

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

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: 001-34643

**DropCar, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**98-0204758**

(I.R.S. Employer  
Identification No.)

**DropCar, Inc.**

**1412 Broadway, Suite 2105  
New York, New York 10018  
(646) 342-1595**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically Interactive Data 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  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. (Check one):

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock par value \$0.0001 per share	DCAR	The Nasdaq Stock Market

As of May 15, 2019, there were 3,918,727 shares of the registrant's common stock, \$0.0001 par value per share, issued and outstanding.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this report contain or may contain forward-looking statements. These statements, identified by words such as “plan,” “anticipate,” “believe,” “estimate,” “should,” “expect” and similar expressions, include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, our inability to obtain adequate financing, our inability to expand our business, existing or increased competition, stock volatility and illiquidity, and the failure to implement our business plans or strategies. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Readers should carefully review this report in its entirety, including but not limited to our financial statements and the notes thereto and the risks described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on April 3, 2019, as subsequently amended on April 12, 2019, and other reports we file with the SEC. We advise you to carefully review the reports and documents we file from time to time with the SEC, particularly our quarterly reports on Form 10-Q and our current reports on Form 8-K. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to publicly release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events.

## OTHER INFORMATION

When used in this report, the terms, “we,” the “Company,” “our,” and “us” refer to DropCar, Inc., a Delaware corporation (previously named WPCS International Incorporated), and its consolidated subsidiaries.

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**DropCar, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

	<b>March 31,</b> <b>2019</b>	<b>December 31,</b> <b>2018</b>
	<u>(Unaudited)</u>	<u></u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 4,358,633	\$ 4,303,480
Accounts receivable, net	413,413	295,626
Prepaid expenses and other current assets	359,193	328,612
Total current assets	<u>5,131,239</u>	<u>4,927,718</u>
Property and equipment, net	33,319	39,821
Capitalized software costs, net	626,599	659,092
Operating lease right-of-use asset	14,877	-
Other assets	3,525	3,525
<b>TOTAL ASSETS</b>	<u><u>\$ 5,809,559</u></u>	<u><u>\$ 5,630,156</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,972,376	\$ 2,338,560
Deferred revenue	272,812	253,200
Lease liability	7,332	-
Total current liabilities	<u>2,252,520</u>	<u>2,591,760</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized		
Series seed preferred stock, 275,691 shares authorized, zero issued and outstanding	-	-
Series A preferred stock, 642,728 shares authorized, zero issued and outstanding	-	-
Convertible Series H, 8,500 shares designated, 8 shares issued and outstanding	-	-
Convertible Series H-1, 9,488 shares designated zero shares issued and outstanding	-	-
Convertible Series H-2, 3,500 shares designated zero shares issued and outstanding	-	-
Convertible Series H-3, 8,461 shares designated 2,189 shares issued and outstanding	-	-
Convertible Series H-4, 30,000 shares designated 5,028 and 26,619 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	1	3
Common stock, \$0.0001 par value; 100,000,000 shares authorized, 3,918,727 and 1,633,394 issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	392	163
Additional paid in capital	35,286,073	32,791,951
Accumulated deficit	(31,729,427)	(29,753,721)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>3,557,039</u>	<u>3,038,396</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 5,809,559</u></u>	<u><u>\$ 5,630,156</u></u>

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

**DropCar, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
		(Restated)
<b>SERVICE REVENUES</b>	\$ 1,099,443	\$ 1,692,075
<b>COST OF REVENUE</b>	1,127,045	2,295,781
<b>GROSS LOSS</b>	(27,602)	(603,706)
<b>OPERATING EXPENSES</b>		
Research and development	68,982	114,161
Selling, general and administrative expenses	1,773,097	2,910,797
Depreciation and amortization	107,749	79,232
<b>TOTAL OPERATING EXPENSES</b>	1,949,828	3,104,190
<b>OPERATING LOSS</b>	(1,977,430)	(3,707,896)
Interest income (expense), net	1,724	(1,082,217)
<b>LOSS FROM CONTINUING OPERATIONS</b>	(1,975,706)	(4,790,113)
<b>DISCONTINUED OPERATIONS</b>		
Income from operations of discontinued component	-	309,378
<b>INCOME FROM DISCONTINUED OPERATIONS</b>	-	309,378
<b>NET LOSS</b>	\$ (1,975,706)	\$ (4,480,735)
<b>LOSS PER SHARE FROM CONTINUING OPERATIONS:</b>		
Basic	\$ (0.93)	\$ (4.75)
Diluted	\$ (0.93)	\$ (4.75)
<b>(LOSS) EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:</b>		
Basic	\$ (0.93)	\$ 0.31
Diluted	\$ (0.93)	\$ 0.31
<b>NET LOSS PER SHARE:</b>		
Basic	\$ (0.93)	\$ (4.44)
Diluted	\$ (0.93)	\$ (4.44)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	2,117,688	1,008,058
Diluted	2,117,688	1,008,058

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

**DropCar, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(Unaudited)

	Series Seed		Series A		Series H		Series H-3		Series H-4		Common Stock		Additional	Accumulated	Total
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Stock		Preferred Stock		Common Stock		Paid-in	(Deficit)	
	Shares	Amount	Shares	Amount	Capital	(Deficit)									
Balances, January 1, 2018	275,691	\$ 27	\$ 611,944	\$ 61	-	\$ -	-	\$ -	-	\$ -	374,285	\$ 37	\$ 5,115,158	\$ (9,604,897)	\$ (4,489,614)
Issuance of common stock for cash	-	-	-	-	-	-	-	-	-	-	10,057	1	299,999	-	300,000
Conversion of debt into common stock	-	-	-	-	-	-	-	-	-	-	136,785	14	3,682,488	-	3,682,502
Interest on lock-up shares in relation to convertible debt	-	-	-	-	-	-	-	-	-	-	85,571	9	672,135	-	672,144
Exchange of shares in connection with Merger	-	-	-	-	-	-	-	-	-	-	490,422	49	9,792,174	-	9,792,223
Conversion of outstanding Preferred Stock in connection with Merger	(275,691)	(27)	(611,944)	(61)	-	-	-	-	2,197	-	147,939	15	73	-	-
Issuance of Series H preferred stock in connection with Merger	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-
Issuance of Series H-3 preferred stock in connection with Merger	-	-	-	-	-	-	2,189	-	-	-	-	-	-	-	-
Issuance of Series H-4 preferred stock in private placement	-	-	-	-	-	-	-	-	25,472	3	-	-	5,898,336	-	5,898,339
Stock based compensation for options issued to employees	-	-	-	-	-	-	-	-	-	-	-	-	17,210	-	17,210
Stock based compensation for restricted stock units issued to employees	-	-	-	-	-	-	-	-	-	-	-	-	275,528	-	275,528
Stock based compensation for common stock issued to service providers	-	-	-	-	-	-	-	-	-	-	56,929	6	447,144	-	447,150
Series H-4 preferred stock and warrants issued to service provider	-	-	-	-	-	-	-	-	1,371	-	-	-	-	-	-
Net Loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,480,735)	(4,480,735)
Balance, March 31, 2018	-	\$ -	-	\$ -	8	\$ -	2,189	\$ -	29,040	\$ 3	1,301,988	\$ 131	\$ 26,200,245	\$ (14,085,632)	\$ 12,114,747
Balances, January 1, 2019	-	\$ -	-	\$ -	8	\$ -	2,189	\$ -	26,619	\$ 3	\$ 633,394	\$ 163	\$ 32,791,951	\$ (29,753,721)	\$ 3,038,396
Issuance of common stock for cash net of costs of \$15,000	-	-	-	-	-	-	-	-	-	-	478,469	48	1,984,953	-	1,985,001
Exercise of warrants	-	-	-	-	-	-	-	-	-	-	277,778	28	16,639	-	16,667
Conversion of Series H-4 preferred stock into common stock	-	-	-	-	-	-	-	-	(21,591)	(2)	1,412,420	141	(139)	-	-
Stock based compensation for options issued to employees	-	-	-	-	-	-	-	-	-	-	-	-	(19,361)	-	(19,361)
Stock based compensation for restricted stock units issued to employees	-	-	-	-	-	-	-	-	-	-	-	-	289,842	-	289,842
Stock based compensation for common stock issued to service providers	-	-	-	-	-	-	-	-	-	-	116,666	12	222,188	-	222,200
Net Loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,975,706)	(1,975,706)
Balance, March 31, 2019	-	\$ -	-	\$ -	8	\$ -	2,189	\$ -	5,028	\$ 1	3,918,727	\$ 392	\$ 35,286,073	\$ (31,729,427)	\$ 3,557,039

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

**DropCar, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
		(Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,975,706)	\$ (4,480,735)
Income from discontinued operations	-	(309,378)
Loss from continuing operations	(1,975,706)	(4,790,113)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	109,415	255,223
Loss of disposition of asset	3,641	-
Stock based compensation	487,957	739,888
Non-cash interest expense	-	672,144
Amortization of operating lease right-of-use asset	8,163	-
Changes in operating assets and liabilities:		
Accounts receivable	(117,787)	(28,336)
Prepaid expenses and other assets	(40,011)	(514,805)
Accounts payable and accrued expenses	(361,460)	(845,190)
Lease liabilities	(6,278)	-
Deferred revenue	19,612	56,983
<b>NET CASH USED IN OPERATING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>(1,872,454)</b>	<b>(4,454,206)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES - DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>22,054</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,872,454)</b>	<b>(4,432,152)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	-	(43,108)
Capitalization of software costs	(74,336)	(90,661)
Proceeds from sale of fixed asset	275	-
<b>NET CASH USED IN INVESTING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>(74,061)</b>	<b>(133,769)</b>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES - DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>2,823,252</b>
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(74,061)</b>	<b>2,689,483</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the sale of common stock	2,000,001	300,000
Financing costs from the sale of common stock	(15,000)	-
Proceeds from the sale of Series H-4 preferred stock	-	6,000,000
Financing costs from the sale of Series H-4 preferred stock and warrants	-	(101,661)
Proceeds from issuance of common stock in connection with exercise of H-4 warrants	16,667	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>2,001,668</b>	<b>6,198,339</b>
<b>NET CASH USED IN FINANCING ACTIVITIES - DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>(9,114)</b>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,001,668</b>	<b>6,189,225</b>
Net increase in cash	55,153	4,446,556
<b>Cash, beginning of period</b>	<b>4,303,480</b>	<b>372,011</b>
<b>Cash, end of period</b>	<b>\$ 4,358,633</b>	<b>\$ 4,818,567</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Issuance of common stock for accrued stock based compensation	\$ 4,724	-
Stock issued to WPCS Shareholder in the merger, net of cash received of 4,947,023	\$ -	\$ 4,845,200
Series H-4 offering cost paid in H-4 shares and warrants	\$ -	\$ 568,648

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

**DropCar, Inc., and Subsidiaries**  
Note to Consolidated Financial Statements  
(unaudited)

**1. The Company**

The Company is a provider of automotive vehicle support, fleet logistics, and concierge services for both consumers and the automotive industry. Its cloud-based Enterprise Vehicle Assistance and Logistics (“VAL”) platform and mobile application (“app”) assists consumers and automotive-related companies to reduce the costs, hassles and inefficiencies of owning a car, or fleet of cars, in urban centers.

In July 2018, the Company launched its Mobility Cloud platform which provides automotive-related businesses with a 100% self-serve SaaS version of its VAL platform to manage their own operations and drivers, as well as customer relationship management (“CRM”) tools that enable their clients to schedule and track their vehicles for service pickup and delivery. The Company’s Mobility Cloud also provides access to private application programming interfaces (“APIs”) which automotive-businesses can use to integrate the Company’s logistics and field support directly into their own applications and processes natively, to create more seamless client experiences. The Company did not and has not earned any revenues from Mobility Cloud in 2018 or 2019.

On the enterprise side, original equipment manufacturers (“OEMs”), dealers, and other service providers in the automotive space are increasingly being challenged with consumers who have limited time to bring in their vehicles for maintenance and service, making it difficult to retain valuable post-sale service contracts or scheduled consumer maintenance and service appointments. Additionally, many of the vehicle support centers for automotive providers (i.e., dealerships, including body work and diagnostic shops) have moved out of urban areas thus making it more challenging for OEMs and dealers in urban areas to provide convenient and efficient service for their consumer and business clientele. Similarly, shared mobility providers and other fleet managers, such as rental car companies and car share programs, face a similar urban mobility challenge: getting cars to and from service bays, rebalancing vehicle availability to meet demand in fleeting and de-fleeting vehicles to and from dealer lots, auction sites and to other locations.

In July 2018, the Company began assessing demand for a Self-Park Spaces monthly parking plan whereby consumers could designate specific garages for their vehicles to be stored at a base monthly rate, with personal 24/7 access for picking up and returning their vehicle directly, and the option to pay a la carte on a per hour basis for a driver to perform functions such as picking up and returning their vehicle to their front door. This model aligns more directly with how the Company has structured the enterprise B2B side of its business, where an interaction with a vehicle on behalf of its drivers typically generates net new revenue. The Company consumer Self-Park Spaces plan combined with its on-demand hourly valet service are the only consumer plans offered from September 1, 2018 onwards. Subscriber plans prior to this date continued to receive service on a prorated basis through the end of August 2018. Additionally, the Company is scaling back its 360 Services for the Consumer portion of the market. As a result of this shift, in August 2018, the Company began to significantly streamline its field teams, operations and back office support tied to its pre-September 1, 2018 consumer subscription plans.

To date, the Company operates primarily in the New York metropolitan area. In May 2018, the Company expanded operations with its B2B business in San Francisco. In June 2018, the Company expanded its B2B operations in Washington DC. In August 2018, the Company expanded B2B operations to Los Angeles. These three new market expansions are with a major OEM customer.

*Merger and Exchange Ratio*

On January 30, 2018, DC Acquisition Corporation (“Merger Sub”), a wholly-owned subsidiary of WPCS International Incorporated (“WPCS”), completed its merger with and into DropCar, Inc. (“Private DropCar”), with Private DropCar surviving as a wholly owned subsidiary of WPCS. This transaction is referred to as the “Merger.” The Merger was effected pursuant to an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”), dated September 6, 2017, by and among WPCS, Private DropCar and Merger Sub.

As a result of the Merger, each outstanding share of Private DropCar share capital (including shares of Private DropCar share capital issued upon the conversion of outstanding convertible debt) automatically converted into the right to receive approximately 0.3273 shares of WPCS’s common stock, par value \$0.0001 per share (the “Exchange Ratio”). Following the closing of the Merger, holders of WPCS’s common stock immediately prior to the Merger owned approximately 22.9% on a fully diluted basis, and holders of Private DropCar common stock immediately prior to the Merger owned approximately 77.1% on a fully diluted basis, of WPCS’s common stock.

The Merger has been accounted for as a reverse acquisition under the acquisition method of accounting where Private DropCar is considered the accounting acquirer and WPCS is the acquired company for financial reporting purposes. Private DropCar was determined to be the accounting acquirer based on the terms of the Merger Agreement and other factors, such as relative voting rights and the composition of the combined company’s board of directors and senior management, which was deemed to have control. The pre-acquisition financial statements of Private DropCar became the historical financial statements of WPCS following the Merger. The historical financial statements, outstanding shares and all other historical share information have been adjusted by multiplying the respective share amount by the Exchange Ratio as if the Exchange Ratio had been in effect for all periods presented.

Immediately following the Merger, the combined company changed its name from WPCS International Incorporation to DropCar, Inc. The combined company following the Merger may be referred to herein as “the combined company,” “DropCar,” or the “Company.”

#### *Discontinued Operations*

On December 24, 2018, the Company completed the sale of WPCS International – Suisun City, Inc., a California corporation (the “Suisun City Operations”), its wholly-owned subsidiary, pursuant to the terms of a stock purchase agreement, dated December 10, 2018 (the “Purchase Agreement”) by and between the Company and World Professional Cabling Systems, LLC, a California limited liability company (the “Purchaser”). Upon the closing of the sale, the Purchaser acquired all of the issued and outstanding shares of common stock, no par value per share, of Suisun City Operations, for an aggregate purchase price of \$3,500,000. The sale of Suisun City Operations represented a strategic shift that has had a major effect on the Company’s operations, and therefore, is presented as discontinued operations in the 2018 consolidated statement of operations.

#### *Trading of Company’s stock*

The Company’s shares of common stock listed on The Nasdaq Capital Market, previously trading through the close of business on January 30, 2018 under the ticker symbol “WPCS,” commenced trading on The Nasdaq Capital Market, on a post-Reverse Stock Split adjusted basis, under the ticker symbol “DCAR” on January 31, 2018.

On September 25, 2018, the Company received a notification letter from The Nasdaq Stock Market (“Nasdaq”) informing the Company that for the last 30 consecutive business days, the bid price of the Company’s securities had closed below \$1.00 per share, which is the minimum required closing bid price for continued listing on The Nasdaq Capital Market pursuant to Listing Rule 5550(a)(2). In order to regain compliance, on March 8, 2019, the Company filed a certificate of amendment to its amended and restated certificate of incorporation with the Secretary of State of the State of Delaware to effect a one-for-six reverse stock split of its outstanding shares of common stock. On March 26, 2019, the Company received a notification letter from The Nasdaq Stock Market informing it that it had regained compliance with Listing Rule 5550(a)(2). As a result of the reverse stock split, every six shares of the Company’s outstanding pre-reverse split common stock were combined and reclassified into one share of common stock. Unless otherwise noted, all share and per share data included in these financial statements retroactively reflect the 1-for-6 reverse stock split.

#### **Unaudited Interim Consolidated Financial Information**

The accompanying consolidated balance sheet as of March 31, 2019, the consolidated statements of operations for the three months ended March 31, 2019 and 2018, the consolidated statements of cash flows for the three months ended March 31, 2019 and 2018, and the consolidated statements of stockholders’ equity for the three months ended March 31, 2019 and 2018 are unaudited. These financial statements should be read in conjunction with the DropCar, Inc’s 2018 consolidated financial statements included in the Company’s Form 10-K filed on April 3, 2019, as subsequently amended on April 12, 2019. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company’s financial position as of March 31, 2019, and the results of its operations for the three months ended March 31, 2019 and 2018, and its cash flows for the three months ended March 31, 2019 and 2018. The financial data and other information disclosed in the notes to the consolidated financial statements related to the three months ended March 31, 2019 and 2018 are unaudited.

#### **2. Liquidity and Basis of Presentation**

The Company has a limited operating history and the sales and income potential of its business and market are unproven. As of March 31, 2019, the Company has an accumulated deficit of \$31.7 million and has experienced net losses each year since its inception. The Company anticipates that it will continue to incur net losses into the foreseeable future and will need to raise additional capital to continue. The Company’s cash is not sufficient to fund its operations through the first quarter of 2020. These factors raise substantial doubt about the Company’s ability to continue as a going concern for the twelve months following the date of the filing of this Quarterly Report on Form 10-Q.

Management’s plan includes raising funds from outside investors. However, there is no assurance that outside funding will be available to the Company, outside funding will be obtained on favorable terms or will provide the Company with sufficient capital to meet its objectives. These financial statements do not include any adjustments relating to the recoverability and classification of assets, carrying amounts or the amount and classification of liabilities that may be required should the Company be unable to continue as a going concern.

### 3. Summary of Significant Accounting Policies

#### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“US GAAP”) requires management to make estimates and assumptions that affect amounts reported therein. Generally, matters subject to estimation and judgement include amounts related to accounts receivable realization, asset impairments, useful lives of property and equipment and capitalized software costs, deferred tax asset valuation allowances, and operating expense accruals. Actual results could differ from those estimates.

#### *Accounts receivable*

Accounts receivable are carried at original invoice amount less an estimate made for holdbacks and doubtful receivables based on a review of all outstanding amounts. The Company determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions and set up an allowance for doubtful accounts when collection is uncertain. Customers’ accounts are written off when all attempts to collect have been exhausted. Recoveries of accounts receivable previously written off are recorded as income when received. At March 31, 2019 and December 31, 2018, the accounts receivable reserve was approximately \$2,000.

#### Revenue Recognition

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, codified as ASC 606: Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised goods or services to the customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company’s progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for those promised goods or services (i.e., the “transaction price”). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of its past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of the Company’s influence, such as the judgment and actions of third parties.

The Company’s contracts are generally designed to provide cash fees to the Company on a monthly basis or an agreed upfront rate based upon demand services. The Company’s performance obligation is satisfied over time as the service is provided continuously throughout the service period. The Company recognizes revenue evenly over the service period using a time-based measure because the Company is providing a continuous service to the customer. Contracts with minimum performance guarantees or price concessions include variable consideration and are subject to the revenue constraint. The Company uses an expected value method to estimate variable consideration for minimum performance guarantees and price concessions.

### Monthly Subscriptions

The Company offers a selection of subscriptions and on-demand services which include parking, valet, and access to other services. The contract terms are on a month-to-month subscription contract with fixed monthly or contract term fees. These subscription services include a fixed number of round-trip deliveries of the customer's vehicle to a designated location. The Company allocates the purchase price among the performance obligations which results in deferring revenue until the service is utilized or the service period has expired.

### On Demand Valet and Parking Services

The Company offers to consumers certain on demand services through its mobile application. The customer is billed at an hourly rate upon completion of the services. Revenue is recognized when the Company had satisfied all performance obligations which is upon completion of the service.

### DropCar 360 Services

The Company offers to consumers certain services upon request including vehicle inspection, maintenance, car washes or to fill up with gas. The customers are charged a fee in addition to the cost of the third-party services provided. Revenue is recognized when the Company had satisfied all performance obligations which is upon completion of the service.

### On Demand Business-To-Business

The Company also has contracts with car dealerships, car share programs and others in the automotive industry transporting vehicles. Revenue is recognized at the point in time all performance obligations are satisfied which is when the Company provides the delivery service of the vehicles.

### Disaggregated Revenues

The following table presents our revenues from contracts with customers disaggregated by revenue source.

	Three Months Ended March 31,	
	2019	2018
Subscription Services	\$ 661,464	\$ 1,356,595
Services On-Demand	437,979	335,480
Total Revenues <sup>(1)(2)</sup>	<u>\$ 1,099,443</u>	<u>\$ 1,692,075</u>

<sup>(1)</sup> Represents revenues recognized by type of services.

<sup>(2)</sup> All revenues are generated in the United States.

	Three Months Ended March 31,	
	2019	2018
B2C	\$ 763,977	\$ 1,458,524
B2B	335,466	233,551
Total Revenue	<u>\$ 1,099,443</u>	<u>\$ 1,692,075</u>

The following presents our revenues from B2C and B2B customers.

## **Employee Stock-Based Compensation**

The Company recognizes all employee share-based compensation as an expense in the financial statements. Equity-classified awards principally related to stock options, restricted stock units (“RSUs”) and equity-based compensation, are measured at the grant date fair value of the award. The Company determines grant date fair value of stock option awards using the Black-Scholes option-pricing model. The fair value of RSUs are determined using the closing price of the Company’s common stock on the grant date. For service-based vesting grants, expense is recognized ratably over the requisite service period based on the number of options or shares. Stock-based compensation is reversed for forfeitures in the period of forfeiture.

## **Property and Equipment**

The Company accounts for property and equipment at cost less accumulated depreciation. The Company computes depreciation using the straight-line method over the estimated useful lives of the assets. The Company generally depreciates property and equipment over a period of three to seven years. Depreciation for property and equipment commences once they are ready for its intended use.

## **Capitalized Software**

Costs related to website and internal-use software development are accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 350-50 — Intangibles — Website Development Costs. Such software is primarily related to our websites and mobile apps, including support systems. We begin to capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, it is probable that the project will be completed, and the software will be used as intended. Costs incurred prior to meeting these criteria are expensed as incurred and recorded within General and administrative expenses within the accompanying consolidated statements of operations. Costs incurred for enhancements that are expected to result in additional features or functionality are capitalized. Capitalized costs are amortized over the estimated useful life of the enhancements, generally between two and three years.

## **Impairment of Long-Lived Assets**

Long-lived assets are primarily comprised of operating lease right-of-use assets, property and equipment, and capitalized software costs. The Company evaluates its Long-Lived Assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset or group of assets may not be recoverable. If these circumstances exist, recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no impairments to long-lived assets for the three months ended March 31, 2019 and 2018.

## **Income Taxes**

The Company provides for income taxes using the asset and liability approach. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect when these differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of March 31, 2019, and December 31, 2018, the Company had a full valuation allowance against deferred tax assets.

The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, among other things, permanently lowered the statutory federal corporate tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018. Under the guidance of ASC 740, “Income Taxes” (“ASC 740”), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation.

## **Fair Value Measurement**

The Company accounts for financial instruments in accordance with ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Financial instruments with carrying values approximating fair value include cash, accounts receivable, other assets, and accounts payable and accrued expenses due to their short-term nature.

## Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net loss attributable to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted loss per share are computed by assuming that any dilutive convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds the exercise price, less shares which could have been purchased by the Company with the related proceeds. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive.

The following securities were excluded from weighted average diluted common shares outstanding because their inclusion would have been antidilutive.

	As of March 31,	
	2019	2018
Common stock equivalents:		
Common stock options	381,412	171,442
Series A, H-1, H-3, H-4, I, J and Merger common stock purchase warrants	585,306	658,486
Series H, H-3, and H-4 Convertible Preferred Stock	2,028,415	2,739,225
Restricted shares (unvested)	244,643	244,643
Totals	<u>3,239,776</u>	<u>3,813,796</u>

## Research and development costs, net

Costs are incurred in connection with research and development programs that are expected to contribute to future earnings. Such costs include labor, stock-based compensation, training, software subscriptions, and consulting. These amounts are charged to the consolidated statement of operations as incurred. Total research and development expenses were approximately \$0.1 million for the three months ended March 31, 2019 and 2018.

## Adoption of New Accounting Standards

In February 2016, the FASB issued Accounting Standards Codification (ASC) 842, Leases, which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019 using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients and elected the following accounting policies related to this standard:

- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for equipment leases.
- The package of practical expedients applied to all of its leases, including (i) not reassessing whether any expired or existing contracts are or contain leases, (ii) not reassessing the lease classification for any expired or existing leases, and (iii) not reassessing initial direct costs for any existing leases.

Adoption of this standard resulted in the recognition of operating lease right-of-use assets of approximately \$23,000 (including a reclassification from Prepaid expenses of a prepaid lease approximating \$9,500) and corresponding lease liabilities of approximately \$13,500 on the consolidated balance sheet as of January 1, 2019. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 8, Leases.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The guidance was adopted effective January 1, 2019, and the adoption of this ASU did not have a material effect on its consolidated financial statements.

## Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position or results of operations upon adoption.

In August 2018, the FASB issued ASU 2018-13, Changes to Disclosure Requirements for Fair Value Measurements, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for the Company beginning January 1, 2020. The Company is currently evaluating the impact this standard will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, that changes the impairment model for most financial assets and certain other instruments. For receivables, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and will be applied as a cumulative-effect adjustment to retained earnings.

The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements and intends to adopt the standard on January 1, 2020.

## 4. Concentrations

### Accounts Receivable

The Company's concentration of accounts receivable are as follows:

	March 31, 2019	As of December 31, 2018
Customer A	50%	58%
Customer B	34%	23%

## 5. Discontinued Operations and Disposition of Operating Segment

On December 24, 2018, the Company completed the sale of WPCS International – Suisun City, Inc., a California corporation, its wholly-owned subsidiary, pursuant to the terms of a stock purchase agreement, dated December 10, 2018 by and between the Company and World Professional Cabling Systems, LLC, a California limited liability company. Upon the closing of the sale, the Purchaser acquired all of the issued and outstanding shares of common stock, no par value per share, of Suisun City Operations, for an aggregate purchase price of \$3,500,000.

The operations and cash flows of the Suisun City Operations are presented as discontinued operations. The operating results of the Suisun City Operations for the three months ended March 31, 2018 were as follows:

Revenues	\$ 3,182,479
Cost of revenues	<u>2,326,276</u>
Gross profit	856,203
Selling, general and administrative expenses	489,800
Depreciation and amortization	<u>56,845</u>
Total Operating Expenses	546,645
Interest expense, net	180
Net income from discontinued operations	<u>\$ 309,378</u>

## 6. Capitalized Software

Capitalized software consists of the following as of:

	March 31, 2019	December 31, 2018
Software	\$ 1,398,613	\$ 1,324,275
Accumulated amortization	<u>(772,014)</u>	<u>(665,183)</u>
Total	<u>\$ 626,599</u>	<u>\$ 659,092</u>

## 7. Convertible Notes Payable

During the year ended December 31, 2017, the Company issued convertible notes totaling \$4,840,000 and warrants to acquire 146,358 shares of common stock at an exercise price of \$59.04 per share in connection with the convertible notes (the "Notes"). The Notes all had a maturity date of one year from the date of issuance, and accrued interest at a rate of 6% per annum, compounded annually. The Notes were convertible at \$35.40 per share and, including accrued interest, were converted into 141,303 shares of common stock in connection with the Merger.

In connection with the Merger, the holders of the Notes entered into lock-up agreements pursuant to which they have agreed not to sell the 85,573 shares of common stock received in the Merger. The length of the lock-up period is up to 120 days. For the three months ended March 31, 2018, the Company recorded \$672,144 as interest expense in relation to the lock-up agreements in the accompanying 2018 consolidated statement of operations.

## 8. Leases

The Company has various operating lease agreements with initial terms up to three years, all of which relate to vehicles. The Company's office lease is on a month-to-month basis and so is not recognized on the balance sheet. Some leases include options to purchase, terminate or extend for one or more years. These options are included in the lease term when it is reasonably certain that the option will be exercised.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating right-of-use lease assets and lease liabilities on the consolidated balance sheets, totaling \$14,877 and \$7,332 at March 31, 2019, respectively, including \$7,544 of operating right-of-use assets previously prepaid at lease commencement. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using the Company's secured incremental borrowing rates or implicit rates, when readily determinable. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the balance sheet.

The Company's operating leases do not provide an implicit rate that can readily be determined. Therefore, the Company uses a discount rate based on its incremental borrowing rate.

The Company's weighted-average remaining lease term relating to its operating leases is 0.66 years and weighted-average remaining payments for operating lease liabilities is 0.32 years, with a weighted-average discount rate of 6.00%.

Operating lease expense is recognized on a straight-line basis over the lease term within Selling, general and administrative expenses on the Company's consolidated statement of operations. The Company incurred lease expense of \$8,163 and \$14,998 for the three months ended March 31, 2019 and 2018, respectively. The Company made cash payments of \$6,452 for operating leases for the three months ended March 31, 2019.

The following table presents information about the amount and timing of cash flows arising from the Company's operating leases as of March 31, 2019.

Maturity of Lease Liability	
2019	\$ 7,420
Total undiscounted operating lease payments	7,420
Less: Imputed interest	88
Present value of operating lease liabilities	<u>\$ 7,332</u>

## 9. Commitments & Contingencies

### Lease Agreements

The Company leases office space in New York City on a month-to-month basis, with a condition of a 60 day notice to terminate. For the three months ended March 31, 2019 and 2018, rent expense for the Company's New York City office was \$23,000 and \$29,000, respectively. The Company has taken the short term lease exception and not recorded a lease liability or right-of-use asset for this lease.

### Litigation

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business that it believes are incidental to the operation of its business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on its results of operations, financial positions or cash flows.

In February 2018, DropCar was served an Amended Summons and Complaint in the Supreme Court of the City of New York, Bronx county originally served solely on an individual, a former DropCar customer, for injuries sustained by plaintiffs alleging such injuries were caused by either the customer, a DropCar valet operating the customer's vehicle or an unknown driver operating customer's vehicle. DropCar to date has cooperated with the NYC Police Department and no charges have been brought against any employee of DropCar. DropCar has referred the matter to its insurance carrier.

## **Other**

As of December 31, 2018, the Company had accrued approximately \$232,000 for the settlement of multiple employment disputes. During the three months ended March 31, 2019, approximately \$39,000 of this amount was settled upon payment. For the three months ended March 31, 2019 and 2018, \$16,000 and \$0, respectively, was expensed and accrued for settlements. As of March 31, 2019, approximately \$209,000 remains accrued for the settlement of employment disputes. As of March 31, 2019, the Company has entered into multiple settlement agreements with former employees for which it has agreed to make monthly settlement payments which will extend through December 31, 2019.

On March 23, 2018, DropCar was made aware of an audit being conducted by the New York State Department of Labor (“DOL”) regarding a claim filed by an employee. The DOL is investigating whether DropCar properly paid overtime for which DropCar has raised several defenses. In addition, the DOL is conducting its audit to determine whether the Company owes spread of hours pay (an hour’s pay for each day an employee worked or was scheduled for a period over ten hours in a day). If the DOL determines that monies are owed, the DOL will seek a backpay order, which management believes will not, either individually or in the aggregate, have a material adverse effect on DropCar’s business, consolidated financial position, results of operations or cash flows. As of March 31, 2019, the Company has accrued approximately \$180,000 in relation to these matters.

## **10. Stockholders’ Equity**

### **Common Stock**

On March 26, 2019, the Company entered into a Securities Purchase Agreement with certain existing investors, pursuant to which the Company sold, in a registered public offering by the Company directly to the investors an aggregate of 478,469 shares of common stock, par value \$0.0001 per share, at an offering price of \$4.18 per share for proceeds of \$1,985,001 net of offering expenses of \$15,000.

During the period ended March 31, 2019, the Company issued 1,412,420 shares of common stock from the conversion of 21,591 shares of Series H-4 Convertible Preferred stock.

During the period ended March 31, 2019, the Company granted 116,666 shares of common stock to a service provider and recorded \$222,200 stock based compensation as a part of general and administrative expense in the Company’s consolidated statements of operations.

During the period ended March 31, 2019, the Company issued 277,778 shares of common stock from the exercise of Series K warrants and received cash proceeds of \$16,667.

## **Preferred Stock**

In accordance with the Certificate of Incorporation, there are 5,000,000 authorized preferred shares at a par value of \$ 0.0001.

### *Series Seed*

On January 30, 2018, the Company converted 275,691 shares of Series Seed Preferred Stock into 45,949 shares of common stock in connection with the Merger.

### *Series A*

On January 30, 2018, the Company converted 611,944 shares of Series A Preferred Stock into 101,991 shares of common stock in connection with the Merger.

## Rights and Privileges of Preferred Stock

### *Voting Privileges and Protective Features of Preferred Stock*

Each holder of outstanding shares of Preferred Stock are entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of such Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. The holders of record of a majority of outstanding Preferred Stock shall be entitled to elect the majority of the directors of the Company. In liquidation, the Preferred Stockholders receive their original purchase price plus any dividends if declared.

The outstanding shares of Preferred Stock are convertible at the option of the holder into common shares on a one to one ratio and the conversion ratio is subject to certain anti-dilution provisions.

For so long as any shares of Preferred Stock remain outstanding, the vote or written consent of the holders of the majority of the outstanding shares of Preferred Stock is necessary for the Company to conduct certain corporate actions, including but not limited to liquidation, windup or dissolution of the Company; certain amendments to the certificate of incorporation or bylaws of the Company; authorization or issuance of shares of any additional class or series of capital stock unless the same ranks junior to the Preferred Stock with respect to liquidation preference, the payment of dividends and rights of redemption or increase in the authorized number of shares of any series of capital stock; authorize the creation of, or issue, or authorize the issuance of any debt security unless such indebtedness was approved by the Board of Directors, and increase or decrease the authorized number of directors constituting the Board of Directors.

#### *Series H Convertible*

On January 30, 2018, in accordance with the Merger the Company issued 8 shares of Series H Convertible Preferred Stock.

Under the terms of the Series H Certificate of Designation, each share of Series H Preferred Stock has a stated value of \$616 and is convertible into shares of the Company's Common Stock, equal to the stated value divided by the conversion price of \$36.96 per share (subject to adjustment in the event of stock splits or dividends). The Company is prohibited from effecting the conversion of the Series H Preferred Stock to the extent that, as a result of such conversion, the holder would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of the Company's common stock calculated immediately after giving effect to the issuance of shares of common stock upon such conversion.

#### *Series H-1 and H-2 Convertible*

The Company has designated 9,488 Series H-1 Preferred Stock and designated 3,500 Series H-2 Preferred Stock, none of which are outstanding.

#### *Series H-3 Convertible*

On January 30, 2018, in accordance with the Merger the Company issued 2,189 shares of Series H-3 Convertible Preferred Stock.

Pursuant to the Series H-3 Securities Purchase Agreement, the Company agreed to not issue further common stock or securities convertible into or exercisable or exchangeable for common stock, except upon a change in control of the Company, which occurred upon the Merger. The Company also agreed to cause certain of its officers and directors to agree not to exercise their Company stock options except in connection with a change in control of the Company.

Also, pursuant to the Series H-3 Certificate of Designation (as defined below), the holders of the Series H-3 Shares are entitled to elect up to two members of a seven member Board, subject to certain step downs; pursuant to the Series H-3 Securities Purchase Agreement, the Company agreed to effectuate the appointment of the designees specified by the Series H-3 Investors as directors of the Company.

On March 30, 2017, the Company filed with the Secretary of State of the State of Delaware a Certificate of Designations, Preferences and Rights with respect to the Series H-3 Shares (the "Series H-3 Certificate of Designation").

Under the terms of the Series H-3 Certificate of Designation, each share of the Series H-3 Shares has a stated value of \$552 and is convertible into shares of common stock, equal to the stated value divided by the conversion price of \$33.12 per share (subject to adjustment in the event of stock splits and dividends). The Company is prohibited from effecting the conversion of the Series H-3 Shares to the extent that, as a result of such conversion, the holder or any of its affiliates would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of common stock calculated immediately after giving effect to the issuance of shares of common stock upon the conversion of the Series H-3 Shares.

#### *Series H-4 Convertible*

On March 8, 2018, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with investors pursuant to which the Company issued to the Investors an aggregate of 25,472 shares of the Company's newly designated Series H-4 Convertible Preferred Stock, par value \$0.0001 per share (the "Series H-4 Shares") convertible into 424,533 shares of common stock of the Company, and warrants to purchase 424,533 shares of common stock of the Company, with an exercise price of \$15.60 per share, subject to adjustments (the "Warrants"). The purchase price per Series H-4 Share and warrant was \$235.50, equal to (i) the closing price of the Common Stock on the Nasdaq Capital Market on March 7, 2018, plus \$0.125 multiplied by (ii) 100. The aggregate purchase price for the Series H-4 Shares and Warrants was approximately \$6.0 million. Subject to certain ownership limitations, the Warrants are immediately exercisable from the issuance date and are exercisable for a period of five years from the issuance date.

On March 8, 2018, the Company filed the Certificate of Designations, Preferences and Rights of the Series H-4 Convertible Preferred Stock (the "Certificate of Designation") with the Secretary of State of the State of Delaware, establishing and designating the rights, powers and preferences of the Series H-4 Convertible Preferred Stock (the "Series H-4 Stock"). The Company designated up to 30,000 shares of Series H-4 Stock and each share has a stated value of \$235.50 (the "Stated Value"). Each share of Series H-4 Stock is convertible at any time at the option of the holder thereof, into a number of shares of Common Stock determined by dividing the Stated Value by the initial conversion price of \$2.355 per share, subject to a 9.99% blocker provision. The Series H-4 Stock has the same dividend rights as the Common Stock, and no voting rights except as provided for in the Certificate of Designation or as otherwise required by law. In the event of any liquidation or dissolution of the Company, the Series H-4 Stock ranks senior to the Common Stock in the distribution of assets, to the extent legally available for distribution.

During the period ended March 31, 2019, investors converted 21,591 shares of Series H-4 into 1,412,420 shares of Common Stock.

## Stock Based Compensation

### Service Based Restricted Stock Units

On February 28, 2018, the Company issued 244,643 restricted stock units (“RSUs”) to two members of management. On March 26, 2019, the Board of Directors, with the consent of the grantees, agreed to amend the vesting period for the RSUs issued on February 28, 2018 to vest in full on May 17, 2019. The RSUs were valued using the fair market value of the Company’s closing stock price on the date of grant totaling \$3,243,966, which is being amortized over the original vesting period.

### Employee and Non-employee Stock Options

The following table summarizes stock option activity during the three months ended March 31, 2019:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	302,772	\$ 18.30	7.20	\$ -
Granted	99,072	2.32	9.84	63,802
Forfeited	(20,432)	13.20	-	-
Outstanding at March 31, 2019	<u>381,412</u>	<u>\$ 14.41</u>	<u>7.60</u>	<u>\$ 241,597</u>

At March 31, 2019, unamortized stock compensation for stock options was approximately \$238,000, with a weighted-average recognition period of 0.75 years.

### Share Based Compensation

The following table sets forth total non-cash stock-based compensation for RSUs and options issued to employees and non-employees by operating statement classification for the three months ended March 31, 2019 and 2018:

	Three Months ended March 31,	
	2019	2018
Research and development	\$ 3,717	\$ 1,613
Selling, general and administrative	484,240	738,275
Total	<u>\$ 487,957</u>	<u>\$ 739,888</u>

### Stock option pricing model

The fair value of the stock options granted during the three months ended March 31, 2019, was estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions:

Fair value of common stock	\$ 2.32
Expected volatility	151.76%
Dividend yield	\$ 0
Risk-free interest	2.70%
Expected life (years)	5.5

## Warrants

### Service Based Warrants

On March 8, 2018, in connection with the financing discussed above, the Company issued 1,371 Series H-4 Shares and 22,850 common stock warrants to a service provider. The Company valued these warrants using the Black-Scholes option pricing model with the following inputs: exercise price of \$15.60; fair market value of underlying stock of \$13.20; expected term of 5 years; risk free rate of 2.63%; volatility of 120.63%; and dividend yield of 0%. For the period ended March 31, 2018, the Company recorded the fair market value of the Series H-4 Shares and warrants as an increase and decrease to additional paid in capital in the amount of \$568,648 as these services were provided in connection with the sale of the Series H-4 shares.

### Warrant Exchange

On April 19, 2018, the Company entered into separate Warrant Exchange Agreements (the "Exchange Agreements") with the holders (the "Merger Warrant Holders") of existing warrants issued in the Merger (the "Merger Warrants") to purchase shares of Common Stock, pursuant to which, on the closing date, the Merger Warrant Holders exchanged each Merger Warrant for 1/18 of a share of Common Stock and 1/12 of a warrant to purchase a share of Common Stock (collectively, the "Series I Warrants"). The Series I Warrants have an exercise price of \$13.80 per share. In connection with the Exchange Agreements, the Company issued an aggregate of (i) 48,786 new shares of common stock and (ii) Series I Warrants to purchase an aggregate of 73,178 shares of common stock. The Company valued the (a) stock and warrants issued in the amount of \$972,368, (b) the warrants retired in the amount of \$655,507, and (c) recorded the difference as deemed dividend in the amount of \$316,861. The warrants were valued using the Black-Scholes option-pricing model on the date of the exchange using the following assumptions: (a) fair value of common stock \$10.32, (b) expected volatility of 103% and 110%, (c) dividend yield of \$0, (d) risk-free interest rate of 2.76% and 2.94%, (e) expected life of 3 years and 4.13 years.

### Exercise of Series H-4 Warrants and Issuance of Series J Warrants

On August 31, 2018, the Company offered (the "Repricing Offer Letter") to the holders (the "Holders") of the Company's outstanding Series H-4 Warrants to purchase common stock of the Company issued on March 8, 2018 (the "Series H-4 Warrants") the opportunity to exercise such Series H-4 Warrants for cash at a reduced exercise price of \$3.60 per share (the "Reduced Exercise Price") provided such Series H-4 Warrants were exercised for cash on or before September 4, 2018 (the "End Date"). In addition, the Company issued a "reload" warrant (the "Series J Warrants") to each Holder who exercised their Series H-4 Warrants prior to the End Date, covering one share for each Series H-4 Warrant exercised during that period. The terms of the Series J Warrants are substantially identical to the terms of the Series H-4 Warrants except that (i) the exercise price is equal to \$6.00, (ii) the Series J Warrants may be exercised at all times beginning on the 6-month anniversary of the issuance date on a cash basis and also on a cashless basis, (iii) the Series J Warrants do not contain any provisions for anti-dilution adjustment and (iv) the Company has the right to require the Holders to exercise all or any portion of the Series J Warrants still unexercised for a cash exercise if the volume-weighted average price (as defined in the Series J Warrant) for the Company's common stock equals or exceeds \$9.00 for not less than ten consecutive trading days.

On September 4, 2018, the Company received executed Repricing Offer Letters from a majority of the Holders, which resulted in the issuance of 260,116 shares of the Company's common stock and Series J Warrants to purchase up to 260,116 shares of the Company's common stock. The Company received gross proceeds of \$936,423 from the exercise of the Series H-4 Warrants pursuant to the terms of the Repricing Offer Letter.

On September 5, 2018, the Company received a request from Nasdaq to amend its Series H-4 Warrants to provide that the Series H-4 Warrants may not be exercised until the Company has obtained stockholder approval of the issuance of Common Stock underlying the Series H-4 Warrants pursuant to the applicable rules and regulations of Nasdaq. In response to the request, on September 10, 2018, the Company entered into an amendment (the "Warrant Amendment") with the holders of the Series H-4 Stock to provide for stockholder approval as described above prior to the exercise of the Series H-4 Warrants. On November 15, 2018, the Company obtained such stockholder approval.

The Company considers the warrant amendment for the Reduced Exercise Price and issuance of the Series J Warrants to be of an equity nature as the amendment and issuance allowed the warrant holders to exercise warrants and receive a share of common stock and warrant which, represents an equity for equity exchange. Therefore, the change in the fair value before and after the modification and the fair value of the Series J warrants will be treated as a deemed dividend in the amount of \$1,019,040. The cash received upon exercise in excess of par is accounted through additional paid in capital.

The Company valued the deemed dividend as the sum of: (a) the difference between the fair value of the modified award and the fair value of the original award at the time of modification of \$129,476, and (b) the fair value of the Series J Warrants in the amount of \$889,564. The warrants were valued using the Black-Scholes option-pricing model on the date of the modification and issuance using the following assumptions: (a) fair value of common stock \$3.90, (b) expected volatility of 144.3%, (c) dividend yield of 0%, (d) risk-free interest rate of 2.77% and 2.78%, (e) expected life of 4.51 years and 5 years.

At the March 8, 2018 closing, the Company issued Series H-4 Warrants that entitled the holders to purchase, in aggregate, up to 447,383 shares of its common stock. As referenced above, on September 4, 2018, the Company received executed Repricing Offer Letters from a majority of the investors resulting in the exercise of Series H-4 Warrants to purchase 260,116 shares of common stock. The Series H-4 Warrants were initially exercisable at an exercise price equal to \$15.60 per share. On November 15, 2018, the Company obtained shareholder approval to reduce the exercise price from \$15.60 per share to \$3.60 per share for 187,267 Series H-4 Warrants. The Company considers the modification to the warrant exercise price to be of an equity nature. Therefore, the change in the fair value before and after the modification is accounted for as a deemed dividend in the amount of \$63,760.

## Issuance of Pre-Funded Series K Warrants

On November 14, 2018, the Company entered into a securities purchase agreement with an investor, pursuant to which the Company agreed to issue and sell, in a registered direct offering, a Pre-Funded Series K Warrant (the “Series K Warrant”) to purchase 277,778 shares of common stock, in lieu of shares of common stock to the extent that the purchase of common stock would cause the beneficial ownership of the purchaser to exceed 9.99% of the Company’s common stock. The Pre-Funded Series K Warrants were sold at an offering price of \$3.54 per share for gross proceeds of \$983,329, are immediately exercisable for \$0.06 per share of common stock and do not have an expiration date.

During the period ended March 31, 2019, the Company issued 277,778 shares of common stock from the exercise of Series K warrants and received cash proceeds of \$16,667.

A summary of the Company’s warrants to purchase common stock activity is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding, December 31, 2018	863,084	\$ 6.00	2.51
Exercised, K warrants	(277,778)	0.06	-
Outstanding, March 31, 2019	585,306	\$ 8.85	3.45

The warrants expire through the years 2020-2024.

## 11. Restatements of Previously Issued Condensed Consolidated Interim Financial Statements (Unaudited)

The Company, while undergoing the audit of its consolidated financial statements for the year ended December 31, 2018, commenced an evaluation of its accounting in connection with the Merger for i) lock-up agreements entered into with the holders of the Notes (see Note 7), and ii) shares of common stock issued to Alpha Capital Anstalt and Palladium Capital Advisors (see Note 10, Service Based Common Stock). These agreements, which management originally deemed to be primarily equity in nature and would not be recognized as compensatory, were recorded as a debit and credit to additional paid in capital. On March 29, 2019, under the authority of the board of directors, the Company determined that these agreements should have been recorded as compensatory in nature which gives rise to an adjustment in the amount of \$1,119,294 for the periods ended March 31, 2018, June 30, 2018, and September 30, 2018. Accordingly, the Company will restate those condensed consolidated interim financial statements and include the required disclosures.

The following tables sets forth the effects of the adjustments on affected items within the Company’s previously reported Condensed Consolidated Interim Balance Sheet at March 31, 2018, had the adjustments been made in the corresponding quarters and includes a reclassification adjustment for the stock split of \$650:

	March 31, 2018		
	As reported	Adjustment	As restated
Additional paid in capital	\$ 25,080,301	\$ 1,119,994	\$ 26,200,245
Accumulated deficit	\$ (12,966,338)	\$ (1,119,294)	\$ (14,085,632)

The following tables sets forth the effects of the adjustments on affected items within the Company’s previously reported Condensed Consolidated Interim Statement of Operations for the three months ended March 31, 2018, had the adjustments been made in the appropriate quarter:

	Three Months Ended March 31, 2018				
	As reported	Adjustment	As Restated	Discontinued Operations	As Restated
Selling, general and administrative expense	\$ 3,067,308	\$ 447,150	\$ 3,514,458	\$ (603,661)	\$ 2,910,797
Total operating expenses	\$ 3,203,658	\$ 447,150	\$ 3,650,808	\$ (546,618)	\$ 3,104,190
Operating loss	\$ (2,951,188)	\$ (447,150)	\$ (3,398,338)	\$ (309,558)	\$ (3,707,896)
Interest income (expense), net	\$ (410,253)	\$ (672,144)	\$ (1,082,397)	\$ 180	\$ (1,082,217)
Net loss	\$ (3,361,441)	\$ (1,119,294)	\$ (4,480,735)	\$ -	\$ (4,480,735)
Income from discontinued operations	\$ -	\$ -	\$ -	\$ 309,378	\$ 309,378
Net loss per common shares, basic and diluted	\$ (3.33)	\$ (1.11)	\$ (4.44)	\$ -	\$ (4.44)

## 12. Related Parties

On July 11, 2018, the Company entered into a consulting agreement (the “Consulting Agreement”) with Ascentaur, LLC (“Ascentaur”). Sebastian Giordano is the Chief Executive Officer of Ascentaur. Mr. Giordano has served on the board of directors of the Company since February 2013 and served as the Company’s Interim Chief Executive Officer from August 2013 through April 2016 and as the Company’s Chief Executive Officer from April 2016 through January 2018.

Pursuant to the terms of the Consulting Agreement, Ascentaur has agreed to provide advisory services with respect to the strategic development and growth of the Company, including advising the Company on market strategy and overall Company strategy, advising the Company on the sale of the Company’s Suisun City Operations, providing assistance to the Company in identifying and recruiting prospective employees, customers, business partners, investors and advisors that offer desirable administrative, financing, investment, technical, marketing and/or strategic expertise, and performing such other services pertaining to the Company’s business as the Company and Ascentaur may from time to time mutually agree. The term of the Consulting Agreement commenced on July 11, 2018 and will continue until April 9, 2019 or until terminated in accordance with the terms of the Consulting Agreement. During the three months ended March 31, 2019, the Company recorded \$30,400 as general and administrative related to this consulting agreement. As of March 31, 2019, the balance in accounts payable was approximately \$7,000.

During the three months ended March 31, 2019, the Company sold Alpha Capital Anstalt, as part of a registered public offering, 299,043 shares of common stock for \$1,235,000, net of offering expenses of \$15,000. Additionally, during the three months ended March 31, 2019, Alpha Capital Anstalt was issued of 277,778 shares of common stock upon its exercise of Series K warrants with cash proceeds to the Company of \$16,667.

## 13. Subsequent Events

The Company has evaluated events subsequent to March 31, 2019 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or disclosure in the financial statements.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

*The following management’s discussion and analysis should be read in conjunction with our historical financial statements and the related notes thereto. This management’s discussion and analysis contains forward-looking statements, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words “believe,” “plan,” “intend,” “anticipate,” “target,” “estimate,” “expect” and the like, and/or future tense or conditional constructions (“will,” “may,” “could,” “should,” etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under “Risk Factors” in our filings with the Securities and Exchange Commission that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors.*

### Overview

#### Strategy

Prior to the Merger, DropCar was a privately-held provider of automotive vehicle support, fleet logistics and concierge services for both consumers and the automotive industry. In 2015, we launched our cloud-based Enterprise Vehicle Assistance and Logistics (“VAL”) platform and mobile application (“App”) to assist consumers and automotive-related companies reduce the costs, hassles and inefficiencies of owning a car, or fleet of cars, in urban centers. Our VAL platform is a web-based interface to our core service that coordinates the movements and schedules of trained valets who pickup and drop off cars at dealerships and customer locations. The App tracks progress and provides email and/or text notifications on status to customers, increasing the quality of communication and subsequent satisfaction with the service. To date, we operate primarily in the New York metropolitan area and may expand our territory in the future.

We achieve this balance of increased consumer flexibility and lower consumer cost by aggregating demand for parking and other automotive services and redistributing their fulfillment to partners in the city and on city outskirts areas that have not traditionally had access to lucrative city business. Beyond the immediate unit economic benefits of securing bulk discounts from vendor partners, we believe there is significant opportunity to further provide additional products and services to clients across the vehicle lifecycle.

On the enterprise side, original equipment manufacturers (“OEMs”), dealers, and other service providers in the automotive space are increasingly being challenged with consumers who have limited time to bring in their vehicles for maintenance and service, making it difficult to retain valuable post-sale service contracts or scheduled consumer maintenance and service appointments. Additionally, many of the vehicle support centers for automotive providers (i.e., dealerships, including body work and diagnostic shops) have moved out of urban areas thus making it more challenging for OEMs and dealers in urban areas to provide convenient and efficient service for their consumer and business clientele. Similarly, shared mobility providers and other fleet managers, such as rental car companies, face a similar urban mobility challenge: getting cars to and from service bays, rebalancing vehicle availability to meet demand and getting vehicles from dealer lots to fleet locations.

We are able to offer our enterprise services at a fraction of the cost of alternatives, including other third parties or expensive in-house resources, given our pricing model that reduces and/or eliminates any downtime expense while also giving clients access to a network of trained valets on demand that can be scaled up or down based on the real time needs of the enterprise client. We support this model by maximizing the utilization of our employee-valet workforce across a curated pipeline for both the consumer and business network.

While our business-to-business (“B2B”) and business-to-consumer (“B2C”) services generate revenue and help meet the unmet demand for vehicle support services, we are also building-out a platform and customer base that positions us well for developments in the automotive space where vehicle ownership becomes more car-shared or access based with transportation services and concierge options well-suited to match a customer’s immediate needs. For example, certain car manufacturers are testing new services in which customers pay the manufacturer a flat fee per month to drive a number of different models for any length of time. We believe that our unique blend of B2B and B2C services make us well suited to introduce, and provide the services necessary to execute, this next generation of automotive subscription services.

## **Recent Developments**

### ***Intention to Explore Strategic Opportunities***

On March 8, 2019, we announced we had initiated a process to evaluate strategic opportunities to maximize shareholder value. While management continues to focus on the Company's business activities and operations, this process will consider a range of potential strategic opportunities including, but not limited to, business combinations.

### ***Departure and Appointment of Officer***

On February 14, 2019, our Board approved (1) the termination of Paul Commons as Chief Financial Officer and any other positions on which he served with respect to us and our subsidiaries and affiliates, and (2) the appointment of Mark Corrao as our new Chief Financial Officer, in each case effective as of February 28, 2019.

### ***Reverse Stock Split***

On March 8, 2019, we filed a certificate of amendment to our amended and restated certificate of incorporation with the Secretary of State of the State of Delaware to effect a one-for-six reverse stock split of our outstanding shares of common stock. Such amendment and ratio were previously approved by our stockholders and board of directors, respectively. As a result of the reverse stock split, every six shares of our outstanding pre-reverse split common stock were combined and reclassified into one share of common stock. Proportionate voting rights and other rights of common stock holders were not affected by the reverse stock split. Stockholders who would otherwise have held a fractional share of common stock received payment in cash in lieu of any such resulting fractional shares of common stock, as the post-reverse split amounts of common stock were rounded down to the nearest full share. Unless otherwise noted, all share and per share data included in these financial statements retroactively reflect the 1-for-6 reverse stock split.

## **Securities Offerings**

On March 26, 2019, we entered into a Securities Purchase Agreement with certain existing investors, pursuant to which we sold, in a registered public offering by us directly to the investors an aggregate of 478,469 shares of common stock, at an offering price of \$4.18 per share for proceeds of \$1,985,001 net of offering expenses of \$15,000.

## **Results of Operations**

We have never been profitable and have incurred significant operating losses in each year since inception. Net losses for three months ended March 31, 2019 and 2018 were approximately \$2.0 million and \$4.5 million, respectively. Substantially all of our operating losses resulted from expenses incurred in connection with our valet workforce, parking and technology development programs and from general and administrative costs associated with our operations. As of March 31, 2019, we had net working capital of approximately \$2.9 million. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years as we continue the development of our comprehensive Vehicle Support Platform across business-to-consumer and business-to-business clientele. Accordingly, we will continue to require substantial additional capital to continue our commercialization activities. The amount and timing of our future funding requirements will depend on many factors, including the timing and results of our commercialization efforts.

## **Components of Statements of Operations**

### ***Services Revenue***

We generate substantially all of our revenue from on-demand vehicle pick-up, parking and delivery services, providing automobile maintenance, care and refueling services and through our B2B fleet management services. The majority of our consumer contracts are month-to-month subscription contracts with fixed monthly or contract term fees.

### ***Cost of Services***

Cost of services consists of the aggregate costs incurred in delivering the services for our customers, including, expenses for personnel costs, parking lot costs, technology hosting and third-party licensing costs, vehicle repair and damage costs, insurance, merchant processor fees, uniforms, customer and transportation expenses associated with providing a service.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of technology, sales and marketing and general and administrative expenses.

**Technology.** Technology expenses consist primarily of labor-related costs incurred in coding, testing, maintaining and modifying our technology platform. We have focused our technology development efforts on both improving ease of use and functionality of our reservation, back-end system and mobile (i.e., iOS, Android) applications. We expect technology to increasingly become a key part of our overall value proposition to B2C and B2B clients.

**Sales and Marketing.** Sales and marketing expenses consist primarily of labor-related costs, online search and advertising, trade shows, marketing agency fees, and other promotional expenses. Online search and advertising costs, which are expensed as incurred, include online advertising media such as banner ads and pay-per-click payments to search engines. We expect to continue to invest in sales and marketing activities to increase our membership base and brand awareness. We expect that sales and marketing expenses will continue to increase in the future but decrease as a percentage of revenue as certain fixed costs are leveraged over a larger revenue base.

**General and Administrative.** General and administrative expenses consist primarily of labor-related expenses for administrative, human resources, internal information technology support, legal, finance and accounting personnel, professional fees, training costs, insurance and other corporate expenses. We expect that general and administrative expenses will increase as we continue to add personnel to support the growth of our business. In addition, we anticipate that we will incur additional personnel expenses, professional service fees, including audit and legal, investor relations, costs of compliance with securities laws and regulations, and higher director and officer insurance costs related to operating as a public company. As a result, we expect that our general and administrative expenses will continue to increase in the future but decrease as a percentage of revenue over time as our membership base and related revenue increases.

**Discontinued Operations.** On December 10, 2018, we signed a definitive agreement with a private corporation and completed the sale on December 24, 2018 of 100% of the Suisun City Operations, our wholly owned subsidiary, for a total cash consideration of \$3.5 million.

The operations and cash flows of the Suisun City Operations are presented as discontinued operations. The operating results of the Suisun City Operations for the three months ended March 31, 2018 were as follows:

Revenues	\$ 3,182,479
Cost of revenues	<u>2,326,276</u>
Gross profit	856,203
Selling, general and administrative expenses	489,800
Depreciation and amortization	<u>56,845</u>
Total Operating Expenses	546,645
Interest expense, net	180
Net income from discontinued operations	<u><u>\$ 309,378</u></u>

### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. See Note 2 to our financial statements for the three months ended March 31, 2019 and 2018 for information about these critical accounting policies, as well as a description of our other significant accounting policies.

Our interim consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K filed with the SEC on April 3, 2019, as subsequently amended on April 12, 2019, which includes a description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results.

### ***Accounts receivable***

Accounts receivable are carried at original invoice amount less an estimate made for holdbacks and doubtful receivables based on a review of all outstanding amounts. We determine the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions and set up an allowance for doubtful accounts when collection is uncertain. Customers' accounts are written off when all attempts to collect have been exhausted. Recoveries of accounts receivable previously written off are recorded as income when received. At each of March 31, 2019 and December 31, 2018, the accounts receivable reserve was approximately \$2,000.

### ***Capitalized software***

Costs related to website and internal-use software development are accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 350-50 — Intangibles — Website Development Costs. Such software is primarily related to our websites and mobile apps, including support systems. We begin to capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, it is probable that the project will be completed, and the software will be used as intended. Costs incurred prior to meeting these criteria are expensed as incurred and recorded within General and administrative expenses within the accompanying statements of operations. Costs incurred for enhancements that are expected to result in additional features or functionality are capitalized. Capitalized costs are amortized over the estimated useful life of the enhancements, generally between two and three years.

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

### ***Revenue Recognition***

ASC 606: Revenue from Contracts with Customers, provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Revenue from contracts with customers is recognized when, or as, we satisfy our performance obligations by transferring the promised goods or services to the customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring our progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that we determine the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those promised goods or services (i.e., the “transaction price”). In determining the transaction price, we consider multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, we consider the range of possible outcomes, the predictive value of its past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of our influence, such as the judgment and actions of third parties.

Our contracts are generally designed to provide cash fees to us on a monthly basis or an agreed upfront rate based upon demand services. Our performance obligation is satisfied over time as the service is provided continuously throughout the service period. We recognize revenue evenly over the service period using a time-based measure because we are providing a continuous service to the customer. Contracts with minimum performance guarantees or price concessions include variable consideration and are subject to the revenue constraint. We use an expected value method to estimate variable consideration for minimum performance guarantees and price concessions.

### ***Monthly Subscriptions***

We offer a selection of subscriptions and on-demand services which include parking, valet, and access to other services. The contract terms are on a month-to-month subscription contract with fixed monthly or contract term fees. These subscription services include a fixed number of round-trip deliveries of the customer’s vehicle to a designated location. We allocate the purchase price among the performance obligations which results in deferring revenue until the service is utilized or the service period has expired. In July 2018, we began assessing demand for a Self-Park Spaces monthly parking plan whereby consumers could designate specific garages for their vehicles to be stored at a base monthly rate, with personal 24/7 access for picking up and returning their vehicle directly, and the option to pay a la carte on a per hour basis for a driver to perform functions such as picking up and returning their vehicle to their front door. This model aligns more directly with how we have structured the enterprise B2B side of its business, where an interaction with a vehicle on behalf of its drivers typically generates net new revenue. The total revenue amount of \$1,099,443 recognized for the period ended March 31, 2019 is comprised of \$661,464 from subscription service and \$437,979 from on-demand service.

### ***Sales and marketing***

Sales and marketing costs are expensed as incurred.

### ***Stock-based compensation***

We account for all stock options using a fair value-based method. The fair value of each stock option granted to employees is estimated on the date of the grant using the Black-Scholes option-pricing model and the related stock-based compensation expense is recognized over the vesting period during which an employee is required to provide service in exchange for the award. The fair value of the options granted to non-employees is measured and expensed as the options vest.

## Results of Operations

### *Comparison of Three Months Ended March 31, 2019 and 2018– Continuing Operations*

#### **Service Revenues**

Service revenues during the three months ended March 31, 2019 totaled \$1.1 million, a decrease of \$0.6 million, compared to \$1.7 million recorded for the three months ended March 31, 2018. The decrease was primarily due to our discontinuation of the “Steve” service, (the on-demand valet and parking service through the mobile application).

#### **Cost of Revenue**

Cost of revenue during the three months ended March 31, 2019 totaled \$1.1 million, a decrease of \$1.2 million, compared to \$2.3 million recorded for the three months ended March 31, 2018. This decrease was primarily due to a decrease in our valet workforce and attributable to decreases of \$1.0 million in wages and related expenses, \$0.1 million in repairs and damages, \$0.1 million in travel and \$0.05 million in cost of gas and other services sold, partially offset by an increase of \$0.1 million in parking garage fees.

#### **Research and Development**

Research and development expenses for the three months ended March 31, 2019 totaled \$0.1 million, which was consistent with \$0.1 million recorded for the three months ended March 31, 2018.

#### **Sales and Marketing**

Sales and marketing expenses for the three months ended March 31, 2019 totaled \$0.3 million, a decrease of \$0.7 million, compared to \$1.0 million recorded for the three months ended March 31, 2018. This was primarily attributable to a decrease of \$0.2 million in wages and related expenses and \$0.6 million in marketing and training, partially offset by an increase of \$0.1 million in stock-based compensation.

#### **General and Administrative**

General and administrative expenses for the three months ended March 31, 2019 totaled \$1.4 million, a decrease of \$0.5 million, compared to \$1.9 million recorded for the three months ended March 31, 2018. This was primarily attributable to a decrease of \$0.4 million in stock-based compensation, \$0.1 million in wages and related expenses, and \$0.1 million in professional fees, partially offset by an increase of \$0.2 million in investor relations.

#### **Depreciation and Amortization**

Depreciation and amortization during the three months ended March 31, 2019 totaled \$0.1 million, which was consistent with \$0.1 million recorded for the three months ended March 31, 2018.

#### **Interest expense, net**

Interest expense, net during the three months ended March 31, 2019 totaled \$0, a decrease of \$1.1 million, compared to \$1.1 million recorded for the three months ended March 31, 2018. This was primarily attributable to the conversion of outstanding convertible notes into equity upon the Merger and in relation to the lock-up agreements in 2018. There were no outstanding convertible notes during the three months ended March 31, 2019.

## Liquidity and Capital Resources

Since the inception of Private DropCar on September 12, 2014, we have incurred significant losses and negative cash flows from operations. Further, our sales and income potential of our business and market remain unproven. For the three months ended March 31, 2019 and 2018, we had losses from continuing operations of approximately \$2.0 million and \$4.7 million, respectively. At March 31, 2019, we had an accumulated deficit of \$31.7 million. We anticipate that we will continue to incur net losses into the foreseeable future and will need to raise additional capital to continue. At March 31, 2019, we had cash of \$4.4 million. At these capital levels, we believe we do not have sufficient funds to continue to operate through June 2020, by which point we will need to become profitable, improve cash flow from operations, begin selling property and equipment, or complete a new capital raise. These factors raise substantial doubt about the Company's ability to continue as a going concern for the twelve months following the date of the filing of this Form 10-Q.

Our plans include raising funds from outside investors. However, there is no assurance that outside funding will be available to us, outside funding will be obtained on favorable terms or will provide us with sufficient capital to meet our objectives. These financial statements do not include any adjustments relating to the recoverability and classification of assets, carrying amounts or the amount and classification of liabilities that may be required should the Company be unable to continue as a going concern. As such, the consolidated financial statements have been prepared under the assumption the Company will continue as a going concern.

On March 26, 2019, we entered into a Securities Purchase Agreement with certain existing investors, pursuant to which we agreed to issue and sell, in a registered public offering by us directly to the investors an aggregate of 478,469 shares of common stock, at an offering price of \$4.18 per share for proceeds of approximately \$2.0 million net of offering expenses of \$15,000.

During the period ended March 31, 2019, we issued 277,778 shares of common stock from the exercise of Series K warrants and received cash proceeds of \$16,667.

Our future capital requirements and the period for which we expect our existing resources to support our operations may vary significantly from what we currently expect. Our monthly spending levels vary based on new and ongoing technology developments and corporate activities.

We have historically financed our activities through the sale of our equity securities (including convertible preferred stock) and the issuance of convertible notes. We will need to raise significant additional capital and we plan to continue to fund our current operations, and the associated losses from continuing operations, through future issuances of debt and/or equity securities and potential collaborations or strategic partnerships with other entities. The capital raises from issuances of convertible debt and equity securities could result in additional dilution to our stockholders. In addition, to the extent we determine to incur additional indebtedness, our incurrence of additional debt could result in debt service obligations and operating and financing covenants that would restrict our operations. We can provide no assurance that financing will be available in the amounts we need or on terms acceptable to us, if at all. If we are not able to secure adequate additional working capital when it becomes needed, we may be required to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail operations. Any of these actions could materially harm our business.

## Cash Flows

### *Operating Activities – Continuing Operations*

We have historically experienced negative cash outflows as we have developed and expanded our business. Our primary source of cash flow from operating activities is recurring subscription receipts from customers and, to a lesser extent, monthly invoice payments from business-to-business customers. Our primary use of cash from operating activities are the recruiting, training, equipping and growing our workforce to meet market demand, securing infrastructure for operating activities such as garage parking spaces, technology investment to grow our platform, as well as to support other operational expenses while we aggressively expand.

Net cash used in operating activities for the three months ended March 31, 2019 was approximately \$1.9 million, which includes a net loss from continuing operations of approximately \$2.0 million, offset by non-cash expenses of approximately \$0.6 million principally related to \$0.1 million related to depreciation and amortization, and \$0.5 million of stock-based compensation expense, and approximately \$0.5 million of cash used by a change in net working capital items principally related to \$0.4 million related to the decrease in accounts payable and \$0.2 related to the increase in accounts receivable and prepaid expenses and other assets.

Net cash used in operating activities for the three months ended March 31, 2018 was approximately \$4.5 million, which includes a net loss from continuing operations of approximately \$4.8 million, offset by non-cash expenses of approximately \$1.7 million principally related to depreciation and amortization of \$0.3 million, non-cash interest expense of \$0.7 million and stock-based compensation expense of \$0.7 million, and approximately \$1.3 million of cash used by a change in net working capital items principally related to \$0.6 million increase in accounts receivable and prepaid expenses and other current assets, \$0.8 million related to the decrease in accounts payable and accrued expenses, and \$0.1 related to the decrease in deferred revenue.

### *Investing Activities – Continuing Operations*

Cash used in investing activities for the three months ended March 31, 2019 of approximately \$0.1 primarily resulted from capitalization of software costs.

Cash used in investing activities during the three months ended March 31, 2018 of approximately \$0.1 million primarily resulted from capitalization of software costs and purchase of property and equipment.

### ***Financing Activities – Continuing Operations***

Cash provided by financing activities for the three months ended March 31, 2019 totaled approximately \$2.0 million, primarily resulting from proceeds of \$2.0 million from the sale of the common stock.

Cash provided by financing activities for the three months ended March 31, 2018 totaled approximately \$6.2 million, primarily resulting from proceeds of \$6.0 million from the sale of the Series H-4 Shares and warrants and \$0.3 million from the sale of common stock, offset by financing costs related to the Series H-4 Shares and warrants of approximately \$0.1 million.

### **Off-Balance Sheet Arrangements**

We did not engage in any “off-balance sheet arrangements” (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) as of March 31, 2019.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Not applicable to a smaller reporting company.

### **Item 4. Controls and Procedures.**

#### ***(a) Evaluation of Disclosure Controls and Procedures***

Our management, including the CEO and CFO, evaluated the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of March 31, 2019. Based on such evaluation, our CEO and CFO concluded the disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting described below.

Management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of March 31, 2019 based on the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on management’s assessment, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company did not maintain effective internal control over financial reporting as of March 31, 2019 as a result of the material weaknesses described below:

#### *A. Control environment, control activities and monitoring:*

The Company did not design and maintain effective internal control over financial reporting related to control environment, control activities and monitoring based on the criteria established in the COSO Framework including more specifically:

- Competency of resources: Management did not effectively execute a strategy to hire, train and retain a sufficient complement of personnel with an appropriate level of training, knowledge and experience in certain areas important to financial reporting; and
- Deployment and oversight of control activities: Management did not implement effective oversight to support deployment of control activities due to (a) failure to establish clear accountability for the performance of internal control over financial reporting responsibilities in certain areas important to financial reporting and (b) a limited segregation of duties amongst Company employees with respect to the Company’s control activities, primarily as a result of the Company’s limited number of employees.

#### *B. Review of the Financial Reporting Process:*

The Company did perform an adequate review of the financial reporting process (i.e., untimely accounting for certain significant transactions, inadequate review of journal entries, and financial statements and related footnotes) which resulted in material corrected misstatements and disclosure adjustments.

### *Remediation Efforts*

Management is committed to the remediation of the material weaknesses described above, as well as the continued improvement of our internal control over financial reporting. We have identified and implemented, and continue to implement, the actions described below to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses. As we continue our evaluation and improve our internal control over financial reporting, management may modify the actions described below or identify and take additional measures to address control deficiencies. Until the remediation efforts described below, including any additional measures management identifies as necessary, are completed, the material weaknesses described above will continue to exist.

To address the material weakness noted above, the Company is in the process of:

- hiring additional personnel who possess the requisite skillsets in certain areas important to financial reporting;
- assessing the required training needs to ascertain continuous development of existing personnel;
- performing a comprehensive review of current procedures to ensure a lack of segregation of duties and compliance with the Company's accounting policies and GAAP;
- hiring additional personnel in order to mitigate the risk of a lack of segregation of duties.

We believe these measures will remediate the material weaknesses noted. While we have completed some of these measures as of the date of this report, we have not completed and tested all of the planned corrective processes, enhancements, procedures and related evaluation that we believe are necessary to determine whether the material weaknesses have been fully remediated. We believe the corrective actions and controls need to be in operation for a sufficient period of time for management to conclude that the control environment is operating effectively and has been adequately tested through audit procedures. Accordingly, the material weaknesses have not been fully remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the material weaknesses, we may determine that additional measures or time are required to address the control deficiencies or that we need to modify or otherwise adjust the remediation measures described above. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our internal control over financial reporting.

#### ***(b) Appointment of new Chief Financial Officer***

On February 14, 2019, our Board of Directors approved (1) the termination of Paul Commons as Chief Financial Officer and any other positions on which he served with respect to the Company and its subsidiaries and affiliates, and (2) the appointment of Mark Corrao as our new Chief Financial Officer, in each case effective as of February 28, 2019. Mr. Corrao possesses appropriate knowledge and experience in preparing the financial statements under U.S. GAAP at the transition period when the former CFO left.

#### ***(c) Changes in Internal Controls over Financial Reporting***

Our remediation efforts were ongoing during the fiscal quarter ended March 31, 2019. Other than the remediation steps described above and the appointment of our new Chief Financial Officer described above, there were no other material changes in our internal control over financial reporting during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 1. Legal Proceedings.**

### *DropCar*

Our DropCar business is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business that we believe are incidental to the operation of our business. While the outcome of these claims cannot be predicted with certainty, our management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations, financial positions or cash flows.

In February 2018, we were served an Amended Summons and Complaint in the Supreme Court of the City of New York, Bronx County originally served solely on an individual, a former customer, for injuries sustained by plaintiffs alleging such injuries were caused by either the customer, a DropCar valet operating the customer's vehicle, or an unknown driver operating customer's vehicle. DropCar to date has cooperated with the NYC Police Department and no charges have been brought against any employee of DropCar. DropCar has referred the matter to its insurance carrier.

As of December 31, 2018, the Company had accrued approximately \$232,000 for the settlement of multiple employment disputes. During the three months ended March 31, 2019, approximately \$39,000 of this amount was settled upon payment. For the three months ended March 31, 2019 and 2018, \$16,000 and \$0, respectively, was expensed and accrued for settlements. As of March 31, 2019, approximately \$209,000 remains accrued for the settlement of employment disputes. As of March 31, 2019, the Company has entered into multiple settlement agreements with former employees for which it has agreed to make monthly settlement payments which will extend through the year ended December 31, 2019.

On March 23, 2018, we were made aware of an audit being conducted by the New York State Department of Labor ("DOL") regarding a claim filed by an employee. The DOL is investigating whether we properly paid overtime for which we have raised several defenses. In addition, the DOL is conducting its audit to determine whether the we owe spread of hours pay (an hour's pay for each day an employee worked or was scheduled for a period over ten hours in a day). If the DOL determines that monies are owed, the DOL will seek a backpay order, which management believes will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations or cash flows. As of March 31, 2019, the we have accrued approximately \$180,000 in relation to these matters.

### **Item 1A. Risk Factors.**

*An investment in shares of our common stock is highly speculative and involves a high degree of risk. We face a variety of risks that may affect our operations and financial results and many of those risks are driven by factors that we cannot control or predict. Before investing in our common stock, you should carefully consider the following risks, together with the financial and other information contained in this report. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be materially adversely affected. In that case, the trading price of our common stock would likely decline, and you may lose all or a part of your investment. Only those investors who can bear the risk of loss of their entire investment should invest in our common stock.*

There have been no material changes, to our risk factors contained in our Annual Report on Form 10-K filed with the SEC on April 3, 2019, as subsequently amended on April 12, 2019. For a further discussion of our Risk Factors, refer to the "Risk Factors" discussion contained in such Current Report on Form 10-K.

#### ***Our exploration and pursuit of strategic opportunities may not be successful.***

On March 8, 2019, we announced that we had initiated a process to evaluate strategic opportunities to maximize shareholder value. While management continues to focus on our business activities and operations, this process will consider a range of potential strategic opportunities including, but not limited to, business combinations. Despite devoting significant efforts to identify and evaluate potential strategic transactions, the process may not result in any definitive offer to consummate a strategic transaction, or, if we receive such a definitive offer, the terms may not be as favorable as anticipated or may not result in the execution or approval of a definitive agreement. In addition, even if we enter into a definitive agreement, we may not be successful in completing the transaction, which could have a material adverse effect on our business.

***If we are successful in completing a strategic transaction, such a transaction may not enhance stockholder value or deliver expected benefits and may expose us to additional operational and financial risks.***

Although there can be no assurance that a strategic transaction will result from the process we have undertaken to evaluate strategic opportunities to maximize shareholder value, the negotiation and consummation of any such transaction will require significant time on the part of our management, and the diversion of management's attention may disrupt our business. The negotiation and consummation of any such transaction may also require more time or greater cash resources than we anticipate and expose us to other operational and financial risks. In addition, in the event we are successful in evaluating and completing a strategic transaction, such transaction may not enhance stockholder value as anticipated or deliver expected benefits. Any of the foregoing risks could have a material adverse effect on our business, financial condition and prospects.

#### ***Current and future employee disputes may result in additional liabilities.***

We are presently subject to certain employee disputes, as well as an audit being conducted by the New York State Department of Labor regarding whether our workforce is entitled to certain statutory wage payments. In addition, we may from time to time, be subject to additional disputes and litigation with respect to our employment practices. Regardless of their merit, such disputes could lead to costly litigation and/or result in settlement liability. For additional information, please see the section entitled "Part II – Item 1 – Legal Proceedings" in this Quarterly Report on Form 10-Q.

*Historically, a majority of our revenue has come from our B2C business that we are significantly altered effective as of September 1, 2018. Failure to generate sufficient revenue from our newly altered B2C business or from our existing B2B business may have a material adverse impact on our business, financial condition, results of operations and cash flows, including our ability to continue to operate.*

As further discussed elsewhere in this Quarterly Report on Form 10-Q, in July 2018, we began assessing demand for a Self-Park Spaces monthly parking plan in our B2C business. This model aligns more directly with how we have structured the enterprise B2B side of our business. We have decided that the Self-Park Spaces plan will be the only consumer plan that we will offer consumers after September 1, 2018. As a result of this shift, in August 2018, we began to significantly streamline our field teams, operations and back office support tied to our pre-September 1, 2018 consumer subscription plans. If we are unsuccessful in maintaining and growing our subscription revenue under our newly structured B2C business, our business, financial position, results of operations, and cash flows may be adversely affected.

We currently depend on corporate clients and the B2B market for a significant portion of our revenue and expect to depend on such clients for a significantly greater portion of our revenue in the future. The success of this strategy will depend on our ability to maintain existing B2B partners, obtain new B2B partners, and generate a community of participating corporate clients sufficiently large to support such a model. We may not be successful in establishing such partnerships on terms that are commercially favorable, if at all, and may encounter financial and logistical difficulties associated with sustaining such partnerships. If we are unsuccessful in establishing or maintaining our B2B model, our business, financial position, results of operations, and cash flows may be adversely affected.

*Changes to our business model or services could require us to issue refunds or credits to our customers.*

As we continue to expand our business and develop our business model, we may modify or cancel certain services. Because we collect payment from our customers on a monthly basis, such modifications or cancellations could require us to issue certain refunds or credits to our customers for prepaid services, particularly if changes are made in the middle of a billing cycle. Should this occur, we could become subject to a number of risks in connection with the issuance of refunds or credits, including errors in recording and issuing such refunds or credits, delays associated with such issuances, or customer dissatisfaction with our handling of the refund process, which could adversely affect our operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended, dated March 8, 2019 (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K, filed with the SEC on April 2, 2019).
10.1	Securities Purchase Agreement, dated as of March 26, 2019, by and among the Company and the investors (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed with the SEC on March 27, 2019).
<a href="#"><u>31.1</u></a> *	Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>31.2</u></a> *	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>32.1</u></a> *	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>32.2</u></a> *	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from this Quarterly Report on Form 10-Q for the period ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations; (ii) the Condensed Consolidated Balance Sheets; (iii) the Consolidated Statements of Changes in Shareholders' Equity; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

\* Filed herewith.

**SIGNATURES**

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

DropCar, Inc.

Date: May 15, 2019

By: /s/ Spencer Richardson  
Spencer Richardson  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 15, 2019

By: /s/ Mark Corrao  
Mark Corrao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION  
OF  
SPENCER RICHARDSON  
CHIEF EXECUTIVE OFFICER  
OF  
DROPCAR, INC.**

I, Spencer Richardson, Chief Executive Officer of DropCar, Inc., certify that:

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

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.

Date: May 15, 2019

By:

/s/ Spencer Richardson  
Spencer Richardson  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION  
OF  
MARK CORRAO  
CHIEF FINANCIAL OFFICER  
OF  
DROPCAR, INC.**

I, Mark Corrao, Chief Financial Officer of DropCar, Inc., certify that:

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

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.

Date: May 15, 2019

By:

/s/ Mark Corrao

Mark Corrao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**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 DropCar, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Spencer Richardson, Chief Executive Officer of the Company, state and certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 results of operations of the Company.

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.

Date: May 15, 2019

By:

/s/ Spencer Richardson  
Spencer Richardson  
Chief Executive Officer  
(Principal Executive Officer)

**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 DropCar, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Corrao, Chief Financial Officer of the Company, state and certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 results of operations of the Company.

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.

Date: May 15, 2019

By:

/s/ Mark Corrao

Mark Corrao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)