

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2019

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission file number 1-12711

DPW HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-1721931

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

201 Shipyard Way, Suite E

Newport Beach, CA 92663

(Address of principal executive offices)

(949) 444-5464

(Registrant's telephone number, including area code)

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

Table with 3 columns: Title of each class, Trading Symbol(s), Name of each exchange on which registered. Row 1: Class A Common Stock, \$0.001 par value, DPW, NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding year... Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T... Yes [x] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]
Non-accelerated filer [x] Smaller reporting company [x]
Emerging growth company [ ]

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

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

At November 18, 2019 the registrant had outstanding 3,251,871 shares of common stock.

**DPW HOLDINGS, INC.**  
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**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve a number of risks and uncertainties. Words such as “anticipates,” “expects,” “intends,” “goals,” “plans,” “believes,” “seeks,” “estimates,” “continues,” “may,” “will,” “would,” “should,” “could,” and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, uncertain events or assumptions, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on management's expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include those described throughout this report and our Annual Report on Form 10-K for the year ended December 31, 2018, particularly the “Risk Factors” sections of such reports. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Form 10-Q and in other documents we file from time to time with the Securities and Exchange Commission that disclose risks and uncertainties that may affect our business. The forward-looking statements in this Form 10-Q do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of November 19, 2019. In addition, the forward-looking statements in this Form 10-Q are made as of the date of this filing, and we do not undertake, and expressly disclaims any duty, to update such statements, whether as a result of new information, new developments or otherwise, except to the extent that disclosure may be required by law.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**DPW HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 756,652	\$ 902,329
Marketable equity securities	473,314	178,597
Accounts receivable	2,473,500	1,930,971
Accounts and other receivable, related party	1,238,856	3,887,654
Accrued revenue	1,395,171	1,353,411
Inventories, net	2,724,023	3,261,126
Prepaid expenses and other current assets	706,967	775,981
<b>TOTAL CURRENT ASSETS</b>	<u>9,768,483</u>	<u>12,290,069</u>
Intangible assets	4,078,443	4,359,798
Digital currencies	6,634	1,535
Goodwill	8,810,340	8,463,070
Property and equipment, net	2,509,894	9,313,299
Right-of-use assets	3,433,794	—
Investments - related party, net of original issue discount of \$1,475,485 and \$2,336,693, respectively	9,738,353	5,611,621
Investments in derivative liabilities and common stock - related party	2,351,970	3,043,499
Equity investments in private companies	897,957	480,000
Investment in limited partnership	1,969,000	1,969,000
Loans receivable	2,170,962	2,572,230
Other investments, related parties	840,000	862,500
Other assets	850,148	459,259
<b>TOTAL ASSETS</b>	<u>\$ 47,425,978</u>	<u>\$ 49,425,880</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 12,649,593	\$ 13,065,838
Accounts payable and accrued expenses, related party	62,278	57,752
Operating lease liability, current	741,433	—
Advances on future receipts	2,216,422	2,085,807
Short term advances, related party	699,261	73,761
Revolving credit facility	233,490	285,605
Notes payable, net	6,077,720	6,388,787
Notes payable, related party	168,589	166,925
Convertible notes payable	1,146,141	6,742,494
Other current liabilities	1,859,041	1,868,402
<b>TOTAL CURRENT LIABILITIES</b>	<u>25,853,968</u>	<u>30,735,371</u>
<b>LONG TERM LIABILITIES</b>		
Operating lease liability, non-current	2,781,345	—
Notes payable	464,809	483,659
Notes payable, related parties	115,728	142,059
Convertible notes payable	284,284	—
<b>TOTAL LIABILITIES</b>	<u>29,500,134</u>	<u>31,361,089</u>

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Series A Cumulative Redeemable Perpetual Preferred Stock, \$25.00 stated value per share, \$0.001 par value – 1,000,000 shares authorized; 7,040 and 1,434 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively (redemption amount and liquidation preference of \$176,000 and \$35,850 as of September 30, 2019 and December 31, 2018, respectively)	7	1
Series B Convertible Preferred Stock, \$10.00 stated value per share, share, \$0.001 par value – 500,000 shares authorized; 125,000 shares issued and outstanding at September 30, 2019 and December 31, 2018 (liquidation preference of \$1,250,000 at September 30, 2019 and December 31, 2018)	125	125
Class A Common Stock, \$0.001 par value – 500,000,000 shares authorized; 2,541,529 and 100,910 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	2,542	101
Class B Common Stock, \$0.001 par value – 25,000,000 shares authorized; nil shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Additional paid-in capital	99,883,351	77,647,544
Accumulated deficit	(76,811,910)	(55,721,115)
Accumulated other comprehensive loss	(5,156,513)	(3,902,523)
<b>TOTAL DPW HOLDINGS STOCKHOLDERS' EQUITY</b>	<b>17,917,602</b>	<b>18,024,133</b>
Non-controlling interest	8,242	40,658
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>17,925,844</b>	<b>18,064,791</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 47,425,978</b>	<b>\$ 49,425,880</b>

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 4,968,440	\$ 5,732,002	\$ 15,061,289	\$ 13,245,419
Revenue, cryptocurrency mining	307,172	590,165	592,092	1,546,418
Revenue, related party	—	352,496	—	3,911,263
Revenue, restaurant operations	1,036,834	1,584,891	3,371,465	2,087,383
Revenue, lending activities	69,217	85,368	443,927	194,120
Total revenue	6,381,663	8,344,922	19,468,773	20,984,603
Cost of revenue	4,642,526	6,317,754	14,350,041	16,204,388
Gross profit	1,739,137	2,027,168	5,118,732	4,780,215
Operating expenses				
Engineering and product development	481,902	333,555	1,408,848	1,043,993
Selling and marketing	392,725	790,603	1,293,181	2,290,934
General and administrative	4,519,641	5,088,312	14,584,758	12,697,909
Impairment of property and equipment	4,315,856	—	4,315,856	—
(Gain) loss on digital currency	(951)	2,543	(6,933)	2,543
Total operating expenses	9,709,173	6,215,013	21,595,710	16,035,379
Loss from operations	(7,970,036)	(4,187,845)	(16,476,978)	(11,255,164)
Interest income	898,646	712,262	2,647,110	1,955,885
Interest expense	(2,954,843)	(4,072,539)	(5,586,639)	(11,335,069)
Change in fair value of marketable equity securities	(330,150)	—	(173,503)	—
Loss on extinguishment of convertible debt	(155,448)	—	(963,232)	—
Loss on issuance of warrants	—	—	(1,763,481)	—
Change in fair value of warrant liability	165,840	—	1,112,665	—
Loss before income taxes	(10,345,991)	(7,548,122)	(21,204,058)	(20,634,348)
Income tax benefit	5,140	23,737	93,284	17,480
Net loss	(10,340,851)	(7,524,385)	(21,110,774)	(20,616,868)
Less: Net loss attributable to non-controlling interest	—	74,414	32,416	218,494
Net loss attributable to DPW Holdings	(10,340,851)	(7,449,971)	(21,078,358)	(20,398,374)
Preferred dividends	(5,284)	—	(12,437)	(108,049)
Net loss available to common stockholders	\$ (10,346,135)	\$ (7,449,971)	\$ (21,090,795)	\$ (20,506,423)
Basic and diluted net loss per common share	\$ (6.47)	\$ (88.23)	\$ (24.62)	\$ (311.53)
Basic and diluted weighted average common shares outstanding	1,599,306	84,441	856,689	65,824
Comprehensive Loss				
Loss available to common stockholders	\$ (10,346,135)	\$ (7,449,971)	\$ (21,090,795)	\$ (20,506,423)
Other comprehensive income (loss)				
Foreign currency translation adjustment	67,166	(77,686)	259,671	(209,535)
Net unrealized gain (loss) on derivative securities of related party	(1,152,480)	(1,341,977)	(1,513,661)	(6,787,902)
Other comprehensive income (loss)	(1,085,314)	(1,419,663)	(1,253,990)	(6,997,437)
Total Comprehensive loss	\$ (11,431,449)	\$ (8,869,634)	\$ (22,344,785)	\$ (27,503,860)

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**  
**Three Months Ended September 30, 2019**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCES, June 30, 2019	132,040	\$ 132	1,037,128	\$ 1,037	\$ 92,377,366	\$ (66,465,775)	\$ (4,071,199)	\$ 8,242	\$ 21,849,803
Compensation expense due to stock option issuances	—	—	—	—	187,125	—	—	—	187,125
Issuance of common stock for cash	—	—	1,140,330	1,141	4,415,624	—	—	—	4,416,765
Issuance of common stock for services	—	—	20,000	20	51,980	—	—	—	52,000
Issuance of common stock for conversion of debt	—	—	344,071	344	2,127,493	—	—	—	2,127,837
Beneficial conversion feature in connection with convertible notes	—	—	—	—	633,004	—	—	—	633,004
Fair value of warrants issued in connection with convertible notes	—	—	—	—	142,070	—	—	—	142,070
Cash for exchange fees and other financing costs	—	—	—	—	(206,759)	—	—	—	(206,759)
Loss on debt extinguishment	—	—	—	—	155,448	—	—	—	155,448
Comprehensive loss:									
Net loss	—	—	—	—	—	(10,340,851)	—	—	(10,340,851)
Preferred dividends	—	—	—	—	—	(5,284)	—	—	(5,284)
Net unrealized gain on derivatives in related party	—	—	—	—	—	—	(1,152,480)	—	(1,152,480)
Foreign currency translation adjustments	—	—	—	—	—	—	67,166	—	67,166
BALANCES, September 30, 2019	132,040	\$ 132	2,541,529	\$ 2,542	\$ 99,883,351	\$ (76,811,910)	\$ (5,156,513)	\$ 8,242	\$ 17,925,844

The above Condensed Consolidated Statement of Changes in Stockholders' Equity reflects a 1-for-20 reverse stock split effective March 14, 2019, and a 1-for-40 reverse stock split effective August 5, 2019. See Note 1 for further information.

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**  
**Three Months Ended September 30, 2018**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCES, July 1, 2018	125,000	\$ 125	77,028	\$ 77	\$ 68,492,048	\$ (36,552,389)	\$ (1,074,728)	\$ 669,899	\$ 31,535,032
Compensation expense due to stock option issuances	—	—	—	—	298,594	—	—	—	298,594
Compensation expense due to warrant issuances	—	—	—	—	23,477	—	—	—	23,477
Issuance of common stock and warrants for cash	—	—	7,900	8	3,695,819	—	—	—	3,695,827
Issuance of common stock for services	—	—	1,250	2	399,998	—	—	—	400,000
Issuance of common stock in connection with convertible notes	—	—	500	—	501,538	—	—	—	501,538
Beneficial conversion feature in connection with convertible notes	—	—	—	—	720,000	—	—	—	720,000
Cash for exchange fees and other financing costs	—	—	—	—	(112,803)	—	—	—	(112,803)
Non-controlling interest from Microphase	—	—	—	—	—	—	—	(25,000)	(25,000)
Comprehensive loss:									
Net loss	—	—	—	—	—	(7,449,971)	—	—	(7,449,971)
Net unrealized gain on securities available-for-sale, net of income taxes	—	—	—	—	—	—	(1,341,977)	—	(1,341,977)
Foreign currency translation adjustments	—	—	—	—	—	4,100	(77,686)	—	(73,586)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(74,414)	(74,414)
<b>BALANCES, September 30, 2018</b>	<b>125,000</b>	<b>\$ 125</b>	<b>86,678</b>	<b>\$ 87</b>	<b>\$ 74,018,671</b>	<b>\$ (43,998,260)</b>	<b>\$ (2,494,391)</b>	<b>\$ 570,485</b>	<b>\$ 28,096,717</b>

The above Condensed Consolidated Statement of Changes in Stockholders' Equity reflects a 1-for-20 reverse stock split effective March 14, 2019, and a 1-for-40 reverse stock split effective August 5, 2019. See Note 1 for further information.

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**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**  
**Nine Months Ended September 30, 2019**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCES, January 1, 2019	126,434	\$ 126	100,910	\$ 101	\$ 77,647,544	\$ (55,721,115)	\$ (3,902,523)	\$ 40,658	\$ 18,064,791
Compensation expense due to stock option issuances	—	—	—	—	681,079	—	—	—	681,079
Issuance of common stock for cash	—	—	1,331,509	1,333	9,869,176	—	—	—	9,870,509
Issuance of common stock for services	—	—	29,375	29	304,990	—	—	—	305,019
Issuance of common stock in payment of accrued liabilities	—	—	9,375	9	108,512	—	—	—	108,521
Issuance of common stock for conversion of debt	—	—	370,473	370	4,735,925	—	—	—	4,736,295
Issuance of common stock upon exercise of warrants	—	—	699,887	700	6,620,325	—	—	—	6,621,025
Issuance of Series A preferred stock for cash	5,606	6	—	—	140,144	—	—	—	140,150
Beneficial conversion feature in connection with convertible notes	—	—	—	—	821,452	—	—	—	821,452
Fair value of warrants issued in connection with convertible notes	—	—	—	—	200,518	—	—	—	200,518
Cash for exchange fees and other financing costs	—	—	—	—	(1,401,762)	—	—	—	(1,401,762)
Loss on debt extinguishment	—	—	—	—	155,448	—	—	—	155,448
Comprehensive loss:									
Net loss	—	—	—	—	—	(21,078,358)	—	—	(21,078,358)
Preferred dividends	—	—	—	—	—	(12,437)	—	—	(12,437)
Net unrealized loss on derivatives in related party	—	—	—	—	—	—	(1,513,661)	—	(1,513,661)
Foreign currency translation adjustments	—	—	—	—	—	—	259,671	—	259,671
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(32,416)	(32,416)
<b>BALANCES, September 30, 2019</b>	<b>132,040</b>	<b>\$ 132</b>	<b>2,541,529</b>	<b>\$ 2,542</b>	<b>\$ 99,883,351</b>	<b>\$ (76,811,910)</b>	<b>\$ (5,156,513)</b>	<b>\$ 8,242</b>	<b>\$ 17,925,844</b>

The above Condensed Consolidated Statement of Changes in Stockholders' Equity reflects a 1-for-20 reverse stock split effective March 14, 2019, and a 1-for-40 reverse stock split effective August 5, 2019. See Note 1 for further information.

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



**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**  
**Nine Months Ended September 30, 2018**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCES, January 31, 2018	478,776	\$ 479	37,778	\$ 38	\$ 36,918,132	\$ (23,414,151)	\$ 4,503,046	\$ 780,737	\$ 18,788,281
Compensation expense due to stock option issuances	—	—	—	—	725,467	—	—	—	725,467
Compensation expense due to warrant issuances	—	—	—	—	70,431	—	—	—	70,431
Issuance of common stock and warrants for cash	—	—	31,721	32	22,247,384	—	—	—	22,247,416
Issuance of common stock for services	—	—	4,604	5	4,158,291	—	—	—	4,158,296
Issuance of common stock for conversion of debt	—	—	2,538	3	2,167,841	—	—	—	2,167,844
Issuance of common stock for conversion of short-term advances	—	—	4,540	4	2,819,580	—	—	—	2,819,584
Issuance of common stock upon exercise of stock options	—	—	75	—	97,800	—	—	—	97,800
Issuance of common stock upon exercise of warrants	—	—	2,682	3	867,163	—	—	—	867,166
Issuance of Series B preferred stock for conversion of short-term advances	25,000	25	—	—	249,975	—	—	—	250,000
Issuance of common stock for conversion of Series E preferred stock	(378,776)	(379)	947	1	378	—	—	—	—
Issuance of common stock in connection with convertible notes	—	—	1,862	1	1,176,758	—	—	—	1,176,759
Repurchase of common stock	—	—	(69)	—	(55,000)	—	—	—	(55,000)
Beneficial conversion feature in connection with convertible notes	—	—	—	—	1,008,573	—	—	—	1,008,573
Fair value of warrants issued in connection with convertible notes	—	—	—	—	3,408,665	—	—	—	3,408,665
Cash for exchange fees and other financing costs	—	—	—	—	(1,950,816)	—	—	—	(1,950,816)
Non-controlling interest from acquisition of I. AM	—	—	—	—	—	—	—	33,242	33,242
Non-controlling interest from Microphase	—	—	—	—	—	—	—	(25,000)	(25,000)
Comprehensive loss:									
Net loss	—	—	—	—	—	(20,398,374)	—	—	(20,398,374)
Preferred deemed dividends	—	—	—	—	108,049	(108,049)	—	—	—
Net unrealized gain on securities available-for-sale, net of income taxes	—	—	—	—	—	—	(6,787,902)	—	(6,787,902)
Foreign currency translation adjustments	—	—	—	—	—	(77,686)	(209,535)	—	(287,221)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(218,494)	(218,494)
BALANCES, September 30, 2018	125,000	\$ 125	86,678	\$ 87	\$ 74,018,671	\$ (43,998,260)	\$ (2,494,391)	\$ 570,485	\$ 28,096,717

The above Condensed Consolidated Statement of Changes in Stockholders' Equity reflects a 1 for 20 reverse stock split effective March 14, 2019, and a 1-for-40 reverse stock split effective August 5, 2019. See Note 1 for further information.

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**For the Nine Months Ended September 30,**  
**2019**                      **2018**

Cash flows from operating activities:

Net loss	\$ (21,110,774)	\$ (20,616,868)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,673,352	1,642,422
Amortization	400,661	100,074
Amortization of right-of-use assets	260,549	—
Interest expense – debt discount	3,034,454	8,812,972
Fair value in excess of proceeds upon issuance of warrants	1,763,481	—
Change in fair value of warrant liability	(1,112,665)	—
Accretion of original issue discount on notes receivable – related party	(1,869,778)	(1,524,441)
Accretion of original issue discount on notes receivable	(77,155)	—
Increase in accrued interest on notes receivable – related party	(732,542)	—
Stock-based compensation	1,354,062	4,164,180
Impairment of property and equipment	4,315,856	—
Realized (gains) losses on sale of digital currencies	(394)	110,523
Realized (gains) losses on sale of marketable securities	(86,741)	167,779
Unrealized (gains) losses on marketable equity securities	(294,717)	42,962
Unrealized gains on equity securities – related party	371,970	—
Unrealized gains on equity securities	24,597	—
Changes in operating assets and liabilities:		
Accounts receivable	(397,395)	876,378
Accounts receivable, related party	2,648,798	(3,517,216)
Accrued revenue	(41,760)	—
Digital currencies	(599,025)	(1,502,956)
Inventories	619,185	(117,621)
Prepaid expenses and other current assets	(269,047)	198,058
Other assets	(433,013)	(144,593)
Accounts payable and accrued expenses	1,357,307	1,923,193
Accounts payable, related parties	4,526	(15,258)
Other current liabilities	(9,505)	(29,643)
Lease liabilities	(171,565)	—
Net cash used in operating activities	(8,377,278)	(9,430,055)

Cash flows from investing activities:

Purchase of property and equipment	(149,323)	(9,317,726)
Loss on disposition of asset	—	22,172
Purchase of intangible asset	—	(53,643)
Purchase of Enertec	—	(4,936,562)
Cash received on acquisitions	—	293,042
Investments – related party	(1,501,912)	(844,834)
Related party investment in real property	—	(1,915,000)
Investments in warrants and common stock - related party	(1,102,619)	(2,287,991)
Investments in marketable equity securities	—	(858,458)
Sales of marketable equity securities	571,741	2,158,724
Investments - others	—	(25,000)
Proceeds from loans to related parties	—	16,088
Investments in debt and equity securities	(504,393)	(2,166,505)
Net cash used in investing activities	\$ (2,686,506)	\$ (19,915,693)

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from financing activities:</b>		
Gross proceeds from sales of common stock and warrants	\$ 15,945,371	\$ 22,247,416
Repurchase of common stock	—	(54,747)
Proceeds from issuance of Series A Convertible Preferred Stock	131,741	—
Financing cost in connection with sales of equity securities	(1,401,764)	(1,951,397)
Proceeds from stock option exercises	—	97,740
Proceeds from warrant exercises	127,000	867,166
Proceeds from convertible notes payable	500,000	11,550,000
Proceeds from notes payable	4,752,918	12,234,999
Proceeds from short-term advances – related party	625,500	136,761
Proceeds from short-term advances	—	761,000
Payments on short-term advances	—	(425,000)
Payments on notes payable	(2,001,474)	(11,781,756)
Payments on convertible notes payable	(7,079,547)	(2,362,281)
Proceeds from advances on future receipts	941,804	2,990,277
Payments on advances on future receipts	(1,365,435)	(5,158,229)
Payments of preferred dividends	(12,437)	—
Payments on revolving credit facilities, net	(80,445)	(360,587)
<b>Net cash provided by financing activities</b>	<b>11,083,232</b>	<b>28,791,362</b>
Effect of exchange rate changes on cash and cash equivalents	(165,125)	(220,325)
Net decrease in cash and cash equivalents	(145,677)	(774,711)
Cash and cash equivalents at beginning of period	902,329	1,478,147
<b>Cash and cash equivalents at end of period</b>	<b>\$ 756,652</b>	<b>\$ 703,436</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 1,850,946	\$ 695,373
<b>Non-cash investing and financing activities:</b>		
Cancellation of convertible note payable into shares of common stock	\$ 4,736,295	\$ 2,167,844
Payment of accounts payable with digital currency	\$ 594,320	\$ —
Issuance of common stock for prepaid services	\$ —	\$ 794,055
Issuance of common stock in payment of liability	\$ 108,521	\$ —
Cancellation of short term advances into shares of common stock	\$ —	\$ 2,774,584
Cancellation of short term advances, related party into shares of common stock	\$ —	\$ 45,000
Cancellation of short term advances, related party into shares of Series B Preferred Stock	\$ —	\$ 250,000
Conversion of loans receivable for marketable equity securities	\$ 485,000	\$ —
Conversion of loans receivable for investments in warrants and common stock - related party	\$ 91,483	\$ —

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

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited**  
**SEPTEMBER 30, 2019**

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**1. DESCRIPTION OF BUSINESS**

DPW Holdings, Inc., a Delaware corporation (“DPW” or the “Company”), formerly known as Digital Power Corporation, was incorporated in September 2017. The Company is a diversified holding company owning subsidiaries engaged in the following operating businesses: commercial and defense solutions, commercial lending, cryptocurrency blockchain mining, advanced textile technology and restaurant operations. The Company’s wholly-owned subsidiaries are Coolisys Technologies, Inc. (“Coolisys”), Digital Power Limited (“DP Limited”), Enertec Systems 2001 Ltd (“Enertec”), Power-Plus Technical Distributors, LLC (“Power-Plus”), Digital Power Lending, LLC (“DP Lending”) and Digital Farms, Inc. (“Digital Farms”). The Company also has controlling interests in Microphase Corporation (“Microphase”) and I. AM, Inc. (“I.AM”). The Company has five reportable segments – North America with operations conducted by Microphase, Coolisys, Power-Plus and DP Lending, Europe with operations through DP Limited, Middle East with operations through Enertec, digital currency blockchain mining through Digital Farms and restaurant operations through I.AM.

On March 14, 2019, pursuant to the authorization provided by the Company’s stockholders at a Special Meeting of Stockholders, the Company’s Board of Directors (the “Board”) approved the Certificate of Incorporation Amendment (the “COI Amendment”) to effectuate a reverse stock split of the Common Stock of the Company’s issued and outstanding number of such shares by a ratio of one-for-twenty (the “First Stock Split”). At the Company’s 2019 reconvened Annual Meeting of Stockholders, the Company’s stockholders approved a proposal permitting the Board to effectuate a second reverse stock split (the “Second Stock Split”) of the Company’s issued and outstanding Common Stock. Thereafter, on July 23, 2019, the Board approved the Second Stock Split with a ratio of one-for-forty. The Second Stock Split did not affect the number of authorized shares of Common Stock or their par value per share. As a result of the Second Stock Split, each forty shares of common stock issued and outstanding prior to the Second Stock Split were converted into one share of common stock. The Second Stock Split became effective in the State of Delaware on August 5, 2019.

**2. LIQUIDITY, GOING CONCERN AND MANAGEMENT’S PLANS**

The accompanying condensed consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. As of September 30, 2019, the Company had cash and cash equivalents of \$756,652, an accumulated deficit of \$76,811,910 and a negative working capital of \$16,085,485. The Company has incurred recurring losses and reported losses for the three and nine months ended September 30, 2019, totaled \$10,340,851 and \$21,110,774, respectively. In the past, the Company has financed its operations principally through issuances of convertible debt, promissory notes and equity securities. During 2019, the Company continued to successfully obtain additional equity and debt financing and in restructuring existing debt.

The Company expects to continue to incur losses for the foreseeable future and needs to raise additional capital to continue its business development initiatives and to support its working capital requirements. On April 2, 2019, the Company received gross proceeds of approximately \$7 million in a public offering of its securities (see Note 20). Management believes that the Company has access to capital resources through potential public or private issuances of debt or equity securities. However, if the Company is unable to raise additional capital, it may be required to curtail operations and take additional measures to reduce costs, including reducing its workforce, eliminating outside consultants and reducing legal fees to conserve its cash in amounts sufficient to sustain operations and meet its obligations. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

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### **3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and do not include all the information and disclosures required by generally accepted accounting principles in the United States of America (“GAAP”). The Company has made estimates and judgments affecting the amounts reported in our condensed consolidated financial statements and the accompanying notes. The actual results experienced by the Company may differ materially from our estimates. The condensed consolidated financial information is unaudited but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on April 16, 2019. The condensed consolidated balance sheet as of December 31, 2018 was derived from the Company’s audited 2018 financial statements contained in the above referenced Form 10-K. Results of the three and nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the full year ending December 31, 2019.

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of DPW and its wholly-owned subsidiaries, Coolisys, DP Limited, Power-Plus, Enertec, DP Lending, Digital Power Corporation, Power-Plus Technical Distributors and Digital Farms and its majority-owned subsidiaries, Microphase and I.A.M. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### ***Accounting Estimates***

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates, judgments and assumptions. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Key estimates include acquisition accounting, fair value of certain financial instruments, reserve for trade receivables and inventories, carrying amounts of investments, carrying amounts of digital currencies, accruals of certain liabilities including product warranties, useful lives and the recoverability of long-lived assets, impairment analysis of intangibles and goodwill, and deferred income taxes and related valuation allowance.

#### ***Impairment of long-lived assets:***

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted expected future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by comparing the amount by which the carrying amount of the assets to their fair value. Based on its reviews, management determined that its digital currency miners were impaired by a total of \$4,315,856 based upon an assessment as of September 30, 2019, including consideration of the decline in bitcoin values which occurred throughout 2019.

#### ***Revenue Recognition***

The Company recognizes revenue under ASC 606, *Revenue from Contracts with Customers*. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligations in the contract, and
- Step 5: Recognize revenue when the company satisfies a performance obligation.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

The Company's disaggregated revenues consist of the following for the nine months ended September 30, 2019:

	Nine Months ended September 30, 2019					
	DPC <sup>1</sup>	DP Limited	Enertec	Digital Farms	I.AM	Total
<b>Primary Geographical Markets</b>						
North America	\$ 7,146,478	\$ —	\$ —	\$ 592,092	\$ 3,371,465	\$ 11,110,035
Europe	90,154	1,193,158	—	—	—	1,283,312
Middle East	21,348	—	6,336,852	—	—	6,358,200
Other	296,190	230,813	190,223	—	—	717,226
	<u>\$ 7,554,170</u>	<u>\$ 1,423,971</u>	<u>\$ 6,527,075</u>	<u>\$ 592,092</u>	<u>\$ 3,371,465</u>	<u>\$ 19,468,773</u>
<b>Major Goods</b>						
RF/Microwave Filters	\$ 2,245,748	\$ —	\$ —	\$ —	\$ —	\$ 2,245,748
Detector logarithmic video amplifiers	558,155	—	—	—	—	558,155
Power Supply Units	4,306,340	—	—	—	—	4,306,340
Power Supply Systems	—	1,423,971	—	—	—	1,423,971
Healthcare diagnostic systems	—	—	1,503,306	—	—	1,503,306
Defense systems	—	—	5,023,769	—	—	5,023,769
Digital Currency Mining	—	—	—	592,092	—	592,092
Restaurant operations	—	—	—	—	3,371,465	3,371,465
Lending activities	443,927	—	—	—	—	443,927
	<u>\$ 7,554,170</u>	<u>\$ 1,423,971</u>	<u>\$ 6,527,075</u>	<u>\$ 592,092</u>	<u>\$ 3,371,465</u>	<u>\$ 19,468,773</u>
<b>Timing of Revenue Recognition</b>						
Goods transferred at a point in time	\$ 7,554,170	\$ 1,287,070	\$ —	\$ 592,092	\$ 3,371,465	\$ 12,804,797
Services transferred over time	—	136,901	6,527,075	—	—	6,663,976
	<u>\$ 7,554,170</u>	<u>\$ 1,423,971</u>	<u>\$ 6,527,075</u>	<u>\$ 592,092</u>	<u>\$ 3,371,465</u>	<u>\$ 19,468,773</u>

<sup>1</sup> Consists of Microphase, Coolisys, Power-Plus and DP Lending

Sales of Products

The Company generates revenues from the sale of its products through a direct and indirect sales force. The Company's performance obligations to deliver products are satisfied at the point in time when products are received by the customer, which is when the customer obtains control over the goods. The Company provides standard assurance warranties, which are not separately priced, that the products function as intended. The Company primarily receives fixed consideration for sales of product. Some of the Company's contracts with distributors include stock rotation rights after six months for slow moving inventory, which represents variable consideration. The Company uses an expected value method to estimate variable consideration and constrains revenue for estimated stock rotations until it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. To date, returns have been insignificant. The Company's customers generally pay within 30 days from the receipt of a valid invoice.

Because the Company's product sales agreements have an expected duration of one year or less, the Company has elected to adopt the practical expedient in ASC 606-10-50-14(a) of not disclosing information about its remaining performance obligations.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

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Manufacturing Services

The Company provides manufacturing services in exchange primarily for fixed fees; however, the initial two MLSE units are subject to variable pricing under the \$50 million purchase order from MTIX. Under the terms of the MLSE purchase order, the Company shall be entitled to cost plus \$100,000 for the manufacture of the first two MLSE units. The Company has determined that the costs of manufacturing the MLSE units will decline over time because of a learning curve which will result in a greater amount of revenue being recognized for these initial two MLSE units.

For manufacturing services, which include revenues generated by Enertec and in certain instances revenues generated by DPL, the Company's performance obligation for manufacturing services is satisfied over time as the Company creates or enhances an asset based on criteria that are unique to the customer and that the customer controls as the asset is created or enhanced. Generally, the Company recognizes revenue based upon proportional performance over time using a cost to cost method which measures progress based on the costs incurred to total expected costs in satisfying its performance obligation. This method provides a depiction of the progress in providing the manufacturing service because there is a direct relationship between the costs incurred by the Company and the transfer of the manufacturing service to the customer. Manufacturing services that are recognized based upon the proportional performance method are included in the above table as services transferred over time and to the extent the customer has not been invoiced for these revenues, as accrued revenue in the accompanying consolidated balance sheets. Revisions to the Company's estimates may result in increases or decreases to revenues and income and are reflected in the consolidated financial statements in the periods in which they are first identified.

The Company has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component to the extent that the period between when the Company transfers its promised good or service to the customer and when the customer pays is one year or less.

The aggregate amount of the transaction price allocated to the performance obligation that is partially unsatisfied as of September 30, 2019, for the MLSE units was approximately \$48 million, representing 24 MLSE units. Based on our expectations regarding funding of the production process and our experience building the first machines, the Company expects to recognize the remaining revenue related to the partially unsatisfied performance obligation over the next two and a half years. The Company will be paid in installments for this performance obligation over the next two and a half years.

Lending Activities

DP Lending generates revenue from lending activities primarily through interest, origination fees and late/other fees. Interest income on these products is calculated based on the contractual interest rate and recorded as interest income as earned. The origination fees or original issue discounts are recognized over the life of the loan using the effective interest method.

Blockchain Mining

The Company has entered into digital asset mining pools by executing contracts with the mining pool operators to provide computing power to the mining pool. The contracts are terminable at any time by either party and the Company's enforceable right to compensation only begins when the Company provides computing power to the mining pool operator. In exchange for providing computing power, the Company is entitled to a fractional share of the fixed digital currency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are recorded as a component of cost of revenues), for successfully adding a block to the blockchain. The Company's fractional share is based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

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Providing computing power in digital asset transaction verification services is an output of the Company's ordinary activities. The provision of providing such computing power is the only performance obligation in the Company's contracts with mining pool operators. The transaction consideration the Company receives, if any, is noncash consideration, which the Company measures at fair value on the date received, which is not materially different than the fair value at contract inception or the time the Company has earned the award from the pools. The consideration is all variable. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the mining pool operator successfully places a block (by being the first to solve an algorithm) and the Company receives confirmation of the consideration it will receive, at which time revenue is recognized. There is no significant financing component in these transactions.

Fair value of the digital currency award received is determined using the market rate of the related digital currency at the time of receipt.

There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for digital currencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies, which could have an effect on the Company's consolidated financial position and results from operations.

Expenses associated with running the cryptocurrency mining business, such as equipment depreciation and electricity cost are recorded as a component of cost of revenues.

We intend to use the digital assets primarily for operating expenses of Digital Farms. During 2018, we used digital assets for debt reduction, capital purchases, consulting fees, data center costs and other operating expenses.

#### Restaurant Operations

The Company records revenue from restaurant sales at the time of sale, net of discounts, coupons, employee meals and complimentary meals and gift cards. Restaurant cost of sales primarily includes the cost of goods, beverages, and merchandise and disposable paper and plastic goods used in preparing and selling the Company's menu items and exclude depreciation and amortization. Vendor allowances received in connection with the purchase of a vendor's products are recognized as a reduction of the related food and beverage costs as earned.

#### ***Fair value of Financial Instruments***

In accordance with ASC No. 820, *Fair Value Measurements and Disclosures*, fair value is defined as the exit price, or the amount that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs include those that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-derived valuations. All significant inputs used in our valuations are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include quoted prices that were adjusted for security-specific restrictions which are compared to output from internally developed models such as a discounted cash flow model.



**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, accounts receivables and accounts and other receivable – related party, investments, notes receivable, trade payables and trade payables – related party approximate their fair value due to the short-term maturities of such instruments.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company’s financial instruments (see Note 4 and Note 7) that were measured at fair value on a recurring basis by level within the fair value hierarchy:

	<b>Fair Value Measurement at September 30, 2019</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments in common stock and derivative instruments of AVL P – a related party	\$ 2,145,720	\$ 397,670	\$ —	\$ 1,748,050
Investment in common stock of Alzamend – a related party	206,250	—	—	206,250
Investments in marketable equity securities	473,314	473,314	—	—
Investments in warrants of public companies	9,174	—	—	9,174
<b>Total Investments</b>	<b>\$ 2,834,458</b>	<b>\$ 870,984</b>	<b>\$ —</b>	<b>\$ 1,963,474</b>

	<b>Fair Value Measurement at December 31, 2018</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments in common stock and derivative instruments of AVL P – a related party	\$ 3,043,499	\$ 812,858	\$ —	\$ 2,230,641
Investments in marketable equity securities	178,597	178,597	—	—
Investments in warrants of public companies	34,372	—	—	34,372
<b>Total Investments</b>	<b>\$ 3,256,468</b>	<b>\$ 991,455</b>	<b>\$ —</b>	<b>\$ 2,265,013</b>

We assess the inputs used to measure fair value using the three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

**Leases**

Effective January 1, 2019, the Company accounts for its leases under ASC 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases. As of January 1, 2019, we only had operating leases. Operating leases are recognized as Operating lease right-of-use (“ROU”) assets, Operating lease liabilities, current, and Operating lease liabilities, non-current on our consolidated balance sheets. Lease assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. In certain of our lease agreements, we receive rent holidays and other incentives. We recognize lease costs on a straight-line basis over the lease term without regard to deferred payment terms, such as rent holidays, that defer the commencement date of required payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the life of the lease, without assuming renewal features, if any, are exercised. We do not separate lease and non-lease components for our leases.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

The Company continues to account for leases in the prior period financial statements under ASC Topic 840.

**Net Loss per Share**

Net loss per share is computed by dividing the net loss to common stockholders by the weighted average number of common shares outstanding. The calculation of the basic and diluted earnings per share is the same for all periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to the Company's net loss position for all periods presented. The Company has included 6,500 warrants, which are exercisable for shares of the Company's common stock on a one-for-one basis, in its earnings per share calculation for the three and nine months ended September 30, 2019. Anti-dilutive securities, which are convertible into or exercisable for the Company's Class A common stock, consist of the following at September 30, 2019 and 2018:

	September 30,	
	2019	2018
Stock options	2,906	9,463
Warrants <sup>(1)</sup>	72,921	23,410
Convertible notes	349,486	25,097
Conversion of preferred stock	2,232	2,232
<b>Total</b>	<b>427,545</b>	<b>60,202</b>

(1) The Company has excluded 6,500 warrants issued in April 2019, which may be exercised by means of a cashless exercise into 6,500 shares of the Company's common stock, in its anti-dilutive securities but included the warrants in its weighted average shares outstanding.

**Reclassifications**

Certain prior year amounts have been reclassified for comparative purposes to conform to the current-year financial statement presentation. These reclassifications had no effect on previously reported results of operations. In addition, certain prior year amounts from the restated amounts have been reclassified for consistency with the current period presentation.

**Recently Issued Accounting Standards**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, in order to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) lease classification or (c) determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities an optional transition method to apply the guidance under Topic 842 as of the adoption date, rather than as of the earliest period presented. The Company adopted Topic 842 on January 1, 2019, using the optional transition method to apply the new guidance as of January 1, 2019, rather than as of the earliest period presented, and elected the package of practical expedients described above. Upon adoption the Company recognized cumulative operating lease liabilities and operating right-of-use assets of approximately \$4.2 million.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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In July 2017, the FASB issued ASU No. 2017-11, *Earnings per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)* (“ASU 2017-11”). ASU 2017-11 consists of two parts. The amendments in Part I of this update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (“EPS”) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common stockholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments in Part II of this update do not require any transition guidance because those amendments do not have an accounting effect. The Company adopted this standard on January 1, 2019, and the adoption did not have any impact on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, (“ASU 2018-07”). ASU 2018-07 simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under ASU 2018-07, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. The Company adopted this standard on January 1, 2019, and the adoption did not have any impact on its consolidated financial statements and related disclosures.

**4. Marketable Equity Securities**

Marketable securities in equity securities with readily determinable market prices consisted of the following as of September 30, 2019 and December 31, 2018:

	Marketable equity securities at September 30, 2019			
	Cost	Gross unrealized gains (losses)	Gross realized gains (losses)	Fair value
Common shares	\$ 220,880	\$ 252,434	\$ —	\$ 473,314

	Marketable equity securities at December 31, 2018			
	Cost	Gross unrealized gains (losses)	Gross realized gains (losses)	Fair value
Common shares	\$ 220,880	\$ (42,283)	\$ —	\$ 178,597

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The following table presents additional information about marketable equity securities:

	Marketable Equity Securities
Balance at January 1, 2018	\$ 1,834,570
Purchases of marketable equity securities	858,458
Sales of marketable equity securities	(2,188,292)
Realized losses on marketable equity securities	(175,405)
Unrealized gains on marketable equity securities	(150,734)
Balance at December 31, 2018	\$ 178,597
Purchases of marketable equity securities on conversion of debt	485,000
Sales of marketable equity securities	(571,741)
Realized gains on marketable equity securities	86,741
Unrealized gains on marketable equity securities	294,717
Balance at September 30, 2019	<u>\$ 473,314</u>

At September 30, 2019 and December 31, 2018, the Company had invested in the marketable equity securities of certain publicly traded companies. During the three and nine months ended September 30, 2019, unrealized gains of \$63,109 and \$294,717 were included in net income as a component of change in fair value of equity securities. During the year ended December 31, 2018, the Company recorded an unrealized loss of \$42,283. The Company's investment in marketable equity securities will be revalued on each balance sheet date. The fair value of the Company's holdings in marketable equity securities at September 30, 2019 and December 31, 2018 is a Level 1 measurement based on quoted prices in an active market.

At September 30, 2019 and December 31, 2018, the Company also held equity investments in private companies and an investment in a limited partnership. These investments do not have readily determinable fair values and have been measured at cost less impairment, if any, and adjusted for observable price changes for identical or similar investments of the issuer.

#### 5. PROPERTY AND EQUIPMENT, NET

At September 30, 2019 and December 31, 2018 property and equipment consist of:

	September 30, 2019	December 31, 2018
Cryptocurrency machines and related equipment	\$ 4,883,072	\$ 9,168,928
Computer, software and related equipment	2,512,515	2,495,470
Restaurant equipment	763,275	752,103
Office furniture and equipment	366,292	287,583
Leasehold improvements	1,289,308	1,274,865
	<u>9,814,462</u>	<u>13,978,949</u>
Accumulated depreciation and amortization	(7,304,568)	(4,665,650)
Property and equipment, net	<u>\$ 2,509,894</u>	<u>\$ 9,313,299</u>

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Under the guidance of ASC 360, Impairment or Disposal of Long-lived Assets, a long-lived asset or asset group (including intangibles) will be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based upon the significant decline in the price of bitcoin during the nine months ended September 30, 2019 and the decline in projected cash flows over the life of the cryptocurrency machines, the Company performed an undiscounted cash flow test to determine if the cryptocurrency machines were impaired. The undiscounted cash flows were less than the carrying amount of the Company’s cryptocurrency machines and therefore, the carrying amount of the assets were compared to the fair value of the cryptocurrency machines, and the Company determined that there were impairment charges to be recorded on the cryptocurrency machines. Impairment charges for the nine months ended September 30, 2019 totaled approximately \$4,315,856.

For the three and nine months ended September 30, 2019, depreciation expense amounted to \$846,631 and \$2,673,352, respectively. During the three and nine months ended September 30, 2018, depreciation expense amounted to \$883,793 and \$1,642,422, respectively.

**6. INTANGIBLE ASSETS, NET**

At September 30, 2019 and December 31, 2018 intangible assets consist of:

	September 30, 2019	December 31, 2018
Trade name and trademark	\$ 1,562,332	\$ 1,562,332
Customer list	2,495,097	2,388,139
Non-competition agreements	150,000	150,000
Domain name and other intangible assets	808,016	762,807
	<u>5,015,445</u>	<u>4,863,278</u>
Accumulated depreciation and amortization	(937,002)	(503,480)
Intangible assets, net	<u>\$ 4,078,443</u>	<u>\$ 4,359,798</u>

The Company’s trade names and trademarks were determined to have an indefinite life. The remaining definite lived intangible assets are primarily being amortized on a straight-line basis over their estimated useful lives. Amortization expense was \$101,199 and \$400,661, respectively, for the three and nine months ended September 30, 2019 and \$33,358 and \$100,074, respectively, for the three and nine months ended September 30, 2018.

**7. INVESTMENTS – RELATED PARTIES**

Investments in Avalanche International Corp. (“AVLP”) and Alzamend Neuro, Inc. (“Alzamend”) at September 30, 2019 and December 31, 2018, are comprised of the following:

	September 30, 2019	December 31, 2018
Investment in convertible promissory note of AVLP	\$ 9,476,979	\$ 6,943,997
Accrued interest in convertible promissory note of AVLP	1,736,859	1,004,317
Total investment in convertible promissory note of AVLP – Gross	11,213,838	7,948,314
Less: original issue discount	(1,475,485)	(2,336,693)
Total investment in convertible promissory note of AVLP	<u>\$ 9,738,353</u>	<u>\$ 5,611,621</u>
Investment in derivative instruments of AVLP	1,748,050	2,230,641
Investment in common stock of AVLP	397,670	812,858
Investment in common stock of Alzamend	206,250	—
Investment in derivative instruments and common stock of AVLP and Alzamend	<u>\$ 2,351,970</u>	<u>\$ 3,043,499</u>
Total investment in AVLP and Alzamend – Net	<u>\$ 12,090,323</u>	<u>\$ 8,655,120</u>
Investment in warrants and common stock of AVLP and Alzamend	\$ 2,351,970	\$ 3,043,499
Investment in convertible promissory note of AVLP	9,738,353	5,611,621
Total investment in AVLP and Alzamend – Net	<u>\$ 12,090,323</u>	<u>\$ 8,655,120</u>

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The following table summarizes the changes in our investments in AVLP and Alzamend during the nine months ended September 30, 2019:

	Investment in warrants and common stock of AVLP and Alzamend	Investment in convertible promissory note of AVLP	Total investment in AVLP and Alzamend – Net
Balance at January 1, 2019	\$ 3,043,499	\$ 5,611,621	\$ 8,655,120
Investment in convertible promissory notes of AVLP	—	1,501,912	1,501,912
Investment in common stock of AVLP and Alzamend	163,032	—	163,032
Fair value of derivative instruments issued by AVLP	1,031,070	—	1,031,070
Unrealized loss in derivative instruments of AVLP	(1,513,661)	—	(1,513,661)
Unrealized gain in common stock of AVLP and Alzamend	(371,970)	—	(371,970)
Accretion of discount	—	1,892,278	1,892,278
Accrued Interest	—	732,542	732,542
Balance at September 30, 2019	<u>\$ 2,351,970</u>	<u>\$ 9,738,353</u>	<u>\$ 12,090,323</u>

The Company's investments in AVLP, a related party controlled by Philou Ventures, LLC, or Philou, an affiliate of the Company, consist of convertible promissory notes, derivative instruments and shares of common stock of AVLP. At September 30, 2019, the Company has provided loans to AVLP in the principal amount \$9,476,979 and, in addition to the 12% convertible promissory notes, AVLP has issued to the Company warrants to purchase 18,953,958 shares of AVLP common stock. The warrants entitle the Company to purchase up to 18,953,958 shares of AVLP common stock at an exercise price of \$0.50 per share for a period of five years. The warrants were determined by the issuer to be financial derivative instruments. At September 30, 2019 and December 31, 2018, the Company recorded an unrealized loss on its investment in warrants of AVLP of \$3,927,042 and \$2,413,381, respectively, representing the difference between the cost basis and the estimated fair value of the warrants in the Company's accumulated other comprehensive income in the stockholder's equity section of the Company's consolidated balance sheet. During the three and nine months ended September 30, 2019, the Company recognized, in other comprehensive loss, net unrealized loss on derivative securities of related party of \$1,152,480 and \$1,513,661, respectively, which compares with a net unrealized loss on derivative securities of related party of \$1,456,232 and \$6,400,899, respectively during the three and nine months ended September 30, 2018. The Company's investment in AVLP will be revalued on each balance sheet date. The fair value of the Company's holdings in the AVLP warrants was estimated using the Black-Scholes option-pricing method. The risk-free rate, which ranged between 1.50% and 2.60%, was derived from the U.S. Treasury yield curve, matching the term of our investment, in effect at the measurement date. The volatility factor which ranged between 68.7% and 89.4% was determined based on historical stock prices for similar technology companies with market capitalizations under \$100 million. The warrant valuation is a Level 3 measurement.

In accordance with ASC No. 310, *Receivables* ("ASC 310"), the Company accounts for its convertible promissory notes in AVLP at amortized cost, which represents the amount at which the convertible promissory notes were acquired, adjusted for accrued interest and accretion of original issue discount and discount attributed to the fair value of the 18,953,958 warrants that the Company received in conjunction with its investment. Interest is accreted using the effective interest method. The Company records interest on an accrual basis and recognizes it as earned in accordance with the contractual terms of the convertible promissory notes, to the extent that such amounts are expected to be collected. An aggregate of \$5,802,374 of original issue discount and discount attributed to the fair value of the warrants is being amortized as interest income through the maturity date. During the three and nine months ended September 30, 2019, the Company recorded \$614,856 and \$1,892,278, respectively, of interest income for the discount accretion compared with \$535,264 and \$1,453,712, respectively, during the three and nine months ended September 30, 2018. During the three and nine months ended September 30, 2019, the Company recorded contractual interest attributed to the AVLP Notes and AVLP Loan Agreement of \$268,428 and \$732,542, respectively. During the three and nine months ended September 30, 2018, the Company recorded contractual interest attributed to the AVLP Notes and AVLP Loan Agreement of \$176,946 and \$478,119, respectively.

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The Company evaluated the collectability of both interest and principal for the convertible promissory notes in AVLP to determine whether there was an impairment. Based on current information and events, the Company determined that it is probable that it will be able to collect amounts due according to the existing contractual terms. Impairment assessments require significant judgments and are based on significant assumptions related to the borrower's credit risk, financial performance, expected sales, and estimated fair value of the collateral.

During the nine months ended September 30, 2019 and the year ended December 31, 2018, the Company also acquired in the open market 91,000 shares of AVLP common stock for \$53,032 and 430,942 shares of AVLP common stock for \$417,169, respectively. At September 30, 2019, the closing market price of AVLP's common stock was \$0.40, a decline from \$0.90 at December 31, 2018. The Company has determined that its investment in AVLP marketable equity securities are accounted for in accordance with ASC No. 820, *Fair Value Measurements and Disclosures* and based upon the closing market price of AVLP common stock at September 30, 2019, the Company's investment in AVLP common stock had an unrealized loss of \$348,891.

In aggregate, the Company has 994,175 shares of AVLP common stock which represents 18.0% of AVLP's outstanding shares of common stock. The Company has determined that AVLP is a variable interest entity ("VIE") as it does not have sufficient equity at risk. The Company does not consolidate AVLP because the Company is not the primary beneficiary and does not have a controlling financial interest. To be a primary beneficiary, an entity must have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, among other factors. Although the Company has made a significant investment in AVLP, the Company has determined that Philou, which controls AVLP through its equity investment and deemed to be more closely associated with AVLP, is the primary beneficiary. As a result, AVLP's financial position and results of operations are not consolidated in our financial position and results of operations.

#### **8. INVESTMENTS IN REAL ESTATE**

On June 8, 2018, the Company entered into a limited partnership agreement, in which it agreed to become a limited partner in the partnership (the "**NY Partnership**"). The NY Partnership is a limited partner in the partnership that is responsible for the construction and related activities of a hotel in New York City. In connection with this transaction, the Company has agreed to finance a portion of the capital required by the NY Partnership. As of September 30, 2019, the Company had invested an aggregate of \$1,869,000 in the NY Partnership and \$100,000 in another real estate investment. The Company was initially required to make monthly capital contributions of \$500,000 every thirty days until the Company's commitment of \$10 million was funded in full. The Company had received a waiver for its obligation to make monthly capital contributions through September 30, 2019 and on June 12, 2019, the agreement was restructured whereby DPW no longer has any further funding obligations until the hotel is open for business to the public.

#### **9. OTHER INVESTMENTS, RELATED PARTIES**

The Company's other related party investments primarily consist of two investments.

*MTIX, Ltd.*

On December 5, 2017, the Company entered into an exchange agreement with WT Johnson pursuant to which the Company issued to WT Johnson two convertible promissory notes in the principal amount of \$600,000 ("Note A") and \$1,667,766 ("Note B"), in exchange for cancellation of amounts due to WT Johnson by MTIX Ltd., a related party of the Company.

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During December 2017, the Company issued 750 shares of its common stock to WT Johnson & Sons upon the conversion of Note A and WT Johnson subsequently sold the 750 shares. The proceeds from the sale of shares of common stock received upon the conversion of Note A were sufficient to satisfy the entire \$2,267,766 obligation as well as an additional \$400,500 of value added tax due to WT Johnson. Concurrent with entering into the exchange agreement, the Company received a promissory note in the amount of \$2,668,266 from MTIX and cancelled Note B. At September 30, 2019 and December 31, 2018, the Company has valued the note receivable at \$600,000, the carrying amount of Note A. The Company will recognize the remainder of the amount due from MTIX upon payment of the promissory note by MTIX.

*Israeli Property*

During the year ended December 31, 2017, our President, Amos Kohn, purchased certain real property that serves as a facility for the Company's business operations in Israel. The Company made \$300,000 of payments to the seller of the property and received a 28% undivided interest in the real property (the "Property"). The Company's subsidiary, Coolisys, entered into a Trust Agreement and Tenancy in Common Agreement with Roni Kohn, who owns a 72% interest in the Property, the daughter of Mr. Kohn and an Israeli citizen. The Property was purchased to serve as a residence/office facility for the Company in order to oversee its Israeli operations and to expand its business in the high-tech industry located in Israel. Pursuant to the Trust Agreement, Ms. Kohn will hold and manage Coolisys' undivided 28% interest in the Property. The trust will be in effect until it is terminated by mutual agreement of the parties. During the term of the trust, Ms. Kohn will not sell, lease, sublease, transfer, grant, encumber, change or effect any other disposition with respect to the Property or Coolisys' interest without the Company's approval.

Under the Tenancy in Common Agreement, Coolisys and its executive officers shall have the exclusive rights to use the Property for the Company and its affiliates' business operations. The Property shall be managed by Ms. Kohn. Further, pursuant to the Tenancy in Common Agreement, for each completed calendar month of employment of Mr. Kohn by the Company, Ms. Kohn shall have the right to purchase a portion of the Company's interest in the Property. Such right shall fully vest at the end of five years of continuous employment and the Trustee shall have the right to purchase the Company's 28% interest in the Property for a nominal value. The Company will amortize its \$300,000 investment over ten years, subject to a cliff vesting after five years. During the three and nine months ended September 30, 2019, the Company recognized \$7,500 and \$22,500, respectively, in amortization expense. At September 30, 2019 and December 31, 2018, the unamortized balance of the Israeli Property was \$240,000 and \$262,500, respectively. If Mr. Kohn is not employed by the Company, the Company shall have the right to demand that Ms. Kohn purchase the Company's remaining interest in the Property that was not subject to vesting for the fair market value of such unvested Property interest.

**10. ACQUISITIONS**

The following pro forma data for the nine months ended September 30, 2018, summarizes the results of operations for the period indicated as if the Enertec acquisition, which closed on May 23, 2018, had been completed as of the beginning of the period presented. The pro forma data gives effect to actual operating results prior to the acquisition. These pro forma amounts do not purport to be indicative of the results that would have been obtained if the acquisition occurred as of the beginning of the period presented or that may be obtained in future periods:



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	<b>For the Nine Months Ended September 30, 2018</b>
Total Revenue	\$ 22,521,427
Net loss	\$ (22,921,424)
Less: Net loss attributable to non-controlling interest	218,494
Net loss attributable to DPW Holdings	(22,702,930)
Preferred dividends	(108,049)
Net loss available to common stockholders	\$ (22,810,979)
Basic and diluted net loss per common share	\$ (346.54)
Basic and diluted weighted average common shares outstanding	65,824
<b>Comprehensive Loss</b>	
Loss available to common shareholders	\$ (22,810,979)
Other comprehensive income (loss)	
Change in net foreign currency translation adjustments	(209,535)
Net unrealized loss on derivative securities of related party	(6,787,902)
Other comprehensive income (loss)	(6,997,437)
Total Comprehensive loss	\$ (29,808,416)

**11. STOCK-BASED COMPENSATION**

Under the Company's 2018 Stock Incentive Plan (the "2018 Plan"), 2017 Stock Incentive Plan (the "2017 Plan"), 2016 Stock Incentive Plan (the "2016 Plan") and the 2012 Stock Option Plan, as amended (the "2012 Plan") (collectively, the "Plans"), options may be granted to employees, officers, consultants, service providers and directors of the Company. On July 19, 2019, the Company's stockholders approved an amendment to the 2018 Plan which increased the number of shares of the Company's common stock that may be issued thereunder to a total of 175,000 shares. The Plans, as amended, provide for the issuance of a maximum of 184,216 shares of the Company's common stock.

Options granted under the Plans have an exercise price equal to or greater than the fair value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. Typically, options granted generally become fully vested after four years. Any options that are forfeited or cancelled before expiration become available for future grants. The options expire between 5 and 10 years from the date of grant. Restricted stock awards granted under the Plans are subject to a vesting period determined at the date of grant. As of September 30, 2019, an aggregate of 152,961 of the Company's options are still available for future grant.

During the nine months ended September 30, 2019, the Company did not grant any options. During the nine months ended September 30, 2018, the Company granted 1,250 options to its employees from the Plans and also granted 3,622 options outside of the Plans. These options become fully vested after four years. The Company estimated that the grant date fair value of options granted utilizing the Black-Scholes option pricing model during the nine months ended September 30, 2018 was \$513,510, which is being recognized as stock-based compensation expense over the requisite four-year service period. During the nine months ended September 30, 2019 and 2018, the Company also issued 29,375 and 1,979, respectively, shares of common stock to its consultants and service providers. The Company estimated the grant date fair value of these shares of common stock was \$305,019 and \$2,640,102 respectively, which was determined from the closing price of the Company's common stock on the date of issuance.

The Company has valued the options at their date of grant utilizing the Black-Scholes option pricing model. This model is dependent upon several variables such as the options' term, exercise price, current stock price, risk-free interest rate estimated over the expected term and estimated volatility of our stock over the expected term of the options. The risk-free interest rate used in the calculations is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options as calculated using the simplified method. The estimated volatility was determined based on the historical volatility of our common stock.

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During the nine months ended September 30, 2018, the Company estimated the fair value of stock options granted using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>Nine Months Ended September 30, 2018</b>
Weighted average risk-free interest rate	2.41% — 2.80%
Weighted average life (in years)	4.75
Volatility	124.7% — 131.7%
Expected dividend yield	0%
Weighted average grant-date fair value per share of options granted	\$624.33

The options outstanding as of September 30, 2019, have been classified by exercise price, as follows:

<b>Outstanding</b>				<b>Exercisable</b>	
<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$480.00 - \$560.00	1,306	6.32	\$544.50	631	\$543.76
\$1,056.00 - \$1,104.00	188	8.17	\$1,104.00	86	\$1,104.00
\$1,208.00 - \$1,352.00	38	3.99	\$1,338.67	38	\$1,338.67
\$480.00 - \$1,352.00	1,531	6.49	\$632.46	755	\$647.06
<b>Issuances outside of Plans</b>					
\$640.00 - \$1,856.00	1,375	5.03	\$827.64	281	\$935.11
<b>Total Options</b>					
\$480.00 - 1,856.00	2,906	5.80	\$724.80	1,036	\$725.26

The total stock-based compensation expense related to stock options and stock awards issued pursuant to the Plans to the Company's employees, consultants and directors, included in reported net loss for the three and nine months ended September 30, 2019 and 2018, is comprised as follows:

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	Three Months Ended		Nine Months Ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Cost of revenues	\$ —	\$ —	\$ —	\$ 4,874
Engineering and product development	—	—	—	13,650
Selling and marketing	—	—	—	11,922
General and administrative	206,289	697,252	531,379	2,204,433
Stock-based compensation from Plans	\$ 206,289	\$ 697,252	\$ 531,379	\$ 2,234,879
Stock-based compensation from issuances outside of Plans	155,490	655,388	822,683	1,929,301
<b>Total Stock-based compensation</b>	<b>\$ 361,779</b>	<b>\$ 1,352,640</b>	<b>\$ 1,354,062</b>	<b>\$ 4,164,180</b>

The combination of stock-based compensation of \$531,379 from the issuances of equity-based awards pursuant to the Plans and stock-based compensation attributed to stock awards of \$253,019 and options of \$569,664, which were issued outside of the Plans, resulted in aggregate stock-based compensation of \$361,779 and \$1,354,062 during the three and nine months ended September 30, 2019.

A summary of option activity under the Company's stock option plans as of September 30, 2019, and changes during the nine months ended are as follows:

	Outstanding Options				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
<b>January 1, 2019</b>	<b>12,695</b>	<b>4,328</b>	<b>\$576.40</b>	<b>7.52</b>	<b>\$0</b>
Amendment to 2018 SIP	162,500	—			
Restricted stock awards	(25,000)	—			
Forfeited	2,766	(2,797)	\$377.70		
<b>September 30, 2019</b>	<b>152,961</b>	<b>1,531</b>	<b>\$632.46</b>	<b>6.49</b>	<b>\$0</b>

As of September 30, 2019, there was \$452,427 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 2.6 years.

## 12. WARRANTS

During the nine months ended September 30, 2019, the Company issued a total of 759,443 warrants at an average exercise price of \$10.28 per share.

- (i) On April 2, 2019, the Company issued warrants to purchase an aggregate of 388,888 shares of Common Stock at an initial exercise price of \$18.00 per share and (the "Common Warrants") and (b) pre-funded warrants to purchase up to 317,500 shares of our Common Stock at an initial exercise price of \$0.40 per share (the "Pre-Funded Warrants") in connection with an underwriting agreement with A.G.P./Alliance Global Partners (the "Underwriter"). In addition, the Company has also issued the Underwriter a warrant to purchase a maximum of 15,555 additional shares of common stock at an initial exercise price of \$19.80 per share (See Note 20).

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- (ii) On May 20, 2019, the Company issued warrants to purchase an aggregate of 12,500 shares of common stock at an exercise price equal to \$12.00 per share of common stock in connection with the issuance of a 4% Original Issue Discount Convertible Promissory Note in the aggregate principal amount of \$660,000.
- (iii) On July 3, 2019, the Company issued warrants to purchase an aggregate of 25,000 shares of common stock at an exercise price equal to \$8.80 per share of common stock in connection with the issuance of a 12% Convertible Promissory Note in the aggregate principal amount of \$1,492,000.

The following table summarizes information about common stock warrants outstanding at September 30, 2019:

Outstanding				Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Exercise Price
\$0.00	6,500	4.50	\$0.00	6,500	\$0.00	\$0.00
\$8.00	397	7.09	\$8.00	397	\$8.00	\$8.00
\$8.80	25,000	4.76	\$8.80	25,000	\$8.80	\$8.80
\$12.00	12,500	4.61	\$12.00	12,500	\$12.00	\$12.00
\$19.80	15,555	4.50	\$19.80	15,555	\$19.80	\$19.80
\$440.00	355	3.11	\$440.00	355	\$440.00	\$440.00
\$480.00	94	3.59	\$480.00	94	\$480.00	\$480.00
\$528.00	186	3.09	\$528.00	186	\$528.00	\$528.00
\$560.00	2,657	3.12	\$560.00	2,657	\$560.00	\$560.00
\$600.00	170	2.62	\$600.00	170	\$600.00	\$600.00
\$640.00	603	0.94	\$640.00	603	\$640.00	\$640.00
\$752.00	9,614	3.63	\$752.00	9,614	\$752.00	\$752.00
\$800.00	350	3.19	\$800.00	350	\$800.00	\$800.00
\$880.00	947	1.92	\$880.00	947	\$880.00	\$880.00
\$920.00	2,126	3.49	\$920.00	2,126	\$920.00	\$920.00
\$1,040.00	1,243	3.54	\$1,040.00	1,243	\$1,040.00	\$1,040.00
\$1,760.00	781	3.32	\$1,760.00	781	\$1,760.00	\$1,760.00
\$1,800.00	140	3.32	\$1,800.00	140	\$1,800.00	\$1,800.00
\$2,000.00	203	3.32	\$2,000.00	203	\$2,000.00	\$2,000.00
\$8.00 - \$2,000.00	79,421	3.95	\$208.77	79,421	\$208.77	\$208.77

The Company has valued the warrants at their date of grant utilizing the Black-Scholes option pricing model. This model is dependent upon several variables such as the warrants' term, exercise price, current stock price, risk-free interest rate and estimated volatility of our stock over the contractual term of the warrants. The risk-free interest rate used in the calculations is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the contractual life of the warrants.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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The Company utilized the Black-Scholes option pricing model and the assumptions used during the nine months ended September 30, 2019 and 2018:

	<b>Nine Months Ended</b>	
	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Weighted average risk-free interest rate	1.75% — 2.28%	2.41% — 2.94%
Weighted average life (in years)	5.0	4.8
Volatility	85.5% — 87.5%	124.8% — 138.4%
Expected dividend yield	0%	0%
Weighted average grant-date fair value per share of warrants granted	\$10.34	\$629.64

**13. OTHER CURRENT LIABILITIES**

At September 30, 2019 and December 31, 2018 other current liabilities consist of:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Accrued payroll and payroll taxes	\$ 1,561,671	\$ 1,497,470
Other accrued expenses	297,370	370,932
	<u>\$ 1,859,041</u>	<u>\$ 1,868,402</u>

**14. LEASES**

We have operating leases for office space and restaurant locations. Our leases have remaining lease terms of 7 months to 8 years, some of which may include options to extend the leases perpetually, and some of which may include options to terminate the leases within 1 year.

The following table provides a summary of leases by balance sheet location as of September 30, 2019:

	<b>September 30, 2019</b>
Operating right-of-use assets	\$ 3,433,794
Operating lease liability - current	\$ 741,433
Operating lease liability - non-current	\$ 2,781,345

The components of lease expenses for the nine months ended September 30, 2019, were as follows:

	<b>Nine Months Ended September 30, 2019</b>
Operating lease cost	\$ 754,692
Short-term lease cost	-
Variable lease cost	\$ 351,491

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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The following tables provides a summary of other information related to leases for the nine months ended September 30, 2019:

	<u>September 30, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,020,499
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -
Weighted-average remaining lease term - operating leases	5.7 years
Weighted-average discount rate - operating leases	10%

Maturity of lease liabilities under our non-cancellable operating leases as of September 30, 2019, are as follows:

**Payments due by period**

2019 (Remainder)	\$ 271,420
2020	1,039,687
2021	779,008
2022	501,411
2023	514,895
Thereafter	1,582,121
<b>Total lease payments</b>	<b>4,688,542</b>
Less interest	(1,165,764)
<b>Present value of lease liabilities</b>	<b>\$ 3,522,778</b>

**15. ADVANCES ON FUTURE RECEIPTS**

During the nine months ended September 30, 2019, the Company received funding as a result of entering into six Agreements for the Purchase and Sale of Future Receipts (collectively, the “Agreements on Future Receipts”). The Company sold in the aggregate \$1,517,847 in future receipts of the Company for \$1,017,170. During 2019, the Company had repaid \$1,365,435. The Company recorded a discount in the amount of \$500,677 in connection with these six agreements, based upon the difference between the amount of future receipts sold and the actual proceeds received by the Company. The Company is currently in default on its payment obligations on certain of the Agreements on Future Receipts with an aggregate outstanding balance of \$1,650,862 at September 30, 2019. During the three and nine months ended September 30, 2019, non-cash interest expense of \$115,706 and \$293,602, respectively, was recorded from the amortization of debt discounts.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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**16. NOTES PAYABLE**

Notes Payable at September 30, 2019 and December 31, 2018, are comprised of the following.

	September 30, 2019	December 31, 2018
June 2019 short-term promissory note	\$ 2,510,173	\$ —
12% short-term promissory note	—	1,000,000
15% May short-term promissory note	780,000	—
Other short-term notes payable	805,554	1,033,553
12% September short-term promissory notes	—	789,473
8% short-term promissory notes	318,150	1,272,600
October short-term promissory note	—	565,000
Notes payable to Wells Fargo	289,885	291,988
Note payable to Dept. of Economic and Community Development	237,069	260,169
Microphase short-term promissory note	—	200,000
Note payable to Power-Plus Member	13,250	13,250
Note payable to People's United Bank	18,379	18,589
Short term bank credit	1,677,196	1,586,864
Total notes payable	<u>6,649,656</u>	<u>7,031,486</u>
Less:		
Unamortized debt discounts	(74,750)	(151,499)
Unamortized financing cost	(32,377)	(7,541)
Total notes payable, net of financing cost	<u>\$ 6,542,529</u>	<u>\$ 6,872,446</u>
Less: current portion	<u>(6,077,720)</u>	<u>(6,388,787)</u>
Notes payable – long-term portion	<u>\$ 464,809</u>	<u>\$ 483,659</u>

*January 2019 Exchange Agreement*

On August 16, 2018, as amended on November 29, 2018, the Company entered into a securities purchase agreement with four institutional investors providing for the issuance of 8% promissory notes, each in the principal amount of \$318,150, for an aggregate principal face amount of \$1,272,600, due February 15, 2019 (individually the “8% Short-Term Promissory Note” and collectively the “8% Short-Term Promissory Notes”).

On January 23, 2019, the Company entered into an Exchange Agreement (the “January Exchange Agreement”) with one of the institutional investors pursuant to which the Company issued to the investor two new 8% promissory notes in the aggregate principal amount of \$1,043,799 (the “New Notes”) in exchange for one of the 8% Short-Term Promissory Notes in the aggregate principal amount of \$318,150, the October short-term promissory note in the aggregate principal amount of \$565,000 and accrued interest of \$160,649.

Pursuant to the January Exchange Agreement, the investor received 10,918 shares of common stock of the Company issued under the Company’s Registration Statement on Form S-3 (File No. 333-222132) in satisfaction of the New Notes. Further, since the investor’s proceeds from the sale of all 10,918 shares of common stock received were not equal to the outstanding principal balance of the New Notes, the Company was required to pay to the investor the difference, which amounted to \$244,898, in cash or through the delivery of free trading shares of common stock. The Company recognized additional interest expense for the difference of \$244,898. On March 19, 2019, the Company issued to the investor an additional 2,551 shares of the Company’s common stock, with a value of \$73,016, in partial satisfaction of the liability, resulting in a remaining balance due of \$171,882 which was paid during June 2019.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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*February 2019 Exchange Agreement*

On February 20, 2019, the Company entered into an Exchange Agreement (the “February Exchange Agreement”) with another one of the institutional investors pursuant to which the Company issued to the investor a new 8% promissory note in the principal amount of \$433,884 (the “New Note”) in exchange for principal and accrued interest on the 8% Short-Term Promissory Note (the “Old Note”).

Pursuant to the February Exchange Agreement, the investor received 4,520 shares of common stock of the Company issued under the Company’s Registration Statement on Form S-3 (File No. 333-222132) in satisfaction of the New Note. Further, since the investor’s proceeds from the sale of all 4,520 shares of common stock received were not equal to the outstanding principal balance of the New Note, the Company is required to pay the difference, which amounted to \$289,954, to the investor in cash or through the delivery of free trading shares of common stock. The Company recognized additional interest expense for the difference of \$289,954. On April 4, 2019, the Company issued to the investor an additional 9,375 shares of the Company’s common stock, with a value of \$108,523, in partial satisfaction of the liability, resulting in a remaining balance due of \$183,822 which was paid during June 2019.

*Enertec Short-Term Promissory Note*

On December 28, 2018, Enertec entered into a \$500,000 secured promissory note (the “Enertec Short-Term Promissory Note”) whereby Enertec agreed to pay interest in an amount of 10% per annum in cash to the investor, until the Enertec Short-Term Promissory Note is paid in full. The proceeds from the Enertec Short-Term Promissory Note were received in January 2019 and repaid on April 2, 2019. In connection with the Enertec Short-Term Promissory Note, Milton C. Ault III provided a personal guarantee for the benefit of the investor.

*Dominion June 2019 Short-Term Promissory Note*

On June 18, 2019, the Company entered into a securities purchase agreement with the Investor to sell a 10% senior secured promissory note with a principal face amount of \$2,800,000, plus an original issue discount in the amount of \$100,000 and issue 12,500 shares of the Company’s common stock subject to the approval thereof by the NYSE American. In addition, Ault & Company has guaranteed to the Investor the prompt and complete payment and performance when of the obligations of the Company pursuant to this.

The June 2019 short-term promissory note has a principal face amount of \$2,900,000 with a purchase price of \$2,800,000, and bears interest at 10% per annum. Pursuant to the terms of the note, the Company was required to make six monthly amortization payments beginning on July 18, 2019. The Company has not made these payments and this note is currently in default. We are in negotiations with the investors to amend the payment terms on this Note.

**17. NOTES PAYABLE – RELATED PARTIES**

Notes Payable – Related parties at September 30, 2019 and December 31, 2018, are comprised of the following.

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Notes payable to Microphase former officers and employees	\$ 284,317	\$ 308,984
Total notes payable	284,317	308,984
Less: current portion	(168,589)	(166,925)
Notes payable – long-term portion	<u>\$ 115,728</u>	<u>\$ 142,059</u>



**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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**18. CONVERTIBLE NOTES**

Convertible Notes Payable at September 30, 2019 and December 31, 2018 are comprised of the following.

	September 30, 2019	December 31, 2018
10% Convertible secured notes	\$ —	\$ 7,997,126
4% Convertible promissory note	660,000	—
12% Convertible promissory note	622,000	—
8% Convertible promissory note	815,218	—
Total convertible notes payable	2,097,218	7,997,126
Less:		
Unamortized debt discounts	(666,793)	(1,189,276)
Unamortized financing cost	—	(65,356)
Total convertible notes payable, net of financing cost	\$ 1,430,425	\$ 6,742,494
Less: current portion	(1,146,141)	(6,742,494)
Convertible notes payable, net of financing cost – long-term portion	\$ 284,284	\$ —

On May 15, 2018, the Company entered into a securities purchase agreement to sell a 10% convertible note (the “10% Convertible Note”) in the principal amount of \$6,000,000. On July 2, 2018 and August 31, 2018, the Company entered into securities purchase agreements with the institutional investor providing for the issuance of a second 10% convertible note with a principal face amount of \$1,000,000 (the “Second 10% Convertible Note”) and a third 10% convertible note with a principal face amount of \$2,000,000 (the “Third 10% Convertible Note” and with the Second 10% Convertible Note, the “Additional 10% Convertible Notes”), respectively.

On January 9, 2019, the 10% Convertible Note was amended to revise the amortization schedule such that the conversion price on eleven monthly amortization payments in the principal amount \$309,193 each, at the request of the holder, shall be satisfied by the issuance of shares of the Company’s common stock. The conversion price on these monthly amortization payments was reduced from \$8.00 per share of common stock to a price equal to the greater of (i) \$2.40 per share (the closing price of the Company’s common stock on January 9, 2019) or (ii) 80% of the lowest daily VWAP in the three days prior to the date of issuance, but not to exceed \$8.00 per share. Further, the Company shall have the right to pay the monthly amortization payment in cash within 72 hours by advising the investor within two hours of receipt of any conversion notice. The amendment to the embedded conversion option of the 10% Convertible Note caused a material change in the fair value of the embedded conversion options and resulted in a loss on extinguishment of \$807,784.

Between January 4, 2019 and February 21, 2019, the Company issued to the investor 8,412 shares of its common stock upon the conversion of \$1,053,351 in principal and accrued interest. The investor received \$660,337 from the sale of these shares of common stock. In accordance with the January 9, 2019 amendment, the Company is required to pay the difference between the conversion amount and the proceeds received from the subsequent sale of the shares by the investor, which amounted to \$393,014. The Company recognized additional interest expense in the amount of \$393,014.

On April 2, 2019, the Company repaid principal of \$3,000,000 and accrued interest of \$1,125,000 on the Additional 10% Convertible Notes and between April 2, 2019 and June 18, 2019 repaid the balance due on the 10% Convertible Note.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
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*Exchange Agreements*

On July 2, 2019, we entered into an exchange agreement with an institutional investor pursuant to which, in exchange for a term promissory note issued by us to the investor on September 21, 2018, in the principal face amount of \$526,316, we sold to the investor a new convertible promissory note in the principal amount of \$783,031 with an interest rate of 12% per annum and a maturity date of December 31, 2019. Subject to the approval by the NYSE American, this note shall be convertible into shares of common stock, commencing on July 15, 2019, at conversion price equal to the greater of (A) \$8.80 or (B) 80% of the lowest daily VWAP in the three trading days prior to the date of conversion.

On July 2, 2019, we entered into an exchange agreement with an institutional investor pursuant to which, in exchange for (i) a term promissory note issued by DP Lending to the investor on August 10, 2018 in the principal face amount of \$550,000 and (ii) a term promissory note issued by us on August 16, 2018, as amended on November 29, 2018, in the principal face amount of \$318,150, we sold to the investor a new convertible promissory note in the principal amount of \$1,250,000 (subject to adjustments) with an interest rate of 8% per annum and a maturity date of December 31, 2019. Subject to the approval by the NYSE American, this note shall be convertible into shares of our common stock at conversion price of \$8.80.

On July 3, 2019, we entered into an exchange agreement with an institutional investor pursuant to which, in exchange for a term promissory note issued by us to the investor on March 23, 2018 in the principal face amount of \$1,000,000, we sold a convertible promissory note in the principal face amount of \$1,292,000 plus a default premium of \$200,000, and (ii) a five-year warrant to purchase of 25,000 shares of our common stock at an exercise price of \$8.80 per share, subject to the approval thereof by the NYSE American.

This convertible promissory note is in the aggregate principal amount of \$1,492,000 and bears interest at 12% per annum, which principal and all accrued and unpaid interest are due on January 22, 2020, and which interest shall be payable in cash, in arrears, on the first business day of each month, with the first payment of interest due on August 1, 2019. Commencing on July 15, 2019, subject to certain beneficial ownership limitations, the investor may convert the principal amount of this note and accrued interest earned thereon at any time into shares of our common stock at \$8.80 per share.

**19. COMMITMENTS AND CONTINGENCIES**

On July 31, 2018, a stockholder derivative complaint was filed in the United States District Court for the Central District of California against the Company as the nominal defendant, as well as its current directors and a former director styled *Ethan Young and Greg Young, Derivatively on Behalf of Nominal Defendant, DPW Holdings, Inc. v. Milton C. Ault, III, Amos Kohn, William B. Horne, Jeff Bentz, Mordechai Rosenberg, Robert O. Smith, and Kristine Ault and DPW Holdings, Inc.*, as the nominal defendant (Case No. 18-cv-6587) (the “Complaint”).

The Complaint alleges violations of state law and breaches of fiduciary duty, unjust enrichment and gross mismanagement by the individual defendants as, in the view of the plaintiffs, the Company has entered into poorly advised loan transactions and related party transactions. The Company and the individual defendants believe that these claims are without merit and intend to vigorously defend themselves. The Company and the individual defendants moved to dismiss the Complaint and on February 25, 2019, the Court granted the motion to dismiss but granted plaintiffs leave to amend their Complaint. On March 11, 2019, plaintiffs filed their amended complaint asserting violations of breaches of fiduciary duties and unjust enrichment claims based on the previously pled transactions. On March 25, 2019, the Company and the individual defendants filed a motion to dismiss the amended complaint. On May 21, 2019, the Court granted in part and denied in part the Motion to Dismiss the Amended Complaint. Specifically, the May 21, 2019 Order granted so much of Defendants’ Motion to Dismiss the Amended Complaint that sought to dismiss Directors Robert O. Smith, Jeff Bentz, and Mordechai Rosenberg as parties. Plaintiffs did not further amend the complaint and proceeded with the operative complaint and forewent any claims against Messrs. Smith, Bentz, and Rosenberg.

On July 8, 2019, the Court held a scheduling conference wherein the Court set a trial date of August 25, 2020.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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On October 21, 2019, the parties mediated the matter before JAMS in Manhattan, New York. At that mediation, the matter was tentatively settled with respect to all claim against the Company and the remaining defendants, Milton C. Ault III, Amos Kohn, and William Horne. The tentative settlement included certain changes to the policies of the Company. The tentative settlement agreement did not have a monetary component. Furthermore, the parties settled any dispute over the attorneys' fees, which will be paid by AIG, the Company's insurance carrier. The parties are currently working on finalizing the settlement agreement, and expect to have a finalized settlement agreement prior to end of the calendar year. Upon execution of the finalized settlement agreement, Plaintiff will file a notice of dismissal with prejudice with the Court.

On November 28, 2018, *Blockchain Mining Supply and Services, Ltd*, a vendor who sold computers to the Company's subsidiary, filed in the United States District Court for the Southern District of New York against Super Crypto Mining, Inc. and the Company (Case No. 18-cv-11099). The Complaint asserted claims for breach of contract and promissory estoppel against the Company and its subsidiary arising from the subsidiary's failure to satisfy a purchase agreement. The Complaint seeks damages in the amount of \$1,388,495, which approximates the amount of the reserve established.

On February 4, 2019, pursuant to the Court's Rules, the Company requested a pre-motion Conference with the Court. On April 16, 2019, the Court held a pre-motion Conference in connection with the Company's anticipated motion to dismiss. To date, however, the Court has not set a briefing schedule in connection with the Company's anticipated motion to dismiss.

Based on the Company's assessment of the facts underlying the claims, the uncertainty of litigation, and the preliminary stage of the case, the Company cannot estimate the reasonably possible loss or range of loss that may result from this action. However, the Company has established a reserve in the amount of the unpaid portion of the purchase agreement. An unfavorable outcome may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company received a subpoena from the Commission for the voluntary production of documents. The Company is fully cooperating with this non-public, fact-finding inquiry and believe that the Company has operated our business in compliance with all applicable laws. The subpoena expressly provides that the inquiry is not to be construed as an indication by the Commission or its staff that any violations of the federal securities laws have occurred, nor should it be considered a reflection upon any person, entity or security. However, there can be no assurance as to the outcome of this matter.

## **20. STOCKHOLDERS' EQUITY**

### *Amendments to Certificate of Incorporation*

On January 3, 2019, the Company filed a certificate of amendment (the "Certificate of Amendment") to its Certificate of Incorporation, with the Secretary of State of the State of Delaware, to effectuate an increase to the number of authorized shares of common stock of the Company. Pursuant to the Certificate of Amendment, the Company increased the number of authorized shares of its Class A common stock to 500,000,000 from 200,000,000 (the "Authorized Increase"). The number of authorized shares of the Company's Class B common stock remains at 25,000,000 and the number of authorized shares of the Company's preferred stock remains at 25,000,000. As a result of the increase of authorized shares of the Company's Class A common stock, the aggregate number of the Company's authorized shares is 550,000,000. The Authorized Increase was approved by the Company's Board of Directors (the "Board") as of December 28, 2018, and approved by a vote of the stockholders of the Company at the December 28, 2018 Annual Meeting of Stockholders. The Certificate of Amendment became effective upon filing with the State of Delaware on January 3, 2019.

On March 14, 2019, pursuant to the authorization provided by the Company's stockholders at a Special Meeting of Stockholders, the Company's Board approved the Certificate of Incorporation Amendment (the "COI Amendment") to effectuate a reverse stock split of the common stock of the Company's issued and outstanding number of such shares by a ratio of one-for-twenty (the "Reverse Stock Split"). The Company filed the COI Amendment to its Certificate of Incorporation with the State of Delaware effectuating the Reverse Stock Split on March 14, 2019. As a result of the Reverse Stock Split, each twenty (20) shares of common stock issued and outstanding prior to the Reverse Stock Split were converted into one (1) share of common stock, with no change in authorized shares or par value per share.

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At the Company's reconvened 2019 Annual Meeting of Stockholders, the Company's stockholders approved a proposal permitting the Board to effectuate a second reverse stock split (the "Second Reverse Stock Split") of the Company's issued and outstanding common stock. Thereafter, on July 23, 2019, the Board approved the Second Reverse Stock Split with a ratio of one-for-forty. As a result of the Second Reverse Stock Split, each forty (40) shares of common stock issued and outstanding prior to the Second Reverse Stock Split were converted into one (1) share of common stock, with no change in authorized shares or par value per share. The Second Reverse Stock Split became effective in the State of Delaware on August 5, 2019.

**Preferred Stock**

The Company is authorized to issue 25,000,000 shares of Preferred Stock \$0.001 par value. The Board has designated 1,000,000 shares as Series A Convertible Preferred Stock (the "Series A Preferred Stock"), 500,000 shares as Series B Convertible Preferred Stock (the "Series B Preferred Stock") and 2,500 shares as Series C Convertible Redeemable Preferred Stock (the "Series C Preferred Stock"). The rights, preferences, privileges and restrictions on the remaining authorized 23,497,500 shares of Preferred Stock have not been determined. The Board is authorized to designate a new series of preferred shares and determine the number of shares, as well as the rights, preferences, privileges and restrictions granted to or imposed upon any series of preferred shares. As of September 30, 2019, there were 7,040 shares of Series A Preferred Stock, 125,000 shares of Series B Preferred Stock and no other shares of Preferred Stock issued or outstanding.

**Common Stock**

Common stock confers upon the holders the rights to receive notice to participate and vote at any meeting of stockholders of the Company, to receive dividends, if and when declared, and to participate in a distribution of surplus of assets upon liquidation of the Company. The Class B common stock carries the voting power of 10 shares of Class A common stock.

*2019 Issuances*

*Issuance of Common Stock pursuant to the At the Market Offering*

On October 10, 2018, the Company entered into an At-The-Market Issuance Sales Agreement (the "Sales Agreement") with Wilson-Davis & Co., Inc., as sales agent (the "Agent") to sell shares of its common stock, having an aggregate offering price of up to \$25,000,000 (the "Shares") from time to time, through an "at the market offering" program (the "WDCO ATM Offering"). During the nine months ended September 30, 2019, the Company had received gross proceeds of \$4,656,051 through the sale of 119,791 shares of the Company's common stock through the WDCO ATM Offering. The offer and sale of the shares through the WDCO ATM Offering were made pursuant to our then effective "shelf" registration statement on Form S-3 and an accompanying base prospectus contained therein (Registration Statement No. 333-222132) filed with the SEC on December 18, 2017, amended on January 8, 2018, and declared effective by the SEC on January 11, 2018, and a prospectus supplement related to the WDCO ATM Offering, dated October 15, 2018.

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*Public Offering*

On March 29, 2019, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with A.G.P./Alliance Global Partners (the “Underwriter”), pursuant to which the Company agreed to issue and sell an aggregate of (a) 71,388 shares of its common stock (the “Shares”) together with warrants to purchase 71,388 shares of common stock (the “Common Warrants”) and (b) pre-funded warrants to purchase up to 317,500 shares of its common stock (the “Pre-Funded Warrants”) together with a number of Common Warrants to purchase 317,500 shares of common stock (the “Offering”). The Shares were sold to the purchasers at the public offering price of \$17.60 per share (the “Offering Price”). The Common Warrants were sold at a public offering price of \$0.40 per Common Warrant. The Pre-Funded Warrants were offered to each purchaser whose purchase of the Shares and the Common Warrant in the Offering would otherwise result in the purchaser, together with its affiliates and certain related parties, beneficially owning more than 4.99% (or, at the election of the purchaser, 9.99%) of the Company’s outstanding common stock immediately following the consummation of the Offering. The purchase price of each Pre-Funded Warrant equaled the Offering Price at which the Shares were sold to the public in the Offering, minus \$0.40, and the exercise price of each Pre-Funded Warrant equaled \$0.40 per share. In addition, the Company has also issued the Underwriter a warrant to purchase a maximum of 15,550 additional shares of common stock at an initial exercise price of \$19.80 per share, with a term of five years (the “Underwriter Warrants”).

The Common Warrants are exercisable at any time after the date of issuance at an exercise price of \$0.45 per share. However, since the volume weighted average price of the Company’s common stock on or after May 2, 2019, was less than \$0.45 per share, the Common Warrant is exercisable by means of a cashless exercise such that the holder of the Common Warrant shall receive one common share for each warrant held.

Upon issuance, the Common Warrants, Pre-Funded Warrants and Underwriter Warrants (the “Offering Warrants”) were recorded at fair value and classified as a liability. Since the fair value of the Offering Warrants exceeded the proceeds from the Offering the Company recognized a loss on issuance of warrants of \$1,763,481. The fair value of the Offering Warrants was re-measured at each financial reporting period and immediately before exercise, with any changes in fair value recorded as change in fair value of warrant liability in the Condensed Consolidated Statements of Operations and Comprehensive Loss. The fair value at issuance was calculated using a Black-Scholes option pricing model using a risk-free interest rate of 2.28%, an expected life of 5 years, expected dividends of zero and expected volatility of 87.51%.

The Company received net proceeds from the Offering of \$6,204,717, after deducting underwriting discounts and commissions and offering expenses. The Company used the net proceeds from the Offering primarily for the repayment of debt.

The Offering closed on April 2, 2019 and as of September 30, 2019, the Company had issued a total of 771,275 shares of its common stock, inclusive of shares issued pursuant to the exercise of 317,500 Pre-Funded Warrants and 382,387 shares issued pursuant to the cashless exercise of the Common Warrants.

*Ascendant ATM Offering*

On August 6, 2019, the Company entered into an At-The-Market Issuance Sales Agreement with Ascendant Capital Markets, LLC, as sales agent to sell shares of the Company’s common stock having an aggregate offering price of up to \$5,500,000 (the “ATM Offering”). The offer and sale of the Company’s common stock will be made pursuant to the Company’s effective “shelf” registration statement on Form S-3 and an accompanying base prospectus contained therein (Registration Statement No. 333-222132) filed with the Securities and Exchange Commission (the “Commission”) on December 18, 2017, amended on January 8, 2018, and declared effective by the SEC on January 11, 2018, and a prospectus supplement related to the ATM Offering, dated August 6, 2019. Through September 30, 2019, the Company had received gross proceeds of \$4,416,765 through the sale of 1,140,330 shares of the Company’s common stock from the ATM Offering.

*Issuance of Common Stock for Services*

During the nine months ended September 30, 2019, the Company issued to its consultants a total 29,375 shares of its common stock with an aggregate value of \$305,019, an average of \$10.38 per share for services rendered.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
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*Issuance of common stock for conversion of debt*

During the nine months ended September 30, 2019, principal and accrued interest of \$4,238,878 and \$497,417, respectively, on the Company's debt securities was satisfied through the issuance of 370,473 shares of the Company's common stock.

*Issuance of common stock in payment of accrued liability*

During the nine months ended September 30, 2019, the Company issued 9,375 shares of its common stock in satisfaction of an accrued liability of \$108,521.

**21. RELATED PARTY TRANSACTIONS**

- a. The Company and AVLP entered into a Loan and Security Agreement ("AVLP Loan Agreement") with an effective date of August 21, 2017, pursuant to which the Company will provide AVLP a non-revolving credit facility of up to \$10,000,000 for a period ending on August 21, 2019, subject to the terms and conditions stated in the Loan Agreement, including that the Company having available funds to grant such credit. At September 30, 2019, the Company has provided loans to AVLP in the principal amount \$9,476,979 and, in addition to the 12% convertible promissory notes, AVLP has issued to the Company warrants to purchase 18,953,958 shares of AVLP common stock. Under the terms of the AVLP Loan Agreement, any notes issued by AVLP are secured by the assets of AVLP. As of September 30, 2019, the Company recorded contractual interest receivable attributed to the AVLP Loan Agreement of \$1,736,859.

During the nine months ended September 30, 2019 and the year ended December 31, 2018, the Company also acquired in the open market 91,000 shares of AVLP common stock for \$53,032 and 430,942 shares of AVLP common stock for \$417,169, respectively. At September 30, 2019, the Company's investment in AVLP common stock had an unrealized loss of \$348,891.

Philou is AVLP's controlling shareholder. Mr. Ault is Chairman of AVLP's Board of Directors and the Chairman of the Board. Mr. William B. Horne is the Chief Financial Officer and a director of AVLP and the Company.

In March 2017, the Company was awarded a \$50 million purchase order by MTIX to manufacture, install and service the Multiplex Laser Surface Enhancement ("MLSE") plasma-laser system. At June 30, 2019, the Company had recorded a receivable from MTIX of \$1,238,856 and during the six months ended June 30, 2019, the Company had received payments from MTIX of \$2,676,219. The receivable was primarily the result of revenues recognized during the year ended December 31, 2018, and reflected on the financial statements as accounts receivable, related party.

- b. During the nine months ended September 30, 2019, the Company acquired 137,500 shares of common stock of Alzamend from a third party for \$110,000 consisting of the cancellation of principal and interest due the Company of \$91,483 and cash of \$18,517. AVLP provides management, consulting and financial services to Alzamend.
- c. During the nine months ended September 30, 2019, Ault & Company, Inc. ("Ault & Company") has provided \$625,500 in short-term advances. Ault and Company is the Manager of Philou which presently owns 125,000 shares of the Company's Series B Preferred Stock. Mr. Ault and Mr. Horne serve as the Chief Executive Officer and Chief Financial Officer, respectively, of Ault & Company.
- d. Ault & Company guaranteed the prompt and complete payment and performance of the June 2019 short-term promissory note with a principal face amount of \$2,900,000.

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)**  
**SEPTEMBER 30, 2019**

**22. SEGMENT, CUSTOMERS AND GEOGRAPHICAL INFORMATION**

The Company has five reportable segments as of September 30, 2019, and had two reportable segments as of September 30, 2018; see Note 1 for a brief description of the Company's business.

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments and presented in accordance with ASC No. 280.

	<b>Three Months ended September 30, 2019</b>					
	<b>DPC</b>	<b>DPL</b>	<b>Enertec</b>	<b>SC Mining</b>	<b>I.AM</b>	<b>Total</b>
Revenue	\$ 2,773,707	\$ 341,529	\$ 1,853,204	\$ —	\$ —	\$ 4,968,440
Revenue, cryptocurrency mining	—	—	—	307,172	—	307,172
Revenue, restaurant operations	—	—	—	—	1,036,834	1,036,834
Revenue, lending activities	69,217	—	—	—	—	69,217
<b>Total revenues</b>	<b>\$ 2,842,924</b>	<b>\$ 341,529</b>	<b>\$ 1,853,204</b>	<b>\$ 307,172</b>	<b>\$ 1,036,834</b>	<b>\$ 6,381,663</b>
Depreciation and amortization expense	\$ 140,278	\$ 36,403	\$ 222,337	\$ 1,433,145	\$ 280,412	\$ 2,112,575
Loss from operations	\$ (206,509)	\$ (84,780)	\$ (212,585)	\$ (5,049,622)	\$ (284,167)	\$ (5,837,663)
Capital expenditures for segment assets, as of September 30, 2019	\$ 26,081	\$ 12,252	\$ 12,883	\$ —	\$ 4,501	\$ 55,717
Identifiable assets as of September 30, 2019	\$ 32,186,830	\$ 1,301,273	\$ 11,184,088	\$ 850,984	\$ 1,902,803	\$ 47,425,978

	<b>Three Months ended September 30, 2018</b>						
	<b>DPC</b>	<b>DPL</b>	<b>Enertec</b>	<b>SC Mining</b>	<b>I.AM</b>	<b>Eliminations</b>	<b>Total</b>
Revenue	\$ 2,974,216	\$ 601,679	\$ 2,156,107	\$ —	\$ —	\$ —	\$ 5,732,002
Revenue, cryptocurrency mining	—	—	—	590,165	—	—	590,165
Revenue, related party	352,496	—	—	—	—	—	352,496
Revenue, restaurant operations	—	—	—	—	1,584,891	—	1,584,891
Revenue, lending activities	85,368	—	—	—	—	—	85,368
Inter-segment revenues	25,168	—	—	—	—	(25,168)	—
<b>Total revenues</b>	<b>\$ 3,437,248</b>	<b>\$ 601,679</b>	<b>\$ 2,156,107</b>	<b>\$ 590,165</b>	<b>\$ 1,584,891</b>	<b>\$ (25,168)</b>	<b>\$ 8,344,922</b>
Depreciation and amortization expense	\$ 74,018	\$ 12,643	\$ 27,538	\$ 802,952	\$ —	\$ —	\$ 917,151
Loss from operations	\$ (792,092)	\$ (47,128)	\$ (99,201)	\$ (1,169,739)	\$ (3,829)	\$ —	\$ (2,111,989)
Capital expenditures for segment assets, as of September 30, 2018	\$ 5,838	\$ —	\$ 6,791	\$ 241,725	\$ 106,074	\$ —	\$ 360,428
Identifiable assets as of September 30, 2018	\$ 30,113,607	\$ 1,516,710	\$ 11,024,505	\$ 8,245,136	\$ 2,204,303	\$ —	\$ 53,104,261

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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	Nine Months ended September 30, 2019					
	DPC	DPL	Enertec	SC Mining	I.AM	Total
Revenue	\$ 7,110,243	\$ 1,423,971	\$ 6,527,075	\$ —	\$ —	\$ 15,061,289
Revenue, cryptocurrency mining	—	—	—	592,092	—	592,092
Revenue, restaurant operations	—	—	—	—	\$ 3,371,465	3,371,465
Revenue, lending activities	443,927	—	—	—	—	443,927
<b>Total revenues</b>	<b>\$ 7,554,170</b>	<b>\$ 1,423,971</b>	<b>\$ 6,527,075</b>	<b>\$ 592,092</b>	<b>\$ 3,371,465</b>	<b>\$ 19,468,773</b>
Depreciation and amortization expense	\$ 210,424	\$ 56,200	\$ 377,259	\$ 2,149,717	\$ 280,413	\$ 3,074,013
Loss from operations	\$ (1,169,851)	\$ (87,468)	\$ (372,691)	\$ (6,538,493)	\$ (716,637)	\$ (8,885,140)
Capital expenditures for segment assets, as of September 30, 2019	\$ 34,899	\$ 81,319	\$ 21,045	\$ —	\$ 12,060	\$ 149,323
Identifiable assets as of September 30, 2019	\$ 32,186,830	\$ 1,301,273	\$ 11,184,088	\$ 850,984	\$ 1,902,803	\$ 47,425,978

	Nine Months ended September 30, 2018						
	DPC	DPL	Enertec	SC Mining	I.AM	Eliminations	Total
Revenue	\$ 8,532,029	\$ 1,339,413	\$ 3,373,977	\$ —	\$ —	\$ —	\$ 13,245,419
Revenue, cryptocurrency mining	—	—	—	1,546,418	—	—	1,546,418
Revenue, related party	3,911,263	—	—	—	—	—	3,911,263
Revenue, restaurant operations	—	—	—	—	2,087,383	—	2,087,383
Revenue, lending activities	194,120	—	—	—	—	—	194,120
Inter-segment revenues	29,681	—	—	—	—	(29,681)	—
<b>Total revenues</b>	<b>\$ 12,667,093</b>	<b>\$ 1,339,413</b>	<b>\$ 3,373,977</b>	<b>\$ 1,546,418</b>	<b>\$ 2,087,383</b>	<b>\$ (29,681)</b>	<b>\$ 20,984,603</b>
Depreciation and amortization expense	\$ 226,639	\$ 43,667	\$ 37,257	\$ 1,434,932	\$ —	\$ —	\$ 1,742,495
Loss from operations	\$ (1,861,923)	\$ (498,536)	\$ 46,961	\$ (3,019,856)	\$ (4,838)	\$ —	\$ (5,338,192)
Capital expenditures for segment assets, as of September 30, 2018	\$ 349,190	\$ 1,301	\$ 38,460	\$ 9,048,503	\$ 128,732	\$ —	\$ 9,566,186
Identifiable assets as of September 30, 2018	\$ 30,113,607	\$ 1,516,710	\$ 11,024,505	\$ 8,245,136	\$ 2,204,303	\$ —	\$ 53,104,261

**Concentration Risk:**

The following tables provide the percentage of total revenues for the three and nine months ended September 30, 2019 and 2018 attributable to a single customer from which 10% or more of total revenues are derived.



**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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	For the Three Months Ended September 30, 2019		For the Nine Months Ended September 30, 2019	
	Total Revenues by Major Customers	Percentage of Total Company Revenues	Total Revenues by Major Customers	Percentage of Total Company Revenues
Customer A	\$ 1,424,982	22%	\$ 4,270,523	22%

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Total Revenues by Major Customers	Percentage of Total Company Revenues	Total Revenues by Major Customers	Percentage of Total Company Revenues
Customer B	—	—	\$ 3,911,263	19%

Revenue from Customer A is attributable to Enertec. Revenue from Customer B relates to MTIX, a related party, and is attributable to Coolisys. Further, at September 30, 2019, MTIX represented all the Company's accounts and other receivable, related party.

For the three and nine months ended September 30, 2019 and 2018, total revenues from external customers divided on the basis of the Company's product lines are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Commercial products	\$ 3,326,936	\$ 5,073,698	\$ 10,221,209	\$ 13,874,921
Defense products	3,054,727	3,271,224	9,247,564	7,109,682
Total revenues	<u>\$ 6,381,663</u>	<u>\$ 8,344,922</u>	<u>\$ 19,468,773</u>	<u>\$ 20,984,603</u>

Financial data relating to geographic areas:

The Company's total revenues are attributed to geographic areas based on the location. The following table presents total revenues for the three and nine months ended September 30, 2019 and 2018. Other than as shown, no foreign country or region contributed materially to revenues or long-lived assets for these periods:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
North America	\$ 4,040,664	\$ 5,166,899	\$ 11,110,035	\$ 15,599,219
Middle East	1,869,647	2,156,106	6,358,200	3,373,976
Europe	253,747	693,725	1,283,312	1,338,313
Other	217,605	328,192	717,226	673,095
Total revenues	<u>\$ 6,381,663</u>	<u>\$ 8,344,922</u>	<u>\$ 19,468,773</u>	<u>\$ 20,984,603</u>

**DPW HOLDINGS, INC. AND SUBSIDIARIES**  
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**23. SUBSEQUENT EVENTS**

In accordance with FASB ASC 855-10, the Company has analyzed its operations subsequent to September 30, 2019, and thru the date of this report being issued and has determined that it does not have any material subsequent events to disclose in these financial statements except for the following.

*Ascendant ATM Offering*

During October 2019 the Company received gross proceeds of \$1,083,234 through the sale of 679,496 shares of the Company's common stock through the ATM Offering.

*Issuance of common stock in payment of accrued liability*

On November 1, 2019, the Company issued 25,602 shares of its common stock in satisfaction of an accrued liability of \$30,722.

*Exchange Agreements*

On November 4, 2019, the Company entered into an exchange agreement with a certain investor (the "**Investor**") pursuant to which, in exchange for an original issue discount promissory note issued by the Company for the benefit of the Investor on July 25, 2019, as amended, the Company sold to the Investor a new convertible promissory note in the principal amount of \$350,000 with an interest rate of 12% per annum. Subject to the approval by the NYSE American, this note shall be convertible into shares of the Company's common stock at conversion price of \$1.20 per share, subject to adjustments.

On November 15, 2019, the Company entered into an exchange agreement with a lender (the "**Lender**") pursuant to which the Company issued to the Lender a convertible promissory note in the principal amount of \$935,772 with an interest rate of 8% per annum, in exchange for those certain promissory notes (i) in the original principal amount of \$575,000 issued on May 10, 2019, and (ii) in the original principal amount of \$230,000 issued on May 21, 2019 held by the Lender. Subject to the approval by the NYSE American, this note shall be convertible into shares of the Company's common stock at conversion price of \$1.80.

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

In this quarterly report, the “Company,” “DPW Holdings,” “we,” “us” and “our” refer to DPW Holdings, Inc., a Delaware corporation, our wholly-owned subsidiaries, Coolisys Technologies, Inc., Power-Plus Technical Distributors, LLC, Digital Power Lending, LLC, Digital Farms, Inc., Digital Power Limited, Enertec Systems 2001 Ltd. and our majority owned subsidiaries, Microphase Corporation and I.AM, LLC.

### Recent Developments

On May 13, 2019, we filed an Offering Statement on Form 1-A pursuant to Regulation A promulgated by the Securities and Exchange Commission (the “Commission”), pursuant to which up to \$50 million of 3-year, non-convertibles promissory notes (“Promissory Notes”) will be offered and sold once the Commission has qualified the Offering Statement. The Promissory Notes will accrue annualized interest of 12% that will be paid rata monthly and will be offered on a continuous basis, in each case as determined by us in our sole discretion. The Company cannot provide any assurance that any Promissory Notes will be sold pursuant this Offering Statement.

At our reconvened 2019 Annual Meeting of Stockholders, our stockholders approved a proposal permitting our Board of Directors (the “Board”) to effectuate a second reverse stock split (the “Second Reverse Stock Split”) of our issued and outstanding common stock. Thereafter, on July 23, 2019, the Board approved the Second Reverse Stock Split with a ratio of one-for-forty. As a result of the Second Reverse Stock Split, each forty (40) shares of common stock issued and outstanding prior to the Second Reverse Stock Split were converted into one (1) share of common stock, with no change in authorized shares or par value per share. The Second Reverse Stock Split became effective in the State of Delaware on August 5, 2019.

On August 6, 2019, we entered into an At-The-Market Issuance Sales Agreement with Ascendant Capital Markets, LLC, as sales agent in which we sold shares of our common stock having an aggregate offering price of \$5,500,000 (the “ATM Offering”). The offer and sale of our common stock was made pursuant to our effective “shelf” registration statement on Form S-3 and an accompanying base prospectus contained therein (Registration Statement No. 333-222132) filed with the Securities and Exchange Commission (the “Commission”) on December 18, 2017, amended on January 8, 2018, and declared effective by the SEC on January 11, 2018, and a prospectus supplement related to the ATM Offering, dated August 6, 2019.

### GENERAL

We are a growth company seeking to increase our revenues through acquisitions. We continually assess acquisition opportunities and are exploring acquisitions in the financial sector.

Over the recent past we have provided capital and relevant expertise to fuel the growth of businesses in defense/aerospace, industrial, telecommunications, medical, crypto-mining, textiles and a select portfolio of commercial hospitality properties. We have provided capital to subsidiaries as well as partner companies in which we have an equity interest or may be actively involved, influencing development through board representation and management support.

Through our lending subsidiary, DP Lending, we have launched an online fintech portal, MonthlyInterest.com, that facilitates investments that pay monthly interest. As a holding company, we have been developing DP Lending to enable the capacity to fund entrepreneurs, our subsidiaries and partner companies. We believe MonthlyInterest.com will provide investors the opportunity to invest directly into companies and technology that will have a global impact, bypassing traditional banking and lending institutions.

### *Realizing Value*

As a holding company, our business strategy is designed to increase shareholder value. Under this strategy, we are focused on managing and financially supporting our existing subsidiaries and partner companies, with the goal of pursuing monetization opportunities and maximizing the value returned to shareholders. We have, are and will consider initiatives including, among others: public offerings, the sale of individual partner companies, the sale of certain or all partner company interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We anticipate returning value to shareholders after satisfying our debt obligations and working capital needs.

From time to time, we engage in discussions with other companies interested in our subsidiaries or partner companies, either in response to inquiries or as part of a process we initiate. To the extent we believe that a subsidiary partner company's further growth and development can best be supported by a different ownership structure or if we otherwise believe it is in our shareholders' best interests, we will seek to sell some or all of our position in the subsidiary or partner company. These sales may take the form of privately negotiated sales of stock or assets, mergers and acquisitions, public offerings of the subsidiary or partner company's securities and, in the case of publicly traded partner companies, sales of their securities in the open market. Our plans may include taking subsidiaries or partner companies public through rights offerings and directed share subscription programs. We will continue to consider these (or similar) programs and the sale of certain subsidiary or partner company interests in secondary market transactions to maximize value for our shareholders.

We are a Delaware corporation with our corporate office located at 201 Shipyard Way, Suite E, Newport Beach, California 92663. Our phone number is 949-444-5464 and our website address is [www.dpwholdings.com](http://www.dpwholdings.com).

## Results of Operations

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

The following table summarizes the results of our operations for the three months ended September 30, 2019 and 2018.

	For the Three Months Ended September 30,	
	2019	2018
Revenue	\$ 4,968,440	\$ 5,732,002
Revenue, cryptocurrency mining	307,172	590,165
Revenue, related party	—	352,496
Revenue, restaurant operations	1,036,834	1,584,891
Revenue, lending activities	69,217	85,368
Total revenue	6,381,663	8,344,922
Cost of revenue	4,642,526	6,317,754
Gross profit	1,739,137	2,027,168
Operating expenses		
Engineering and product development	481,902	333,555
Selling and marketing	392,725	790,603
General and administrative	4,519,641	5,088,312
Impairment of property and equipment	4,315,856	—
(Gain) loss on digital currency	(951)	2,543
Total operating expenses	9,709,173	6,215,013
Loss from operations	(7,970,036)	(4,187,845)
Interest income	898,646	712,262
Interest expense	(2,954,843)	(4,072,539)
Change in fair value of marketable equity securities	(330,150)	—
Loss on extinguishment of convertible debt	(155,448)	—
Loss on issuance of warrants	—	—
Change in fair value of warrant liability	165,840	—
Loss before income taxes	(10,345,991)	(7,548,122)
Income tax benefit	5,140	23,737
Net loss	(10,340,851)	(7,524,385)
Less: Net loss attributable to non-controlling interest	—	74,414
Net loss attributable to DPW Holdings	\$ (10,340,851)	\$ (7,449,971)
Preferred dividends	(5,284)	—
Net loss available to common stockholders	\$ (10,346,135)	\$ (7,449,971)
Basic and diluted net loss per common share	\$ (6.47)	\$ (88.23)
Basic and diluted weighted average common shares outstanding	1,599,306	84,441
Comprehensive Loss		
Loss available to common stockholders	\$ (10,346,135)	\$ (7,449,971)
Other comprehensive income (loss)		
Foreign currency translation adjustment	67,166	(77,686)
Net unrealized loss on derivative securities of related party	(1,152,480)	(1,341,977)
Other comprehensive income (loss)	(1,085,314)	(1,419,663)
Total Comprehensive loss	\$ (11,431,449)	\$ (8,869,634)

## Revenues

Our revenues decreased by \$1,963,259, or 23.5%, to \$6,381,663 for the three months ended September 30, 2019, from \$8,344,922 for the three months ended September 30, 2018. As discussed below the decrease from the three months ended September 30, 2018, was due to a decrease in revenue from our restaurant operations, the manufacture of the Multiplex Laser Surface Enhancement (“MLSE”) plasma-laser system and from our cryptocurrency mining operations and, to a lesser extent, a decrease in revenue from customized solutions for the military markets caused by temporary shortages in components required for the manufacture of these solutions.

### Revenues, cryptocurrency mining

In January 2018, we formed Digital Farms, Inc. (“Digital Farms”), a wholly-owned subsidiary formerly known as Super Crypt Mining, Inc. Digital Farms was established to operate our cryptocurrency business, which is pursuing a variety of digital currencies. We are mining the top three cryptocurrencies for our own account, consisting of Bitcoin, Litecoin and Ethereum. Although the market prices of digital currencies were significantly higher during the three months ended September 30, 2019 compared to the prior-year period, due to power cost considerations, we reduced the number of active miners from 1,512 in the prior year period to 978 during the current quarter. These factors, coupled with a significant increase in the difficulty factor, which increases when market prices of digital currencies are increasing as more computational power is added to the network, resulted in a decrease in revenues of \$282,993.

### Revenues, related party

During the three months ended September 30, 2018, we recognized \$352,496 in revenues from our purchase order with MTIX Limited, a company formed under the laws of England and Wales (“MTIX”). Due to working capital constraints discussed below, we did not recognize any revenues from MTIX during the three months ended September 30, 2019. MTIX was acquired by AVL P on August 22, 2017, and is therefore a related party. In March 2017, the Company was awarded a purchase order by MTIX to manufacture, install and service MLSE plasma-laser system. Over the next several years, management believes that the MLSE purchase order will be a source of revenue and generate significant cash flows. The lack of revenue during the three months ended September 30, 2019, was due to an emphasis on reducing the debt obligations incurred in May 2018 to acquire Enertec. Payments, and the related manufacturing services, that otherwise would have gone to subcontractors of the MLSE plasma-laser system have been delayed in order to enable us to restructure and reduce our overall debt obligations.

### Revenues, restaurant operations

During the three months ended September 30, 2019, we recognized a decrease in revenues from our restaurant operations of \$548,057 compared to the prior-year period. The decrease was primarily due to significant construction projects that hampered access to our restaurant locations and, to a lesser extent, competition from restaurants recently opened near two of our locations.

## Gross Margins

Gross margins increased to 27.3% for the three months ended September 30, 2019 compared to 24.3% for the three months ended September 30, 2018. The Company’s gross margins have typically ranged between 33% and 37%, with slight variations depending on the overall composition of our revenue. Our gross margins during the three months ended September 30, 2018, of 24.3%, were affected by the negative margins on revenues of \$307,172 at Digital Farms. The negative gross margins at Digital Farms resulted from monthly recurring fixed costs at our colocation facilities which temporarily exceed the revenues from our mining operations. Excluding the effects of Digital Farms, then our adjusted gross margins for the three months ended September 30, 2018, would have been 38.9%, slightly higher than our historical range. The increase is mainly attributable to higher gross margins related to our restaurant operations.

Our gross margin of 27.3% recognized during the three months ended September 30, 2019, was also impacted by the negative margins at Digital Farms. Excluding the effects of Digital Farms, our adjusted gross margin for the three months ended September 30, 2019, would have been 39.7%. which is consistent with our historical average.

### **Engineering and Product Development**

Engineering and product development expenses increased by \$148,347 to \$481,902 for the three months ended September 30, 2019, from \$333,555 for the three months ended September 30, 2018. The increase in engineering and product development expenses is attributed to an increase in spending at Enertec as it pursues additional contracts in the defense industry.

### **Selling and Marketing**

Selling and marketing expenses were \$392,725 for the three months ended September 30, 2019, compared to \$790,603 for the three months ended September 30, 2018, a decrease of \$397,878. This increase was the result of decreases in personnel costs directly attributed to a reduction in sales and marketing personnel throughout our operations.

### **General and Administrative**

General and administrative expenses were \$4,519,641 for the three months ended September 30, 2019, compared to \$5,088,312 for the three months ended September 30, 2018, a decrease of \$568,671. General and administrative expenses decreased from the comparative prior period, mainly due to lower stock compensation expense and legal fees partially offset by an increase in cost attributed to the hiring of a Chief Accounting Officer and Senior Vice President of Finance. The remaining increase in general and administrative expenses is due to various costs, none of which are significant individually.

### **Asset Impairment Charges**

Asset impairment charges of \$4,315,856 were recognized during the three months ended September 30, 2019. The impairment charges related to impairments of our cryptocurrency equipment.

### **Operating Loss**

The Company recorded an operating loss of \$7,970,036 for the three months ended September 30, 2019, compared to an operating loss of \$4,187,845 for the three months ended September 30, 2018. The increase in operating loss is mostly attributable to the impairment of property and equipment coupled with a higher gross profit and lower selling and marketing expenses, partially offset by an increase in general and administrative expenses.

### **Interest Income**

Interest income was \$898,646 for the three months ended September 30, 2019 compared to \$712,262 for the three months ended September 30, 2018. The increase in interest income for the three months ended September 30, 2019 is related to an increase in interest income pursuant to the Loan and Security Agreement entered into on September 6, 2017, with AVL, a related party.

### **Interest Expense**

Interest expense was \$2,954,843 for the three months ended September 30, 2019 compared to \$4,072,539 for the three months ended September 30, 2018. The decrease in interest expense for the three months ended September 30, 2019 is primarily related to a reduction of amortization of debt discount resulting from original issue discount from the issuance of warrants in conjunction with the sale of debt instruments. During the three months ended September 30, 2019 and 2018, as a result of these issuances, non-cash interest expense of \$1,357,845 and \$3,033,864, respectively, was recorded from the amortization of debt discount and debt financing costs.

## Change in fair value of warrant liability

During the three months ended September 30, 2019, the fair value of the warrants that were issued in our Offering decreased by \$165,840. The fair value of these warrants is re-measured at each financial reporting period and immediately before exercise, with any changes in fair value recorded as change in fair value of warrant liability in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

## Net Loss

For the foregoing reasons, our net loss for the three months ended September 30, 2019, was \$10,340,851 compared to a net loss of \$7,524,385 for the three months ended September 30, 2018. After taking into consideration the loss attributable to the non-controlling interest of the minority shareholders of Microphase during the three months ended September 30, 2019 and 2018, of nil and \$74,414, respectively, and preferred dividends of \$5,284 and nil, respectively, the net loss available to common shareholders during the three months ended September 30, 2019 and 2018, was \$10,346,135 and \$7,449,971, respectively.

During the three months ended September 30, 2019 and 2018, our reported net loss included non-cash charges of \$6,390,242 and \$4,709,663, respectively. A summary of these non-cash charges is as follows:

	For the Three Months Ended September 30,	
	2019	2018
Interest expense – debt discount	\$ 1,357,845	\$ 3,033,864
Stock-based compensation	361,779	1,352,640
Depreciation and amortization	947,830	917,152
Impairment of property and equipment	4,315,856	—
Amortization of right-of-use assets	199,260	—
Accretion of original issue discount on notes receivable – related party	(607,356)	(593,993)
Accretion of original issue discount on notes receivable	(19,132)	—
Change in fair value of warrant liability	(165,840)	—
Non-cash items included in net loss	<u>\$ 6,390,242</u>	<u>\$ 4,709,663</u>

## Other comprehensive income (loss)

Other comprehensive loss was \$11,431,449 and 8,869,634, respectively, for the three months ended September 30, 2019 and 2018. Other comprehensive loss for the three months ended September 30, 2019, which decreased our equity, was primarily due to unrealized loss in the warrant derivative securities that we received as a result of our investment in Avalanche International, Corp., or AVL P, a related party. During the three months ended September 30, 2018, unrealized losses in the warrant derivative securities of AVL P was the primary component of other comprehensive loss.



## RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

The following table summarizes the results of our operations for the nine months ended September 30, 2019 and 2018.

	For the Nine Months Ended September 30,	
	2019	2018
Revenue	\$ 15,061,289	\$ 13,245,419
Revenue, cryptocurrency mining	592,092	1,546,418
Revenue, related party	—	3,911,263
Revenue, restaurant operations	3,371,465	2,087,383
Revenue, lending activities	443,927	194,120
Total revenue	<u>19,468,773</u>	<u>20,984,603</u>
Cost of revenue	<u>14,350,041</u>	<u>16,204,388</u>
Gross profit	5,118,732	4,780,215
Operating expenses		
Engineering and product development	1,408,848	1,043,993
Selling and marketing	1,293,181	2,290,934
General and administrative	14,584,758	12,697,909
Impairment of property and equipment	4,315,856	—
(Gain) loss on digital currency	(6,933)	2,543
Total operating expenses	<u>21,595,710</u>	<u>16,035,379</u>
Loss from operations	(16,476,978)	(11,255,164)
Interest income	2,647,110	1,955,885
Interest expense	(5,586,639)	(11,335,069)
Change in fair value of marketable equity securities	(173,503)	—
Loss on extinguishment of convertible debt	(963,232)	—
Loss on issuance of warrants	(1,763,481)	—
Change in fair value of warrant liability	1,112,665	—
Loss before income taxes	(21,204,058)	(20,634,348)
Income tax benefit	93,284	17,480
Net loss	(21,110,774)	(20,616,868)
Less: Net loss attributable to non-controlling interest	32,416	218,494
Net loss attributable to DPW Holdings	\$ (21,078,358)	\$ (20,398,374)
Preferred dividends	(12,437)	(108,049)
Net loss available to common stockholders	\$ (21,090,795)	\$ (20,506,423)
Basic and diluted net loss per common share	\$ (24.62)	\$ (311.53)
Basic and diluted weighted average common shares outstanding	<u>856,689</u>	<u>65,824</u>
Comprehensive Loss		
Loss available to common stockholders	\$ (21,090,795)	\$ (20,506,423)
Other comprehensive income (loss)		
Foreign currency translation adjustment	259,671	(209,535)
Net unrealized loss on derivative securities of related party	(1,513,661)	(6,787,902)
Other comprehensive income (loss)	(1,253,990)	(6,997,437)
Total Comprehensive loss	<u>\$ (22,344,785)</u>	<u>\$ (27,503,860)</u>

## Revenues

Our revenues decreased by \$1,515,830, or 7.2%, to \$19,468,773 for the nine months ended September 30, 2019, from \$20,984,603 for the nine months ended September 30, 2018. During the nine months ended September 30, 2019 and 2018, our acquisitions of Enertec and I.A.M represented \$9,898,540 and \$5,461,360, respectively, of our revenues. Excluding revenues from these acquisitions, we would have recognized revenues of \$9,570,233 and \$15,523,243, respectively, during the nine months ended September 30, 2019 and 2018, a decrease of \$5,953,010. As discussed below, the decrease of \$5,953,010 from the nine months ended September 30, 2018, was primarily due to a decrease in revenue from our restaurant operations, from the manufacture of the MLSE plasma-laser system and from our cryptocurrency mining operations. The following table shows revenue for the nine months ended September 30, 2019 and 2018, generated from acquisitions completed during the year ended December 31, 2018.

Company acquired	Date of Acquisition	For the Nine Months Ended September 30,	
		2019	2018
Enertec Systems 2001 Ltd.	May 22, 2018	\$ 6,527,075	\$ 3,373,977
I.A.M, Inc.	May 23, 2018	3,371,465	2,087,383
		<u>\$ 9,898,540</u>	<u>\$ 5,461,360</u>

## Revenues, cryptocurrency mining

In January 2018, we formed Digital Farms, a wholly-owned subsidiary. Digital Farms was established to operate our cryptocurrency business, which is pursuing a variety of digital currencies. We are mining the top three cryptocurrencies for our own account, consisting of Bitcoin, Litecoin and Ethereum. The market prices of digital currencies were slightly lower during the nine months ended September 30, 2019 compared to the prior-year period. Further, due to power cost considerations, we reduced the number of active miners from 1,512 in the prior year period to 978 during the current quarter. These factors, coupled with a significant increase in the difficulty factor during the current quarter resulted in a decrease in revenues \$954,326.

## Revenues, related party

During the nine months ended September 30, 2018, we recognized \$3,911,263 in revenues resulting from our purchase order with MTIX. Conversely, we did not recognize any revenues from MTIX during the nine months ended September 30, 2019. MTIX was acquired by AVL P on August 22, 2017, and is therefore a related party. The lack of revenue during the nine months ended September 30, 2019, was due to an emphasis on reducing the debt obligations incurred in May 2018 to acquire Enertec. Payments, and the related manufacturing services, that otherwise would have gone to subcontractors of the MLSE plasma-laser system have been delayed in order to enable us to restructure and reduce our overall debt obligations.

## Gross Margins

Gross margins increased to 26.3% for the nine months ended September 30, 2019, compared to 22.8% for the nine months ended September 30, 2018. Our gross margins during the nine months ended September 30, 2018, of 22.8%, were affected by the lower margin related party revenue of \$3,911,263 from MTIX combined with negative margins on revenues of \$1,546,418 at Digital Farms. Excluding the effects of Digital Farms and our contract with MTIX, then our adjusted gross margins for the nine months ended September 30, 2018, would have been 38.6%.

Our gross margin of 26.3% recognized during the nine months ended September 30, 2019, was also impacted by the negative margins at Digital Farms. Excluding the effects of Digital Farms, our adjusted gross margin for the nine months ended September 30, 2019 would have been 37.9%. which is consist with our historical average which has typically ranged between 33% and 37%, with slight variations depending on the overall composition of our revenue.

## Engineering and Product Development

Engineering and product development expenses increased by \$364,855 to \$1,408,848 for the nine months ended September 30, 2019, from \$1,043,993 for the nine months ended September 30, 2018. The increase in engineering and product development expenses is attributed to our acquisition of Enertec, which due to the timing of the acquisition was partially excluded from the prior period amount.

## **Selling and Marketing**

Selling and marketing expenses were \$1,293,181 for the nine months ended September 30, 2019, compared to \$2,290,934 for the nine months ended September 30, 2018, a decrease of \$997,753. Our acquisition of Enertec and I.AM resulted in an increase of \$196,962. This increase was offset by decreases in personnel costs directly attributed to a reduction in sales and marketing personnel throughout our operations.

## **General and Administrative**

General and administrative expenses were \$14,584,758 for the nine months ended September 30, 2019 compared to \$12,697,909 for the nine months ended September 30, 2018, an increase of \$1,886,849. Our acquisitions of Enertec and I.AM accounted for \$2,119,118 of the increase in general and administrative expenses. The adjusted decrease of \$232,269 from the comparative prior period was mainly due to the lower stock compensation expense and legal fees partially offset by an increase in cost attributed to the hiring of a Chief Accounting Officer and Senior Vice President of Finance.

## **Asset Impairment Charges**

Asset impairment charges of \$4,315,856 were recognized during the nine months ended September 30, 2019. The impairment charges related to impairments of our cryptocurrency equipment.

## **Operating Loss**

The Company recorded an operating loss of \$16,476,978 for the nine months ended September 30, 2019, compared to an operating loss of \$11,255,164 for the nine months ended September 30, 2018. The increase in operating loss is mostly attributable to the impairment of property and equipment coupled with an increase of general and administrative expenses, partially offset by higher gross profit and lower selling and marketing expenses.

## **Interest Income**

Interest income was \$2,647,110 for the nine months ended September 30, 2019 compared to \$1,955,885 for the three months ended September 30, 2018. The increase in interest income for the nine months ended September 30, 2019 is primarily related to an increase in interest income pursuant to the Loan and Security Agreement entered into on September 6, 2017, with AVLP, a related party.

## **Interest expense**

Interest expense was \$5,586,639 for the nine months ended September 30, 2019, compared to \$11,335,069 for the nine months ended September 30, 2018. The decrease in interest expense for the nine months ended September 30, 2019 is primarily related to a reduction of amortization of debt discount resulting from original issue discount from the issuance of warrants in conjunction with the sale of debt instruments. During the nine months ended September 30, 2019 and 2018, as a result of these issuances, non-cash interest expense of \$3,034,454 and \$8,812,972, respectively, was recorded from the amortization of debt discount and debt financing costs.

## **Loss on issuance of warrants**

We recognized a loss on issuance of warrants of \$1,763,481 for the nine months ended September 30, 2019, based upon the fair value of the warrants issued in our Offering in excess of the proceeds received from the Offering.

## **Change in fair value of warrant liability**

During the nine months ended September 30, 2019, the fair value of the warrants that were issued in our Offering decreased by \$1,112,665. The fair value of these warrants is re-measured at each financial reporting period and immediately before exercise, with any changes in fair value recorded as change in fair value of warrant liability in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

## Net Loss

For the foregoing reasons, our net loss for the nine months ended September 30, 2019, was \$21,110,774 compared to a net loss of \$20,616,868 for the nine months ended September 30, 2018. After taking into consideration the loss attributable to the non-controlling interest of the minority shareholders of Microphase during the nine months ended September 30, 2019 and 2018, of \$32,416 and \$218,494, respectively, and preferred dividends of \$12,437 and \$108,049, respectively, the net loss available to common shareholders during the nine months ended September 30, 2019 and 2018, was \$21,090,795 and \$20,506,423, respectively.

As reflected in our consolidated statement of cash flows for the nine months ended September 30, 2019 and 2018, our reported net loss is comprised of non-cash charges of \$10,742,817 and \$13,195,207, respectively. A summary of these non-cash charges is as follows:

	For the Nine Months Ended September 30,	
	2019	2018
Interest expense – debt discount	\$ 3,034,454	\$ 8,812,972
Stock-based compensation	1,354,062	4,164,180
Depreciation and amortization	3,074,013	1,742,496
Impairment of property and equipment	4,315,856	—
Amortization of right-of-use assets	260,549	—
Accretion of original issue discount on notes receivable – related party	(1,869,778)	(1,524,441)
Accretion of original issue discount on notes receivable	(77,155)	—
Fair value in excess of proceeds upon issuance of warrants	1,763,481	—
Change in fair value of warrant liability	(1,112,665)	—
Non-cash items included in net loss	<u>\$ 10,742,817</u>	<u>\$ 13,195,207</u>

## Other comprehensive loss

Other comprehensive loss was \$22,344,785 and \$27,503,860, respectively, for the nine months ended September 30, 2019 and 2018. Other comprehensive loss for the nine months ended September 30, 2019, which decreased our equity, was primarily due to unrealized losses in the warrant derivative securities that we received as a result of our investment in AVL P, a related party. During the nine months ended September 30, 2018, unrealized losses in the warrant derivative securities of AVL P was also the primary component of other comprehensive loss.

## LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2019, we had cash and cash equivalents of \$756,652. This compares with cash and cash equivalents of \$902,329 at December 31, 2018. The decrease in cash and cash equivalents was primarily due to cash provided by financing activities being slightly in excess of the amount of cash used in operating and investing activities with the remaining variance attributed to the effect of exchange rates caused by a decrease in exchange rates between the U.S. dollar and the Israeli Shekel.

Net cash used in operating activities totaled \$8,377,278 for the nine months ended September 30, 2019, compared to \$9,430,055 for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, the decrease in net cash used in operating activities compared to the nine months ended September 30, 2018, was mainly due to a reduction in our net loss for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The net loss was partially offset by several non-cash charges, a decrease in amortization of debt discount of \$5,778,518 and stock-based compensation of \$2,810,118, an increase in depreciation and amortization of \$1,331,517 and a decrease in accounts receivable, related party due to a payment of \$2,676,219 in April 2019.

Net cash used in investing activities was \$2,686,506 for the nine months ended September 30, 2019, compared to \$19,915,693 for the nine months ended September 30, 2018. The decrease of the net usage of cash from investing activities was primarily attributed to the purchase of property and equipment at Digital Farms and our acquisition of Enertec during the nine months ended September 30, 2018.

Net cash provided by financing activities was \$11,083,232 and \$28,791,362 for the nine months ended September 30, 2019 and 2018, respectively. Financing activities during the nine months ended September 30, 2019, primarily related to the sale of shares of our common stock through an “at the market offering” program and through an underwriting agreement with A.G.P./Alliance Global Partners. The proceeds that we received from the sale of our shares of common stock was partially offset by net cash outflows of \$3,706,679 associated with our debt arrangements.

Historically, we have financed our operations principally through issuances of convertible debt, promissory notes and equity securities. During 2019, as reflected below, we continued to successfully obtain additional equity and debt financing and in restructuring existing debt.

- On October 15, 2018, we entered into an At-The-Market Issuance Sales Agreement with WDCO (the “WDCO ATM Offering”) to sell shares of our common stock. Between January 1, 2019 and April 1, 2019, the date the WDCO ATM Offering was terminated, the Company received gross proceeds of \$4,656,050 through the sale of 119,791 shares of our common stock through the WDCO ATM Offering.
- On March 29, 2019, we entered into an underwriting agreement pursuant to which we sold 71,388 shares of our common stock, warrants to purchase 388,888 shares of our common stock and pre-funded warrants to purchase 317,500 shares of our common stock on April 2, 2019. We received gross proceeds from this offering of \$6,999,555 and used approximately \$6,000,000 of the proceeds from this offering for the repayment of debt.
- On May 13, 2019, we filed an Offering Statement on Form 1-A pursuant to Regulation A promulgated by the Commission, pursuant to which up to \$50 million of 3-year, non-convertibles promissory notes (“Promissory Notes”) will be offered and sold once the Commission has qualified the Offering Statement. We anticipate that the Promissory Notes will accrue annualized interest of between 5% and 15% that will be paid rata monthly and will be offered on a continuous basis, in each case as determined by us in our sole discretion. The Company cannot provide any assurance that any Promissory Notes will be sold pursuant this Offering Statement.
- On August 6, 2019, we entered into an At-The-Market Issuance Sales Agreement with Ascendant Capital Markets, LLC, as sales agent in which we sold shares of our common stock having an aggregate offering price of \$5,500,000 (the “ATM Offering”). The offer and sale of our common stock was made pursuant to our effective “shelf” registration statement on Form S-3 and an accompanying base prospectus contained therein (Registration Statement No. 333-222132) filed with the Commission on December 18, 2017, amended on January 8, 2018, and declared effective by the SEC on January 11, 2018, and a prospectus supplement related to the ATM Offering, dated August 6, 2019.

We expect to continue to incur losses for the foreseeable future and will be required to raise additional capital to continue to support our working capital requirements. We have been successful over the last 12 months in raising capital to support our working capital requirements. We anticipate that we will continue to raise capital through public and private equity offerings, debt financings, or other means. If we are unable to secure additional capital, we may be required to curtail our current operations and take additional measures to reduce costs expenses, including reducing our workforce, eliminating outside consultants, ceasing or reducing our due diligence of potential future acquisitions, including the associated legal fees, in order to conserve cash in order to sustain operations and meet our obligations.

Based on the above, these matters raise substantial doubt about our ability to continue as a going concern and amounts reported in our financial statements do not reflect the effects of any adjustments to the carrying amounts of our assets and liabilities should we be unable to continue as a going concern.

## CRITICAL ACCOUNTING POLICIES

In our Annual Report on Form 10-K for the year ended December 31, 2018, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. The basis for developing the estimates and assumptions within our critical accounting policies is based on historical information and known current trends and factors. The estimates and assumptions are evaluated on an ongoing basis and actual results have been within our expectations. We have not changed these policies from those previously disclosed in our Annual Report.

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

Not applicable for a smaller reporting company.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Our principal executive officer and principal financial officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon our evaluation, our principal executive officer and principal financial officer has concluded that the Company's internal control over financial reporting was not effective as of the end of the period covered by this Quarterly Report on Form 10-Q because the Company has not yet completed its remediation of the material weakness previously identified and disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, the end of its most recent fiscal year.

Specifically, management has determined that we do not have sufficient resources to ensure an appropriate level of segregation of duties in our accounting function, we have inadequate controls to ensure that information necessary to properly record transactions is adequately communicated and we did not design or maintain effective general information technology controls over certain information systems that are relevant to the mitigation of the risk pertaining to the misappropriation of assets.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

#### *Planned Remediation*

Management, in coordination with the input, oversight and support of our Audit Committee, has identified the measures below to strengthen our control environment and internal control over financial reporting.

In January 2018, we hired a new Chief Financial Officer and engaged the services of a financial accounting advisory firm. In September 2018, we hired a Chief Accounting Officer and in January 2019, we hired a Senior Vice President of Finance. Finally, in May 2019, we hired an Executive Vice President and General Counsel. We have tasked these individuals with expanding and monitoring the Company's internal controls, to provide an additional level of review of complex financial issues and to assist with financial reporting. Further, as we continue to expand our internal accounting department, the Chairman of the Audit Committee shall perform the following:

- assists with documentation and implementation of policies and procedures and monitoring of controls,

reviews all anticipated transactions that are not considered in the ordinary course of business to assist in the early identification of accounting issues and ensure that appropriate disclosures are made in our financial statements

We are currently working to improve and simplify our internal processes and implement enhanced controls, as discussed above, to address the material weaknesses in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. These material weaknesses will not be considered to be remediated until the applicable remediated controls are operating for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Despite the existence of these material weaknesses, the Company believes that the consolidated financial statements included in the period covered by this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles.

#### *Changes in Internal Controls over Financial Reporting.*

Except as detailed above, during the most recent fiscal quarter 2019 there were no significant changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On July 31, 2018, a stockholder derivative complaint was filed in the United States District Court for the Central District of California against the Company as the nominal defendant, as well as its current directors and a former director styled *Ethan Young and Greg Young, Derivatively on Behalf of Nominal Defendant, DPW Holdings, Inc. v. Milton C. Ault, III, Amos Kohn, William B. Horne, Jeff Bentz, Mordechai Rosenberg, Robert O. Smith, and Kristine Ault and DPW Holdings, Inc.*, as the nominal defendant (Case No. 18-cv-6587) (the "Complaint").

The Complaint alleges violations of state law and breaches of fiduciary duty, unjust enrichment and gross mismanagement by the individual defendants as, in the view of the plaintiffs, the Company has entered into poorly advised loan transactions and related party transactions. The Company and the individual defendants believe that these claims are without merit and intend to vigorously defend themselves. The Company and the individual defendants moved to dismiss the Complaint and on February 25, 2019, the Court granted the motion to dismiss but granted plaintiffs leave to amend their Complaint. On March 11, 2019, plaintiffs filed their amended complaint asserting violations of breaches of fiduciary duties and unjust enrichment claims based on the previously pled transactions. On March 25, 2019, the Company and the individual defendants filed a motion to dismiss the amended complaint. On May 21, 2019, the Court granted in part and denied in part the Motion to Dismiss the Amended Complaint. Specifically, the May 21, 2019 Order granted so much of Defendants' Motion to Dismiss the Amended Complaint that sought to dismiss Directors Robert O. Smith, Jeff Bentz, and Mordechai Rosenberg as parties. Plaintiffs did not further amend the complaint and proceeded with the operative complaint and forewent any claims against Messrs. Smith, Bentz, and Rosenberg.

On July 8, 2019, the Court held a scheduling conference wherein the Court set a trial date of August 25, 2020.

On October 21, 2019, the parties mediated the matter before JAMS in Manhattan, New York. At that mediation, the matter was tentatively settled with respect to all claim against the Company and the remaining defendants, Milton C. Ault III, Amos Kohn, and William Horne. The tentative settlement included certain changes to the policies of the Company. The tentative settlement agreement did not have a monetary component. Furthermore, the parties settled any dispute over the attorneys' fees, which will be paid by AIG, the Company's insurance carrier. The parties are currently working on finalizing the settlement agreement, and expect to have a finalized settlement agreement prior to end of the calendar year. Upon execution of the finalized settlement agreement, Plaintiff will file a notice of dismissal with prejudice with the Court.

On November 28, 2018, *Blockchain Mining Supply and Services, Ltd*, a vendor who sold computers to the Company's subsidiary, filed in the United States District Court for the Southern District of New York against Super Crypto Mining, Inc. and the Company (Case No. 18-cv-11099). The Complaint asserted claims for breach of contract and promissory estoppel against the Company and its subsidiary arising from the subsidiary's failure to satisfy a purchase agreement. The Complaint seeks damages in the amount of \$1,388,495, which approximates the amount of the reserve established.

On February 4, 2019, pursuant to the Court's Rules, the Company requested a pre-motion Conference with the Court. On April 16, 2019, the Court held a pre-motion Conference in connection with the Company's anticipated motion to dismiss. To date, however, the Court has not set a briefing schedule in connection with the Company's anticipated motion to dismiss.

Based on the Company's assessment of the facts underlying the claims, the uncertainty of litigation, and the preliminary stage of the case, the Company cannot estimate the reasonably possible loss or range of loss that may result from this action. However, the Company has established a reserve in the amount of the unpaid portion of the purchase agreement. An unfavorable outcome may have a material adverse effect on the Company's business, financial condition and results of operations.

## **ITEM 1A. RISK FACTORS**

The risks described in Part I, Item 1A, "Risk Factors," in our 2018 Annual Report on Form 10-K, could materially and adversely affect our business, financial condition and results of operations, and the trading price of our common stock could decline. These risk factors do not identify all risks that we face - our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. Other than the additional risk factor identified below, the Risk Factors section of our 2018 Annual Report on Form 10-K remains current in all material respects.

### **We received a subpoena from the Commission.**

We received a subpoena from the Commission for the voluntary production of documents. We are fully cooperating with this non-public, fact-finding inquiry and believe that we have operated our business in compliance with all applicable laws. The subpoena expressly provides that the inquiry is not to be construed as an indication by the Commission or its staff that any violations of the federal securities laws have occurred, nor should it be considered a reflection upon any person, entity or security. However, there can be no assurance as to the outcome of this matter.

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

During the nine months ended September 30, 2019, we issued to our consultants a total 29,375 shares of our common stock with an aggregate value of \$305,019, an average of \$10.38 per share for services rendered.

During the nine months ended September 30, 2019, principal and accrued interest of \$4,238,878 and \$497,416, respectively, on our debt securities was satisfied through the issuance of 370,473 shares of our common stock.

During the nine months ended September 30, 2019, we issued 9,375 shares of our common stock in satisfaction of an accrued liability of \$108,523.

The foregoing issuances were exempt from registration upon reliance of Section 4(a)(2) and Regulation D promulgated thereunder.



**ITEM 3.        DEFAULTS UPON SENIOR SECURITIES**

On June 18, 2019, we issued a promissory note in the principal face amount of \$2,900,000. Pursuant to the terms of the note, we were required to make six monthly amortization payments beginning on July 18, 2019. We have not made these payments and this note is currently in default. We are in negotiations with the investors to amend the payment terms on this Note.

**ITEM 4.        MINE SAFETY DISCLOSURES**

None

**ITEM 5.        OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
1.1	<a href="#">Underwriting Agreement with A.G.P/Alliance Global Partners, dated March 29, 2019. Incorporated by reference to the Current Report on Form 8-K filed on April 1, 2018 as Exhibit 1.1 thereto.</a>
3.1	<a href="#">Certification of Incorporation, dated September 22, 2017. Incorporated herein by reference to the Current Report on Form 8-K filed on December 29, 2017 as Exhibit 3.1 thereto.</a>
3.2	<a href="#">Bylaws, dated September 25, 2017. Incorporated herein by reference to the Current Report on Form 8-K filed on December 29, 2017 as Exhibit 3.2 thereto.</a>
3.3	<a href="#">Certificate of Amendment to Certificate of Incorporation, dated January 2, 2019. Incorporated by reference to the Current Report on Form 8-K filed on January 3, 2019 as Exhibit 3.1 thereto.</a>
3.4	<a href="#">Certificate of Amendment to Certificate of Incorporation (1-for-20 Reverse Stock Split of Common Stock), dated March 14, 2019. Incorporated herein by reference to the Current Report on Form 8-K filed on March 14, 2019 as Exhibit 3.1 thereto.</a>
3.5	<a href="#">Certificate of Designations of Rights and Preferences of 10% Series A Cumulative Redeemable Perpetual Preferred Stock, dated September 13, 2018. Incorporated herein by reference to the Current Report on Form 8-K filed on September 14, 2018 as Exhibit 3.1 thereto.</a>
3.6	<a href="#">Form of Certificate of Determination of Preferences, Rights and Limitations of Series B Convertible Preferred Stock, dated March 3, 2017. Incorporated by reference to the Current Report on Form 8-K filed on March 9, 2017 as Exhibit 3.1 thereto.</a>
3.7	<a href="#">Certificate of Designations of Rights and Preferences of Series C Convertible Redeemable Preferred Stock, dated February 27, 2019. Incorporated herein by reference to the Current report on Form 8-K filed on February 28, 2019 as Exhibit 3.1 thereto.</a>
4.1	<a href="#">Form of Common Stock Purchase Warrant, dated April 2, 2019. Incorporated by reference to the Current Report on Form 8-K filed on April 1, 2018 as Exhibit 4.1 thereto.</a>
4.2	<a href="#">Form of Pre-Funded Common Stock Purchase Warrant, dated April 2, 2019. Incorporated by reference to the Current Report on Form 8-K filed on April 1, 2018 as Exhibit 4.2 thereto.</a>
4.3	<a href="#">Form of Underwriter's Common Stock Purchase Warrant, dated April 2, 2019. Incorporated by reference to the Current Report on Form 8-K filed on April 1, 2018 as Exhibit 4.3 thereto.</a>
31.1*	<a href="#">Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)</a>
31.2*	<a href="#">Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)</a>
32.1**	<a href="#">Certification of Chief Executive and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

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

Dated: November 19, 2019

DPW HOLDINGS, INC.

By: /s/ Milton C. Ault, III  
Milton C. Ault, III  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ William B. Horne  
William B. Horne  
Chief Financial Officer  
(Principal Accounting Officer)

**CERTIFICATION**

I, Milton C. Ault, III, certify that:

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

Dated: November 19, 2019

/s/ Milton C. Ault, III

\_\_\_\_\_  
Name: Milton C. Ault, III  
Title: Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION**

I, William B. Horne, certify that:

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

Dated: November 19, 2019

/s/ William B. Horne

\_\_\_\_\_  
Name: William B. Horne  
Title: Chief Financial Officer  
(Principal Accounting Officer)

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

In connection with the quarterly report of DPW Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the 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 result of operations of the Company.

Date: November 19, 2019

By: /s/ Milton C. Ault, III  
\_\_\_\_\_  
Name: Milton C. Ault III  
Title: Chief Executive Officer and  
(Principal Executive Officer)

Date: November 19, 2019

By: /s/ William B. Horne  
\_\_\_\_\_  
Name: William B. Horne  
Title: Chief Financial Officer and  
(Principal Financial Officer)

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