific identification on a first in first out basis, and provisions are made to reduce slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. The Company establishes reserves for this purpose.

Property and Equipment and Long-Lived Assets

Property and equipment is stated at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years for all classes of property and equipment, except leasehold improvements which are depreciated over the shorter of 10 years or the term of the lease.

FASB Codification Topic 360 "Property, Plant and Equipment" ("ASC 360"), requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of ASC 360 has not materially affected the Company's reported earnings, financial condition or cash flows.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2016

Intangible assets with definite useful lives are stated at cost less accumulated amortization. These intangible assets capitalized as of September 30, 2016 and December 31, 2015 represent the valuation of the Company-owned patents and customer lists. These intangible assets are being amortized on a straight-line basis over their estimated average useful lives of thirteen and a half years for the patents and three years for the customer lists. Expenditures on intangible assets through the Company's filing of patent and trademark protection for Company-owned inventions are expensed as incurred.

The Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
3. Significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows. The Company tested the carrying value of its intangible assets for recoverability. The projected undiscounted cash flows exceeded the carrying value of these assets by a significant amount. There were no impairment charges during the nine months ended September 30, 2016 and 2015.

Advertising Expense

The Company expenses advertising costs, as incurred. Advertising expenses for the nine months ended September 30, 2016 and 2015 are included in general and administrative costs.

Software Costs

The Company accounts for software development costs in accordance with ASC 985-730, *Software Research and Development*, and ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*. ASC 985-20 requires that costs related to the development of the Company's products be capitalized as an asset when incurred subsequent to the point at which technological feasibility of the enhancement is established. ASC 985-20 specifies that "technological feasibility" can only be established by the completion of a "detailed program design" or if no such design is prepared, upon the completion of a "working model" of the software. The Company's development process does not include a detailed program design. Management believes that such a design could be produced in the early stages of development but would entail significant wasted expense and delay. Consequently, ASC 985-20 requires that development costs be recorded as an expense until the completion of a "working model". In the Company's case, the completion of a working model does not occur until shortly before the time when the software is ready for sale.

Research and Development Costs

Research and development costs are expensed as incurred. These costs include internal salaries and related costs and professional fees for activities related to development. The majority of these costs relate to the ZEST Data Services platform.

Subsequent Events

Subsequent events were evaluated through the date the consolidated financial statements were filed .

Shipping and Handling Costs

The Company reports shipping and handling revenues and their associated costs in revenue and cost of revenue, respectively. Shipping revenues and costs for the nine months ended September 30, 2016 and 2015 were nominal and are included in cost of product sales.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2016

Revenue Recognition

Product revenue primarily consists of the sale of recycled plastics products, electronic hardware and furniture. Revenue is recognized when the following criteria have been met:

Evidence of an arrangement exists. The Company considers a customer purchase order, service agreement, contract, or equivalent document to be evidence of an arrangement.

Delivery has occurred. The Company's standard transfer terms are free on board ("FOB") shipping point. Thus, delivery is considered to have occurred when title and risk of loss have passed to the customer at the time of shipment.

The fee is fixed or determinable. The Company considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard, which is generally 30-60 days.

Collection is deemed reasonably assured. Collection is deemed reasonably assured if it is expected that the customer will be able to pay amounts under the arrangement as payments become due. If it is determined that collection is not reasonably assured, then revenue is deferred and recognized upon cash collection.

The Company will recognize revenues for its software in accordance with ASC 985-605, Software Revenue Recognition.

Revenue from software license agreements is recognized when persuasive evidence of an agreement exists, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. In software arrangements that include more than one element, the Company allocates the total arrangement fee among the elements based on the relative fair value of each of the elements.

License revenue allocated to software products generally is recognized upon delivery of the products or deferred and recognized in future periods to the extent that an arrangement includes one or more elements to be delivered at a future date and for which fair values have not been established. Revenue allocated to maintenance agreements is recognized ratably over the maintenance term and revenue allocated to training and other service elements is recognized as the services are performed. If evidence of fair value does not exist for all elements of a license agreement and post customer support ("PCS") is the only undelivered element, then all revenue for the license arrangement is recognized ratably over the term of the agreement as license revenue. If evidence of fair value of all undelivered PCS elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

Cost of license revenue primarily includes product, delivery, and royalty costs. Cost of maintenance and service revenue consists primarily of labor costs for engineers performing implementation services, technical support, and training personnel as well as facilities and equipment costs.

The Company enters into arrangements that can include various combinations of software, services, and hardware. Where elements are delivered over different periods of time, and when allowed under U.S. GAAP, revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. The Company uses a hierarchy to determine the fair value to be used for allocating revenue to elements: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence, and (iii) best estimate of selling price ("ESP"). For software elements, the Company follows the industry specific software guidance which only allows for the use of VSOE in establishing fair value. Generally, VSOE is the price charged when the deliverable is sold separately or the price established by Management for a product that is not yet sold if it is probable that the price will not change before introduction into the marketplace.

ESPs are established as best estimates of what the selling prices would be if the deliverables were sold regularly on a stand-alone basis. The process for determining ESPs requires judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
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When the arrangement with a customer includes services or significant production, modification, or customization of software, we recognize the related revenue using the percentage-of-completion method in accordance with the accounting guidance and certain production-type contracts contained in ASC 605-35, Construction-Type and Production-Type Contracts. We use the percentage of completion method provided all of the following conditions exist:

- the contract includes provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged and the manner and terms of settlement;
- the customer can be expected to satisfy its obligations under the contract;
- the Company can be expected to perform its contractual obligations; and
- reliable estimates of progress towards completion can be made.

We measure completion based on achieving milestones detailed in the agreements with the customers. Costs of providing services, including services accounted for in accordance with ASC 605-35, are expensed as incurred and matched with the related revenues.

Accounts Receivable and Concentration of Credit Risk

The Company considers accounts receivable, net of allowance for returns and doubtful accounts, to be fully collectible. The allowance is based on Management's estimate of the overall collectability of accounts receivable, considering historical losses and economic conditions. Based on these same factors, individual accounts are charged off against the allowance when Management determines those individual accounts are uncollectible. Credit extended to customers is generally uncollateralized. Past-due status is based on contractual terms.

Uncertain Tax Positions

The Company follows ASC 740-10, "Accounting for Uncertainty in Income Taxes". This requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. Management evaluates tax positions on an annual basis.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state tax jurisdictions. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

Stock-Based Compensation

The Company follows ASC 718-10 "*Share Based Payments*". The Company calculates compensation expense for all awards granted, but not yet vested, based on the grant-date fair values. Stock-based compensation expense for all awards granted is based on the grant-date fair values. The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505-50, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*". The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to expense and additional paid-in capital.

Fair Value of Financial Instruments

ASC 825, "*Financial Instruments*," requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments: The carrying amount of cash, short-term investments (certificates of deposit), accounts receivable, prepaid and other current assets, accounts payable and accrued expenses, and accounts payable to related parties, approximate fair value because of the short-term maturity of those instruments. The Company does not utilize derivative instruments.

Recoverability of Long-Lived Assets

The Company reviews recoverability of long-lived assets on a periodic basis whenever events and changes in circumstances have occurred which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. If such assets are determined to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Fixed assets to be disposed of by sale will be carried at the lower of the then current carrying value or fair value less estimated costs to sell.

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Earnings (Loss) Per Share of Common Stock

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share ("EPS") include additional dilution from common stock equivalents, such as convertible notes, preferred stock, stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be anti-dilutive for periods presented.

Fair Value Measurements

ASC 820, "*Fair Value Measurements*" defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. ASC 820 classifies these inputs into the following hierarchy:

Level 1 inputs: Quoted prices for identical instruments in active markets.

Level 2 inputs: 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 whose inputs are observable or whose significant value drivers are observable.

Level 3 inputs: Instruments with primarily unobservable value drivers.

Segment Information

The Company follows the provisions of ASC 280-10, "*Disclosures about Segments of an Enterprise and Related Information*". This standard requires that companies disclose operating segments based on the manner in which Management disaggregates the Company in making internal operating decisions. In 2016 and 2015 the Company and its Chief Operating Decision Makers determined that the Company's operations were divided into two segments: Products and Services. See Note 12 for segment information disclosures.

Related Party Transactions

Parties are considered to be related to the Company if the parties directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal stockholders of the Company, its management, members of the immediate families of principal stockholders of the Company and its management and other parties with which the Company may deal where one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all material related party transactions. All transactions shall be recorded at fair value of the goods or services exchanged. Property purchased from a related party is recorded at the cost to the related party and any payment to or on behalf of the related party in excess of the cost is reflected as compensation or distribution to related parties depending on the transaction.

Recently Issued Accounting Standards

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, "*Compensation - Stock Compensation (Topic 718)*". The amendments in ASU No. 2016-09 were issued as part of the FASB's simplification initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. The amendments focused on simplification specifically with regard to share-based payment transactions, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company will evaluate the effect of ASU 2016-09 for future periods as applicable.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*". 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 is currently in the process of evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, "*Presentation of Financial Statements—Going Concern*." The provisions of ASU 2014-15 require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of this ASU on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*" (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry-specific guidance. ASU 2014-09 and related ASU's issued in 2016 are based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The amendments in ASU 2014-09 will be applied using one of two retrospective methods. The effective date will be the first quarter of the fiscal year ending December 31, 2018. The Company has not determined the potential effects on its consolidated financial statements.

There were other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Going Concern

The Company commenced operations in 2007, and has experienced typical start-up costs and losses from operations resulting in an accumulated deficit of \$51,313 since inception. The accumulated deficit as well as recurring losses of \$14,726 for the nine months ended September 30, 2016, and \$10,502 and \$14,135 for the years ended December 31, 2015 and 2014, respectively and the working capital deficit of \$2,153 as of December 31, 2015, have resulted in the uncertainty of the Company to continue as a going concern even though working capital increased to a surplus of \$3,351 at September 30, 2016.

These consolidated financial statements of the Company have been prepared assuming that 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 \$17,320 of additional capital, net of expenses, in a private placement subsequent to the reverse merger transaction on March 24, 2016 (see Note 2). The Company's ability to raise additional capital through future equity and debt securities issuances is unknown. Obtaining additional financing, the successful development of the Company's contemplated plan of operations, ultimately, to profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of the uncertainties.

NOTE 2: MERGER

On January 29, 2016, Ecoark entered into a Merger Agreement ("Merger Agreement") with MSC providing, among other things, for the acquisition of Ecoark by MSC in a share for share exchange pursuant to which it was contemplated that at the closing Ecoark shareholders would own approximately 95% of the outstanding shares of MSC. On March 18, 2016, in a special meeting called by MSC, the shareholders of MSC approved proposals necessary to complete the Merger ("Merger").

On March 24, 2016, the Merger was closed. Upon the closing of the transaction, under the Merger Agreement, Magnolia Solar Acquisition Corporation merged with and into Ecoark with Ecoark as the surviving corporation, which became a wholly-owned subsidiary of MSC. Thereafter, MSC changed its name to Ecoark Holdings, Inc. The transaction was accounted for as a reverse acquisition; for accounting purposes Ecoark acquired the assets and liabilities of Magnolia Solar effective March 24, 2016. The historical financial information presented prior to March 24, 2016 is that of Ecoark.

Further, the Articles of Incorporation were amended to increase the authorized shares of common stock to 100,000 shares, to effect the creation of 5,000 shares of "blank check" preferred stock, and to approve a reverse stock split of the MSC common stock of 1 for 250.

After the Merger, the Company had 29,057 shares of common stock issued and outstanding. MSC's shareholders and holders of debt, notes, warrants and options received an aggregate of 1,351 shares of the Company's common stock and Ecoark's shareholders received an aggregate of 27,706 shares of the Company's common stock.

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On March 24, 2016, FINRA corporate action announced the reverse split and the name change which became effective in the market on March 28, 2016. The Company stock now trades under the symbol "EARK." All actions to close the Merger were completed in March 2016.

In conjunction with the Merger, MSC offered units consisting of a share and a warrant at a price of \$4.00 per unit for a maximum of \$20,000 in a private placement offering. Each unit consisted of one share of MSC (now Ecoark Holdings) common stock (par value \$0.001 per share) and a warrant to purchase one share of MSC (now Ecoark Holdings) common stock exercisable on or before December 31, 2018 at a price of \$5.00 per share. The units were offered to an unlimited number of Accredited Investors until the earlier of the date upon which subscriptions for the maximum offering had been received and accepted; March 31, 2016, subject to a 60-day extension at the option of Ecoark Holdings; or the date upon which the offering was terminated by the Company. The Company received proceeds of \$17,320, net of expenses, as a result of the subscriptions to the offering. The offering was terminated on April 28, 2016.

NOTE 3: INVENTORY

Inventory, net of reserves, consisted of the following:

	September 30, 2016	December 31, 2015
Inventory	\$ 2,086	\$ 1,363
Inventory reserves	(620)	(620)
Inventory, net	<u>\$ 1,466</u>	<u>\$ 743</u>

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2016	December 31, 2015
Machinery and equipment	\$ 3,502	\$ 476
Computers and software costs	497	382
Furniture and fixtures	234	110
Leasehold improvements	59	4
Total property and equipment	4,292	972
Accumulated depreciation	(773)	(609)
Property and equipment, net	<u>\$ 3,519</u>	<u>\$ 363</u>

Depreciation expense for the nine months ended September 30, 2016 and 2015 was \$274 (including depreciation of \$119 relating to Sable production equipment that is included in cost of product sales as opposed to operating expenses) and \$187, respectively. There was no impairment on these assets in 2016 or 2015. In the third quarter of 2016 \$134 of equipment with accumulated depreciation of \$109 was retired resulting in a noncash loss of \$25.

NOTE 5: INTANGIBLE ASSETS

The following is a summary of intangible assets:

	September 30, 2016	December 31, 2015
Customer lists	\$ 5,007	\$ 3,980
Patents and licenses	1,090	1,013
Goodwill	1,264	-
Total intangible assets	7,361	4,993
Accumulated amortization	(4,364)	(4,141)
Intangible assets, net	<u>\$ 2,997</u>	<u>\$ 852</u>

Amortization expense for the nine months ended September 30, 2016 and 2015 was \$223 and \$1,047, respectively. There was no impairment on these assets in 2016 or 2015. The increase in customer lists and the goodwill above resulted from the acquisition of Sable more fully described in Note 14.

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NOTE 6: NOTE PAYABLE

The Company has a note payable pursuant to a line of credit maintained with Generations Bank. The note is secured by the accounts receivable, inventory and equipment of Sable and has a 5.5% interest rate with interest payable monthly and a balloon payment due on July 16, 2017. The note, formerly guaranteed by the former owner of Sable, now a stockholder of the Company, originated July 15, 2015 with a maximum amount of \$1,500. The balance of the note was \$1,500 at September 30, 2016 and had an average amount outstanding of \$1,500 for the period from acquisition on May 3, 2016 to September 30, 2016. The note was renegotiated with the bank, and on August 9, 2016 the bank renewed the line of credit. The Company has pledged a \$1,500 certificate of deposit as collateral, and the guaranty of the former owner of Sable was eliminated.

Interest expense on the note for the period from acquisition to September 30, 2016 was \$28.

NOTE 7: LONG-TERM DEBT

The following is a summary of long-term debt:

		September 30, 2016	December 31, 2015
Note payable – B&B Merritt	(a)	\$ 3,000	\$ 3,000
Note payable – Generations Bank	(b)	182	-
Note payable – Generations Bank	(c)	190	-
Line of credit – Bank of America	(d)	203	-
Note payable – Celtic Bank	(e)	-	175
Total		3,575	3,175
Less: current portion		(3,386)	(3,175)
Long-term debt, net of current portion		\$ 189	\$ -

- (a) Note payable bearing interest at the rate of 10% per annum, unsecured, with quarterly interest payments commencing in January 2015, with the note maturing in December 2016. Upon maturity or any time prior, so long as the Company has not exercised its right to prepay this note, the lender can exercise its option to convert this note to equity in the Company, with 30-day advance written notice, and acquire up to 3,000 unrestricted Class A Common Shares of Ecoark at \$1.00 per share, which consistent with the Merger Agreement is now 1,500 shares of Ecoark Holdings at \$2.00 per share. The principal amount along with any accrued interest thereon, if converted to equity shall be deemed fully paid. As of September 30, 2016, no conversions of this debt have occurred, however in November 2016 the lender provided notice of intent to exercise the full conversion to equity. There was no bifurcation of the conversion option as the conversion is deemed to be conventional in nature.
- (b) Five year note payable dated May 3, 2013 in the original principal amount of \$500 accruing interest at 5.5% with monthly payments of \$10 and secured by the plant equipment of the Company and the guaranty of the former owner of Sable, now a stockholder of the Company.
- (c) Five year note payable dated February 3, 2014 in the original principal amount of \$367 accruing interest at 5.5% with monthly payments of \$7 and secured by the plant equipment of the Company and the guaranty of a stockholder of the Company and an entity controlled by the former owner of Sable, now a stockholder of the Company.
- (d) The Company has established a line of credit with Bank of America allowing the Company to draw up to \$500. A certificate of deposit for \$500 has been pledged as collateral to secure any outstanding borrowings. The line of credit was established on June 27, 2016 and matures with a balloon payment due on June 27, 2018. The interest rate on the borrowing is a floating interest rate equal to the LIBOR Daily Floating Rate plus 1.75 percentage points and all interest is paid monthly. As of September 30, 2016, \$203 has been drawn on the line.
- (e) Fifteen year note payable dated July 11, 2007 in the original principal amount of \$1,250 with a bank guaranteed by the U.S. Small Business Administration with Pioneer Products, prior to the acquisition of Pioneer Products by Ecoark. Note accrued interest at the Prime Rate plus 2% (Prime rate 3.25% plus 2% for 2015). The note was fully paid in January 2016.

Interest expense on the long-term debt for the nine months ended September 30, 2016 and 2015 was \$234 and \$232, respectively. Maturities of the long-term debt are as follows: 2017 - \$47, 2018 - \$128, 2019 - \$14.

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NOTE 8: RELATED PARTY TRANSACTIONS

The following is a summary of debt – related parties:

		September 30, 2016	December 31, 2015
Promissory note #1 –CEO	(a)	\$ 679	\$ 1,217
Promissory note #2 – CEO	(b)	-	62
Promissory note –related party	(c)	-	50
Debt – related parties		<u>\$ 679</u>	<u>\$ 1,329</u>

- (a) Note payable with the Company's Chief Executive Officer ("CEO"), Randy May, commencing November 30, 2015 at an interest rate of 6% per annum (see note b). The beginning principal balance of \$3,197 was reduced by \$1,980 on December 31, 2015 in exchange for 1,100 shares of Ecoark Series A General Common Shares that were treasury shares owned by Ecoark. The remaining principal balance matures in November 2016.
- (b) Note payable to the Company's CEO. On November 30, 2015, after monthly payments were being made, and additional amounts funded in March 2015 and May 2015 totaling \$600, Ecoark combined these amounts into a new one-year promissory note in the amount of \$3,197 due November 30, 2016. Note was paid in full in June 2016.
- (c) Unsecured note payable to a former Ecoark shareholder bearing interest at 5% per annum, with monthly principal and interest payments beginning in November 2014, maturing in November 2016. Note was paid in full in March 2016.

Interest expense on the debt – related parties for the nine months ended September 30, 2016 and 2015 was \$41 and \$306, respectively.

The Company entered into a 10-year, renewable, exclusive license with Magnolia Optical Technologies, Inc. ("Magnolia Optical") on April 30, 2008 for the exclusive rights of the technology of Magnolia Optical applicable to solar cell applications. Magnolia Optical shares a common Director and a common Officer with the Company.

The Company recorded the net license fee of \$77 in conjunction with the Merger described in Note 2. Amortization will continue over the remaining 22 months of the term. The Company's management has determined that the fair value of the license approximates the book value and thus no impairment is necessary as of September 30, 2016.

As more fully described in Note 14, Pioneer Products acquired Sable Polymer Solutions, LLC on May 3, 2016 from a stockholder of the Company. In conjunction with the acquisition, a six-month consulting agreement was entered into with the stockholder of the Company for a total fee of \$30.

NOTE 9: STOCKHOLDERS' EQUITY (DEFICIT)

On March 24, 2016, Ecoark Common Shares were exchanged for Ecoark Holdings Common Shares as more fully described in Note 2. The Ecoark Common Shares, including Treasury Shares were canceled after the exchange.

As a result of the merger transaction and in accordance with ASC 805-40-45, the Company has given retroactive effect to certain share calculations by restating amounts for common shares, additional paid-in capital and treasury stock in the December 31, 2015 balance sheet.

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

As described in Note 2, 100,000 shares of common stock, par value \$0.001 were authorized on March 18, 2016. At the Merger, the Company had 29,057 shares of common stock issued and outstanding. MSC's shareholders and holders of debt, notes, warrants and options received an aggregate of 1,351 shares of the Company's common stock and Ecoark's shareholders received an aggregate of 27,706 shares of the Company's common stock. The Company also issued 4,337 shares of the Company's common stock as described in Note 2 pursuant to a private placement offering, 625 shares for services rendered related to the Merger and 2,000 shares for the acquisition of Sable.

The Company's Board of Directors (the "Board") authorized Management to issue shares of common stock in exchange for the noncontrolling interest held by executives of Eco3D. In September 2016, the Company issued 525 shares to acquire the noncontrolling interest. In addition, 85 shares were issued in September upon exercise of warrants. Total shares issued and outstanding as of September 30, 2016 were 36,631.

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Stock Options

On February 16, 2013, the Board of Directors of Ecoark approved the EcoArk Inc. 2013 Stock Option Plan (the "Plan"). The purposes of the Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants, and to promote the success of the Company's business. The Plan is expected to contribute to the attainment of these objectives by offering employees, directors and consultants the opportunity to acquire stock ownership interests in the Company, and other rights with respect to stock of the Company, and to thereby provide them with incentives to put forth maximum efforts for the success of the Company.

Awards under this Plan were only granted in the form of nonstatutory stock options ("Options") to purchase the Company's Series C Stock prior to the merger with MSC. Under the terms of the Plan, at the time of the merger the Options convert into the right to purchase an equal number of shares of the Company.

In May 2014, Ecoark had granted Options to purchase 693 shares to various employees and consultants of Ecoark. The Options had an exercise price of \$1.25 per share and have a term of 10 years. The Options vest over a three-year period as follows: 25% immediately; 25% on the first anniversary date; 25% on the second anniversary date; and 25% on the third anniversary date. During 2015 Ecoark issued additional Options on 625 shares of common stock. Therefore, at the end of 2015, Options under the Ecoark plan were outstanding to purchase 1,318 shares of common stock. The total original number of Options on 1,318 Ecoark shares was divided by two in conjunction with changes required by the Merger Agreement and converted to Options to purchase 659 shares of the Company with an adjusted exercise price of \$2.50. The Board authorized the conversion of these Options into Restricted Stock Grants, but later determined that the Options could remain outstanding and exercisable. In September the remaining vesting was accelerated to have those Options 100% vested, and thus, at September 30, 2016, Options on 659 shares of the Company are outstanding with an adjusted exercise price of \$2.50 under the Plan.

Management valued the Options utilizing the Black-Scholes Method, with the following criteria: stock price - \$2.50; exercise price - \$2.50; expected term - 10 years; discount rate - 0.25%; and volatility - 100%.

The Company records stock based compensation in accordance with ASC 718, and has recorded stock based compensation of \$904 and \$316 for the nine months ended September 30, 2016 and 2015, respectively.

The 2013 Incentive Stock Plan (the "2013 Plan") of Ecoark Holdings (previously MSC) was registered on February 7, 2013. Under the 2013 Plan, the Company may grant incentive stock 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 will be established by the Board at the date of grant. At the time of the merger, 5,497 shares were available to issue under the 2013 Plan. As of September 30, 2016, the Board has authorized blocks of incentive stock totaling 5,225 shares to be issued to various employees of the Company and delegated the authority to determine numbers and terms of the awards to the management of the Company. None of these awards have yet been distributed to employees and therefore no cost for this incentive stock award is yet recorded. After these awards are completed, 272 shares will remain in the 2013 Plan for future incentive awards.

The 2,450 Options of MSC outstanding at the time of the merger were converted into shares of common stock in accordance with the Merger Agreement with Ecoark.

Warrants

MSC had issued warrants for 3,785 shares that were converted into shares of common stock in accordance with the Merger Agreement with Ecoark. Cashless warrants were exercised for 2 shares in the second quarter.

The Company issued warrants for 4,337 shares as part of the private placement that was completed on April 28, 2016. Warrants for 85 shares were exercised in September, leaving warrants for 4,252 shares outstanding as of September 30, 2016. These warrants have a strike price of \$5.00 per share and expire on December 31, 2018.

Additional warrants were committed to in October. See Note 15.

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NOTE 10: COMMITMENTS AND CONTINGENCIES

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 2021. Rent expense was approximately \$444 and \$251 for the nine months ended September 30, 2016 and 2015. Future minimum lease payments required under the operating leases are as follows: 2016 - \$196, 2017 - \$791, 2018 - \$748, 2019 - \$606, 2020 - \$300 and 2021 - \$25.

Contract Related Fees

Prior to the Merger, a subsidiary of the Company, as part of a contract to develop its products, has agreed to pay the contractor 1.5% of future New York state manufactured sales, and 5% of future non-New York state manufactured sales until the entire funds paid by a contractor have been repaid (or three times the funds if non-New York manufactured), or 15 years after start of sales. As of September 30, 2016, the subsidiary has \$1,252 of contract related expenses. These funds will be owed to the contractor, as described above, contingent upon the sale of the subsidiary's product related to that contract.

The Company has determined that a liability need not be accrued because Management has determined that it is not probable sales will occur in this technology.

Lines of Credit

The Company has established a line of credit with a bank allowing the Company to draw up to \$500, with \$203 drawn as of September 30, 2016. A certificate of deposit for \$500 has been pledged as collateral to secure any borrowings under the line of credit. In addition, the Company has established a corporate credit card program with the same bank and has approximately \$265 in an interest bearing account at the bank to secure charges from the corporate card program.

ZEST Data Services

The Company has committed to a third party approximately \$440 through November for additional work on the ZEST Data Services platform that includes both research and development and professional fees.

NOTE 11: INCOME TAXES

The provision (benefit) for income taxes for the nine months ended September 30, 2016 and 2015 differs from the amount which would be expected as a result of applying the statutory tax rates to the losses before income taxes due primarily to the valuation allowance to fully reserve net deferred tax assets.

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 future taxable income is uncertain, the Company recorded a valuation allowance.

	As of September 30, 2016	As of December 31, 2015
Deferred tax assets:		
Net operating loss before non-deductible items	\$ (47,460)	\$ (36,028)
Tax rate	34%	34%
Total deferred tax assets	16,136	12,250
Less: Valuation allowance	(16,136)	(12,250)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of September 30, 2016, the Company had a net operating loss carry forward of \$47,460 expiring through 2036. The Company has provided a valuation allowance against the full amount of the deferred tax asset due to Management's uncertainty about its realization. Furthermore, the net operating loss carry forward may be subject to further limitation pursuant to Section 382 of the Internal Revenue Code. The valuation allowance was increased by \$3,886 in the nine months ended September 30, 2016.

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NOTE 12: SEGMENT INFORMATION

The Company follows the provisions of ASC 280-10, "Disclosures about Segments of an Enterprise and Related Information". This standard requires that companies disclose operating segments based on the manner in which Management disaggregates the Company in making operating decisions. As of September 30, 2016 and for the nine months ended September 30, 2016 and 2015, the Company operates in two segments. The segments are Products (principally consisting of Pioneer Products' operations consisting of sales of recycled plastic products) and Services (principally consisting of Eco3D's mapping, modeling and consulting services business plus costs associated with developing Zest Labs and Eco360 solutions). Home office costs are allocated to the two segments based on the relative support provided to those segments.

Segment information for the periods ended September 30 is as follows:

Three months ended September 30, 2016	Products	Services	Total
Segmented operating revenues	\$ 3,860	\$ 1,379	\$ 5,239
Cost of revenues	3,816	539	4,355
Gross profit	44	840	884
Total operating expenses net of depreciation and amortization, and interest expense, net	521	6,587	7,108
Depreciation and amortization	90	83	173
Interest and other expense, net	20	97	117
Net (loss) applicable to common shares	(587)	(5,927)	(6,514)
Non-controlling interest	-	52	52
Net (loss) – controlling interest	\$ (587)	\$ (5,979)	\$ (6,566)
Segmented assets			
Property and equipment, net	\$ 2,953	\$ 566	\$ 3,519
Intangible assets, net	\$ 2,159	\$ 838	\$ 2,997
Capital expenditures	\$ 233	\$ 398	\$ 631

Three months ended September 30, 2015	Products	Services	Total
Segmented operating revenues	\$ 1,185	\$ 502	\$ 1,687
Cost of revenues	1,192	199	1,391
Gross profit (loss)	(7)	303	296
Total operating expenses net of depreciation and amortization, and interest expense, net	96	2,170	2,266
Depreciation and amortization	290	110	400
Interest expense, net	2	183	185
Net (loss) applicable to common shares	(395)	(2,160)	(2,555)
Non-controlling interest	-	(34)	(34)
Net (loss) – controlling interest	\$ (395)	\$ (2,126)	\$ (2,521)
Segmented assets			
Property and equipment, net	\$ -	\$ 314	\$ 314
Intangible assets, net	\$ -	\$ 856	\$ 856
Capital expenditures	\$ -	\$ 44	\$ 44

Nine months ended September 30, 2016	Products	Services	Total
Segmented operating revenues	\$ 7,429	\$ 3,349	\$ 10,778
Cost of revenues	7,431	1,229	8,660
Gross profit (loss)	(2)	2,120	2,118
Total operating expenses net of depreciation and amortization, and interest expense, net	731	15,305	16,036
Depreciation and amortization	148	230	378
Interest and other expense, net	38	273	311
Net (loss) applicable to common shares	(919)	(13,688)	(14,607)
Non-controlling interest	-	119	119
Net (loss) – controlling interest	\$ (919)	\$ (12,662)	\$ (14,726)
Segmented assets			
Property and equipment, net	\$ 2,953	\$ 566	\$ 3,519
Intangible assets, net	\$ 2,159	\$ 838	\$ 2,997
Capital expenditures	\$ 233	\$ 398	\$ 631

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2016

Nine months ended September 30, 2015	Products	Services	Total
Segmented operating revenues	\$ 4,194	\$ 1,990	\$ 6,184
Cost of revenues	4,028	693	4,721
Gross profit	166	1,297	1,463
Total operating expenses net of depreciation and amortization, and interest expense, net	209	7,221	7,430
Depreciation and amortization	955	279	1,234
Interest expense, net	7	578	585
Net (loss) applicable to common shares	(1,005)	(6,781)	(7,786)
Non-controlling interest	-	60	60
Net (loss) – controlling interest	\$ (1,005)	\$ (6,841)	\$ (7,846)
Segmented assets			
Property and equipment, net	\$ -	\$ 314	\$ 314
Intangible assets, net	\$ -	\$ 856	\$ 856
Capital expenditures	\$ -	\$ 44	\$ 44

NOTE 13: CONCENTRATIONS

During the nine months ended September 30, 2016 and 2015, the Company had two and one major customers, respectively, comprising 50% and 69% of revenue. A major customer is defined as a customer that represents 10% or greater of total sales. Additionally, the Company had one customer as of September 30, 2016 and December 31, 2015 with accounts receivable balances of 19% and 23% of the total accounts receivable. The Company does not believe that the risk associated with these customers will have an adverse effect on the business.

In addition, during the nine months ended September 30, 2016 and 2015, the Company had two major vendors comprising 57% and 96% of purchases, respectively. A major vendor is defined as a vendor that represents 10% or greater of total purchases. Additionally, the Company had one and two vendors as of September 30, 2016 and December 31, 2015 with accounts payable balances of 43% and 63%, respectively, of total accounts payable.

The Company maintained cash and short-term investment (certificates of deposit) balances in excess of the FDIC insured limit in both years. The Company does not consider this risk to be material.

NOTE 14: ACQUISITION OF SABLE

On May 3, 2016, the Company entered into a Share Exchange Agreement (the “Agreement”) by and among the Company, Pioneer Products, Sable, and the holder of all of Sable’s membership interests, an entity controlled by a stockholder of the Company.

The Company issued 2,000 shares of the Company’s common stock (the “Shares”) in exchange for all of Sable’s membership interests. Sable is now a wholly-owned subsidiary of Pioneer Products.

The seller is subject to a lock-up agreement (the “Lock-Up Agreement”) that releases shares from the Lock-Up Agreement over a period of one year (the “Lock-Up Period”). Under the Lock-Up Agreement, the seller shall be permitted to sell 33.3% of the Shares received by the seller after the six-month anniversary of the closing of the transaction. Thereafter, an additional 33.3% of the Shares shall be released at the end of each subsequent three-month period until the end of the Lock-Up Period.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
SEPTEMBER 30, 2016

No cash was paid relating to the acquisition of Sable. Sable operates a polymer manufacturing facility north of Atlanta, Georgia.

The Company acquired the assets and liabilities noted below in exchange for the 2,000 shares and has 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:

Cash	\$ 41
Receivables, net	1,250
Inventory	759
Property and equipment	2,822
Identifiable intangible assets	1,028
Goodwill	1,264
Other assets	36
Accounts payable and other liabilities	(883)
Notes payable and current debt	(2,100)
Long-term debt	(431)
	<u>\$ 3,786</u>

The intangible assets represent customer lists and will be amortized over three years. The goodwill recognized reflects expected synergies from combining operations of Sable and the Company as well as intangible assets that do not qualify for separate recognition including polymer formulas and formulations. The goodwill is not expected to be deductible for tax purposes. The goodwill will not be amortized but will be tested annually for impairment.

The following table shows pro-forma results for the nine months ended September 30, 2016 and 2015 as if the acquisition had occurred on January 1, 2015. These unaudited pro forma results of operations are based on the historical financial statements and related notes of Sable and the Company.

	For the nine months ended	
	September 30,	
	2016	2015
Revenues	\$ 12,624	\$ 11,538
Net loss attributable to controlling interest	\$ 15,396	\$ 7,965
Net loss per share	\$ (0.64)	\$ (0.34)

NOTE 15: SUBSEQUENT EVENTS

The Company engaged the services of consultants to assist it with efforts to raise capital. In addition to cash compensation for those services the Company issued 118 shares of Rule 144 common stock and committed to the issuance of a warrant exercisable into 100 shares of Rule 144 common stock with a strike price of \$2.50 per share that vested October 31, 2016 with an expiration date of October 31, 2018. The Company also issued options to purchase 125 shares of stock under the Plan at a strike price of \$2.50 per share on October 12, 2016 to a consultant. These options vest immediately and expire on March 31, 2018.

In addition, the Company issued 9 shares for Board compensation and issued 13 shares upon exercise of warrants with a strike price of \$5.

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.

Also in October the Company implemented a new system of lockbox and zero balance bank account services to improve controls and achieve efficiencies in treasury operations.

In November 2016 the lender associated with the \$3,000 note payable – B&B Merritt provided notice of intent to exercise the full conversion of the note to equity. It is expected that 1,500 shares of common stock will be issued by December 2016 to satisfy that obligation.

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 “Business,” among other places in this Form 10-Q.

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

Ecoark Holdings, Inc.

Ecoark Holdings, Inc. (“Ecoark Holdings” or the “Company”) is a Nevada corporation incorporated on November 19, 2007. Ecoark Holdings is an innovative, emerging growth company focused on the development and deployment of business solutions and products to the retail, agriculture, food service, commercial real estate and architecture, engineering and construction end markets. Ecoark Holdings has assembled a team and portfolio of proprietary, patented technologies to address the waste in operations, logistics and supply chain. Ecoark Holdings accomplishes this through two wholly-owned operating subsidiaries, Ecoark, Inc. (“Ecoark”) and Magnolia Solar, Inc. (“Magnolia Solar”). Further, Ecoark has three operating entities: Zest Labs, Inc. (formerly known as Intellex Corporation), Eco3D and Pioneer Products.

Our principal executive offices are located at 3333 S Pinnacle Hills Parkway, Suite 220, Rogers, Arkansas 72758, and our telephone number is (479) 259-2977. Our website address is <http://ecoarkusa.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 periodic report. You should not rely on any such information in making your decision to purchase our common stock.

Acquisition of Ecoark, Inc.

On January 29, 2016, Ecoark Holdings (previously MSC) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ecoark. Pursuant to the Merger Agreement, Ecoark merged with and into a wholly-owned subsidiary of Ecoark Holdings (the “Merger”), with Ecoark as the surviving corporation. After the closing of the Merger Agreement, Ecoark and Magnolia Solar, Inc. continue as the subsidiaries and businesses of Ecoark Holdings.

Prior to the completion of the Merger on March 24, 2016, in a special shareholder meeting on March 18, 2016, the following actions to amend the Articles of Incorporation were undertaken by Ecoark Holdings to:

1. effect a change in the name of our company from Magnolia Solar Corporation to Ecoark Holdings, Inc.;
2. effect a reverse stock split of our common stock by a ratio of one-for-two hundred fifty shares (1 for 250);
3. effect an increase in the number of our authorized shares of common stock, par value \$0.001 per share, to 100,000; and
4. effect the creation of 5,000 shares of “blank check” preferred stock.

After giving effect to the Merger and the issuance of common stock to the shareholders of Ecoark, the shareholders of Ecoark received 95.34% of the shares of Ecoark Holding’s common stock (27,706 shares out of 29,057 shares).

In conjunction with the Merger, MSC offered units consisting of a share and a warrant at a price of \$4.00 per unit for a maximum of \$20,000 in a private placement offering. Each unit consisted of one share of MSC (now Ecoark Holdings) common stock (par value \$0.001 per share) and a warrant to purchase one share of MSC (now Ecoark Holdings) common stock exercisable on or before December 31, 2018 at a price of \$5.00 per share. The units were offered to an unlimited number of Accredited Investors until the earlier of the date upon which subscriptions for the maximum offering had been received and accepted; March 31, 2016, subject to a 60-day extension at the option of Ecoark Holdings; or the date upon which the offering was terminated by the Company. The Company received proceeds of \$17,320, net of expenses, as a result of the offering. The offering was terminated on April 28, 2016. The company issued 4,337 shares of its common stock and 4,337 warrants in the offering. The warrants have a strike price of \$5.00 per share and expire on December 31, 2018.

On May 3, 2016, the Company entered into a Share Exchange Agreement (the "Agreement") by and among the Company, Pioneer Products, Sable Polymer Solutions, LLC, an Arkansas limited liability company ("Sable"), and the holder of all of Sable's membership interests. The Company issued 2,000 shares of the Company's common stock in exchange for all of Sable's membership interests. Sable is now a wholly-owned subsidiary of Pioneer Products.

Business Model

Ecoark was founded in 2011 and is located in Rogers, Arkansas, the home office for Ecoark and Ecoark Holdings. Home office staff members are employees of Ecoark, which merged into a wholly-owned subsidiary of Magnolia Solar Corporation on March 24, 2016 (with Ecoark as the surviving company) to create Ecoark Holdings. Ecoark is the parent company for Eco3D, Eco360, Pioneer Products and Zest Labs.

Eco3D is located in Phoenix, Arizona and provides customers with the latest 3D technologies. Eco3D was formed by Ecoark in November 2013 and Ecoark owns 100% of the LLC (Ecoark owned 65% of Eco3D and the remaining 35% was owned by executives of Eco3D until September 2016 when the executives' 35% was acquired in exchange for 525 shares of Ecoark Goldings stock). Eco3D provides 3D mapping, modeling, and consulting services for clients in retail, construction, healthcare, and multiple other industries throughout the United States and overseas. Eco3D is transitioning businesses from 2D technology that has existed for hundreds of years, to a world of digital 3D. Eco3D incorporates a variety of 3D technologies to achieve customer goals and objectives. Utilizing several techniques, Eco3D can capture existing conditions – topography, buildings, exterior/interior spaces, etc. – in highly accurate detail that allows for 2D and 3D measurement. These measurements form the basis for analysis, design, documentation, and quality control.

Eco360 is located in Rogers, Arkansas and is engaged in research and development activities. Eco360 was formed in November 2014 by Ecoark.

Pioneer Products is located in Rogers, Arkansas and is involved in the selling of recycled plastic products and other products. In addition to a strong and successful relationship with the world's largest retailer, Pioneer Products also has vendor relationships with other key retailers. As such, Pioneer strategically leverages its role as a trusted supplier to these retailers with existing and new products. This subsidiary also recovers plastic waste from retail supply chains and creates new consumer products with the reclaimed materials. Pioneer Products was purchased by Ecoark in 2012.

Sable Polymer Solutions, LLC ("Sable"), a subsidiary of Pioneer Products, is located in Flowery Branch, Georgia and specializes in the sale, purchase and processing of quality post-consumer and post-industrial plastic materials. It provides services to a variety of suppliers and customers throughout the plastics processing industry, from small extruders, molders and scrap collectors to multinational corporations. Sable was acquired by Pioneer Products on May 3, 2016.

Zest Labs is located in San Jose, California and provides food retailers and suppliers intelligent, on-demand solutions for retailers and companies that ship and store products for perishable food quality management. Zest Labs' ZEST Data Services is a secure, multi-tenant cloud-based data collection platform for aggregating and real-time permission-based sharing and analysis of information. ZEST Fresh, a fresh food management solution that utilizes the ZEST Data Service platform, focuses on three primary value propositions – consistent food quality, 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 on every pallet. ZEST Delivery 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 purchased by Ecoark in September 2013. In 2016, Intellexflex undertook a pilot with a major brick and mortar retailer in the United States. The results of this pilot have shown that the Zest Fresh solution significantly impacts the shelf life of fresh produce. Effective on October 28, 2016, Intellexflex 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.

Magnolia Solar is located in Woburn, Massachusetts and is principally engaged in the development and commercialization of its 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 Magnolia Solar Corporation that acquired Ecoark on March 24, 2016 to create Ecoark Holdings, and continues operations as a subsidiary of Ecoark Holdings.

The consolidated financial statements include the accounts of Ecoark Holdings and its direct and indirect subsidiaries, collectively referred to as the "Company".

Sales and Marketing

We sell our products and services through direct sales efforts and indirectly through distributors and resellers. Virtually all of our sales to-date have been derived from our direct sales efforts. However, we continue our efforts to establish a network of indirect sales channels.

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 initiatives. We incurred no capitalized software development costs in the nine months ended September 30, 2016 nor in the years ended December 31, 2015 and 2014.

Competition

The Company faces competition in each of its markets. Some competitors are larger, and some are smaller than our operations.

With regard to Zest Labs, the market for cloud-based, real-time supply chain analytic solutions is rapidly evolving with new competitors with competing technologies, including companies that have greater resources than Ecoark Holdings. Some of these companies have brand recognition, established relationships with retailers, and own the manufacturing process. There are currently hundreds of sustainability programs available in the market. These programs are offered through retailers, manufacturers, and service providers. Ecoark Holdings believes that, analyzing the competitive factors affecting the market for its solutions, its products compete favorably by offering an integrated supply chain solution compared with other companies offering real-time supply chain analytic solutions.

Intellectual Property

Ecoark Holdings and its subsidiaries have had 70 patents issued by the United States Patent and Trademark Office, and about 21 additional patent applications are currently pending.

RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2016 and 2015

Revenues

Revenues for the three months ended September 30, 2016 were \$5,239 as compared to \$1,687 for the three months ended September 30, 2015. The 311% increase was principally due to the acquisition of Sable in May 2016. Revenue from products of \$3,860 in 2016 increased 326% from \$1,185 in 2015. Excluding the revenue from Sable, product revenues increased 20% due to higher shipments of recycled plastic trash cans by Pioneer Products. Revenue from services of \$1,379 in 2016 increased 275% from \$502 achieved in 2015. Expansion of the 3D mapping, modeling and consulting business along with certain commission income drove the increase in service revenues.

Cost of Revenues and Gross Profit

Cost of revenues for the quarter ended September 30, 2016 was \$4,355 as compared to \$1,391 for the quarter ended September 30, 2015, a 313% increase. The increase was directly related to the acquisition of Sable. Excluding the cost of revenues of Sable, product cost of revenues increased 24% due to higher sales of trash cans. The 299% increase in gross profit from \$296 in 2015 to \$884 in 2016 was principally a result of higher margins on service revenues as Eco3D expanded its business. Services achieved a gross margin of 51% in 2015 and 61% in 2016. Total gross margin for the Company was 17% in both 2016 and 2015.

Operating Expenses

The Pioneer Products operational activities described above required relatively limited home office support. Therefore, most of the operating expenses below were allocated to the services segment. The services segment includes activities relating to Zest Labs in which the Company has invested considerable resources for support and funding.

Salaries and Salary Related Costs

Salaries for the three months ended September 30, 2016 were \$2,061, an increase of 268% from \$768 in 2015. The increase was related to a number of individuals who became employees compared with previous contractor status and the expansion of staff at each operation. In addition, \$565 of stock-based compensation was recorded in September 2016 when the vesting of the remaining options was accelerated.

Professional Fees and Consulting

Professional fees and consulting expenses for 2016 of \$1,676 increased from \$351 incurred in 2015 principally as a result of costs associated with the Company's pilot of the ZEST Data Services platform. Additional consulting costs were incurred related to the next round of capital raising and efforts related to Sarbanes-Oxley compliance.

General and Administrative

Other general and administrative expenses in 2016 were \$936, an increase of 244% from \$383 in 2015, primarily as a result of increased rent for expanded facilities and office support and operating costs associated with business growth.

Depreciation and Amortization

Depreciation and amortization expense for 2016 was \$173, compared to \$400 for 2015. The 57% decrease resulted from certain customer list intangible assets becoming fully amortized in September 2015, offset by depreciation and amortization of Sable assets.

Research and Development

Research and development expenses were \$2,435 in 2016 compared to \$764 in 2015. The majority of these expenses related to the ZEST initiatives at Zest Labs. The Company incurred \$998 of costs in 2016 related to a third party that assisted in a significant pilot of the ZEST Data Services platform. These costs were in addition to expanded internal costs relating to ZEST.

Interest Expense

Interest expense, net of interest income, for 2016 was \$92 as compared to \$185 for 2015. The 50% decrease was a result of lower interest accruing on the related party debt in 2016 because of a decrease in interest rates and lower outstanding balances as well as an increase in interest income resulting from investments from proceeds of the private offering and an increase in interest expense on debt assumed in the Sable acquisition.

Net Loss

Net loss for 2016 was \$6,566 as compared to \$2,521 in 2015. The \$4,045 increase in net loss was primarily due to increased research and development costs for ZEST, higher consulting and salaries costs, offset by lower amortization and interest expense.

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

Revenues

Revenues for the nine months ended September 30, 2016 were \$10,778 as compared to \$6,184 for the nine months ended September 30, 2015. The 174% increase was principally due to the acquisition of Sable in May 2016. Revenue from products of \$7,429 in 2016 increased 177% from \$4,194 in 2015. Excluding the revenue from Sable, product revenues decreased 3% due to slightly lower shipments of recycled plastic trash cans by Pioneer Products, offset by sales of a new product, office chairs. Revenue from services of \$3,349 in 2016 increased 68% from \$1,990 achieved in 2015. Expansion of the 3D mapping, modeling and consulting business along with certain commission income drove the increase in service revenues.

Cost of Revenues and Gross Profit

Cost of revenues for the nine months ended September 30, 2016 was \$8,660 as compared to \$4,721 for the nine months ended September 30, 2015. The increase was directly related to the acquisition of Sable in May 2016. Excluding the cost of revenues of Sable, product cost of revenues decreased 1% due to slightly lower revenues. The increase in gross profit from \$1,463 in 2015 to \$2,118 in 2016 was principally a result of the increase in higher margin services business revenues as Eco3D expanded. Services achieved a gross margin of 68% in 2015 and 63% in 2016, with the decrease partly due to the mix of new projects. Total gross margin for the Company was 20% in 2016 and 24% in 2015. Margins for products decreased from 4% in 2015 to break even in 2016 due to Sable's results and costs incurred for the introduction of the new products.

Operating Expenses

The Pioneer Products operational activities described above required relatively limited home office support, and significant support was provided to Sable. However, most of the operating expenses below were allocated to the services segment. The services segment includes activities relating to Zest Labs for which the Company has invested considerable resources for support and funding.

Salaries and Salary Related Costs

Salaries for the nine months ended September 30, 2016 were \$4,718, up 212% from \$2,224 in 2015. The increase was related to a number of individuals who became employees compared with previous contractor status and the expansion of staff at each operation, along with \$904 of stock-based compensation.

Professional Fees and Consulting

Professional fees and consulting expenses for 2016 of \$5,259 increased from \$1,396 incurred in 2015 as a result of a number of costs incurred associated with the Company becoming a public entity in 2016 principally investment banking fees and legal fees related to the Merger offset by a number of individuals who became employees compared with previous contractor status. A majority of the fees, \$2,500, was in non-cash form and paid by the issuance of Common Stock. Consulting expenses related to the ZEST pilot, system implementation efforts and Sarbanes-Oxley compliance also contributed to the increase.

General and Administrative

Other general and administrative expenses in 2016 were \$1,929 increased from \$1,308 in 2015, primarily as a result of increased office support and operating costs associated with business growth.

Depreciation and Amortization

Depreciation and amortization expense for 2016 was \$497 (including depreciation of \$119 relating to Sable production equipment that is included in cost of product sales as opposed to operating expenses), compared to \$1,234 for 2015. The 60% decrease resulted from certain customer list intangibles becoming fully amortized in September 2015.

Research and Development

Research and development expenses increased 165% from \$2,502 in 2015 to \$4,130 in 2016. The majority of these expenses related to the ZEST initiatives at Zest Labs. The Company made significant progress in developing and testing the ZEST Data Services platform in 2016 and has had an additional 7 patents issued by the United States Patent and Trademark Office in 2016 resulting from its research and development initiatives.

Interest Expense

Interest expense, net of interest income, for 2016 was \$286 as compared to \$585 for 2015. The 51% decrease was a result of lower interest accruing on the related party debt in 2016 because of a decrease in interest rates and lower outstanding balances as well as an increase in interest income resulting from investments from proceeds of the private offering offset by an increase in interest expense on debt assumed in the Sable acquisition.

Net Loss

Net loss for 2016 was \$14,726 as compared to \$7,846 in 2015. The \$6,880 increase in net loss was primarily due to a number of costs incurred associated with the Company becoming a public entity in 2016, principally investment banking fees and legal fees related to the Merger in 2016 and significant increases in all operating expenses, partially offset by the decrease in amortization expense and the increase in gross profit.

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, 2016 and December 31, 2015 we had cash of \$4,871 and \$1,962, respectively and investments of \$3,509 at September 30, 2016. Working capital improved from a deficit of \$2,153 at December 31, 2015 to a working capital surplus of \$3,351 at September 30, 2016. The increase in working capital was principally due to the \$17,320 raised, net of expenses, in the successful private offering that was completed in April 2016. The Company remains dependent upon raising capital from future financing transactions. Up to \$2,000 of short-term investments are pledged as collateral for notes payable.

Net cash used by operating activities was \$9,680 for the nine months ended September 30, 2016, as compared to net cash used in operating activities of \$5,952 for the nine months ended September 30, 2015. Cash used in operating activities is related to the Company's net loss partially offset by non-cash expenses.

Net cash provided by financing activities in 2016 was \$17,320, including \$18,000 from the issuance of common stock and warrants, principally related to the private offering less net repayments of debt of \$680. In 2015, \$31 was received from the issuance of common stock and \$5,172 was received from the re-issuance of treasury shares, offset by \$782 net payments of debt.

Since our inception, the Company has experienced negative cash flow from operations and expects to experience significant negative cash flow from operations in the future. It will need to raise additional funds in the future so that it can expand its operations and repay its indebtedness. The inability to obtain additional capital may restrict its ability to grow and may reduce its ability to continue to conduct business operations.

At September 30, 2016 maturities of the Company's note payable, debt-related parties and long-term debt due within one year of \$5,565 were included in current liabilities. The Company assumed debt of \$1,931 in the acquisition of Sable and made \$1,068 in debt payments during the nine months ended September 30, 2016, the net of which increased the balance to \$5,754 at September 30, 2016. The decision by B&B Merritt to convert the \$3,000 note payable into common stock will provide a significant boost to liquidity.

The Company sold 4,337 shares to 214 accredited investors through the private offering in March and April which raised \$17,320, net of expenses. In September 2016 the Company received proceeds of \$425 from the exercise of warrants. The proceeds are being used for working capital purposes, including substantial investments in the ZEST initiatives.

Critical Accounting Policies and Estimates

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on revenue, income (loss) from operations and net income (loss), as well as the value of certain assets and liabilities on our balance sheet. The application of our critical accounting policies requires an evaluation of a number of complex criteria and significant accounting judgments by us. Our management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We evaluate our estimates on a regular basis and make changes accordingly. Senior management has discussed the development, selection and disclosure of these estimates. Actual results may materially differ from these estimates under different assumptions or conditions. If actual results were to materially differ from these estimates, the resulting changes could have a material adverse effect on our financial condition.

Our critical accounting policies include the following:

Principles of Consolidation

The consolidated financial statements include the accounts of Ecoark Holdings, Inc. and its subsidiaries, collectively referred to as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Ecoark Holdings is a holding company and holds one hundred percent of Ecoark, Pioneer Products (which owns 100% of Sable), Zest Labs, Magnolia Solar and Eco3D (Ecoark owned 65% of Eco3D and the remaining 35% interest was owned by executives of Eco3D until September 2016 when the executives' 35% interest was acquired in exchange for 525 shares of Ecoark Holdings stock, directly or indirectly).

The Company applies the guidance of Topic 810 "Consolidation" of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") to determine whether and how to consolidate another entity. Pursuant to ASC 810-10-15-10 all majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated except when control does not rest with the parent. Pursuant to ASC 810-10-15-8, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, management's estimate of provisions required for non-collectible accounts receivable, obsolete or slow-moving inventory, and determination of the fair value of stock awards issued. Actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost or market. Inventory cost is determined by specific identification on a first in first out basis, and provisions are made to reduce slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. The Company establishes reserves for this purpose.

Property and Equipment and Long-Lived Assets

Property and equipment is stated at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years for all classes of property and equipment, except leasehold improvements which are depreciated over the shorter of 10 years or the term of the lease.

FASB Codification Topic 360 "Property, Plant and Equipment" ("ASC 360"), requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of ASC 360 has not materially affected the Company's reported earnings, financial condition or cash flows.

Intangible assets with definite useful lives are stated at cost less accumulated amortization. Intangible assets represent the valuation of the company-owned patents and customer lists. These intangible assets are being amortized on a straight-line basis over their estimated average useful lives of thirteen and a half years for the patents and three years for the customer lists. Expenditures on intangible assets through Ecoark Holding's filing of patent and trademark protection for company-owned inventions are expensed as incurred.

Ecoark assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
3. Significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

Revenue Recognition

Product revenue primarily consists of the sale of recycled plastics products, electronic hardware and furniture. Revenue is recognized when the following criteria have been met:

Evidence of an arrangement exists. The Company considers a customer purchase order, service agreement, contract, or equivalent document to be evidence of an arrangement.

Delivery has occurred. The Company's standard transfer terms are free on board ("FOB") shipping point. Thus, delivery is considered to have occurred when title and risk of loss have passed to the customer at the time of shipment.

The fee is fixed or determinable. The Company considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard, which is generally 30-60 days.

Collection is deemed reasonably assured. Collection is deemed reasonably assured if it is expected that the customer will be able to pay amounts under the arrangement as payments become due. If it is determined that collection is not reasonably assured, then revenue is deferred and recognized upon cash collection.

The Company will recognize revenues for its software in accordance with ASC 985-605, Software Revenue Recognition.

Revenue from software license agreements is recognized when persuasive evidence of an agreement exists, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. In software arrangements that include more than one element, the Company allocates the total arrangement fee among the elements based on the relative fair value of each of the elements.

License revenue allocated to software products generally is recognized upon delivery of the products or deferred and recognized in future periods to the extent that an arrangement includes one or more elements to be delivered at a future date and for which fair values have not been established. Revenue allocated to maintenance agreements is recognized ratably over the maintenance term and revenue allocated to training and other service elements is recognized as the services are performed. If evidence of fair value does not exist for all elements of a license agreement and post customer support ("PCS") is the only undelivered element, then all revenue for the license arrangement is recognized ratably over the term of the agreement as license revenue. If evidence of fair value of all undelivered PCS elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

Cost of license revenue primarily includes product, delivery, and royalty costs. Cost of maintenance and service revenue consists primarily of labor costs for engineers performing implementation services, technical support, and training personnel as well as facilities and equipment costs.

The Company enters into arrangements that can include various combinations of software, services, and hardware. Where elements are delivered over different periods of time, and when allowed under U.S. Generally Accepted Accounting Principles ("GAAP"), revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. The Company uses a hierarchy to determine the fair value to be used for allocating revenue to elements: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence, and (iii) best estimate of selling price ("ESP"). For software elements, the Company follows the industry specific software guidance which only allows for the use of VSOE in establishing fair value. Generally, VSOE is the price charged when the deliverable is sold separately or the price established by Management for a product that is not yet sold if it is probable that the price will not change before introduction into the marketplace.

ESPs are established as best estimates of what the selling prices would be if the deliverables were sold regularly on a stand-alone basis. The process for determining ESPs requires judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable.

When the arrangement with a customer includes services or significant production, modification, or customization of software, we recognize the related revenue using the percentage-of-completion method in accordance with the accounting guidance and certain production-type contracts contained in ASC 605-35, Construction-Type and Production-Type Contracts. We use the percentage of completion method provided all of the following conditions exist:

- the contract includes provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged and the manner and terms of settlement;
- the customer can be expected to satisfy its obligations under the contract;
- the Company can be expected to perform its contractual obligations; and
- reliable estimates of progress towards completion can be made.

We measure completion based on achieving milestones detailed in the agreements with the customers. Costs of providing services, including services accounted for in accordance with ASC 605-35, are expensed as incurred.

Stock-Based Compensation

The Company follows ASC 718-10 "*Share Based Payments*". The Company calculates compensation expense for all awards granted, but not yet vested, based on the grant-date fair values. Stock-based compensation expense for all awards granted is based on the grant-date fair values. The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505-50, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*". The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to expense and additional paid-in capital.

Recoverability of Long-Lived Assets

The Company reviews recoverability of long-lived assets on a periodic basis whenever events and changes in circumstances have occurred which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. If such assets are determined to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Fixed assets to be disposed of by sale will be carried at the lower of the then current carrying value or fair value less estimated costs to sell.

Fair Value Measurements

ASC 820, "*Fair Value Measurements*" defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. ASC 820 classifies these inputs into the following hierarchy:

Level 1 inputs: Quoted prices for identical instruments in active markets.

Level 2 inputs: 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 whose inputs are observable or whose significant value drivers are observable.

Level 3 inputs: Instruments with primarily unobservable value drivers.

Off-Balance Sheet Arrangements

As of September 30, 2016 and December 31, 2015, 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, 2016, 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 the Company's disclosure controls and procedures are effective.

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.

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, except as follows. The Company expanded its implementation of its cloud-based accounting and ERP system from NetSuite and added to the professional accounting staff. The Company believes that these additions have improved and will continue to improve internal controls 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

In the ordinary course of business, the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters. The Company is not a party to any lawsuit or administrative proceeding as of the date hereof. Its management is not aware of any lawsuits or administrative proceedings that are threatened or anticipated, and we are not considering the institution or prosecution of any legal proceeding as of the date hereof.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief 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 Chief 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

SIGNATURES

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

Ecoark Holdings, Inc.

(Registrant)

Date: November 14, 2016

By: /s/ RANDY MAY

Randy May
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2016

By: /s/ YASH R. PURI

Dr. Yash R. Puri
Chief Financial Officer
(Principal Financial and Accounting Officer)

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PUBLIC DOCUMENT COUNT: 68
CONFORMED PERIOD OF REPORT: 20160930
FILED AS OF DATE: 20161114
DATE AS OF CHANGE: 20161114

FILER:

COMPANY DATA:

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CENTRAL INDEX KEY: 0001437491
STANDARD INDUSTRIAL CLASSIFICATION: PLASTICS PRODUCTS, NEC [3089]
IRS NUMBER: 000000000
STATE OF INCORPORATION: NV
FISCAL YEAR END: 1231

FILING VALUES:

FORM TYPE: 10-Q
SEC ACT: 1934 Act
SEC FILE NUMBER: 000-53361
FILM NUMBER: 161994501

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STREET 1: 3333 PINNACLE HILLS PARKWAY, SUITE 220
CITY: ROGERS
STATE: AR
ZIP: 72758
BUSINESS PHONE: 479-259-2977

MAIL ADDRESS:

STREET 1: 3333 PINNACLE HILLS PARKWAY, SUITE 220
CITY: ROGERS
STATE: AR
ZIP: 72758

FORMER COMPANY:

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

CERTIFICATION

I, Randy May, certify that:

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

Date: November 14, 2016

/s/ Randy May

Randy May
Chief Executive Officer and
Principal Executive Officer

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

CERTIFICATION

I, Yash R. Puri, certify that:

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

Date: November 14, 2016

/s/ Yash R. Puri

Dr. Yash R. Puri
Chief Financial Officer and
Principal Financial Officer

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

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy May, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2016

/s/ Randy May
Randy May
Chief Executive Officer and
Principal Executive Officer

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

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yash R. Puri, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2016

/s/ Yash R. Puri

Dr. Yash R. Puri
Chief Financial Officer and
Principal Financial Officer