DPW Holdings, Inc.
Form 10-Q
November 15, 2018

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, 2018

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

For the transition period from ________ to ________.

Commission file 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)

(510) 657-2635

(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No

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

At November 12, 2018 the registrant had outstanding 73,192,808 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,” “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, 2017, 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 August 20, 2018. 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.S. dollars in thousands, except per share data

	September 30, 2018 **(Unaudited)**	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$703	$ 1,478
Marketable securities	366	1,835
Accounts receivable, net of allowance of $5 at September 30, 2018 and December 31, 2017	3,884	1,898
Accounts and other receivable, related party	3,888	174
Inventories, net	3,732	1,993
Prepaid expenses and other current assets	2,053	1,407
TOTAL CURRENT ASSETS	14,626	8,785
Intangible assets	2,851	2,898
Digital currencies	30	—
Goodwill	10,419	3,652
Property and equipment, net	10,890	1,217
Investments - related party, net of original issue discount of $2,579 and $2,115, respectively	4,630	2,333
Investments in warrants and common stock - related party	3,228	7,728
Investments in preferred stock of private company	1,000	1,000
Investments in real estate	1,915	
Other investments	2,140	1,637
Other investments, related parties	870	917
Other assets	505	343
TOTAL ASSETS	$53,104	$ 30,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$8,641	$ 4,273
Accounts payable and accrued expenses, related party	55	70

Advances on future receipts	1,689	1,963
Short term advances	—	2,439
Short term advances, related party	87	245
Revolving credit facility	215	388
Notes payable, net	5,539	402
Notes payable, related party	166	134
Convertible notes payable	7,194	398
Other current liabilities	784	708
TOTAL CURRENT LIABILITIES	24,370	11,020
LONG TERM LIABILITIES		
Notes payable	494	525
Notes payable, related parties	143	175
TOTAL LIABILITIES	$25,007	$ 11,720

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

DPW HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

U.S. dollars in thousands, except shares and per share data

	September 30, 2018 **(Unaudited)**	December 31, 2017
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, designated in the following classes; 25,000,000 shares authorized; 125,000 and 478,776 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	$—	$—
Series B Convertible Preferred Stock, $10 stated value per share, share, $0.001 par value – 500,000 shares authorized; 125,000 and 100,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively (liquidation preference of $1,250 and $1,000 at September 30, 2018 and December 31, 2017, respectively)	—	—
Series C Convertible Preferred Stock, $2.40 stated value per share, $0.001 par value – 460,000 shares authorized; nil shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Series D Convertible Preferred Stock, $0.01 stated value per share, $0.001 par value – 378,776 shares authorized; nil and 378,776 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively (liquidation preference of $4 at December 31, 2017)	—	—
Series E Convertible Preferred Stock, $45 stated value per share, $0.001 par value – 10,000 shares authorized; nil shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Preferred Stock, $0.001 par value – 23,651,224 shares authorized; nil shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Class A Common Stock, $0.001 par value – 200,000,000 shares authorized; 69,341,486 and 30,222,299 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	69	30
Class B Common Stock, $0.001 par value – 25,000,000 shares authorized; nil shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	73,950	36,888
Accumulated deficit	(43,998)	(23,412)
Accumulated other comprehensive loss	(2,495)	4,503
TOTAL DPW HOLDINGS STOCKHOLDERS' EQUITY	27,526	18,009
Non-controlling interest	571	781
TOTAL STOCKHOLDERS' EQUITY	28,097	18,790
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$53,104	$30,510

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 COMPREHEHNSIVE LOSS

(Unaudited)

U.S. dollars in thousands, except shares and per share data

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$5,731	$3,220	$13,245	$6,670
Revenue, cryptocurrency mining	590	—	1,546	—
Revenue, related party	353	—	3,912	—
Revenue, restaurant operations	1,585	—	2,087	—
Revenue, lending activities	85	—	194	—
Total revenue	8,344	3,220	20,984	6,670
Cost of revenue	6,317	2,124	16,204	4,136
Gross profit	2,027	1,096	4,780	2,534
Operating expenses				
Engineering and product development	334	306	1,044	798
Selling and marketing	791	423	2,291	1,045
General and administrative	5,088	1,685	12,698	4,240
Impairment loss on digital currency	3	—	3	—
Total operating expenses	6,216	2,414	16,036	6,083
Loss from operations	(4,189)	(1,318)	(11,256)	(3,549)
Interest expense	(3,359)	(753)	(9,378)	(1,367)
Loss before income taxes	(7,548)	(2,071)	(20,634)	(4,916)
Income tax benefit	23	—	17	—
Net loss	(7,525)	(2,071)	(20,617)	(4,916)
Less: Net loss attributable to non-controlling interest	74	104	218	216
Net loss attributable to DPW Holdings	$(7,451)	$(1,967)	$(20,399)	$(4,700)
Preferred deemed dividends on Series B and Series C Preferred Stock	—	—	(108)	(319)
Preferred dividends on Series C Preferred Stock	—	(27)	—	(35)
Net loss available to common stockholders	$(7,451)	$(1,994)	$(20,507)	$(5,054)
Basic and diluted net loss per common share	$(0.11)	$(0.15)	$(0.39)	$(0.46)
Basic and diluted weighted average common shares outstanding	67,869,778	13,745,540	52,977,059	10,884,948

Comprehensive Loss

Loss available to common stockholders	$(7,451)	$(1,994)	$(20,507)	$(5,054)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(78)	42	(210)	141
Net unrealized loss on securities available-for-sale	(1,342)	(43)	(6,788)	(43)
Other comprehensive income (loss)	(1,420)	(1)	(6,998)	98
Total comprehensive loss	$(8,871)	$(1,995)	$(27,505)	$(4,956)

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

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DPW HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

U.S. dollars in thousands, except share data

	Preferred Stock Shares	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
BALANCES, December 31, 2017	478,776	30,222,299	$ 30	$ 36,888	$ (23,412)	$ 4,503	$ 781	$ 18,790
Compensation expense due to stock option issuances	—	—	—	725	—	—	—	725
Compensation expense due to warrant issuances	—	—	—	70	—	—	—	70
Issuance of common stock and warrants for cash	—	25,376,527	25	22,222	—	—	—	22,247
Issuance of common stock for services	—	3,683,059	4	4,153	—	—	—	4,157
Issuance of common stock for conversion of debt	—	2,030,015	2	2,166	—	—	—	2,168
Issuance of common stock for conversion of short-term advances	—	3,632,159	4	2,816	—	—	—	2,820
Issuance of common stock upon exercise of stock options	—	60,000	—	98	—	—	—	98
Issuance of common stock upon exercise of warrants	—	2,145,641	2	865	—	—	—	867
Issuance of Series B preferred stock for conversion of short-term advances	25,000	—	—	250	—	—	—	250
Issuance of common stock for conversion of Series E preferred stock	(378,776)	757,552	1	(1)	—	—	—	—

Issuance of common stock in connection with convertible notes	—	1,489,232	1	1,177	—	—	—	1,178
Repurchase of common stock	—	(54,998)	—	(55)	—	—	—	(55)
Beneficial conversion feature in connection with convertible notes	—	—	—	1,008	—	—	—	1,008
Fair value of warrants issued in connection with convertible notes	—	—	—	3,411	—	—	—	3,411
Cash for exchange fees and other financing costs	—	—	—	(1,951)	—	—	—	(1,951)
Non-controlling interest from acquisition of I. AM	—	—	—	—	—	—	33	33
Non-controlling interest from Microphase	—	—	—	—	—	—	(25)	(25)
Comprehensive loss:								
Net loss	—	—	—	—	(20,399)	—	—	(20,399)
Preferred deemed dividends	—	—	—	108	(108)	—	—	—
Net unrealized gain on securities available-for-sale, net of income taxes	—	—	—	—	—	(6,788)	—	(6,788)
Foreign currency translation adjustments	—	—	—	—	(79)	(210)	—	(289)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(218)	(218)
BALANCES, September 30, 2018	125,000	69,341,486	$ 69	$ 73,950	$ (43,998)	$ (2,495)	$ 571	$ 28,097

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

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DPW HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

U.S. dollars in thousands

	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(20,617)	$(4,916)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,642	128
Amortization	101	6
Interest expense – debt discount	8,813	1,239
Accretion of original issue discount on notes receivable – related party	(1,524)	(36)
Interest expense on conversion of promissory notes to common stock	—	13
Stock-based compensation	4,163	1,269
Realized losses on sale of digital currencies	111	—
Realized losses on sale of marketable securities	168	—
Unrealized losses on trading securities	43	
Changes in operating assets and liabilities:		
Accounts receivable	876	(737)
Accounts receivable, related party	(3,517)	—
Digital currencies	(1,503)	—
Inventories	(117)	228
Prepaid expenses and other current assets	198	(166)
Other assets	(145)	(197)
Accounts payable and accrued expenses	1,923	2,083
Accounts payable, related parties	(15)	104
Other current liabilities	(30)	(595)
Net cash used in operating activities	(9,430)	(1,577)
Cash flows from investing activities:		
Purchase of property and equipment	(9,318)	(22)
Loss on disposition of asset	22	—
Purchase of intangible asset	(54)	(50)
Purchase of Power Plus	—	(409)
Purchase of Enertec	(4,937)	—
Cash received on acquisitions	293	—
Investments – related party	(845)	(2,710)
Related party investment in real property	(1,915)	—
Investment in real property	—	(300)

Investments in warrants and common stock - related party	(2,288)	—
Investments in marketable securities	(858)	—
Sales of marketable securities	2,159	—
Investments - others	(25)	(25)
Loans to third party	—	(814)
Loans to related parties	—	(54)
Proceeds from loans to related parties	16	—
Investments in debt and equity securities	(2,166)	—
Net cash used in investing activities	$(19,916)	$(4,384)

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)

U.S. dollars in thousands

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Gross proceeds from sales of common stock and warrants	$22,247	$745
Repurchase of common stock	(55)	—
Proceeds from issuance of preferred stock	—	1,540
Financing cost in connection with sales of equity securities	(1,951)	(275)
Proceeds from stock option exercises	98	—
Proceeds from warrant exercises	867	—
Proceeds from convertible notes payable	11,550	1,514
Proceeds from notes payable – related party	—	350
Proceeds from notes payable	12,235	785
Proceeds from short-term advances – related party	137	—
Proceeds from short-term advances	761	—
Payments on short-term advances	(425)	—
Payments on notes payable	(11,782)	(30)
Payments on convertible notes payable	(2,362)	(157)
Proceeds from advances on future receipts	2,990	1,772
Payments on advances on future receipts	(5,158)	(439)
Payments of preferred dividends	—	(8)
Financing cost in connection with sales of debt securities	—	(122)
Payments on revolving credit facilities, net	(361)	(481)
Net cash provided by financing activities	28,791	5,194
Effect of exchange rate changes on cash and cash equivalents	(220)	85
Net decrease in cash and cash equivalents	(775)	(682)
Cash and cash equivalents at beginning of period	1,478	996
Cash and cash equivalents at end of period	$703	$314

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)

U.S. dollars in thousands

	For the Nine Months Ended	
	September 30,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$695	$69
Non-cash investing and financing activities:		
Cancellation of convertible note payable into shares of common stock	$2,168	$145
Cancellation of short term advances into shares of common stock	$2,775	$—
Cancellation of short term advances, related party into shares of common stock	$45	$—
Cancellation of short term advances, related party into shares of Series B Preferred Stock	$250	$—
Issuance of common stock for prepaid services	$794	$—
Cancellation of notes payable – related party into shares of common stock	$—	$100
Cancellation of notes payable into shares of common stock	$—	$648
Cancellation of note payable – related party into series B convertible preferred stock	$—	$500

In connection with the Company's acquisition of Microphase Corporation, equity instruments were issued and liabilities assumed during 2017 as follows:

Fair value of assets acquired	$8,275
Equity instruments issued	(1,451)
Non-controlling interest	(945)
Liabilities assumed	$5,879

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, 2018

U.S. dollars in thousands, except share and per share data

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 Super Crypto Mining, Inc. ("SC Mining"). The Company also has a controlling interest 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 SC Mining and restaurant operations through I.AM.

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, 2018, the Company had cash and cash equivalents of $703, an accumulated deficit of $43,998 and a negative working capital of $9,744. The Company has incurred recurring losses and reported losses for the three and nine months ended September 30, 2018, totaled $7,525 and $20,617, respectively. In the past, the Company has financed its operations principally through issuances of convertible debt, promissory notes and equity securities. During 2018, 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. In March 2017, the Company was awarded a 3-year, $50 million purchase order by MTIX Ltd. (“MTIX”) to manufacture, install and service the Multiplex Laser Surface Enhancement (“MLSE”) plasma-laser system. Currently, the Company has subcontracted out a significant amount of these services to third parties. Management believes that the MLSE purchase order will be a source of revenue and generate significant cash flows for the Company. Management believes that the Company has access to capital resources through potential public or private issuance 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.

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, 2017, filed with the Securities and Exchange Commission on April 17, 2018. The consolidated balance sheet as of December 31, 2017 was derived from the Company’s audited 2017 financial statements contained in the above referenced Form 10-K. Results of the three and nine months ended September 30, 2018, are not necessarily indicative of the results to be expected for the full year ending December 31, 2018.

DPW HOLDINGS AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)

SEPTEMBER 30, 2018

U.S. dollars in thousands, except share and per share data

Principles of Consolidation

The condensed consolidated financial statements include the accounts of DPW and its wholly-owned subsidiaries, Coolisys, DP Limited, Power-Plus, Enertec, DP Lending and SC Mining and its majority-owned subsidiaries, Microphase and I.AM. 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, fair value of digital currencies, accruals of certain liabilities including product warranties, useful lives and depreciation, and deferred income taxes and related valuation allowance.

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 AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)

SEPTEMBER 30, 2018

U.S. dollars in thousands, except share and per share data

The Company's disaggregated revenues consist of the following for the nine months ended September 30, 2018:

	Nine Months ended September 30, 2018					
	DPC	DPL	Enertec	SC Mining	I.AM	Total
Primary Geographical Markets						
North America	$11,957	$9	$—	$1,546	$2,087	$15,599
Europe	107	1,231	—	—	—	1,338
Middle East	—	—	3,374	—	—	3,374
Other	574	99	—	—	—	673
	$12,638	$1,339	$3,374	$1,546	$2,087	$20,984
Major Goods						
RF/Microwave Filters	$2,949	$—	$—	$—	$—	$2,949
Detector logarithmic video amplifiers	840	—	—	—	—	840
Power Supply Units	4,743	—	—	—	—	4,743
Power Supply Systems	—	1,339	—	—	—	1,339
Healthcare diagnostic systems	—	—	1,156	—	—	1,156
Defense systems	—	—	2,218	—	—	2,218
Digital Currency Mining	—	—	—	1,546	—	1,546
Restaurant operations	—	—	—	—	2,087	2,087
Lending activities	194	—	—	—	—	194
MLSE Systems	3,912	—	—	—	—	3,912
	$12,638	$1,339	$3,374	$1,546	$2,087	$20,984
Timing of Revenue Recognition						
Goods transferred at a point in time	$8,726	$1,339	$—	$1,546	$2,087	$13,698
Services transferred over time	3,912	—	3,374	—	—	7,286
	$12,638	$1,339	$3,374	$1,546	$2,087	$20,984

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 has title and the significant risks and rewards of ownership. The Company provides standard assurance warranties 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 not been material. 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 AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited (Continued)

SEPTEMBER 30, 2018

U.S. dollars in thousands, except share and per share data

Manufacturing Services

The Company provides manufacturing services in exchange for fixed fees. The Company's performance obligation for manufacturing services is satisfied over time as the Company creates or enhances an asset that the customer controls as the asset is created or enhanced. The Company recognizes revenue 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 faithful 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.

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. Therefore, the Company has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component.

The aggregate amount of the transaction price allocated to the performance obligation that is partially unsatisfied as of September 30, 2018 was $48,338. 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.

Blockchain Mining

The Company derives its revenue by providing transaction verification services within the digital currency networks of cryptocurrencies, such as Bitcoin, Bitcoin Cash and Litecoin. The Company satisfies its performance obligation at the point in time that which the Company is awarded a unit of digital currency through its participation in the applicable network and network participants benefit from the Company's verification service. In consideration for these services, the Company receives digital currencies which are recorded as revenue, using the closing U. S. dollar price of the related cryptocurrency on the date of receipt. Expenses associated with running the cryptocurrency mining business, such as equipment deprecation and electricity cost are recorded as a component of cost of revenues.

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 good, 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.

Property and Equipment, Net

Property and equipment as well as an intangible asset are stated at cost, net of accumulated depreciation and amortization. Repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	Useful lives (in years)
Cryptocurrency machines and related equipment	3 - 5
Computer, software and related equipment	3 - 5
Office furniture and equipment	5 - 10
Leasehold improvements	Over the term of the lease or the life of the asset, whichever is shorter.

Digital Currencies

Digital currencies consist of Bitcoin, Bitcoin Cash and Litecoin received from mining for the Company's own account. Given that there is limited precedent regarding the classification and measurement of cryptocurrencies under current GAAP, the Company has determined to account for these digital currencies as indefinite-lived intangible assets in accordance with ASC No. 350, *Intangibles – Goodwill and Other*, for the period covered by this report and in future reports unless and until further guidance is issued by the Financial Accounting Standards Board ("FASB").

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Indefinite-lived intangible assets are recorded at cost and are not subject to amortization, but shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. If, at the time of an impairment test, the carrying amount of an intangible asset exceeds its fair value, an impairment loss in an amount equal to the excess is recognized. Fair value of the digital currencies is based on the quoted market prices. The Company recorded an impairment charge in the amount of $3, which is reported as a component of operating expenses in the accompanying condensed consolidated statements of operations for both the three and nine months ended September 30, 2018.

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 are inputs 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 models.

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.

As of September 30, 2018 and December 31, 2017, the fair value of the Company’s investments were $3,663 and $9,563, respectively, and were concentrated in equity securities of Avalanche International Corp., which we refer to as AVLP, a related party (See Note 9), which are classified as available-for-sale investments. At September 30, 2018, the Company's investment in AVLP included marketable equity securities of $810 and warrants to purchase 12,814,440 shares of AVLP common stock at an exercise price of $0.50 per share of common stock. At December 31, 2017, the Company's investment in AVLP included marketable equity securities of $826 and warrants to purchase 8,248,440 shares of AVLP common stock at an exercise price of $0.50 per share of common stock. For investments in marketable equity securities, the Company took into consideration general market conditions, the duration and extent to which the fair value is above cost, and the Company’s ability and intent to hold the investment for a sufficient period of time to allow for recovery of value in the foreseeable future. As a result of this analysis, the Company has determined that its investment in AVLP’s marketable equity securities are valued based upon the closing market price of common stock at September 30, 2018 and December 31, 2017, which resulted in an unrealized gain of $163 and $550, respectively.

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At September 30, 2018, the Company held shares of common stock in four companies that it had purchased at the market, for a total cost of $257. In accordance with ASC No. 320-10, these investments are accounted for based upon the closing market prices of the respective common stock at September 30, 2018 and December 31, 2017, resulting in an unrealized gain $109 and $133, respectively.

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 that were measured at fair value on a recurring basis by level within the fair value hierarchy:

	Fair Value Measurement at September 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments in common stock and warrants of AVLP – a related party	$3,228	$810	$ —	$2,418
Investments in marketable securities	366	366	—	—
Investment in warrants	69	—	—	69
Total Investments	$3,663	$1,176	$ —	$2,487

	Fair Value Measurement at December 31, 2017			
	Total	Level 1	Level 2	Level 3

Investments in common stock and warrants of AVLP – a related party	$7,728	$826	$ —	$6,902
Investments in marketable securities	1,835	1,835	—	—
Total Investments	$9,563	$2,661	$ —	$6,902

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

- Level 1 – inputs include quoted prices for identical instruments and are the most observable.
- Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.
- Level 3 – inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

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 317,460 warrants, with an exercise price of $.01, in its earnings per share calculation for the three and nine months ended September 30, 2018 and 2017. Anti-dilutive securities, which are convertible into the Company's Class A common stock, consist of the following at September 30, 2018 and 2017:

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	2018	2017
Stock options	7,570,000	2,891,000
Warrants [1]	18,410,160	10,233,199
Convertible notes	20,077,330	3,157,576
Conversion of preferred stock	1,785,714	4,606,131
Total	47,843,204	20,887,906

(1) The Company has excluded the 317,460 warrants with an exercise price of $0.01 per share in its anti-dilutive securities but included the warrants in its weighted average shares outstanding.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition (“ASC 605”) and most industry-specific guidance throughout ASC 605. The FASB has issued numerous updates that provide clarification on a number of specific issues as well as requiring additional disclosures. The core principle of ASC 606 requires that an entity 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 Company adopted ASC 606 effective January 1, 2018 to all contracts using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial position, results of operations, equity or cash flows.

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 shareholders 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. For all other entities, the amendments in Part I of this update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. 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 is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements and related disclosures but does not expect it to have a material impact.

DPW HOLDINGS AND SUBSIDIARIES

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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 Dec. 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements and related disclosures but does not expect it to have a material impact.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of September 30, 2018 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2018 or 2017, and it does not believe that any of those pronouncements will have a significant impact on our condensed consolidated financial statements at the time they become effective.

4. Digital Currencies

The following table presents additional information about digital currencies:

	Digital Currencies
Balance at January 1, 2017	$ —
Additions of digital currencies	1,505
Realized loss on sale of digital currencies	(110)

Impairment loss on digital currencies	(3)
Payment on convertible notes payable	(726)
Purchase of fixed assets	(250)
Payments to vendors	(386)
Balance at September 30, 2018	$ 30

At September 30, 2018, the Company's digital currencies consisted of Bitcoin, Bitcoin Cash and Litecoin. Digital currencies are recorded at cost on the date they are received as revenues and are tested for impairment at each reporting date. Fair value is determined by taking the closing price from the most liquid exchanges.

5. Marketable Securities

Marketable securities in equity securities with readily determinable market prices consisted of the following as of September 30, 2018 and December 31, 2017:

	Available-for-sale securities at September 30, 2018			
	Cost	Gross unrealized gains	Gross realized gains (losses)	Fair value
Common shares	$257	$ 109	$ —	$366

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	Available-for-sale securities at December 31, 2017			
	Cost	Gross unrealized gains	Gross realized gains (losses)	Fair value
Common shares	$1,702	$ 133	$ —	$1,835

The following table presents additional information about marketable securities:

Balance at January 1, 2018	$1,835
Purchases of marketable securities	858
Sales of marketable securities	(2,159)
Realized losses on marketable securities	(168)
Balance at September 30, 2018	$366

Available-for-sale Securities

At September 30, 2018 and December 31, 2017, the Company had invested in the marketable securities of certain publicly traded companies. At September 30, 2018 and December 31, 2017, the Company recorded an unrealized loss of nil and $132, respectively, representing the difference between the cost basis and the estimated fair value, as accumulated other comprehensive income in the stockholder's equity section of the Company’s consolidated balance sheet and as a change in unrealized gains and losses on marketable securities in the Company’s consolidated statements of comprehensive income (loss). The Company’s investment in marketable securities will be revalued on each balance sheet date. The fair value of the Company’s holdings in marketable securities at September 30, 2018 and December

31, 2017 is a Level 1 measurement based on quoted prices in an active market.

6. PROPERTY AND EQUIPMENT, NET

At September 30, 2018 and December 31, 2017, property and equipment consist of:

	September 30, 2018	December 31, 2017
Cryptocurrency machines and related equipment	$ 9,326	$ —
Computer, software and related equipment	2,507	2,432
Restaurant equipment	1,089	—
Office furniture and equipment	295	289
Buildings and improvements	305	—
Leasehold improvements	1,258	788
	14,780	3,509
Accumulated depreciation and amortization	(3,890)	(2,292)
Property and equipment, net	$ 10,890	$ 1,217

For the three and nine months ended September 30, 2018, depreciation expense amounted to $884 and $1,642, respectively. During the three and nine months ended September 30, 2017, depreciation expense amounted to $50 and $128, respectively.

DPW HOLDINGS AND SUBSIDIARIES

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7. INTANGIBLE ASSETS, NET

At September 30, 2018 and December 31, 2017 intangible assets consist of:

	Intangible Assets
Balance as of January 1, 2017	$ —
Trade name and trademark	1,740
Customer list	988
Non-competition agreements	150
Domain name	81
Accumulated amortization	(61)
Balance as of December 31, 2017	$ 2,898
Trade name and trademark	3
Start-up costs	51
Accumulated amortization	(101)
Balance as of September 30, 2018	$ 2,851

During 2017, the Company acquired the trade name and trademark of Microphase, that was determined to have an indefinite life, for $1,740. The remaining definite lived intangible assets are being amortized on a straight-line basis over their estimated useful lives. Amortization expense was $33 and $101, respectively, for the three and nine months ended September 30, 2018 and $4 and $6, respectively, for the three and nine months ended September 30, 2017.

8. GOODWILL

The Company's goodwill relates to the acquisitions of a controlling interest in Microphase on June 2, 2017 and I. AM, Inc. ("I. AM") on May 23, 2018, the acquisition of Enertec Systems 2001 Ltd. ("Enertec") on May 22, 2018, and the acquisition of all of the outstanding membership interests in Power Plus on September 1, 2017.

9. INVESTMENTS – RELATED PARTIES

Investments in AVLP at September 30, 2018 and December 31, 2017, are comprised of the following:

	September 30, 2018	December 31, 2017
Investment in convertible promissory note of AVLP	$ 6,407	$ 4,124
Investment in warrants of AVLP	2,418	6,902
Investment in common stock of AVLP	810	826
Accrued interest in convertible promissory note of AVLP	803	324
Total investment in AVLP – Gross	10,438	12,176
Less: original issue discount	(2,580)	(2,115)
Total investment in AVLP – Net	$ 7,858	$ 10,061

DPW HOLDINGS AND SUBSIDIARIES

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The following table summarizes the changes in our investments in AVLP during the nine months ended September 30, 2018:

	Investment in warrants and common stock of AVLP	Investment in convertible promissory note of AVLP	Total investment in AVLP – Net
Balance at January 1, 2018	$ 7,728	$ 2,333	$ 10,061
Investment in convertible promissory notes of AVLP	—	1,474	1,474
Payment of convertible promissory notes of AVLP	—	(1,108)	(1,108)
Investment in common stock of AVLP	371	—	371
Fair value of warrants issued by AVLP	1,917	—	1,917
Unrealized loss in warrants of AVLP	(6,401)	—	(6,401)
Unrealized loss in common stock of AVLP	(387)	—	(387)
Accretion of discount	—	1,452	1,452
Accrued Interest	—	479	479
Balance at September 30, 2018	$ 3,228	$ 4,630	$ 7,858

The Company has made a strategic decision to invest in AVLP, a related party controlled by Philou Ventures, LLC, or Philou, a significant stockholder of the Company. The Company's investments in AVLP consist of convertible promissory notes, warrants and shares of common stock of AVLP. On September 6, 2017, 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 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, 2018, the Company has provided loans to

AVLP in the principal amount $6,407 and, in addition to the 12% convertible promissory notes, AVLP has issued to the Company warrants to purchase 12,814,440 shares of AVLP common stock. Under the terms of the AVLP Loan Agreement, any notes issued by AVLP to the Company are secured by the assets of AVLP.

The warrants entitle the Company to purchase up to 12,814,440 shares of AVLP common stock at an exercise price of $0.50 per share for a period of five years. The exercise price of $0.50 is subject to adjustment for customary stock splits, stock dividends, combinations or similar events. The warrant may be exercised for cash or on a cashless basis. At September 30, 2018 and December 31, 2017, the Company recorded an unrealized gain (loss) on its investment in warrants of AVLP of ($1,888) and $4,513, 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 and as a change in net unrealized gains on securities available-for-sale in the Company’s consolidated statements of comprehensive loss. During the three and nine months ended September 30, 2018, the Company’s investment in warrants and common stock of AVLP represented $387 and $6,401, respectively, of the Company’s aggregate $1,339 and $6,787, respectively, in net unrealized loss on securities available-for-sale. 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 1.92% and 2.43%, was derived from the U.S. Treasury yield curve, matching the term of our investment, in effect at the measurement date. The volatility factor of 80.4% 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.

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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 12,814,440 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. The original issue discount of $165 on the New Note and the discount attributed to the fair value of the warrants of $4,306 are being amortized as interest income through the maturity date. During the three and nine months ended September 30, 2018, the Company recorded $535 and $1,454, respectively, of interest income for the discount accretion. During the three and nine months ended September 30, 2017, the Company recorded $18 and $38, respectively, of interest income for the discount accretion As of September 30, 2018 and December 31, 2017, the Company recorded contractual interest receivable attributed to the AVLP Notes and AVLP Loan Agreement of $803 and $324, respectively.

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, 2018 and the year ended December 31, 2017, the Company also acquired in the open market 389,391 shares of AVLP common stock for $371 and 221,333 shares of AVLP common stock for $192, respectively. At September 30, 2018, the closing market price of AVLP's common stock was $0.94, a decline from $1.75 at December 31, 2017. The Company has determined that its investment in AVLP marketable equity securities are accounted for pursuant to the fair value method and based upon the closing market price of common stock at September 30, 2018, the Company has recognized an unrealized gain of $163.

10. INVESTMENTS IN PREFERRED STOCK OF PRIVATE COMPANY AND OTHER INVESTMENTS

We hold a portfolio of investments in equity and debt securities in other entities that are accounted for under the cost method.

Investment in Preferred Stock of Private Company

On December 15, 2017, the Company and Sandstone Diagnostics, Inc. (“Sandstone”) entered into a Series A1 Preferred Stock Purchase Agreement (“Loan Agreement”) pursuant to which the Company purchased 976,286 shares of Sandstone’s Series A1 Preferred Shares for $1,000. Sandstone is a medical device company focused on a data-driven approach to men’s reproductive health. Founded in 2012 in part by government scientists from Sandia National Laboratories, Sandstone’s mission is to provide innovative, data-driven tools to help men assess, manage, and improve their reproductive health. The funding from the Series A1 Preferred Stock financing will support sales growth and continued product development leveraging the company’s unique technology platform, Sandstone’s Trak™ Male Fertility Testing System.

The Company elected to follow the guidance of ASC No. 321, *Equity Securities* (“ASC 321”), which provides a measurement alternative to the requirement to carry equity interests at fair value in accordance with ASC 820, Fair value measurement, for certain equity interests without readily determinable fair values. Equity interests measured in accordance with the measurement alternative in ASC 321 are not required to be included within the fair value hierarchy. The Company’s equity investment in Sandstone is recorded at cost. However, any change to the carrying amount will be subsequently adjusted up or down for observable price changes (i.e., prices in orderly transactions for the identical investment or similar investment of the same issuer) and any adjustments to the carrying amount shall be recorded in net income.

DPW HOLDINGS AND SUBSIDIARIES

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Other Investments

On November 1, 2017, the Company and I. AM, Inc. ("I. AM") entered into a Loan and Security Agreement pursuant to which the Company provided I. AM with a non-revolving credit facility of up to $1,600 for a period ending on September 25, 2022. On May 23, 2018, DP Lending entered into and closed a securities purchase agreement with I. AM. At the date of the acquisition, I. AM owed DP Lending $1,715 in outstanding principal, pursuant to the loan and security agreement. The purchase agreement provides that as I. AM repays the outstanding loan to DP Lending in accordance with the loan agreement, DP Lending will on a pro rata basis transfer shares of common stock of I. AM to David J. Krause, up to an aggregate of 471 shares (see Note 13).

The Company, primarily through DP Lending, has made additional investments in debt and equity securities of various entities. At September 30, 2018 and December 31, 2017, the outstanding balance of these investments was $2,140 and $1,637, respectively.

11. 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. The Company used $1,000 from the proceeds of the August 16, 2018 Notes as an additional capital contribution in the partnership. As of September 30, 2018, the Company had invested an aggregate of $1,815 in the NY Partnership and $100 in another real estate investments Subject to the occurrence of certain events and other conditions over which the Company has no control, it is required to make monthly capital contributions of $500,000 every thirty days until DPW's commitment is funded in full, which is expected to occur in January 2020. If the Company fails to make a monthly contribution when due, then the other entities affiliated with the NY Partnership have the right to acquire fifty percent (50%) of the capital contributions that the Company will have made to the NY Partnership at that time.

12. 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 ("Note A") and $1,668 ("Note B"), in exchange for cancellation of amounts due to WT Johnson by MTIX Ltd., a related party of the Company.

During December 2017, the Company issued 600,000 shares of its common stock to WT Johnson & Sons upon the conversion of Note A and WT Johnson subsequently sold the 600,000 shares. The proceeds from the sale of Note A were sufficient to satisfy the entire $2,268 obligation as well as an additional $400 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 from MTIX and cancelled Note B. At September 30, 2018 and December 31, 2017, the Company has valued the note receivable at $600, 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 of payments to the seller of the property and received a 28% undivided interest in the real property ("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 hi-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.

DPW HOLDINGS AND SUBSIDIARIES

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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 investment over ten years, subject to a cliff vesting after five years. During the three and nine months ended September 30, 2018, the Company recognized $8 and $22, respectively, in amortization expense. In the event that 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.

Other investments and interest receivable

During the year ended December 31, 2017, DP Lending made loans to Alzamend Neuro, Inc. ("Alzamend"), in the amount of $44, these loans were repaid during the three months ended March 31, 2018. AVLP is a party to a management services agreement pursuant to which AVLP provides management, consulting and financial services to Alzamend. As additional consideration, the Company received a warrant to purchase 22,000 shares of Alzamend's common stock at an exercise price of $0.30 per share of common stock. The warrants were determined to have a de minimis value.

13. ACQUISITIONS

Microphase Corporation and Power-Plus Technical Distributors

Enertec Systems 2001 Ltd.

On December 31, 2017, CooliSys entered into a share purchase agreement with Micronet Enertec Technologies, Inc. ("MICT"), a Delaware corporation, Enertec Management Ltd., an Israeli corporation and wholly owned subsidiary of MICT ("EML" and, together with MICT, the "Seller Parties"), and Enertec Systems 2001 Ltd. ("Enertec"), an Israeli corporation and wholly owned subsidiary of EML, pursuant to which Coolisys acquired Enertec (the "Acquisition"). The Company believes that Enertec is Israel's largest private manufacturer of specialized electronic systems for the military market. On May 23, 2018, Coolisys acquired Enertec for an aggregate cash purchase price of $4,851.

I. AM, Inc.

On May 23, 2018, DP Lending entered into and closed a securities purchase agreement with I. AM, David J. Krause and Deborah J. Krause. Pursuant to the securities purchase agreement, I. AM sold to DPL, 981 shares of common stock for a purchase price of $1, representing, upon the closing, 98.1% of I. AM's outstanding common stock.

I. AM owns and operates the Prep Kitchen brand restaurants located in the San Diego area. I.AM owed DP Lending $1,715 in outstanding principal, pursuant to a loan and security agreement, between I. AM and DP Lending, which I. AM used to acquire the restaurants. The purchase agreement provides that, as I. AM repays the outstanding loan to DP Lending in accordance with the loan agreement, DP Lending will on a pro rata basis transfer shares of common stock of I. AM to David J. Krause, up to an aggregate of 471 shares.

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The acquisition of Enertec and I. AM are being accounted for under the purchase method of accounting in accordance with ASC No. 805, *Business Combinations*. Under the purchase method, assets acquired and liabilities assumed are recorded at their estimated fair values. Goodwill is recorded to the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired less liabilities assumed at the date of acquisition. The initial accounting for the acquisition is not yet complete, and the Company is still performing procedures to determine the appropriate accounting.

Upon initial measurement, components of the preliminary purchase price are as follows:

	Enertec	I. AM
Accounts receivable	$3,078	$29
Inventories	1,634	40
Prepaid expenses and other current assets	20	—
Property and equipment	649	1,054
Other assets	96	3
Accounts payable and accrued expenses	(2,615)	(104)
Short term bank credit	(4,236)	—
Accrued severance pay	(132)	—
Net liabilities assumed	(1,506)	1,022
Goodwill	6,357	576
Non-controlling interest	—	(33)
Purchase price	$4,851	$1,565

The following pro forma data for the three and nine months ended September 30, 2017 summarizes the results of operations for the period indicated as if the Microphase, Power-Plus and Enertec acquisitions, which closed on June 2, 2017, September 1, 2017, and May 23, 2018, respectively, had been completed as of the beginning of each 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 actually been obtained if the acquisition occurred as of the beginning of each period presented or that may be obtained in future periods:

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Total Revenue	$8,344	$5,025	$22,521	$16,417
Net loss	$(7,525)	$(2,669)	$(22,921)	$(8,854)
Less: Net loss attributable to non-controlling interest	74	104	218	726
Net loss attributable to common stockholders	$(7,451)	$(2,565)	$(22,703)	$(8,128)
Preferred deemed dividends	—	—	(108)	(319)
Preferred dividends	—	(27)	—	(35)
Loss available to common shareholders	$(7,451)	$(2,592)	$(22,811)	$(8,482)
Basic and diluted net loss per common share	$(0.11)	$(0.19)	$(0.43)	$(0.78)
Basic and diluted weighted average common shares outstanding	67,869,778	13,745,540	52,977,059	10,884,948
Comprehensive Loss				
Loss available to common shareholders	$(7,451)	$(2,592)	$(22,811)	$(8,482)
Other comprehensive income (loss)				
Change in net foreign currency translation adjustments	(78)	42	(210)	141
Net unrealized gain (loss) on securities available-for-sale	(1,342)	(43)	(6,788)	(43)
	(1,420)	(1)	(6,998)	98

Other comprehensive income (loss)				
Total comprehensive loss	$(8,871)	$(2,593)	$(29,809)	$(8,384)

14. STOCK-BASED COMPENSATION

Under the Company's 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. The Plans, as amended, provide for the issuance of a maximum of 7,372,630 shares of the Company’s common stock. The Company also has 196,000 outstanding options that were granted between 2009 and 2011 pursuant to the terms of the Company's 2002 Stock Option Plan (the “2002 Plan”). Options granted pursuant to the 2002 Plan expire between September 2008 and February 2021.

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, 2018, an aggregate of 55,773 of the Company's options are still available for future grant.

DPW HOLDINGS AND SUBSIDIARIES

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During the nine months ended September 30, 2018, the Company granted 1,000,000 options to its employees from the Plans and also granted 2,897,500 options outside of the Plans. During the nine months ended September 30, 2017, the Company granted 560,000 options from 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 and 2017 was $514 and $251, respectively, which is being recognized as stock-based compensation expense over the requisite four-year service period. During the nine months ended September 30, 2018 and 2017, the Company also issued 1,583,059 and 1,336,798, respectively, shares of common stock to its consultants and service providers pursuant to the Plans. The Company estimated that the grant date fair value of these shares of common stock was $2,640 and $742, 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.

During the nine months ended September 30, 2018 and 2017, the Company estimated the fair value of stock options granted using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Weighted average risk-free interest rate	2.41% — 2.80%	1.73% — 2.14%
Weighted average life (in years)	4.75	5.0
Volatility	124.7% — 131.7%	98.4% — 107.2%

Expected dividend yield	0%	0%
Weighted average grant-date fair value per share of options granted	$0.92	$0.45

The options outstanding as of September 30, 2018, have been classified by exercise price, as follows:

Outstanding				**Exercisable**	
Exercise Price	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.57 - $0.80	3,340,000	7.74	$0.67	1,817,499	$0.67
$1.00 - $1.38	170,000	8.78	$1.37	51,250	$1.36
$1.51 - $1.69	62,500	3.96	$1.64	62,500	$1.64
$0.57 - $1.69	3,572,500	7.72	$0.72	1,931,249	$0.71
Issuances outside of Plans					
$0.80 - $2.32	3,997,500	7.65	$1.30	325,694	$1.61
Total Options					
$0.57 - 2.32	7,570,000	7.68	$1.03	2,256,943	$0.84

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DPW HOLDINGS AND SUBSIDIARIES

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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, 2018 and 2017, is comprised as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Cost of revenues	$—	$2	$5	$6
Engineering and product development	—	6	14	20
Selling and marketing	—	8	12	18
General and administrative	697	349	2,204	1,017
Stock-based compensation from Plans	$697	$365	$2,235	$1,061
Stock-based compensation from issuances outside of Plans	655	152	1,928	208
Total Stock-based compensation	$1,352	$517	$4,163	$1,269

The combination of stock-based compensation of $2,235 from the issuances of equity-based awards pursuant to the Plans and stock-based compensation attributed to stock awards of $1,361 and warrants and options of $567, which were issued outside of the Plans, resulted in aggregate stock-based compensation of $1,352 and $4,163 during the three and nine months ended September 30, 2018. During the nine months ended September 30, 2018, the Company issued 2,897,500 options to purchase shares of common stock at an average exercise price of $1.30 per share to its directors and officers. These shares were issued outside of the Plans and are subject to shareholder approval. During the nine months ended September 30, 2017, stock-based compensation was comprised of $1,061 from the issuances of equity-based awards pursuant to the Plans and stock-based compensation attributed to stock awards of $130 and warrants and options of $78, which were issued outside of the Plans.

A summary of option activity under the Company's stock option plans as of September 30, 2018, and changes during the nine months ended are as follows:

	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
January 1, 2018	2,538,832	2,742,500	$ 0.77	8.80	$ 6,688
Restricted stock awards	(1,583,059)	—			
Granted	(1,000,000)	1,000,000	$ 0.70		
Forfeited [1]	100,000	(110,000)	$ 1.33		
Exercised	—	(60,000)	$ 1.63		
September 30, 2018	55,773	3,572,500	$ 0.72	7.72	$ 0

[1] Includes 10,000 options that were issued pursuant to the Company’s 2002 Plan and are not available for future issuance.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2018 of $0.42 and the exercise price, multiplied by the number of in-the-money-options).

As of September 30, 2018, there was $860 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 3.2 years.

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15. WARRANTS

During the three months ended March 31, 2018, the Company issued a total of 2,450,000 warrants at an average exercise price of $1.16 per share.

(i) On January 23, 2018, the Company issued warrants to purchase an aggregate of 625,000 shares of common stock at an exercise price equal to $2.20 per share of common stock in connection with the issuance of a 10% senior convertible promissory note in the aggregate principal amount of $1,250 (See Note 19c).

(ii) On January 25, 2018, the Company entered into three agreements for the Purchase and Sale of Future Receipt, pursuant to which the Company sold up to (i) $562 of the Company's future receipts for a purchase price of $375, (ii) $337 in future receipts for a purchase price of $225 and (iii) $118 in future receipts for a purchase price of $100. Under the terms of these agreements, the Company issued warrants to purchase an aggregate of 112,500 shares of common stock at an exercise price of $2.25 per share of common stock and warrants to purchase 162,500 shares of common stock at an exercise price of $2.50 per share of common stock (See Note 16).

(iii) On March 22, 2018, the Company issued warrants to purchase an aggregate of 1,250,000 shares of common stock at an exercise price equal to $1.15 per share of common stock in connection with the issuance of a promissory note in the principal amount of $1,750,000 with a term of two months, subject to the Company's ability to prepay within one month (See Note 17a).

(iv) On March 23, 2018, the Company entered into a securities purchase agreement to sell and issue a 12% promissory note in the principal amount of $1,000 and a warrant to purchase 300,000 shares of common stock to an accredited investor if the promissory note is paid in full on or before May 23, 2018, or up to 450,000 shares of common stock, if the promissory note is paid by June 22, 2018 (See Note 17b).

During the three months ended June 30, 2018, the Company issued a total of 12,252,758 warrants at an average exercise price of $0.71 per share.

(i) On April 16, 2018, the Company issued warrants to purchase an aggregate of 993,588 shares of common stock at an exercise price equal to $1.30 per share of common stock in connection with the issuance of 12% secured convertible promissory notes in the aggregate principal amount of $1,722 (See Note 19b).

(ii) On April 24, 2018, the Company issued warrants to purchase 357,143 shares of common stock, at an exercise price of $0.70 per share of common stock, in connection with the Preferred Stock Purchase Agreement to purchase 25,000 shares of Series B Preferred Stock by Philou (See Note 21).

(iii) On October 5, 2017, Ault & Company purchased 75,000 shares of the Company's common stock at $0.60 per share and a warrant to purchase up to 75,000 shares of the Company's common stock at $0.60 per share for an aggregate purchase price of $45. The shares and warrants were issued by the Company on May 8, 2018, the date all necessary approvals to issue the shares were received. Ault & Company is controlled by Mr. Milton Ault, the Company's Chairman and Chief Executive Officer (See Note 21).

(iv) On May 15, 2018, the Company entered into securities purchase agreements with certain investors in which it sold an aggregate of 7,691,775 shares of its common stock for aggregate consideration of $6,000. In connection with this financing, the Company issued (i) five-year warrants to purchase 1,922,944 shares of the Company's Class A common stock and (ii) five-year warrants to purchase 5,768,834 shares of the Company's Class A common stock. The warrants were issued at an exercise price of $0.94 per share of common stock (See Note 21).

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(v) On May 15, 2018, the Company entered into a securities purchase agreement with an institutional investor to sell and issue a senior secured convertible promissory note with a principal face amount of $6,000 and (i) a five-year warrant to purchase 1,111,111 shares of the Company's Class A common stock at an exercise price of $1.35 per share of Class A common stock (the "Series A Warrant") and (ii) a five-year warrant to purchase 1,724,138 shares of the Company's Class B common stock at an exercise price of $0.87 per share of Class A common stock (See Note 19a). In connection with the financing, the Company issued the placement agent a warrant to purchase 150,000 shares of common stock with an exercise price of $1.00.

(vi) Pursuant to the terms of a securities purchase agreement entered into on March 23, 2018, the Company issued an additional warrant to purchase 150,000 shares of common stock, at an exercise price of $1.15 per share of common stock, on May 23, 2018 (See Note 17b).

The following table summarizes information about common stock warrants outstanding at September 30, 2018:

Outstanding				**Exercisable**	
Exercise Price	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.01	317,460	8.09	$ 0.01	277,774	$ 0.01
$0.55	283,636	4.11	$ 0.55	283,636	$ 0.55
$0.60	75,000	4.59	$ 0.60	75,000	$ 0.60
$0.66	148,133	4.09	$ 0.66	148,133	$ 0.66
$0.70	2,125,715	4.12	$ 0.70	1,768,572	$ 0.70
$0.75	135,909	3.62	$ 0.75	135,909	$ 0.75
$0.80	481,666	1.95	$ 0.80	481,666	$ 0.80
$0.87	1,724,138	4.62	&nb		