

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 September 30, 2016

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 001-36404

**SYSOREX GLOBAL**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of  
incorporation or organization)

88-0434915

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

2479 E. Bayshore Road, Suite 195  
Palo Alto, CA 94303

(Address of principal executive offices)(Zip Code)

(408) 702-2167

(Registrant's telephone number, including area code)

No change

(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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 26,709,460 shares of common stock, par value \$.001, outstanding, as of November 11, 2016.

SYSOREX GLOBAL

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>PART I – FINANCIAL INFORMATION</b>  |             |
| Item 1. Financial Statements (Unaudited):  | 1           |
| Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015 (Audited)   | 2-3         |
| Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2016 and 2015 | 4-5         |
| Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2016                       | 6           |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015                                  | 7           |
| Notes to Condensed Consolidated Financial Statements   | 8           |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  | 25          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk   | 42          |
| Item 4. Controls and Procedures  | 42          |
| <b>PART II – OTHER INFORMATION</b>   |             |
| Item 1. Legal Proceedings  | 43          |
| Item 1A. Risk Factors  | 43          |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | 43          |
| Item 3. Defaults Upon Senior Securities  | 43          |
| Item 4. Mine Safety Disclosures  | 43          |
| Item 5. Other Information  | 43          |
| Item 6. Exhibits   | 45          |
| Signatures   | 47          |

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

The results for the period ended September 30, 2016 are not necessarily indicative of the results of operations for the full year. These financial statements and related footnotes should be read in conjunction with the financial statements and footnotes thereto included in our audited financial statements for the fiscal years ended December 31, 2015 and 2014 included in the Form 10-K filed with the Securities and Exchange Commission on March 30, 2016.

SYSOREX GLOBAL

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares and par value data)

|   | September 30,<br>2016<br>(Unaudited) | December 31,<br>2015<br>(Audited) |
|---|--------------------------------------|-----------------------------------|
| <b>Assets</b>   |                                      |                                   |
| <b>Current Assets</b>                                   |                                      |                                   |
| Cash and cash equivalents                               | \$ 505                               | \$ 4,060                          |
| Accounts receivable, net                                | 7,785                                | 12,209                            |
| Notes and other receivables                             | 1,294                                | 1,340                             |
| Inventory   | 852                                  | 755                               |
| Prepaid licenses and maintenance contracts              | 6,971                                | 7,509                             |
| Assets held for sale                                    | 772                                  | 772                               |
| Prepaid assets and other current assets                 | 1,994                                | 1,967                             |
| <b>Total Current Assets</b>                             | <b>20,173</b>                        | <b>28,612</b>                     |
| Prepaid licenses and maintenance contracts, non-current | 5,876                                | 6,586                             |
| Property and equipment, net                             | 1,442                                | 1,392                             |
| Software development costs, net                         | 1,946                                | 1,281                             |
| Intangible assets, net                                  | 13,992                               | 17,161                            |
| Goodwill  | 13,166                               | 13,166                            |
| Other assets  | 425                                  | 517                               |
| <b>Total Assets</b>                                     | <b>\$ 57,020</b>                     | <b>\$ 68,715</b>                  |

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

SYSOREX GLOBAL

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except number of shares and par value data)

|   | September 30,<br>2016<br>(Unaudited) | December 31,<br>2015<br>(Audited) |
|---|--------------------------------------|-----------------------------------|
| <b>Liabilities and Stockholders' Equity</b>   |                                      |                                   |
| <b>Current Liabilities</b>  |                                      |                                   |
| Accounts payable  | \$ 10,170                            | \$ 9,320                          |
| Accrued liabilities   | 1,786                                | 2,992                             |
| Derivative liability  | 11                                   | --                                |
| Deferred revenue  | 11,912                               | 9,095                             |
| Short-term debt   | 4,600                                | 9,417                             |
| Liabilities held for sale   | 2,037                                | 2,026                             |
| <b>Total Current Liabilities</b>  | <b>30,516</b>                        | <b>32,850</b>                     |
| <b>Long Term Liabilities</b>  |                                      |                                   |
| Deferred revenue, non-current   | 6,764                                | 7,666                             |
| Long-term debt  | 3,753                                | 1,226                             |
| Other liabilities   | 341                                  | 542                               |
| Acquisition liability - LightMiner  | 567                                  | 3,475                             |
| <b>Total Liabilities</b>  | <b>41,941</b>                        | <b>45,759</b>                     |
| <b>Commitments and Contingencies</b>  |                                      |                                   |
| <b>Stockholders' Equity</b>   |                                      |                                   |
| Convertible Series 1 Preferred Stock - \$1,000.00 stated value; 5,000,000 shares authorized; 2,250 and 0 issued and outstanding at September 30, 2016 and December 31, 2015, respectively. Liquidation preference of \$2,250,000 and \$0 at September 30, 2016 and December 31, 2015, respectively. | 1,340                                | --                                |
| Common stock - \$0.001 par value; 50,000,000 shares authorized; 26,948,288 and 25,309,863 issued and 26,709,460 and 25,071,035 outstanding at September 30, 2016 and December 31, 2015, respectively  | 27                                   | 25                                |
| Additional paid-in capital  | 62,174                               | 58,226                            |
| Treasury stock, at cost, 238,828 shares   | (695)                                | (695)                             |
| Due from Sysorex Consulting Inc.  | (666)                                | (666)                             |
| Accumulated other comprehensive income  | 65                                   | 31                                |
| Accumulated deficit (excluding \$2,442 reclassified to additional paid in capital in quasi-reorganization)  | (45,548)                             | (32,359)                          |
| Stockholders' Equity Attributable to Sysorex Global   | 16,697                               | 24,562                            |
| Non- controlling Interest   | (1,618)                              | (1,606)                           |
| <b>Total Stockholders' Equity</b>   | <b>15,079</b>                        | <b>22,956</b>                     |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 57,020</b>                     | <b>\$ 68,715</b>                  |

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

SYSOREX GLOBAL

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

|  | For the Three Months Ended |                   | For the Nine Months Ended |                   |
|--|----------------------------|-------------------|---------------------------|-------------------|
|  | September 30,              |                   | September 30,             |                   |
|  | 2016                       | 2015              | 2016                      | 2015              |
|  | (Unaudited)                |                   | (Unaudited)               |                   |
| <b>Revenues</b>  |                            |                   |                           |                   |
| Products   | \$ 8,366                   | \$ 10,706         | \$ 27,871                 | \$ 34,637         |
| Services   | 2,874                      | 4,168             | 10,788                    | 12,057            |
| <b>Total Revenues</b>  | <u>11,240</u>              | <u>14,874</u>     | <u>38,659</u>             | <u>46,694</u>     |
| <b>Cost of Revenues</b>  |                            |                   |                           |                   |
| Products   | 6,873                      | 8,601             | 22,363                    | 27,601            |
| Services   | 1,269                      | 1,885             | 5,807                     | 4,962             |
| <b>Total Cost of Revenues</b>                                  | <u>8,142</u>               | <u>10,486</u>     | <u>28,170</u>             | <u>32,563</u>     |
| <b>Gross Profit</b>  | <u>3,098</u>               | <u>4,388</u>      | <u>10,489</u>             | <u>14,131</u>     |
| <b>Operating Expenses</b>                                      |                            |                   |                           |                   |
| Research and development                                       | 587                        | 207               | 1,711                     | 620               |
| Sales and marketing  | 1,876                      | 2,693             | 6,713                     | 8,231             |
| General and administrative                                     | 3,699                      | 3,542             | 11,116                    | 9,768             |
| Acquisition related costs                                      | 22                         | 13                | 52                        | 200               |
| Amortization of intangibles                                    | 1,056                      | 1,056             | 3,169                     | 2,938             |
| <b>Total Operating Expenses</b>                                | <u>7,240</u>               | <u>7,511</u>      | <u>22,761</u>             | <u>21,757</u>     |
| <b>Loss from Operations</b>                                    | (4,142)                    | (3,123)           | (12,272)                  | (7,626)           |
| <b>Other Income (Expense)</b>                                  |                            |                   |                           |                   |
| Interest expense   | (639)                      | (120)             | (1,037)                   | (340)             |
| Other income   | 15                         | 2                 | 54                        | 39                |
| Change in fair value of derivative liability                   | 41                         | --                | 41                        | --                |
| Change in fair value of shares to be issued                    | 5                          | 69                | 13                        | 157               |
| <b>Total Other Income (Expense)</b>                            | <u>(578)</u>               | <u>(49)</u>       | <u>(929)</u>              | <u>(144)</u>      |
| <b>Net Loss</b>  | (4,720)                    | (3,172)           | (13,201)                  | (7,770)           |
| <b>Net Loss Attributable to Non-controlling Interest</b>       | <u>(4)</u>                 | <u>(4)</u>        | <u>(12)</u>               | <u>(7)</u>        |
| <b>Net Loss Attributable to Stockholders of Sysorex Global</b> | <u>\$ (4,716)</u>          | <u>\$ (3,168)</u> | <u>\$ (13,189)</u>        | <u>\$ (7,763)</u> |
| <b>Net Loss Per Share - Basic and Diluted</b>                  | <u>\$ (0.18)</u>           | <u>\$ (0.16)</u>  | <u>\$ (0.52)</u>          | <u>\$ (0.39)</u>  |
| <b>Weighted Average Shares Outstanding</b>                     |                            |                   |                           |                   |
| Basic and Diluted  | <u>26,151,764</u>          | <u>19,833,000</u> | <u>25,464,674</u>         | <u>19,802,035</u> |

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

SYSOREX GLOBAL

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

|   | For the Three Months Ended |            | For the Nine Months Ended |            |
|---|----------------------------|------------|---------------------------|------------|
|   | September 30,              |            | September 30,             |            |
|   | 2016                       | 2015       | 2016                      | 2015       |
|   | (Unaudited)                |            | (Unaudited)               |            |
| <b>Net Loss</b>   | \$ (4,720)                 | \$ (3,172) | \$ (13,201)               | \$ (7,770) |
| Unrealized foreign exchange gain/(loss) from cumulative translation adjustments | 15                         | (17)       | 34                        | (22)       |
| <b>Comprehensive Loss</b>   | \$ (4,705)                 | \$ (3,189) | \$ (13,167)               | \$ (7,792) |

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

SYSOREX GLOBAL

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Unaudited)

(In thousands, except per share data)

|  | Series 1<br>Convertible<br>Preferred Stock |                 | Common Stock      |              | Additional<br>Paid-In<br>Capital | Treasury Stock   |                 | Due from<br>Sysorex<br>Consulting,<br>Inc. | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Accumulated<br>Deficit | Non-<br>Controlling<br>Interest | Total<br>Stockholders'<br>Equity |
|--|--|-----------------|-------------------|--------------|----------------------------------|------------------|-----------------|--|--|------------------------|---------------------------------|----------------------------------|
|  | Shares                                     | Amount          | Shares            | Amount       |                                  | Shares           | Amount          |  |  |                        |                                 |                                  |
| Balance - January 1, 2016                              | --   | \$ --           | 25,309,863        | \$ 25        | \$ 58,226                        | (238,828)        | \$ (695)        | \$ (666)                                   | \$ 31  | \$ (32,359)            | \$ (1,606)                      | \$ 22,956                        |
| Series 1 redeemable convertible preferred stock issued | 2,250                                      | 1,340           | --                | --           | --                               | --               | --              | --   | --   | --                     | --                              | 1,340                            |
| Common shares issued for services                      | --   | --              | 95,000            | --           | 47                               | --               | --              | --   | --   | --                     | --                              | 47                               |
| Issuance of LightMiner Acquisition Shares              | --   | --              | 1,543,425         | 2            | 2,893                            | --               | --              | --   | --   | --                     | --                              | 2,895                            |
| Stock options granted to employees for services        | --   | --              | --                | --           | 1,008                            | --               | --              | --   | --   | --                     | --                              | 1,008                            |
| Cumulative translation adjustment                      | --   | --              | --                | --           | --                               | --               | --              | --   | 34   | --                     | --                              | 34                               |
| Net loss   | --   | --              | --                | --           | --                               | --               | --              | --   | --   | (13,189)               | (12)                            | (13,201)                         |
| Balance - September 30, 2016                           | <u>2,250</u>                               | <u>\$ 1,340</u> | <u>26,948,288</u> | <u>\$ 27</u> | <u>\$ 62,174</u>                 | <u>(238,828)</u> | <u>\$ (695)</u> | <u>\$ (666)</u>                            | <u>\$ 65</u>   | <u>\$ (45,548)</u>     | <u>\$ (1,618)</u>               | <u>\$ 15,079</u>                 |

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



SYSOREX GLOBAL

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | For the Nine Months Ended |                 |
|--|---------------------------|-----------------|
|  | September 30,             |                 |
|  | 2016                      | 2015            |
|  | (Unaudited)               |                 |
| <b>Cash Flows from Operating Activities</b>                                |                           |                 |
| Net loss   | \$ (13,201)               | \$ (7,770)      |
| Adjustment to reconcile net loss to net cash used in operating activities: |                           |                 |
| Depreciation and amortization  | 884                       | 446             |
| Amortization of intangible assets  | 3,169                     | 2,938           |
| Stock based compensation   | 1,055                     | 885             |
| Change in fair value of shares to be issued                                | (13)                      | (157)           |
| Change in fair value of derivative liability                               | (41)                      | --              |
| Amortization of deferred financing costs                                   | --                        | 23              |
| Amortization of debt discount  | 196                       | --              |
| Compensation expense, note receivable related party                        | --                        | 90              |
| Provision for doubtful accounts  | 455                       | 32              |
| Other  | 22                        | (13)            |
| Changes in operating assets and liabilities:                               |                           |                 |
| Accounts receivable and other receivables                                  | 4,016                     | (1,098)         |
| Inventory  | (97)                      | 42              |
| Other current assets   | (26)                      | (266)           |
| Prepaid licenses and maintenance contracts                                 | 1,248                     | (255)           |
| Other assets   | (173)                     | 67              |
| Accounts payable   | 850                       | 751             |
| Accrued liabilities  | (1,205)                   | 143             |
| Deferred revenue   | 1,915                     | 339             |
| Other liabilities  | (190)                     | (88)            |
| Total Adjustments  | <u>12,065</u>             | <u>3,879</u>    |
| <b>Net Cash Used in Operating Activities</b>                               | <b>(1,136)</b>            | <b>(3,891)</b>  |
| <b>Cash Flows Used in Investing Activities</b>                             |                           |                 |
| Purchase of property and equipment   | (461)                     | (254)           |
| Cash paid for LightMiner   | --                        | (19)            |
| Investment in capitalized software   | (1,160)                   | (618)           |
| <b>Net Cash Flows Used in Investing Activities</b>                         | <b>(1,621)</b>            | <b>(891)</b>    |
| <b>Cash Flows provided by Financing Activities</b>                         |                           |                 |
| Advances (repayment) of line of credit                                     | (4,150)                   | 922             |
| Advances from term loan  | --                        | 2,000           |
| Repayment of term loan   | (1,611)                   | (597)           |
| Proceeds from debenture and convertible preferred stock                    | 5,000                     | --              |
| Advances to related party  | (3)                       | --              |
| Advances from related party  | 2                         | 1               |
| Net proceeds from issuance of common stock                                 | --                        | 4,685           |
| Repayment of notes payable   | (70)                      | (71)            |
| <b>Net Cash (Used In) Provided by Financing Activities</b>                 | <b>(832)</b>              | <b>6,940</b>    |
| <b>Effect of Foreign Exchange Rate on Changes on Cash</b>                  | <b>34</b>                 | <b>(22)</b>     |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                | <b>(3,555)</b>            | <b>2,136</b>    |
| <b>Cash and Cash Equivalents - Beginning of period</b>                     | <b>4,060</b>              | <b>3,228</b>    |
| <b>Cash and Cash Equivalents - End of period</b>                           | <b>\$ 505</b>             | <b>\$ 5,364</b> |
| <b>Supplemental Disclosure of cash flow information:</b>                   |                           |                 |
| <b>Cash paid for:</b>  |                           |                 |
| Interest   | \$ 837                    | \$ 317          |
| Income Taxes   | --                        | --              |
| <b>Non Cash Investing and Financing Activities:</b>                        |                           |                 |
| Debt discount of the fair value of the embedded conversion feature         | \$ 2,356                  | \$ --           |
| <b>Acquisition of LightMiner:</b>  |                           |                 |
| Assumption of assets other than cash (property and equipment)              | --                        | \$ 225          |
| Assumption of assets - developed technology and export license             | --                        | \$ 3,479        |

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

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 1 - Organization and Nature of Business**

*Overview*

Sysorex Global (“SG”), through its wholly-owned subsidiaries, Sysorex USA f/k/a Lilien Systems (“SUSA”), Sysorex Government Services, Inc. (“SGS”), Sysorex Canada Corp. f/k/a. AirPatrol Research Corp. (“Sysorex Canada”) and the majority-owned subsidiary, Sysorex Arabia LLC (“SA”) (Unless otherwise stated or the context otherwise requires, the terms “Sysorex” “we,” “us,” “our” and the “Company” refer collectively to Sysorex Global and its above subsidiaries), provides big data analytics and location based products and related services for the cyber-security and Internet of Things markets. The Company is headquartered in California, and has subsidiary offices in Virginia, Maryland, Oregon, Hawaii, State of Washington, California, Vancouver, Canada and Riyadh, Saudi Arabia.

*Liquidity*

As of September 30, 2016, the Company has a working capital deficiency of approximately \$10.3 million. For the nine months ended September 30, 2016, the Company incurred a net loss of approximately \$13.2 million and utilized cash in operations of approximately \$1.1 million.

On August 9, 2016, the Company entered into a Securities Purchase Agreement with Hillair Capital Investments L.P. pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of \$5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value \$0.001 per share (the “Preferred Stock”, together with the Debenture, the “Securities”), for an aggregate purchase price of \$5,000,000 (the “Transaction”). The Company also has a Credit Facility for up to \$10 million which we borrow against based on eligible assets with a maturity date of April 29, 2017 of which approximately \$4.4 million is utilized. During the third quarter of 2016 the Company implemented a cost cutting program that would reduce operating expenses by approximately \$1.8 million on an annual basis.

The Company’s capital resources as of September 30, 2016, increased bank facility, net proceeds from the September 25, 2015 offering and August 9, 2016 convertible debenture and preferred stock offering, higher margin business line expansion and recent contract awards, including prepayments anticipated to be received are expected to be sufficient to fund planned operations during the next twelve months from the date of filing this quarterly report. While the Company also has an effective registration statement on Form S-3 which will allow it to raise additional capital from the sale of its securities, subject to certain limitations for registrants with a market capitalization of less than \$75 million, if additional financing is needed we anticipate such financing will come from an increase in our bank facility rather than through a sale of equity, however, our decision will be based on our capital requirements and the terms of the various types of financing that will be available to us when we need it. The information in these condensed consolidated financial statements concerning the Company’s Form S-3 registration statement does not constitute an offer of any securities for sale. If these sources do not provide the capital necessary to fund the Company’s operations during the next twelve months, the Company may need to reduce costs and curtail certain aspects of its expansion activities or consider other means of obtaining additional financing, although there is no guarantee that any such additional financing would be available to the Company on an acceptable term, if at all.

**Note 2 - Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of the Company’s operations for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and footnotes for the years ended December 31, 2015 and 2014 included in the Form 10-K filed with the Securities and Exchange Commission on March 30, 2016.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 3 - Summary of Significant Accounting Policies**

*Significant Accounting Policies*

The Company's complete accounting policies are described in Note 2 to the Company's audited financial statements and footnotes for the years ended December 31, 2015 and 2014.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each of the reporting periods. Actual results could differ from those estimates. The Company's significant estimates consist of:

- The valuation of stock-based compensation;
- The allowance for doubtful accounts;
- The valuation allowance for the deferred tax asset; and
- Impairment of long-lived assets and goodwill.

*Revenue Recognition*

The Company provides IT solutions and services to customers and derives revenues primarily from the sale of third-party hardware and software products, software, assurance, licenses and other consulting services, including maintenance services and recognizes revenue once the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed and determinable, (3) shipment (software and hardware) or fulfillment (maintenance) has occurred, and (4) there is reasonable assurance of collection of the sales proceeds (the "Revenue Recognition Criteria"). In addition, the Company also records revenues in accordance with Accounting Standards Codification ("ASC") Topic 605-45 "Principal Agent Consideration" ("ASC 605-45"). The Company evaluates the sales of products and services on a case by case basis to determine whether the transaction should be recorded gross or net, including, but not limited to, assessing whether or not the Company: 1) is the primary obligor in the transaction; 2) has inventory risk with respect to the products and/or services sold; 3) has latitude in pricing; and 4) changes the product or performs part of the services sold. The Company evaluates whether revenues received from the sale of hardware and software products, licenses, and services, including maintenance and professional consulting services, should be recognized on a gross or net basis on a transaction by transaction basis. As of September 30, 2016, the Company has determined that all revenues received should be recognized on a gross basis in accordance with applicable standards.

Cooperative reimbursements from vendors, which are earned and available, are recorded during the period the related transaction has occurred. Cooperative reimbursements are recorded as a reduction of cost of sales in accordance with ASC Topic 605-50 "Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor." Provisions for returns are estimated based on historical collections and credit memo analysis for the period. The Company receives Marketing Development Funds (MDF) from vendors based on quarterly or annual sales performance to promote the marketing of vendor products and services. The Company must file claims with vendors for these cooperative reimbursements by providing invoices and receipts for marketing expenses. Reimbursements are recorded as a reduction of marketing expenses and other applicable selling general and administrative expenses ratably over the period in which the expenses are expected to occur. The Company receives vendor rebates which are recorded to cost of sales.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 3 - Summary of Significant Accounting Policies (continued)**

***Revenue Recognition (continued)***

The Company also enters into sales transactions whereby customer orders contain multiple deliverables, and reports its multiple deliverable arrangements under ASC 605-25 "Revenue Arrangements with Multiple Deliverables" ("ASC-605-25"). These multiple deliverable arrangements primarily consist of the following deliverables: the Company's design, configuration, installation, integration, warranty/maintenance and consulting services; and third-party computer hardware, software and warranty maintenance services. In situations where the Company bundles all or a portion of the separate elements, Vendor Specific Objective Evidence ("VSOE") is determined based on prices when sold separately. For the three months ended September 30, 2016 and 2015 revenues recognized as a result of customer contracts requiring the delivery of multiple elements was \$3.7 million and \$7.4 million, respectively. For the nine months ended September 30, 2016 and 2015 revenues recognized as a result of customer contracts requiring the delivery of multiple elements was \$15.4 million and \$24.3 million, respectively.

***Hardware, Software and Licensing Revenue Recognition***

Generally, the Revenue Recognition Criteria are met with respect to the sales of hardware and software products when they are shipped to the customer. The delivery of products to our customers occurs in a variety of ways, including (i) as a physical product shipped from the Company's warehouse, (ii) via drop-shipment by a third-party vendor, or (iii) via electronic delivery with respect to software licenses. The Company leverages drop-ship arrangements with many of its vendors and suppliers to deliver products to customers without having to physically hold the inventory at its warehouse. In such arrangements, the Company negotiates the sale price with the customer, pays the supplier directly for the product shipped, bears credit risk of collecting payment from its customers and is ultimately responsible for the acceptability of the product and ensuring that such product meets the standards and requirements of the customer. As a result, the Company recognizes the sale of the product and the cost of such upon receiving notification from the supplier that the product has shipped. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable. Vendor product price discounts are recorded when earned as a reduction to cost of sales.

***Maintenance and Professional Services Revenue Recognition***

With respect to sales of our maintenance, consulting and other service agreements including our digital advertising and electronic services, the Revenue Recognition Criteria is met once the service has been provided. Revenue on time and material contracts is recognized based on a fixed hourly rate as direct labor hours are expended. The fixed rate includes direct labor, indirect expenses, and profits. Materials, or other specified direct costs, are reimbursed as actual costs and may include markup. Anticipated losses are recognized as soon as they become known. For the three and nine months ended September 30, 2016 and 2015, the Company did not incur any such losses. These amounts are based on known and estimated factors. Revenues from time and material or firm fixed price long-term and short-term contracts are derived principally with various United States Government agencies and commercial customers.

The Company recognizes revenue for sales of all services billed as a fixed fee ratably over the term of the arrangement as such services are provided. Billings for such services that are made in advance of the related revenue recognized are recorded as deferred revenue and recognized as revenue ratably over the billing coverage period. Amounts received as prepayments for services to be rendered are recognized as deferred revenue. Revenue from such prepayments is recognized when the services are provided.

The Company's storage and computing segment maintenance services agreements permit customers to obtain technical support from the Company and/or the manufacturer and to update, at no additional cost, to the latest technology when new software updates are introduced and available during the period that the maintenance agreement is in effect. Since the Company assumes certain responsibility for product staging, configuration, installation, modification, and integration with other client systems, or retains general inventory risk upon customer return or rejection and is most familiar with the customer and its required specifications, it generally serves as the initial contact with the customer with respect to any storage and computing maintenance services required and therefore will perform all or part of the required service.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 3 - Summary of Significant Accounting Policies (continued)**

***Revenue Recognition (continued)***

Typically, the Company sells maintenance contracts for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. The Company generally bills maintenance fees in advance and records the amounts received as deferred revenue with respect to any portion of the fee for which services have not yet been provided. The Company recognizes the related revenue ratably over the term of the maintenance agreement as services are provided. In situations where the Company bundles all or a portion of the maintenance fee with products, VSOE for maintenance is determined based on prices when sold separately.

Customers that have purchased maintenance/warranty services have a right to cancel and receive a refund of the amounts paid for unused services at any time during the service period upon advance written notice to the Company. Cancellation and refund privileges with respect to maintenance/warranty services lapse as to any period during the term of the agreement for which such services have already been provided. Customers do not have the right to a refund of paid fees for maintenance/warranty services that the Company has earned and recognized as revenue. Invoices issued for maintenance/warranty services not yet rendered are recorded as deferred revenue and then recognized as revenue ratably over the service period. As a result (1) the warranty and maintenance service fees payable by each customer are separately accounted for in each customer purchase order as a separate line item, and (2) upon the Company's receipt and acceptance of a request for refund of maintenance/warranty services not yet provided, the Company's obligation to perform any additional maintenance/warranty services will end. Sales are recorded net of discounts and returns.

***Stock-Based Compensation***

The Company accounts for options granted to employees by measuring the cost of services received in exchange for the award of equity instruments based upon the fair value of the award on the date of grant. The fair value of that award is then ratably recognized as expense over the period during which the recipient is required to provide services in exchange for that award.

Options and warrants granted to consultants and other non-employees are recorded at fair value as of the grant date and subsequently adjusted to fair value at the end of each reporting period until such options and warrants vest, and the fair value of such instruments, as adjusted, is expensed over the related vesting period.

The Company incurred stock-based compensation charges, net of estimated forfeitures of \$344,000 and \$391,000 for the three months ended September 30, 2016 and 2015, and \$1,055,000 and \$885,000 for the nine month period ended September 30, 2016 and 2015, respectively. The following table summarizes the nature of such charges for the periods then ended (in thousands):

|                                   | <b>For the Three Months Ended</b> |               | <b>For the Nine Months Ended</b> |               |
|-----------------------------------|-----------------------------------|---------------|----------------------------------|---------------|
|                                   | <b>September 30,</b>              |               | <b>September 30,</b>             |               |
|                                   | <b>2016</b>                       | <b>2015</b>   | <b>2016</b>                      | <b>2015</b>   |
| Compensation and related benefits | \$ 334                            | \$ 293        | \$ 1,008                         | \$ 605        |
| Professional and legal fees       | 10                                | 98            | 47                               | 280           |
| <b>Totals</b>                     | <b>\$ 344</b>                     | <b>\$ 391</b> | <b>\$ 1,055</b>                  | <b>\$ 885</b> |

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 3 - Summary of Significant Accounting Policies (continued)**

***Net Loss Per Share***

The Company computes basic and diluted earnings per share by dividing net loss by the weighted average number of common shares outstanding during the period. Basic and diluted net loss per common share were the same since the inclusion of common shares issuable pursuant to the exercise of options and warrants in the calculation of diluted net loss per common shares would have been anti-dilutive.

The following table summarizes the number of common shares and common share equivalents excluded from the calculation of diluted net loss per common share for the nine months ended September 30, 2016 and 2015:

|                               | <b>For the Nine Months Ended<br/>September 30,</b> |                  |
|-------------------------------|--|------------------|
|                               | <b>2016</b>  | <b>2015</b>      |
| Options                       | 5,975,553  | 4,345,596        |
| Warrants                      | 561,262  | 511,262          |
| Shares accrued but not issued | 283,575  | 35,715           |
| Convertible preferred stock   | 1,500,000  | --               |
| Convertible debenture         | 3,800,000  | --               |
| <b>Totals</b>                 | <b>12,120,390</b>                                  | <b>4,892,573</b> |

***Preferred Stock***

The Company applies the accounting standards for distinguishing liabilities from equity under U.S. GAAP when determining the classification and measurement of its convertible preferred stock. Preferred shares subject to mandatory redemption are classified as liability instruments and are measured at fair value. Conditionally redeemable preferred shares (including preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, preferred shares are classified as permanent equity.

As of the issuance date, the carrying amount of the preferred stock was less than the redemption value. If the Company were to determine that redemption was probable, the carrying value would be increased by periodic accretions so that the carrying value would equal the redemption amount at the earliest redemption date. Such accretion would be recorded as a preferred stock dividend.

***Derivative Liabilities***

During the nine months ended September 30, 2016, the Company issued a convertible debenture that included reset provisions considered to be down-round protection. The Company determined that the conversion feature is a derivative instrument pursuant to FASB ASC 815 "Derivatives and Hedging." The accounting treatment of derivative financial instruments requires that the Company bifurcate the conversion feature and record it as a liability at the fair value and mark-to-market the instrument at fair value as of each balance sheet date. Any change in fair value is recorded as a change in the fair value of derivative liabilities for each reporting period. The fair value of the conversion feature was determined using the Binomial Lattice model. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. To allow entities additional time to implement systems, gather data and resolve implementation questions, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, in August 2015, to defer the effective date of ASU No. 2014-09 for one year, which is fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements or disclosures. In addition, the FASB issued ASU 2016-08 in March 2016, to help provide interpretive clarifications on the new guidance in ASC Topic 606. The Company is currently evaluating the accounting, transition, and disclosure requirements of the standard to determine the impact, if any, on its financial statements or disclosures.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 3 - Summary of Significant Accounting Policies (continued)**

***Recent Accounting Pronouncements (continued)***

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers - Principal versus Agent Considerations." This update provides clarifying guidance regarding the application of ASU No. 2014-09 - Revenue From Contracts with Customers when another party, along with the reporting entity, is involved in providing a good or a service to a customer. In these circumstances, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The amendments in the Update clarify the implementation guidance on principal versus agent considerations. The update is effective, along with ASU 2014-09, for annual and interim periods beginning after December 15, 2017. The adoption of ASU 2016-08 is not expected to have a material impact on its financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)" ("ASU 2016-09"). ASU 2016-09 requires an entity to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating ASU 2016-09 and its impact on its financial statements or disclosures.

On May 9, 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2016-12"). ASU 2016-12 provides clarifying guidance in a few narrow areas and adds some practical expedients to the guidance. The effective date and transition requirements for this ASU are the same as the effective date and transition requirements for ASU 2014-09. The Company is evaluating the effect of ASU 2014-09, if any, on its financial statements or disclosures.

The FASB and the SEC have issued certain accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2016 or 2015, and does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

***Subsequent Events***

The Company evaluates events and/or transactions occurring after the balance sheet date and before the issue date of the condensed consolidated financial statements to determine if any of those events and/or transactions requires adjustment to or disclosure in the condensed consolidated financial statements.

**Note 4 – Related Party**

***Due from Related Parties***

Non-interest bearing amounts due on demand from a related party was \$666,000 as of September 30, 2016 and December 31, 2015, and consists primarily of amounts due from Sysorex Consulting, Inc. As Sysorex Consulting, Inc. is a direct shareholder of and an investor in the Company, the amounts due from Sysorex Consulting, Inc. as of September 30, 2016 and December 31, 2015 have been classified in and as a reduction of stockholders' equity.

***Consulting Services Ordering Agreement Amendment***

On March 25, 2016, the Company entered into an Amendment No. 3 to its Consulting Services Ordering Agreement with Mr. A Salam Qureishi, who served as Chairman of the Board and a Director of the Company (the "Consultant") until September 30, 2016, effective March 16, 2016 (the "Amended Agreement"), pursuant to which the Company agreed to pay the Consultant a fee of \$20,000 per month for all consulting services performed during the term of the agreement. In addition, the Amended Agreement provided for an extension of the original term for an additional nine months from March 31, 2016 to December 31, 2016. For the three and nine months ended September 30, 2016 and 2015 the Company recorded a charge of \$90,000 and \$210,000, and \$90,000 and \$270,000, respectively.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 5 - Notes and Other Receivables**

Notes and other receivables at September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

|  | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|-------------------------------|------------------------------|
| Notes receivable                         | \$ 900                        | \$ 900                       |
| Other receivables                        | 394                           | 440                          |
| <b>Total Notes and Other Receivables</b> | <b>\$ 1,294</b>               | <b>\$ 1,340</b>              |

**Note Receivable**

On July 17, 2014, the Company loaned \$900,000 to a third party pursuant to the terms of a promissory note. The promissory note's extended due date is December 31, 2016. The promissory note accrues interest at a rate of 8% per annum. The Company and the third party are negotiating an extension of the note.

**Other Receivables**

Other receivables primarily consist of receivables for cooperative reimbursements from vendors; marketing development funds from vendors; interest receivables; and revenue earned under contracts in advance of billings.

**Note 6 - Inventory**

Inventory at September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

|                        | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|------------------------|-------------------------------|------------------------------|
| Raw materials          | \$ 142                        | \$ 153                       |
| Work in process        | 25                            | 64                           |
| Finished goods         | 685                           | 538                          |
| <b>Total Inventory</b> | <b>\$ 852</b>                 | <b>\$ 755</b>                |



**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 7 – Discontinued Operations**

As of December 31, 2015, the Company's management decided to close its Saudi Arabia legal entity as business activities and operations have been strategically shifted according to the business plan of the Company.

In accordance with ASC topic 360 "Property, Plant and Equipment", the Company has elected to classify the assets and liabilities as discontinued assets and liabilities in the accompanying consolidated financial statements.

The major categories of discontinued assets and liabilities in the consolidated balance sheets at September 30, 2016 and December 31, 2015 (in thousands):

|   | <u>September 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> |
|---|-------------------------------------|------------------------------------|
| <b>Assets</b>                               |                                     |                                    |
| Accounts receivable, net                    | 1                                   | 1                                  |
| Notes and other receivables                 | 8                                   | 8                                  |
| Other assets                                | 763                                 | 763                                |
| <b>Total Current Assets</b>                 | <u>772</u>                          | <u>772</u>                         |
| Other assets                                | --                                  | --                                 |
| <b>Total Assets</b>                         | <u>\$ 772</u>                       | <u>\$ 772</u>                      |
| <b>Liabilities and Stockholders' Equity</b> |                                     |                                    |
| <b>Current Liabilities</b>                  |                                     |                                    |
| Accounts payable                            | \$ 178                              | \$ 178                             |
| Accrued liabilities                         | 900                                 | 888                                |
| Deferred revenue                            | 236                                 | 236                                |
| Due to related party                        | 1                                   | 2                                  |
| Short-term debt                             | 722                                 | 722                                |
| <b>Total Current Liabilities</b>            | <u>2,037</u>                        | <u>2,026</u>                       |
| <b>Long Term Liabilities</b>                | <u>--</u>                           | <u>--</u>                          |
| <b>Total Liabilities</b>                    | <u>\$ 2,037</u>                     | <u>\$ 2,026</u>                    |

The Company has entered into surety bonds with a financial institution in Saudi Arabia which guaranteed performance on certain contracts. Deposits for surety bonds amounted to \$749,000 as of September 30, 2016 and December 31, 2015. These bonds will be released once the related contract is closed out which is expected to occur during the year ended December 31, 2016. Deposits are included on the condensed consolidated balance sheets in assets held for sale.

The Company did not recognize any depreciation or amortization expense related to discontinued operations during the nine months ended September 30, 2016 or 2015. There were no significant capital expenditures or non-cash operating or investing activities of discontinued operations during the periods presented. The operations of Sysorex Arabia were insignificant for the three and nine months ended September 30, 2016 and 2015.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 8 - Deferred Revenue**

Deferred revenue as of September 30, 2016 and December 31, 2015 consisted of the following:

|  | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|--|-------------------------------|------------------------------|
| <b>Deferred Revenue, Current</b>       |                               |                              |
| Maintenance agreements                 | \$ 8,192                      | \$ 9,025                     |
| Service agreements                     | 3,720                         | 70                           |
| <b>Total Deferred Revenue, Current</b> | <u>11,912</u>                 | <u>9,095</u>                 |
| <b>Deferred Revenue, Non-Current</b>   |                               |                              |
| Maintenance agreements                 | 6,764                         | 7,666                        |
| <b>Total Deferred Revenue</b>          | <u>\$ 18,676</u>              | <u>\$ 16,761</u>             |

The fair value of the deferred revenue approximates the services to be rendered.

**Note 9 - Debt**

Debt as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

|   | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|---|-------------------------------|------------------------------|
| <b>Short-Term Debt</b>  |                               |                              |
| Notes payable   | \$ 170                        | \$ 170                       |
| Revolving line of credit  | 4,430                         | 8,580                        |
| Term loan   | --                            | 667                          |
| <b>Total Short-Term Debt</b>  | <u>\$ 4,600</u>               | <u>\$ 9,417</u>              |
| <b>Long-Term Debt</b>   |                               |                              |
| Notes payable   | \$ 212                        | \$ 282                       |
| Term loan, non-current portion                                      | --                            | 944                          |
| Senior secured convertible debenture, less debt discount of \$2,159 | 3,541                         | --                           |
| <b>Total Long-Term Debt</b>   | <u>\$ 3,753</u>               | <u>\$ 1,226</u>              |

***Revolving Line of Credit and Term Loan***

On May 4, 2015 (effective as of April 29, 2015), the Company and Bridge Bank entered into Amendment 4 to Bridge Bank's Business Financing Agreement ("BFA") dated March 15, 2013 to add the Company, Sysorex Federal, AirPatrol and Shoom as borrowers under the agreement (collectively, the "Borrowers"), amend certain financial covenants, increase the credit limit to \$10.0 million and provide for a second term loan of \$2 million which matures on April 29, 2018 of which \$167,000 was used to pay off the balance of the initial term loan. The term loan accrues interest at the greater of 5.25% or Bridge Bank's prime rate plus 2%. The Company will make payments of \$56,000 on the term loan on the first day of each month commencing on May 1, 2015 until the loan amount is paid in full. The balance due on the term loan is scheduled to be paid in full during the year ending December 31, 2018.

Effective as of September 30, 2015 the Borrowers, entered into Amendment 5 (the "Amendment"), dated October 7, 2015, to the BFA, with Western Alliance Bank, as successor in interest ("Western Alliance") to Bridge Bank. Pursuant to Amendment 5, Western Alliance assumed the rights and obligations of Bridge Bank as successor in interest to Bridge Bank and the lender under the Agreement. The Amendment also amended certain financial covenants of the Borrowers required by the Agreement.

***Western Alliance Amendment***

On March 25, 2016, Sysorex Global, together with Sysorex USA and Sysorex Government Services, Inc. (collectively, the "Borrowers") entered into an amendment and waiver (the "Amendment") to the BFA with Western Alliance (the "Lender"), pursuant to which the Lender waived any non-compliance by the Borrowers with respect to the minimum adjusted EBITDA requirements as of December 31, 2015. In addition, the Lender and the Borrowers agreed that the adjusted EBITDA for the six months ended March 31, 2016 would not be less than \$(2,200,000) and on or before April 30, 2016, the Borrowers and Lender must agree to additional financial covenants for the fiscal quarters ended June 30, 2016, September 30, 2016 and December 31, 2016. The lender has agreed to extend the April 30, 2016 deadline and the parties are currently negotiating the additional financial covenants with the exception of the changes the parties have agreed upon in the Amendments No. 6 and No. 7 (as described below).

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 9 – Debt (continued)**

***Western Alliance Amendment No. 6***

On June 3, 2016, the Borrowers entered into Amendment No. 6 to Business Financing Agreement and Forbearance Agreement (the “Amendment”) with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the “Lender”). Pursuant to the Amendment, the Lender agreed to (i) amend the Financing Agreement dated March 15, 2013 (the “Original Agreement”) as described below, (ii) forbear from the exercise of its rights and remedies under the Original Agreement until June 30, 2016, subject to compliance by the Borrowers with certain other conditions as set forth in the Amendment, and (iii) waive certain defaults of the Borrowers, including the Borrowers’ failure to repay overadvances, as defined in the Original Agreement.

Material changes made to the Original Agreement by the Amendment include, but are not limited to: (i) agreement by the Lender to allow the Company to finance a receivable from a customer outside of the United States for a limited period of time; (ii) modification of the date for the repayment of the Term Advance to June 30, 2016; (iii) agreement by the Borrowers to maintain, beginning on June 30, 2016, an Asset Coverage Ratio of not less than 1.25 to 1; and (iv) revisions to the definition of certain terms that are included in the Original Agreement and providing definitions for certain terms that are included in the Amendment.

***Western Alliance Financing Agreement Amendment No. 7***

On August 5, 2016, the Company, together with Sysorex USA and Sysorex Government Services, Inc. (collectively, the “Borrowers”) entered into Amendment No. 7 to Business Financing Agreement with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the “Lender”). Pursuant to the 7th Amendment the Lender agreed to (among other things), (1) waive any non-compliance by the Borrowers with respect to any defaults and consented to the Transaction and (2) the Borrowers agreed to pay the outstanding principal amount of the Term Advance upon the earlier of the closing of the Transaction and August 10, 2016. In addition, the Company agreed to pay a fee of \$200,000 in lieu of issuing an additional warrant to the Lender and agreed to negotiate in good faith to further amend the Agreement to provide for certain financial covenants for periods after August 31, 2016.

***Convertible Debenture and Preferred Stock Financing***

On August 9, 2016, the Company entered into a Purchase Agreement with Hillair Capital Investments L.P. pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of \$5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value \$0.001 per share (the “Preferred Stock”, together with the Debenture, the “Securities”), for an aggregate purchase price of \$5,000,000 (the “Transaction”).

The debenture is due on August 9, 2018 and interest is payable quarterly on February 9, May 9, August 9 and November 9, commencing on May 9, 2017, as well as the dates on which principal payments are made, as described in the agreement in cash, or upon notice to the holder and compliance with certain equity conditions as set forth in the agreement in shares of the Company’s common stock. The debenture is convertible any time at the option of the holder at a conversion price of \$1.50 per share, subject to adjustments provided in the agreement. Subject to certain equity conditions, the Company has the option to redeem the debenture before its maturity by payment in cash of 120% or 110% (depending on the timing of the redemption) of the then outstanding principal amount plus accrued interest and other charges. The Company is required to redeem 25% of the initial principal amount of the debenture plus accrued unpaid interest and other charges in November 2017, February 2018, May 2018, and August 2018.

The debenture is convertible into common stock at any time by the shareholder at \$1.50 per share. In addition under the terms of the agreement if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price then the conversion price is reduced to equal the lower price. The conversion price will have a floor \$0.47 per share.

The Company evaluated the embedded conversion feature within the debenture in accordance with FASB ASC 815 “Derivatives and Hedging.” The conversion price was deemed to have a reset provision with down round protection and was recorded as a derivative liability. The Company calculated the fair value of \$51,000 for the embedded conversion feature using the Binomial Lattice Model which was recorded as a discount to the debenture using the residual method. The debt discount is charged to interest expense ratably over the term of the note and the derivative liability will be marked to market through earnings at the end of each reporting period.

The proceeds from the sale of the Securities will be used for the repayment of the outstanding balance on the Company’s term loan with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the “Lender”) in an amount equal to approximately \$1.4 million, the repayment of accounts payable of at least \$1 million, business development activities, capital expenditures, working capital and general and administrative expenses.

**Note 10 - Common Stock**

During the nine months ended September 30, 2016, the Company issued 95,000 shares of common stock for services which were fully vested upon the date of issuance. The Company recorded an expense of \$47,000 for the fair value of those shares.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 10 - Common Stock (continued)**

During the nine months ended September 30, 2016, the Company issued an aggregate of 1,543,425 shares of common stock to LMS Holding Corp., Chris Baskett and Matthew and Hannah Granade issued in accordance with the terms of that certain Asset Purchase Agreement, dated April 24, 2015 by and among the Company, LightMiner and Chris Baskett. 283,575 shares owed under the Lightminer acquisition remain in escrow as of September 30, 2016. The Company had recorded the \$3,781,000 value of the shares as part of the purchase price of the assets during the quarter ended June 30, 2015.

**Note 11 - Convertible Series 1 Preferred Stock**

On August 9, 2016, the Company entered into a Securities Purchase Agreement pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of \$5,700,000 and (See Note 9) (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock for an aggregate purchase price of \$5,000,000.

The Series 1 Convertible Preferred Stock authorized has a stated price of \$1,000 per share, par value of \$0.001 and the Company is authorized to issue 5,000,0000 shares. The Series 1 Convertible Preferred Stock is not cumulative, has no redemption features outside the control of the Company and has a liquidation preference of \$2,250,000 and is subject to certain typical anti-dilution provisions, such as stock dividend or stock splits.

The Series 1 Convertible Preferred Stock is convertible at any time by the shareholder at \$1.50 per share. In addition under the terms of the agreement if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price, then the conversion price is reduced to equal the lower price. The conversion price will have a floor \$0.47 per share. The holders of the Company's Series 1 Convertible Preferred Stock have no voting rights. Because the conversion option associated with the Series 1 Convertible Preferred Stock is clearly and closely related to the host instrument, the conversion option does not require bifurcation and classification as a derivative liability.

**Note 12 - Stock Options**

During the three months ended March 31, 2016, the Company granted options for the purchase of 102,500 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of \$0.52 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the award was \$27,000. The fair value of the common stock as of the grant date was determined to be \$0.52 per share.

During the three months ended June 30, 2016, the Company granted options for the purchase of 1,131,894 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of \$0.52 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the award was \$292,000. The fair value of the common stock as of the grant date was determined to be \$0.52 per share.

During the three months ended September 30, 2016, the Company granted options for the purchase of 347,500 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of \$0.47 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the award was \$81,000. The fair value of the common stock as of the grant date was determined to be \$0.47 per share.

As of September 30, 2016, the fair value of non-vested options totaled \$2,639,000 which will be amortized to expense over the weighted average remaining term of 1.45 years.

The fair value of each employee option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Key weighted-average assumptions used to apply this pricing model during the three months ended September 30, 2016 and 2015 were as follows:

|   | <b>September 30,<br/>2016</b> | <b>September 30,<br/>2015</b> |
|---|-------------------------------|-------------------------------|
| Risk-free interest rate                 | 1.41%                         | 1.93-2.02%                    |
| Expected life of option grants          | 7 years                       | 7 years                       |
| Expected volatility of underlying stock | 47.47%                        | 51.4%                         |
| Dividends Assumption                    | \$ --                         | \$ --                         |

The expected stock price volatility for the Company's stock options was determined by the historical volatilities for industry peers and used an average of those volatilities. The Company attributes the value of stock-based compensation to operations on the straight-line single option method. Risk free interest rates were obtained from U.S. Treasury rates for the applicable periods. The dividends assumptions was \$0 as the Company historically has not declared any dividends and does not expect to.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 13 – Fair Value**

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices available in active markets for identical assets or liabilities trading in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quotable prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar valuation techniques that use significant unobservable inputs.

Financial instruments, including accounts receivable, accounts payable, accrued liabilities, short term advances and deferred revenues are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The Company’s other financial instruments include notes payable, the carrying value of which approximates fair value, as the notes bear terms and conditions comparable to market for obligations with similar terms and maturities, as well as warrant liabilities that are accounted for at fair value on a recurring basis as of September 30, 2016, by level within the fair value hierarchy (in thousands):

|                             | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets or<br/>Liabilities<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs (Level<br/>2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b> |
|-----------------------------|--|--|--|--------------|
| Embedded Conversion Feature | \$ 0   | \$ 0   | \$ 11  | \$ 11        |

The following table presents the fair value reconciliation of Level 3 liabilities measured at fair value during the nine months ended September 30, 2016 (in thousands):

|                                      | <b>Embedded<br/>Conversion<br/>Feature</b> |
|--------------------------------------|--|
| Balance at January 1, 2016           | \$ 0                                       |
| Included in Debt Discount            | 52   |
| Change in fair value of derivative   | (41)                                       |
| <b>Balance at September 30, 2016</b> | <b>\$ 11</b>                               |

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 14 - Credit Risk and Concentrations**

Financial instruments that subject the Company to credit risk consist principally of trade accounts receivable and cash and cash equivalents. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited.

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. Cash is also maintained at foreign financial institutions for its Canadian subsidiary and its majority-owned Saudi Arabia subsidiary. Cash in foreign financial institutions as of September 30, 2016 and December 31, 2015 was immaterial. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash.

The following table sets forth the percentages of revenue derived by the Company from those customers which accounted for at least 10% of revenues during the nine months ended September 30, 2016 and 2015 (in thousands):

|            | <b>Nine Months Ended<br/>September 30,<br/>2016</b> |          | <b>Nine Months Ended<br/>September 30,<br/>2015</b> |          |
|------------|---|----------|---|----------|
|            | <b>\$</b>   | <b>%</b> | <b>\$</b>   | <b>%</b> |
| Customer A | 10,180  | 26%      | 12,047  | 26%      |
| Customer B | --  | --       | 5,641   | 12%      |

The following table sets forth the percentages of revenue derived by the Company from those customers which accounted for at least 10% of revenues during the three months ended September 30, 2016 and 2015 (in thousands):

|            | <b>Three Months Ended<br/>September 30,<br/>2016</b> |          | <b>Three Months Ended<br/>September 30,<br/>2015</b> |          |
|------------|--|----------|--|----------|
|            | <b>\$</b>  | <b>%</b> | <b>\$</b>  | <b>%</b> |
| Customer A | 1,463  | 13%      | 3,037  | 20%      |
| Customer B | --   | --       | 1,510  | 10%      |
| Customer F | 1,857  | 17%      | --   | --       |

As of September 30, 2016, Customer C represented approximately 51% of total accounts receivable. As of September 30, 2015, Customer A represented approximately 11%, and Customer E represented approximately 11% of total accounts receivable.

As of September 30, 2016, one vendor represented approximately 56% of total gross accounts payable. Purchases from this vendor during the three months ended September 30, 2016 were \$3.7 million. Purchases from this vendor during the nine months ended September 30, 2016 were \$13.5 million. As of September 30, 2015, one vendor represented approximately 54% of total gross accounts payable. Purchases from this vendor during the three months ended September 30, 2015 were \$5.0 million. Purchases from this vendor during the nine months ended September 30, 2015 were \$17.7 million.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 15 - Segment Reporting and Foreign Operations**

The Company operates in the following business segments:

- **Mobile, IoT & Big Data Products:** These products currently include our AirPatrol product line (location-based security and marketing platform for wireless and cellular devices that can detect, monitor and manage the content and behavior of smartphones, tablets and other mobile devices based on their location and user); on-premise big data appliance product (Light Miner Studio “LMS”) and will include future Sysorex owned products.
- **Storage and Computing:** This segment includes third party hardware, software and related maintenance/warranty products and services that Sysorex resells. It includes but is not limited to products for enterprise computing; storage; virtualization; networking; etc.
- **SaaS Revenues:** These are Software-as-a-Services (SaaS) or internet based hosted services including the Shoom product line and cloud based big data analytics services (based on our LMS product) and other data science services; analytics services for AirPatrol products and other managed services on a SaaS basis.
- **Professional Services:** These are general IT services including but not limited to: custom application/software design; architecture and development; project management; C4I system consulting; strategic outsourcing; staff augmentation; data center design and operations services; data migration services and other non-SaaS services.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 15 - Segment Reporting and Foreign Operations (continued)**

The following tables present key financial information of the Company's reportable segments before unallocated corporate expenses (in thousands):

|   | <u>Mobile, IoT &amp;<br/>Big Data<br/>Products</u> | <u>Storage<br/>and Computing</u> | <u>SaaS Revenues</u> | <u>Professional<br/>Services</u> | <u>Consolidated</u> |
|---|--|----------------------------------|----------------------|----------------------------------|---------------------|
| <b>Three Months Ended September 30, 2016:</b> |  |                                  |                      |                                  |                     |
| Net revenues                                  | \$ 542   | \$ 7,865                         | \$ 826               | \$ 2,007                         | \$ 11,240           |
| Cost of net revenues                          | \$ (249)   | \$ (6,625)                       | \$ (239)             | \$ (1,029)                       | \$ (8,142)          |
| Gross profit                                  | \$ 293   | \$ 1,240                         | \$ 587               | \$ 978                           | \$ 3,098            |
| Gross margin %                                | 54%  | 16%                              | 71%                  | 49%                              | 28%                 |
| Depreciation and amortization                 | \$ 122   | \$ 206                           | \$ 6                 | \$ --                            | \$ 334              |
| Amortization of intangibles                   | \$ 728   | \$ 192                           | \$ 136               | \$ --                            | \$ 1,056            |
| <b>Three Months Ended September 30, 2015:</b> |  |                                  |                      |                                  |                     |
| Net revenues                                  | \$ 487   | \$ 10,321                        | \$ 871               | \$ 3,195                         | \$ 14,874           |
| Cost of net revenues                          | \$ (183)   | \$ (8,432)                       | \$ (192)             | \$ (1,679)                       | \$ (10,486)         |
| Gross profit                                  | \$ 304   | \$ 1,889                         | \$ 679               | \$ 1,516                         | \$ 4,388            |
| Gross margin %                                | 62%  | 18%                              | 78%                  | 47%                              | 30%                 |
| Depreciation and amortization                 | \$ 47  | \$ 36                            | \$ 64                | \$ 1                             | \$ 148              |
| Amortization of intangibles                   | \$ 728   | \$ 192                           | \$ 136               | \$ --                            | \$ 1,056            |
| <b>Nine Months Ended September 30, 2016:</b>  |  |                                  |                      |                                  |                     |
| Net revenues                                  | \$ 1,228   | \$ 26,692                        | \$ 2,446             | \$ 8,293                         | \$ 38,659           |
| Cost of net revenues                          | \$ (416)   | \$ (21,947)                      | \$ (649)             | \$ (5,158)                       | \$ (28,170)         |
| Gross profit                                  | \$ 812   | \$ 4,745                         | \$ 1,797             | \$ 3,135                         | \$ 10,489           |
| Gross margin %                                | 66%  | 18%                              | 73%                  | 38%                              | 27%                 |
| Depreciation and amortization                 | \$ 290   | \$ 574                           | \$ 19                | \$ 1                             | \$ 884              |
| Amortization of intangibles                   | \$ 2,185   | \$ 576                           | \$ 408               | \$ --                            | \$ 3,169            |
| <b>Nine Months Ended September 30, 2015:</b>  |  |                                  |                      |                                  |                     |
| Net revenues                                  | \$ 862   | \$ 33,970                        | \$ 2,831             | \$ 9,031                         | \$ 46,694           |
| Cost of net revenues                          | \$ (377)   | \$ (27,261)                      | \$ (620)             | \$ (4,305)                       | \$ (32,563)         |
| Gross profit                                  | \$ 485   | \$ 6,709                         | \$ 2,211             | \$ 4,726                         | \$ 14,131           |
| Gross margin %                                | 56%  | 20%                              | 78%                  | 52%                              | 30%                 |
| Depreciation and amortization                 | \$ 102   | \$ 98                            | \$ 70                | \$ 2                             | \$ 272              |
| Amortization of intangibles                   | \$ 1,954   | \$ 576                           | \$ 408               | \$ --                            | \$ 2,938            |



**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 15 - Segment Reporting and Foreign Operations (continued)**

Reconciliation of reportable segments' combined income from operations to the consolidated loss before income taxes is as follows (in thousands):

|   | <b>For the Three Months Ended<br/>September 30,</b> |                   | <b>For the Nine Months Ended<br/>September 30,</b> |                   |
|---|---|-------------------|--|-------------------|
|   | <b>2016</b>   | <b>2015</b>       | <b>2016</b>  | <b>2015</b>       |
| Income from operations of reportable segments | \$ 3,098  | \$ 4,388          | \$ 10,489  | \$ 14,131         |
| Unallocated operating expenses                | (7,240)   | (7,511)           | (22,761)   | (21,757)          |
| Interest expense                              | (639)   | (120)             | (1,037)  | (340)             |
| Other income (expense)                        | 61  | 71                | 108  | 196               |
| Consolidated loss before income taxes         | <u>\$ (4,720)</u>                                   | <u>\$ (3,172)</u> | <u>\$ (13,201)</u>                                 | <u>\$ (7,770)</u> |

The Company's operations are located primarily in the United States, Canada and Saudi Arabia. Revenues by geographic area are attributed by country of domicile of our subsidiaries. The financial data by geographic area are as follows (in thousands):

|   | <b>United<br/>States</b> | <b>Canada</b> | <b>Saudi<br/>Arabia</b> | <b>Eliminations</b> | <b>Total</b> |
|---|--------------------------|---------------|-------------------------|---------------------|--------------|
| <b>Three Months Ended September 30, 2016:</b> |                          |               |                         |                     |              |
| Revenues by geographic area                   | \$ 11,231                | \$ 9          | \$ --                   | \$ --               | \$ 11,240    |
| Operating loss by geographic area             | \$ (3,622)               | \$ (511)      | \$ (9)                  | \$ --               | \$ (4,142)   |
| Net loss by geographic area                   | \$ (4,200)               | \$ (511)      | \$ (9)                  | \$ --               | \$ (4,720)   |
| <b>Three Months Ended September 30, 2015:</b> |                          |               |                         |                     |              |
| Revenues by geographic area                   | \$ 14,862                | \$ 12         | \$ --                   | \$ --               | \$ 14,874    |
| Operating loss by geographic area             | \$ (2,835)               | \$ (280)      | \$ (8)                  | \$ --               | \$ (3,123)   |
| Net loss by geographic area                   | \$ (2,884)               | \$ (280)      | \$ (8)                  | \$ --               | \$ (3,172)   |
| <b>Nine Months Ended September 30, 2016:</b>  |                          |               |                         |                     |              |
| Revenues by geographic area                   | \$ 38,605                | \$ 54         | \$ --                   | \$ --               | \$ 38,659    |
| Operating loss by geographic area             | \$ (10,903)              | \$ (1,344)    | \$ (25)                 | \$ --               | \$ (12,272)  |
| Net loss by geographic area                   | \$ (11,832)              | \$ (1,344)    | \$ (25)                 | \$ --               | \$ (13,201)  |
| <b>Nine Months Ended September 30, 2015:</b>  |                          |               |                         |                     |              |
| Revenues by geographic area                   | \$ 46,664                | \$ 30         | \$ --                   | \$ --               | \$ 46,694    |
| Operating loss by geographic area             | \$ (6,830)               | \$ (772)      | \$ (24)                 | \$ --               | \$ (7,626)   |
| Net loss by geographic area                   | \$ (6,984)               | \$ (772)      | \$ (14)                 | \$ --               | \$ (7,770)   |
| <b>As of September 30, 2016:</b>              |                          |               |                         |                     |              |
| Identifiable assets by geographic area        | \$ 55,761                | \$ 487        | \$ 772                  | \$ --               | \$ 57,020    |
| Long lived assets by geographic area          | \$ 30,220                | \$ 325        | \$ --                   | \$ --               | \$ 30,545    |
| <b>As of December 31, 2015:</b>               |                          |               |                         |                     |              |
| Identifiable assets by geographic area        | \$ 67,538                | \$ 405        | \$ 772                  | \$ --               | \$ 68,715    |
| Long lived assets by geographic area          | \$ 32,759                | \$ 241        | \$ --                   | \$ --               | \$ 33,000    |

**Note 16 - Commitments and Contingencies**

**Litigation**

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

**SYSOREX GLOBAL**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**Note 16 - Commitments and Contingencies (continued)**

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

During the year ended December 31, 2011, a judgment in the amount of \$936,000 was levied against Sysorex Arabia LLC in favor of Creative Edge, Inc. in connection with amounts advanced for operations. Of that amount, \$214,000 has been repaid, \$515,000 will be repaid through a surety bond and the remaining \$207,000 has been accrued and is included as a component of liabilities held for sale as of September 30, 2016 and December 31, 2015 in the condensed consolidated balance sheets.

**Note 17 – Subsequent Events**

***Integrio Technologies Asset Acquisition***

**Asset Purchase Agreement**

On November 14, 2016, the Company and its wholly-owned subsidiary, Sysorex Government Services, Inc. entered into an Asset Purchase Agreement with Integrio Technologies, LLC, a Delaware limited liability company ("Integrio") and Emtec Federal, LLC, a Delaware limited liability company and wholly-owned subsidiary of Integrio, which are in the business of providing IT integration and engineering services to customers, primarily government agencies. The consideration to be paid for the Assets will include an aggregate of (A) \$1,800,000 in cash, of which \$1,400,000 minus the Seller's Cash On Hand (as defined in the Purchase Agreement) and certain amounts payable to creditors of the Seller shall be paid upon the closing of the Acquisition (the "Closing") and \$400,000 shall be paid in two (2) annual installments of \$200,000 each on the respective anniversary dates of the Closing, subject to certain set offs and recoupment by Buyer; (B) 530,000 unregistered restricted shares of the Company's voting common stock valued at \$1.50 per share; (C) the aggregate amount of certain specified assumed liabilities; and (D) up to an aggregate of \$1,200,000 in earnout payments, of which up to \$400,000 shall be payable to the Seller per year for the three years following the Closing.

***GemCap Lending Loan and Security Agreement***

The Company and its wholly-owned subsidiaries, Sysorex USA and Sysorex Government Services, Inc. (jointly and severally, the "Borrower"), entered into a Loan and Security Agreement (the "Loan Agreement") with GemCap Lending I, LLC, a Delaware limited liability company (the "Lender") dated as of November 14, 2016.

Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, the Lender has agreed to make revolving credit loans to the Borrower in an aggregate principal amount which does not exceed 85% of Eligible Accounts (as defined in the Purchase Agreement) at any one time outstanding, net of all taxes, discounts, allowances and credits given or claimed, provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed \$10 million (subject to certain conditions). All amounts due under the Loan Agreement upon funding will be secured by the assets of the Company.

Borrowings pursuant to the Loan Agreement will bear interest at an annual rate equal to the greater of (a) 9.5% and (b) the sum of (i) the "Prime Rate" as reported in the "Money Rates" column of The Wall Street Journal, adjusted as and when such Prime Rate changes, plus (ii) 6%. The interest rate on borrowings is subject to increase by 4% if an event of default has occurred and is continuing.

In connection with the Loan and Security Agreement, the Borrower will pay to the Lender a \$100,000 closing fee. The Lender will also receive (a) an annual line fee equal to \$100,000; (b) an unused line fee equal to 0.5% of the daily average unused portion of the maximum amount of Availability (as defined in the Loan Agreement), calculated on an annualized basis, due and payable monthly; (c) a loan administration and monitoring fee equal to 0.5% of the daily average used portion of Availability calculated on a monthly basis, due and payable monthly; and (d) certain other audit and wire fees. The closing of the transactions contemplated by the Loan Agreement are subject to the satisfaction of certain closing conditions.

Upon closing, the Loan and Security Agreement will provide the Borrower with a revolving line of credit, the proceeds of which are to be used to repay in full the existing indebtedness owed to Western Alliance Bank, as successor in interest to Bridge Bank, N.A.; pay certain expenses related to obtaining the revolving line of credit and for general working capital purposes.

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

### *Forward-Looking Statement Notice*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q (the "Form 10-Q"). In addition to historical information, this discussion and analysis here and throughout this Form 10-Q contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements, due to a number of factors, including but not limited to, risks described in the section entitled "Risk Factors." (Unless otherwise stated or the context otherwise requires, the terms "Sysorex," "we," "us," "our" and the "Company" refer collectively to Sysorex Global and its subsidiaries.)*

### **Overview of Our Business**

Sysorex provides data analytics and indoor-location based solutions and services to commercial and government customers worldwide. We have developed a discovery platform that blends data from traditional software and network systems with the growing universe of mobile and Internet-connected things. In doing so, we have created a high velocity, secure and scalable platform that we believe allows customers to evaluate their most complex business issues, helping them to compete successfully in their respective markets. Our analytics products provide turnkey vertical solutions from ETL (extract, transform, load) to BI (business intelligence) to the final visualization of the data. These solutions are available on-premise or in the Cloud.

Our AirPatrol product provides indoor-locationing based on cellular, wifi and Bluetooth signals in one sensor. As far as we know, there is no competitor that can offer all three of these in one product and provide the accuracy and comprehensiveness of our AirPatrol platform. AirPatrol can be used for security applications; retail analytics; asset tracking and a variety of other use-cases. We are expanding the RF signal range that our sensors can detect so that we can detect any type of wireless device whether it be a drone or some RFID or beacon embedded sensor.

Our LightMiner product line has two patents pending. LightMiner Studio is an in-memory, real-time, data analysis system designed to perform very large, highly complex and extremely difficult calculations using off-the-shelf hardware and memory. It supports both traditional SQL-based business intelligence and analytics applications as well as a host of integrated statistical, machine learning and artificial intelligence algorithms allowing it to provide supercomputer-like performance at competitive prices. LightMiner is at the core of our analytics platform and can be used for machine-to-machine (M2M) analytics; consumer analytics; predictive analytics; security; and other data analysis projects. LightMiner fully integrates with our AirPatrol product and, in our opinion, the combined offering is a valuable addition to the Internet of Things (IoT) market.

Sysorex also provides supporting products and services including enterprise computing and storage, virtualization, business continuity, data migration, custom application development, networking and information technology business consulting services. These allow Sysorex to offer turnkey solutions when requested by customers.

Revenues from our storage and computing segment are primarily driven by purchase orders that are received on a monthly basis. During the nine months ended September 30, 2016 approximately 34% of such revenues are based on recurring contracts that range from one to five years for warranty and maintenance support. For these contracts, the customer is invoiced one time and pays Sysorex upfront for the full term of the warranty and maintenance contract. Revenue from these contracts is determinable ratably over the contract period with the unearned revenue recorded as deferred revenue and amortized over the contract period.

Our Software-as-a-Service (SaaS) contracts are typically performed for periods of one or more years. Sysorex SaaS products include its Shoom product line for the media and entertainment vertical, cloud based analytics services and other related services.

Our mobile, IoT and data analytics products segment includes our AirPatrol and LightMiner product lines. Sales for these products are expected to grow as we expand our offering beyond the government vertical to commercial verticals including Retail, Banking and Healthcare.

## Recent Events

### *Convertible Debenture and Preferred Stock Financing*

On August 9, 2016, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Hillair Capital Investments L.P. (the "Investor") pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture (the "Debenture") in an aggregate principal amount of \$5,700,000 (the "Principal Amount") due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value \$0.001 per share (the "Preferred Stock", together with the Debenture, the "Securities"), for an aggregate purchase price of \$5,000,000 (the "Transaction").

The proceeds from the sale of the Securities will be used for the repayment of the outstanding balance on the Company's term loan with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the "Lender") in an amount equal to approximately \$1.4 million, the repayment of accounts payable of at least \$1 million, business development activities, capital expenditures, working capital and general and administrative expenses.

### *Debenture*

**Interest and Conversion.** Interest on the Debenture accrues at a rate of 8.0% per annum and is payable quarterly on February 9, May 9, August 9 and November 9, commencing on May 9, 2017, as well as the dates on which principal payments are made, as described in the Debenture in cash, or upon notice to the holder and compliance with certain equity conditions as set forth in the Debenture in shares of the Company's common stock. The number of shares of common stock to be paid for any interest payment equals to the quotient of (x) the applicable dollar amount to be paid divided by (y) the Conversion Price (as defined below). Subject to certain limitations including the beneficial ownership limitation and the maximum issuable shares limitation equal to 19.99% of the issued and outstanding common stock of the Company, which may be removed upon receipt of shareholder approval, the Debenture is convertible at any time at the option of the holder at a conversion price of \$1.50 per share, subject to adjustments provided in the Debenture (the "Conversion Price").

**Redemption.** Subject to certain equity conditions, the Company has the option to redeem the Debenture before its maturity by payment in cash of 120% or 110% (depending on the timing of the redemption) of the then outstanding principal amount plus accrued interest and other charges. The Company is required to redeem 25% of the initial principal amount plus accrued unpaid interest and other charges on November 9, 2017, February 9, 2018, May 9, 2018, and August 9, 2018 (each, a "Periodic Redemption"). In lieu of a cash Periodic Redemption payment, the Company may, upon notice to the holder and compliance with certain equity conditions, elect to pay all or part of a Periodic Redemption in shares of common stock based on a conversion price equal to the Conversion Price.

**Default Events.** Each of the following events shall constitute an event of default: failure to make a payment obligation, failure to observe certain covenants of the Debenture or related agreements (subject to applicable cure periods), breach of representation or warranty, bankruptcy, default under another significant contract or credit obligation, delisting of the common stock, a change in control, or failure to deliver stock certificates in a timely manner. In the event of a default, the Investor shall have the right to accelerate all amounts outstanding under the Debenture and demand a mandatory default payment in an amount (the "Mandatory Default Amount") equal to the greater of (i) the outstanding principal amount of this Debenture, plus all accrued and unpaid interest, divided by the Conversion Price on the date the Mandatory Default Amount is either (A) demanded (if demand or notice is required to create an Event of Default) or otherwise due or (B) paid in full, whichever has a lower Conversion Price, multiplied by the VWAP (as defined in the Debenture) on the date the Mandatory Default Amount is either (x) demanded or otherwise due or (y) paid in full, whichever has a higher VWAP, or (ii) 125% of the outstanding principal amount plus 100% of accrued and unpaid interest, and (b) all other amounts, costs, expenses and liquidated damages due in respect of the Debenture.

**Security.** The Debenture is secured with a subordinated lien by certain property of the Company in accordance with the terms of a Security Agreement, dated August 9, 2016 by and among the Company, each of its subsidiaries and the Investor (the "Security Agreement"). Each of the subsidiaries also entered into a guarantee in favor of the Investor (the "Subsidiary Guarantee"), pursuant to which each subsidiary guaranteed the complete payment and performance by the Company of its obligations under the Debenture and related agreements.

### ***The Preferred Stock***

The rights, preferences and privileges of the Preferred Stock issued under the Securities Purchase Agreement are set forth in a Certificate of Designation of Preferences, Rights and Limitations of Series 1 Convertible Preferred Stock, filed with the Secretary of State of Nevada on August 5, 2016, as revised by the Certificate of Correction filed with the State of Nevada on August 9, 2016, effective upon filing (as amended, the "Certificate"). The stated value of each share of Preferred Stock is \$1,000, subject to increase pursuant to the Certificate (the "Stated Value"). The holder of the Preferred Stock shall be entitled to receiving dividends equal to dividends actually paid on shares of the common stock when such dividends are paid on shares of the common stock. The Preferred Stock has no voting rights however, the Company shall not take certain actions without the consent of a majority of the outstanding holders of the Preferred Stock, including, issuing additional securities senior to or on par with the Preferred Stock, amending the Certificate in any manner adverse to the rights of the Preferred Stock, or increasing the number of authorized shares of the Preferred Stock.

**Conversion.** Subject to certain limitations including the beneficial ownership limitation and the maximum issuable shares limitation as specified in the Certificate, the Preferred Stock is convertible by the holder at any time into a number of shares of common stock equal to the quotient obtained by dividing the Stated Value by the then applicable Conversion Price.

**Other Rights.** Upon liquidation, the holder of Preferred Stock shall be entitled to an amount equal to the Stated Value, plus any accrued and unpaid dividends and any other fees then due under the Certificate before any distribution is made to the holders of the junior securities, including common stock, and shall have certain rights to anti-dilution protection.

### ***Western Alliance Financing Agreement Amendment No. 6 & No. 7***

On June 3, 2016, the Company, together with Sysorex USA and Sysorex Government Services, Inc. (collectively, the "Borrowers") entered into Amendment No. 6 to Business Financing Agreement and Forbearance Agreement (the "6th Amendment") with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the "Lender"). Pursuant to the 6th Amendment, the Lender agreed to (i) amend the Business Financing Agreement dated March 15, 2013, as amended from time to time (the "Agreement") as described below, (ii) forbear from the exercise of its rights and remedies under the Agreement until June 30, 2016, subject to compliance by the Borrowers with certain other conditions as set forth in the Amendment, and (iii) waive certain defaults of the Borrowers, including the Borrowers' failure to repay overadvances, as defined in the Original Agreement.

Material changes made to the Agreement by the 6th Amendment include, but are not limited to: (i) agreement by the Lender to allow the Company to finance a receivable from a customer outside of the United States for a limited period of time; (ii) modification of the date for the repayment of Term Advance B (as defined in the Agreement) to June 30, 2016; (iii) agreement by the Borrowers to maintain, beginning on June 30, 2016, an Asset Coverage Ratio (as defined in the Amendment) of not less than 1.25 to 1; and (iv) revisions to the definition of certain terms that are included in the Original Agreement and providing definitions for certain terms that are included in the Amendment.

On August 5, 2016, the Borrowers and the Lender entered into an amendment and waiver (the "7th Amendment") to the Agreement, pursuant to which the Lender, agreed to (among other things), (1) waived any non-compliance by the Borrowers with respect to any defaults and consented to the Transaction and (2) the Borrowers agreed to pay the outstanding principal amount of the Term Advance B upon the earlier of the closing of the Transaction and August 10, 2016. In addition, the Company agreed to pay a fee of \$200,000 in lieu of issuing an additional warrant to the Lender and agreed to negotiate in good faith to further amend the Agreement to provide for certain financial covenants for periods after August 31, 2016.

## **Integrio Technologies Asset Acquisition**

On November 14, 2016 (the “Execution Date”), Sysorex Global (the “Company”) and Sysorex Government Services, Inc., a wholly-owned subsidiary of the Company (the “Buyer”, and together with the Company, the “Buyer Parties”) entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Integrio Technologies, LLC, a Delaware limited liability company (“Seller”) and Emtec Federal, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Seller (“Seller Sub” and together with Seller, “Seller Parties”), which are in the business of providing IT integration and engineering services to customers, primarily government agencies. Pursuant to the Purchase Agreement, the Buyer intends to acquire substantially all, with the exception of certain excluded assets described in the Purchase Agreement, of the business and assets of the Seller Parties (the “Assets”), and will assume certain specified liabilities, (the “Assumed Liabilities”) (the “Acquisition”).

The consideration to be paid for the Assets will include an aggregate of (A) \$1,800,000 in cash, of which \$1,400,000 minus the Seller’s Cash On Hand (as defined in the Purchase Agreement) and certain amounts payable to creditors of the Seller shall be paid upon the closing of the Acquisition (the “Closing”) and \$400,000 shall be paid in two (2) annual installments of \$200,000 each on the respective anniversary dates of the Closing, subject to certain set offs and recoupment by Buyer; (B) 530,000 unregistered restricted shares of the Company’s voting common stock valued at \$1.50 per share; (C) the aggregate amount of certain specified assumed liabilities; and (D) up to an aggregate of \$1,200,000 in earnout payments, of which up to \$400,000 shall be payable to the Seller per year for the three years following the Closing.

The Closing of the Acquisition is subject to the satisfaction of certain customary closing conditions.

The foregoing is only a summary of the Purchase Agreement which is qualified in its entirety by the full text of the Purchase Agreement which will be filed with the Securities and Exchange Commission within four business days of the execution date.

On November 14, 2016 the Company issued a press release relating to the execution of the Purchase Agreement.

## **GemCap Lending Loan Agreement**

The Company and its wholly-owned subsidiaries, Sysorex USA and Sysorex Government Services, Inc. (jointly and severally, the “Borrower”), entered into a Loan and Security Agreement (the “Loan Agreement”) with GemCap Lending I, LLC, a Delaware limited liability company (the “Lender”) dated as of November 14, 2016.

Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, the Lender has agreed to make revolving credit loans to the Borrower in an aggregate principal amount which does not exceed 85% of Eligible Accounts (as defined in the Purchase Agreement) at any one time outstanding, net of all taxes, discounts, allowances and credits given or claimed, provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed \$10 million (subject to certain conditions). All amounts due under the Loan Agreement upon funding will be secured by the assets of the Company.

Borrowings pursuant to the Loan Agreement will bear interest at an annual rate equal to the greater of (a) 9.5% and (b) the sum of (i) the “Prime Rate” as reported in the “Money Rates” column of The Wall Street Journal, adjusted as and when such Prime Rate changes, plus (ii) 6%. The interest rate on borrowings is subject to increase by 4% if an event of default has occurred and is continuing.

In connection with the Loan and Security Agreement, the Borrower will pay to the Lender a \$100,000 closing fee. The Lender will also receive (a) an annual line fee equal to \$100,000; (b) an unused line fee equal to 0.5% of the daily average unused portion of the maximum amount of Availability (as defined in the Loan Agreement), calculated on an annualized basis, due and payable monthly; (c) a loan administration and monitoring fee equal to 0.5% of the daily average used portion of Availability calculated on a monthly basis, due and payable monthly; and (d) certain other audit and wire fees. The closing of the transactions contemplated by the Loan Agreement are subject to the satisfaction of certain closing conditions.

Upon closing, the Loan and Security Agreement will provide the Borrower with a revolving line of credit, the proceeds of which are to be used to repay in full the existing indebtedness owed to Western Alliance Bank, as successor in interest to Bridge Bank, N.A.; pay certain expenses related to obtaining the revolving line of credit and for general working capital purposes.

## **JOBS Act**

Pursuant to Section 107 of the JOBS Act, emerging growth companies may delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected to opt out of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles, or GAAP. In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in note 3 of our condensed consolidated financial statements. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. There have been no changes to estimates during the periods presented in the filing. Historically changes in management estimates have not been material.

## **Revenue Recognition**

We provide IT solutions and services to customers with revenues currently derived primarily from the sale of third-party hardware and software products, software, assurance, licenses and other consulting services, including maintenance services. The products and services we sell, and the manner in which they are bundled, are technologically complex and the characterization of these products and services require judgment in order to apply revenue recognition policies. For all of these revenue sources, we determine whether we are the principal or agent in accordance with Accounting Standards Codification Topic, 605-45 Principal Agent Considerations.

We allocate the total arrangement consideration to the deliverables based on an estimated selling price of our products and services and report revenues containing multiple deliverable arrangements under ASC 605-25 "Revenue Arrangements with Multiple Deliverables" ("ASC-605-25"). These multiple deliverable arrangements primarily consist of the following deliverables: third-party computer hardware, third-party software, hardware and software maintenance (a.k.a. support), and third-party services. We determine the estimated selling price using cost plus a reasonable margin for each deliverable, which was based on our established policies and procedures for providing customers with quotes, as well as historical gross margins for our products and services. From time to time our personnel are contracted to perform installation and services for the customer. In situations where we bundle all or a portion of the separate elements, vendor specific objective evidence (VSOE) is determined based on prices when sold separately. Our revenue recognition policies vary based upon these revenue sources and the mischaracterization of these products and services could result in misapplication of revenue recognition policies.

We recognize revenue when the following criteria are met (1) persuasive evidence of an arrangement exists, (2) shipment (software and hardware) or fulfillment (maintenance) has occurred and applicable services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Generally, these criteria are met upon shipment to customers with respect to the sales of hardware and software products. With respect to our maintenance and other service agreements, this criteria is met once the service has been provided. Revenue from the sales of our services on time and material contracts is recognized based on a fixed hourly rate as direct labor hours are expended. We recognize revenue for sales of all services on a fixed fee ratably over the term of the arrangement as such services are provided. The Company evaluates whether the revenues it receives from the sale of hardware and software products, licenses, and services, including maintenance and professional consulting services should be recognized on a gross or net basis on a transaction-by-transaction basis. We maintain primary responsibility for the materials and procedures utilized to service our customers, even in connection with the sale of third party-products and maintenance services, as we are responsible for the fulfillment and acceptability of the products and services purchased by our customers. In addition, the nature of the products sold to our customers are such that they need configuration in order to be utilized properly for the purposes intended by the customer and therefore we assume certain responsibility for product staging, configuration, installation, modification, and integration with other client systems, or retain general inventory risk upon customer return or rejection. Our customers rely on us to develop the appropriate solutions and specifications applicable to their specific systems and then integrate any such required products or services into their systems. As described above, we are responsible for the day-to-day maintenance and warranty services provided in connection with all of our existing customer relationships, whether such services are ultimately provided directly by the Company and its employees or by the applicable third party service provider. As of the date of this filing, after an evaluation of all of our existing customer relationships, we have concluded that we are the primary obligor to all of our existing customers and therefore recognize all revenues on a gross basis.

## **Long-lived Assets**

We account for our long-lived assets in accordance with Accounting Standards Codification ("ASC") 360, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("ASC 360"), which requires that long-lived assets be evaluated whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Some of the events or changes in circumstances that would trigger an impairment test include, but are not limited to:

- significant under-performance relative to expected and/or historical results (negative comparable sales growth or operating cash flows for two consecutive years);
- significant negative industry or economic trends;
- knowledge of transactions involving the sale of similar property at amounts below our carrying value; or
- our expectation to dispose of long-lived assets before the end of their estimated useful lives, even though the assets do not meet the criteria to be classified as "held for sale."

Long-lived assets are grouped for recognition and measurement of impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. The impairment test for long-lived assets requires us to assess the recoverability of our long-lived assets by comparing their net carrying value to the sum of undiscounted estimated future cash flows directly associated with and arising from our use and eventual disposition of the assets. If the net carrying value of a group of long-lived assets exceeds the sum of related undiscounted estimated future cash flows, we would be required to record an impairment charge equal to the excess, if any, of net carrying value over fair value.

When assessing the recoverability of our long-lived assets, which include property and equipment and finite-lived intangible assets, we make assumptions regarding estimated future cash flows and other factors. Some of these assumptions involve a high degree of judgment and also bear a significant impact on the assessment conclusions. Included among these assumptions are estimating undiscounted future cash flows, including the projection of comparable sales, operating expenses, capital requirements for maintaining property and equipment and residual value of asset groups. We formulate estimates from historical experience and assumptions of future performance, based on business plans and forecasts, recent economic and business trends, and competitive conditions. In the event that our estimates or related assumptions change in the future, we may be required to record an impairment charge. Based on our evaluation we did not record a charge for impairment for the nine months ended September 30, 2016 and 2015.

We evaluate the remaining useful lives of long-lived assets and identifiable intangible assets whenever events or circumstances indicate that a revision to the remaining period of amortization is warranted. Such events or circumstances may include (but are not limited to): the effects of obsolescence, demand, competition, and/or other economic factors including the stability of the industry in which we operate, known technological advances, legislative actions, or changes in the regulatory environment. If the estimated remaining useful lives change, the remaining carrying amount of the long-lived assets and identifiable intangible assets would be amortized prospectively over that revised remaining useful life. We have determined that there were no events or circumstances during the nine months ended September 30, 2016 or 2015, which would indicate a revision to the remaining amortization period related to any of our long-lived assets. Accordingly, we believe that the current estimated useful lives of long-lived assets reflect the period over which they are expected to contribute to future cash flows and are therefore deemed appropriate.

#### ***Goodwill and Indefinite-lived Assets***

We have recorded goodwill and other indefinite-lived assets in connection with our acquisitions of Lilien, Shoom, AirPatrol and LightMiner. Goodwill, which represents the excess of acquisition cost over the fair value of the net tangible and intangible assets of the acquired company, is not amortized. Indefinite-lived intangible assets are stated at fair value as of the date acquired in a business combination. Our goodwill balance and other assets with indefinite lives are evaluated for potential impairment during the fourth quarter of each year and in certain other circumstances. The evaluation of impairment involves comparing the current fair value of the business to the recorded value, including goodwill. To determine the fair value of the business, we utilize both the “income approach”, which is based on estimates of future net cash flows and the “market approach”, which observes transactional evidence involving similar businesses. There was no goodwill impairment for the nine months ended September 30, 2016 or 2015.

#### ***Deferred Income Taxes***

In accordance with ASC 740 “Income Taxes” (“ASC 740”), management routinely evaluates the likelihood of the realization of its income tax benefits and the recognition of its deferred tax assets. In evaluating the need for any valuation allowance, management will assess whether it is more likely than not that some portion, or all, of the deferred tax asset may not be realized. Ultimately, the realization of deferred tax assets is dependent upon the generation of future taxable income during those periods in which temporary differences become deductible and/or tax credits and tax loss carry-forwards can be utilized. In performing its analyses, management considers both positive and negative evidence including historical financial performance, previous earnings patterns, future earnings forecasts, tax planning strategies, economic and business trends and the potential realization of net operating loss carry-forwards within a reasonable timeframe. To this end, management considered (i) that we have had historical losses in the prior years and cannot anticipate generating a sufficient level of future profits in order to realize the benefits of our deferred tax asset; (ii) tax planning strategies; and (iii) the adequacy of future income as of and for the nine months ended September 30, 2016, based upon certain economic conditions and historical losses through September 30, 2016. After consideration of these factors, management deemed it appropriate to establish a full valuation allowance.

A liability for “unrecognized tax benefits” is recorded for any tax benefits claimed in the Company’s tax filings that do not meet these recognition and measurement standards. For the nine months ended September 30, 2016 and 2015, no liability for unrecognized tax benefits was required to be reported. The guidance also discusses the classification of related interest and penalties on income taxes. The Company’s policy is to record interest and penalties on uncertain tax positions as a component of income tax expense. No interest or penalties were recorded during the nine months ended September 30, 2016 and 2015.



### *Allowance for Doubtful Accounts*

We maintain our reserves for credit losses at a level believed by management to be adequate to absorb potential losses inherent in the respective balances. We assign an internal credit quality rating to all new customers and update these ratings regularly, but no less than annually. Management's determination of the adequacy of the reserve for credit losses for our accounts and notes receivable is based on the age of the receivable balance, the customer's credit quality rating, an evaluation of historical credit losses, current economic conditions, and other relevant factors.

As of September 30, 2016 and December 31, 2015, allowance for credit losses included a general allowance of \$697,000 and \$285,000, respectively, due to the aging of the items greater than 120 days outstanding and other potential non-collections.

### *Business Combinations*

We account for business combinations using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year from the date of acquisition, will change the amount of the purchase price allocable to goodwill. Any subsequent changes to any purchase price allocations that are material to our condensed consolidated financial results will be adjusted. All acquisition costs are expensed as incurred and in-process research and development costs are recorded at fair value as an indefinite-lived intangible asset and assessed for impairment thereafter until completion, at which point the asset is amortized over its expected useful life. Separately recognized transactions associated with business combinations are generally expensed subsequent to the acquisition date. The application of business combination and impairment accounting requires the use of significant estimates and assumptions.

Upon acquisition, the accounts and results of operations are consolidated as of and subsequent to the acquisition date and are included in our Condensed Consolidated Financial Statements from the acquisition date.

### *Stock-Based Compensation*

We account for equity instruments issued to non-employees in accordance with accounting guidance, which requires that such equity instruments are recorded at their fair value on the measurement date, which is typically the date the services are performed.

We account for equity instruments issued to employees in accordance with accounting guidance that requires that awards are recorded at their fair value on the date of grant and are amortized over the vesting period of the award. We recognize compensation costs over the requisite service period of the award, which is generally the vesting term of the equity instrument issued.

The Black-Scholes option valuation model is used to estimate the fair value of the options or the equivalent security granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted.

The principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

|   | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |            |
|---|---|------------|--|------------|
|   | 2016  | 2015       | 2016                                       | 2015       |
| Risk-free interest rate                 | 1.41%                                       | 1.93-2.02% | 1.35-1.47%                                 | 1.87-2.02% |
| Expected life of option grants          | 7 years                                     | 7 years    | 7 years                                    | 7 years    |
| Expected volatility of underlying stock | 47.47%                                      | 51.4%      | 47.47-49.02%                               | 39.4-51.4% |
| Dividends                               | \$0   | \$0        | \$0  | \$0        |

The Company incurred stock-based compensation charges, net of estimated forfeitures of \$344,000 and \$391,000 for the three months ended September 30, 2016 and 2015, and \$1,055,000 and \$885,000 for the nine month period ended September 30, 2016 and 2015, respectively.

## Operating Segments

The Company operates in the following business segments:

- **Mobile, IoT & Big Data Products:** These products currently include our AirPatrol product line (location-based security and marketing platform for wireless and cellular devices that can detect, monitor and manage the content and behavior of smartphones, tablets and other mobile devices based on their location and user); on-premise big data appliance product (Light Miner Studio “LMS”) and will include future Sysorex owned products.
- **Storage and Computing:** This segment includes third party hardware, software and related maintenance/warranty products and services that Sysorex resells. It includes but is not limited to products for enterprise computing; storage; virtualization; networking; etc.
- **SaaS Revenues:** These are Software-as-a-Services (SaaS) or Internet based hosted services including the Shoom product line and cloud based big data analytics services (based on our LMS product) and other data science services; analytics services for AirPatrol products and other managed services on a SaaS basis.
- **Professional Services:** These are general IT services including but not limited to: custom application/software design; architecture and development; project management; C4I system consulting; strategic outsourcing; staff augmentation; data center design and operations services; data migration services and other non-SaaS services.

## Rounding

All dollar amounts in this section have been rounded to the nearest thousand.

## Results of Operations

### Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

The following table sets forth selected unaudited consolidated financial data as a percentage of our revenue and the percentage of period-over-period change:

| (in thousands, except percentages)           | Three Months ended |               |                    |               | %<br>Change |
|--|--------------------|---------------|--------------------|---------------|-------------|
|  | September 30, 2016 |               | September 30, 2015 |               |             |
|  | Amount             | % of Revenues | Amount             | % of Revenues |             |
| Product Revenues                             | \$ 8,366           | 74%           | \$ 10,706          | 72%           | (22%)       |
| Services Revenues                            | \$ 2,874           | 26%           | \$ 4,168           | 28%           | (31%)       |
| Cost of net revenues - Products              | \$ 6,873           | 61%           | \$ 8,601           | 58%           | (20%)       |
| Cost of net revenues - Services              | \$ 1,269           | 11%           | \$ 1,885           | 13%           | (33%)       |
| Gross profit                                 | \$ 3,098           | 28%           | \$ 4,388           | 30%           | (29%)       |
| Operating expenses                           | \$ 7,240           | 64%           | \$ 7,511           | 50%           | (4%)        |
| Loss from operations                         | \$ (4,142)         | (37%)         | \$ (3,123)         | (21%)         | 33%         |
| Net loss                                     | \$ (4,720)         | (42%)         | \$ (3,172)         | (21%)         | 49%         |
| Net loss attributable to common stockholders | \$ (4,716)         | (42%)         | \$ (3,168)         | (21%)         | 49%         |

## **Net Revenues**

Net revenues for the three months ended September 30, 2016 were \$11.2 million compared to \$14.9 million for the comparable period in the prior year. The decrease in revenues of \$3.7 million are primarily attributable to the Storage and Computing segment. Although we expect storage and computing to grow nominally on an annual basis, during the quarter ended September 30, 2016 we did see a contraction. This contraction is an industry trend as companies are shifting to the cloud and tech refreshes are occurring less frequently. This is impacting revenues as well as narrowing margins. Our strategy to counter this trend is to expand the segment into the government vertical and offset the contraction we are experiencing on the commercial side. This is why Sysorex has pursued the large government IDIQ contracts (e.g. SEWP, CIO-CS, etc.) and are focusing our sales effort to grow revenue on these contracts. For the three months ended September 30, 2016, Mobile, IoT & Big Data Products revenue was \$542,000 compared to \$487,000 for the prior year period. Storage and Computing revenue was \$7.9 million for the three months ended September 30, 2016, and \$10.3 million for the prior year period. SaaS Revenues was \$826,000 during the three months ended September 30, 2016 and \$871,000 during the prior year period. Professional Services Revenue was \$2.0 million during the three months ended September 30, 2016 and \$3.2 million during the prior year period.

## **Cost of Net Revenues**

Cost of net revenues for the three months ended September 30, 2016 was \$8.1 million compared to \$10.5 million for the prior year period. The decrease in cost of revenues of \$2.4 million is primarily attributable to the decrease in the related sales of the Storage and Computing segment. Mobile, IoT & Big Data Products cost of net revenues was \$249,000 for the three months ended September 30, 2016 as compared to \$183,000 for the prior period. Storage and Computing cost of net revenues was \$6.6 million for the three months ended September 30, 2016, and \$8.4 million for the prior year period. SaaS Revenues cost of net revenues was \$239,000 during the three months ended September 30, 2016 and \$192,000 during the prior year period. Professional Services cost of net revenues was \$1.0 million during the three months ended September 30, 2016 and \$1.7 million during the prior year period.

The gross profit margin for the three months ended September 30, 2016 was 28% compared to 30% during the three months ended September 30, 2015. The decrease in gross margin was primarily attributable to lower gross margin for the Storage and Computing segment during the quarter ended September 30, 2016. Mobile, IoT & Big Data Products gross margins for the three months ended September 30, 2016 and 2015 were 54% and 62%, respectively. Gross margins for the Storage and Computing segment for the three months ended September 30, 2016 and 2015 were 16% and 18%, respectively. Gross margins for SaaS Revenues for the three months ended September 30, 2016 and 2015 were 71% and 78%, respectively. Gross margins for Professional Services revenues for the three months ended September 30, 2016 and 2015 were 49% and 47%, respectively.

## **Operating Expenses**

Operating expenses for the three months ended September 30, 2016 were \$7.2 million compared to \$7.5 million for the prior year period. This decrease in operating expenses of \$300,000 is primarily attributable to lower sales costs.

## **Loss from Operations**

Loss from operations for the three months ended September 30, 2016 was \$4.1 million compared to \$3.1 for the prior year period. This increase in loss of \$1.0 million was primarily attributable to lower revenue during the quarter and therefore lower gross profit to offset the operating expenses.

## Other Income/Expense

Net other income/expense for the three months ended September 30, 2016 and 2015 were (\$578,000) and (\$49,000), respectively. This increase of \$529,000 was primarily attributable to \$196,000 of amortization of the debt discount of the debenture and increased interest on the bank facilities.

## Provision for Income Taxes

There was no provision for income taxes for the three months ended September 30, 2016 and 2015. Deferred tax assets resulting from such losses are fully reserved as of September 30, 2016 and 2015 since, at present, we have no history of taxable income and it is more likely than not that such assets will not be realized.

## Net Loss Attributable to Non-Controlling Interest

Net loss attributable to non-controlling interest for the three months ended September 30, 2016 and 2015 was \$4,000.

## Net Loss Attributable To Common Stockholders

Net loss attributable to common stockholders for the three months ended September 30, 2016 was \$4.7 million compared to \$3.2 for the prior year period. This increase in net loss of \$1.5 million was attributable to the changes discussed above.

## Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

The following table sets forth selected unaudited consolidated financial data as a percentage of our revenue and the percentage of period-over-period change:

| (in thousands, except percentages)           | Nine Months ended  |               |                    |               | % Change |
|--|--------------------|---------------|--------------------|---------------|----------|
|  | September 30, 2016 |               | September 30, 2015 |               |          |
|  | Amount             | % of Revenues | Amount             | % of Revenues |          |
| Product Revenues                             | \$ 27,871          | 72%           | \$ 34,637          | 74%           | (20%)    |
| Services Revenues                            | \$ 10,788          | 28%           | \$ 12,057          | 26%           | (11%)    |
| Cost of net revenues - Products              | \$ 22,363          | 58%           | \$ 27,601          | 59%           | (19%)    |
| Cost of net revenues - Services              | \$ 5,807           | 15%           | \$ 4,962           | 11%           | 17%      |
| Gross profit                                 | \$ 10,489          | 27%           | \$ 14,131          | 30%           | (26%)    |
| Operating expenses                           | \$ 22,761          | 59%           | \$ 21,757          | 47%           | 5%       |
| Loss from operations                         | \$ (12,272)        | (32%)         | \$ (7,626)         | (16%)         | 61%      |
| Net loss                                     | \$ (13,201)        | (34%)         | \$ (7,770)         | (17%)         | 70%      |
| Net loss attributable to common stockholders | \$ (13,189)        | (34%)         | \$ (7,763)         | (17%)         | 70%      |

## Net Revenues

Net revenues for the nine months ended September 30, 2016 were \$38.7 million compared to \$46.7 million for the comparable period in the prior year. The decrease in revenues of \$8.0 million are primarily attributable to the Storage and Computing segment. Although we expect storage and computing to grow nominally on an annual basis, during the quarter ended September 30, 2016 we did see a contraction. This contraction is an industry trend as companies are shifting to the cloud and tech refreshes are occurring less frequently. This is impacting revenues as well as narrowing margins. Our strategy to counter this trend is to expand the segment into the government vertical and offset the contraction we are experiencing on the commercial side. This is why Sysorex has pursued the large government IDIQ contracts (e.g. SEWP, CIO-CS, etc.) and are focusing our sales effort to grow revenue on these contracts. For the nine months ended September 30, 2016, Mobile, IoT & Big Data Products revenue was \$1.2 million compared to \$862,000 for the prior year period. Storage and Computing revenue was \$26.7 million for the nine months ended September 30, 2016, and \$34.0 million for the prior year period. SaaS Revenues was approximately \$2.5 million during the nine months ended September 30, 2016 and \$2.8 million during the prior year period. Professional Services Revenue was \$8.3 million during the nine months ended September 30, 2016 and \$9.0 million during the prior year period.

### **Cost of Net Revenues**

Cost of net revenues for the nine months ended September 30, 2016 was \$28.2 million compared to \$32.6 million for the prior year period. The decrease in cost of revenues of \$4.4 million is primarily attributable to the decrease in the related sales of the Storage and Computing segment in the quarter ended September 30, 2016. Mobile, IoT & Big Data Products cost of net revenues was \$416,000 for the nine months ended September 30, 2016 as compared to \$377,000 for the prior period. Storage and Computing cost of net revenues was \$21.9 million for the nine months ended September 30, 2016, and \$27.3 million for the prior year period. SaaS Revenues cost of net revenues was \$649,000 during the nine months ended September 30, 2016 and \$620,000 during the prior year period. Professional Services cost of net revenues was \$5.2 million during the nine months ended September 30, 2016 and \$4.3 million during the prior year period.

The gross profit margin for the nine months ended September 30, 2016 was 27% compared to 30% during the nine months ended September 30, 2015. The decrease in gross margin was primarily attributable to lower gross margin for the Storage and Computing segment during the quarter ended September 30, 2016. Mobile, IoT & Big Data Products gross margins for the nine months ended September 30, 2016 and 2015 were 66% and 56%, respectively. Gross margins for the Storage and Computing segment for the nine months ended September 30, 2016 and 2015 were 18% and 20%, respectively. Gross margins for SaaS Revenues for the nine months ended September 30, 2016 and 2015 were 73% and 78%, respectively. Gross margins for Professional Services revenues for the nine months ended September 30, 2016 and 2015 were 38% and 52%, respectively.

### **Operating Expenses**

Operating expenses for the nine months ended September 30, 2016 were \$22.8 million compared to \$21.8 million for the prior year period. This increase of \$1.0 million was primarily attributable to costs associated with the development of new products as well as increased amortization and depreciation.

### **Loss from Operations**

Loss from operations for the nine months ended September 30, 2016 was \$12.3 million compared to \$7.6 for the prior year period. This increase in loss of \$4.7 million was primarily attributable to the decrease in gross margin of \$3.6 million which is primarily attributable to the Storage and Computing segment and an increase in amortization of intangibles, depreciation, and costs associated with the development of new products.

### **Other Income/Expense**

Net other income/expense for the nine months ended September 30, 2016 and 2015 were (\$929,000) and (\$144,000), respectively. This increase of \$785,000 was primarily attributable to \$196,000 of amortization of the debt discount of the debenture and increased interest on the bank facilities.

### **Provision for Income Taxes**

There was no provision for income taxes for the nine months ended September 30, 2016 and 2015. Deferred tax assets resulting from such losses are fully reserved as of September 30, 2016 and 2015 since, at present, we have no history of taxable income and it is more likely than not that such assets will not be realized.

### **Net Loss Attributable to Non-Controlling Interest**

Net loss attributable to non-controlling interest for the nine months ended September 30, 2016 was \$12,000 compared to a net loss of \$7,000 for the prior year period. This increase of \$5,000 was attributable to an increase in losses for Sysorex Arabia and was not material.

## Net Loss Attributable To Common Stockholders

Net loss attributable to common stockholders for the nine months ended September 30, 2016 was \$13.2 million compared to \$7.8 million for the prior year period. This increase in net loss of \$5.4 million was attributable to the changes discussed above.

### Non-GAAP Financial information

#### EBITDA

EBITDA is defined as net income (loss) before interest, provision for (benefit from) income taxes, and depreciation and amortization. Adjusted EBITDA is used by our management as the matrix in which it manages the business. It is defined as EBITDA plus adjustments for other income or expense items, non-recurring items and non-cash stock-based compensation.

Adjusted EBITDA for the three months ended September 30, 2016 was a loss of \$2.4 million compared to a loss of \$1.5 million for the prior year period. Adjusted EBITDA for the nine months ended September 30, 2016 was a loss of \$7.0 million compared to a loss of \$2.8 million for the prior year period.

The following table presents a reconciliation of net income/loss attributable to stockholders of Sysorex Global, which is our GAAP operating performance measure, to Adjusted EBITDA for the fiscal quarters ended September 30, 2016 and 2015 (in thousands):

|  | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
|  | 2016                                | 2015              | 2016                               | 2015              |
| Net loss attributable to common stockholders                 | \$ (4,716)                          | \$ (3,168)        | \$ (13,189)                        | \$ (7,763)        |
| Adjustments:   |                                     |                   |                                    |                   |
| Non-recurring one-time charges:                              |                                     |                   |                                    |                   |
| Costs associated with public offering                        | --                                  | 6                 | --                                 | 39                |
| Acquisition transaction/financing costs                      | 22                                  | 13                | 52                                 | 200               |
| Severance  | --                                  | --                | --                                 | 307               |
| Change in the fair value of shares to be issued              | (5)                                 | (69)              | (13)                               | (157)             |
| Change in the fair value of derivative liability             | (41)                                | --                | (41)                               | --                |
| Stock-based compensation - compensation and related benefits | 344                                 | 391               | 1,055                              | 885               |
| Interest expense   | 639                                 | 120               | 1,037                              | 340               |
| Depreciation and amortization                                | 1,391                               | 1,243             | 4,054                              | 3,384             |
| Adjusted EBITDA  | <u>\$ (2,366)</u>                   | <u>\$ (1,464)</u> | <u>\$ (7,045)</u>                  | <u>\$ (2,765)</u> |

We rely on Adjusted EBITDA, which is a non-GAAP financial measure for the following:

- To review and assess the operating performance of our Company;
- To compare our current operating results with corresponding periods and with the operating results of other companies in our industry;
- As a basis for allocating resources to various projects;
- As a measure to evaluate potential economic outcomes of acquisitions, operational alternatives and strategic decisions; and
- To evaluate internally the performance of our personnel.

We have presented Adjusted EBITDA above because we believe it conveys useful information to investors regarding our operating results. We believe it provides an additional way for investors to view our operations, when considered with both our GAAP results and the reconciliation to net income (loss). By including this information we can provide investors with a more complete understanding of our business. Specifically, we present Adjusted EBITDA as supplemental disclosure because of the following:

- We believe Adjusted EBITDA is a useful tool for investors to assess the operating performance of our business without the effect of interest, income taxes, and other non-operating expenses as well as depreciation and amortization which are non-cash expenses;
- We believe that it is useful to provide investors with a standard operating metric used by management to evaluate our operating performance; and
- We believe that the use of Adjusted EBITDA is helpful to compare our results to other companies.

Even though we believe Adjusted EBITDA is useful for investors, it does have limitations as an analytical tool. Thus, we strongly urge investors not to consider this metric in isolation or as a substitute for net income (loss) and the other consolidated statement of operations data prepared in accordance with GAAP. Some of these limitations include the fact that:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect income or other taxes or the cash requirements to make any tax payments; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, thereby potentially limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of performance in compliance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and providing Adjusted EBITDA only as supplemental information.

***Proforma Non-GAAP Net Loss per Share***

Proforma non-GAAP net income (loss) per share is used by our Company's management as an evaluation tool as it manages the business and is defined as net income (loss) per basic and diluted share adjusted for non-cash items including stock based compensation, amortization of intangibles and one time charges including acquisition costs, the costs associated with the public offering, severance costs, changes in the fair value of shares to be issued and changes in the fair value of a derivative liability.

Proforma non-GAAP net loss per basic and diluted common share for the three months ended September 30, 2016 was (\$0.13) compared to (\$0.09) for the prior year period. Proforma non-GAAP net loss per basic and diluted common share for the nine months ended September 30, 2016 was (\$0.35) compared to (\$0.18) for the prior year period. These decreases were attributable to the changes discussed in our results of operations.

The following table presents a reconciliation of net loss per basic and diluted share, which is our GAAP operating performance measure, to proforma non-GAAP net loss per share for the periods reflected:

| (thousands, except per share data)                            | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2016                                | 2015       | 2016                               | 2015       |
| Net loss attributable to common stockholders                  | \$ (4,716)                          | \$ (3,168) | \$ (13,189)                        | \$ (7,763) |
| Adjustments:  |                                     |            |                                    |            |
| Non-recurring one-time charges:                               |                                     |            |                                    |            |
| Costs associated with public offering                         | --                                  | 6          | --                                 | 39         |
| Acquisition transaction/financing costs                       | 22                                  | 13         | 52                                 | 200        |
| Severance   | --                                  | --         | --                                 | 307        |
| Change in the fair value of shares to be issued               | (5)                                 | (69)       | (13)                               | (157)      |
| Change in the fair value of derivative liability              | (41)                                | --         | (41)                               | --         |
| Stock-based compensation - compensation and related benefits  | 344                                 | 391        | 1,055                              | 885        |
| Amortization of intangibles                                   | 1,056                               | 1,056      | 3,169                              | 2,938      |
| Proforma non-GAAP net loss                                    | \$ (3,340)                          | \$ (1,771) | \$ (8,967)                         | \$ (3,551) |
| Proforma non-GAAP net loss per basic and diluted common share | \$ (0.13)                           | \$ (0.09)  | \$ (0.35)                          | \$ (0.18)  |
| Weighted average basic and diluted common shares outstanding  | 26,151,764                          | 19,833,000 | 25,464,674                         | 19,802,035 |

We rely on proforma non-GAAP net loss per share, which is a non-GAAP financial measure:

- To review and assess the operating performance of our Company;
- To compare our current operating results with corresponding periods and with the operating results of other companies in our industry;
- As a measure to evaluate potential economic outcomes of acquisitions, operational alternatives and strategic decisions; and
- To evaluate internally the performance of our personnel.

We have presented proforma non-GAAP net loss per share above because we believe it conveys useful information to investors regarding our operating results. We believe it provides an additional way for investors to view our operations, when considered with both our GAAP results and the reconciliation to net income (loss), and that by including this information we can provide investors with a more complete understanding of our business. Specifically, we present proforma non-GAAP net loss per share as supplemental disclosure because:

- We believe proforma non-GAAP net loss per share is a useful tool for investors to assess the operating performance of our business without the effect of non-cash items including stock based compensation, amortization of intangibles and one time charges including acquisition costs, costs associated with the public offering, severance costs and changes in the fair value of shares to be issued.
- We believe that it is useful to provide investors with a standard operating metric used by management to evaluate our operating performance; and
- We believe that the use of proforma non-GAAP net loss per share is helpful to compare our results to other companies.



**Liquidity and Capital Resources as of September 30, 2016 Compared With September 30, 2015**

The Company's net cash flows used in operating, investing and financing activities for the nine months ended September 30, 2016 and 2015 and certain balances as of the end of those periods are as follows (in thousands):

| (thousands, except per share data)                  | Nine Months ended<br>September 30, |                     |
|---|------------------------------------|---------------------|
|   | 2016                               | 2015                |
| Net cash used in operating activities               | \$ (1,136)                         | \$ (3,891)          |
| Net cash used in investing activities               | (1,621)                            | (891)               |
| Net cash (used in) provided by financing activities | (832)                              | 6,940               |
| Effect of foreign exchange rate changes on cash     | 34                                 | (22)                |
| Net (decrease) increase in cash                     | <u>\$ (3,555)</u>                  | <u>\$ 2,136</u>     |
|   | <b>September 30,</b>               | <b>December 31,</b> |
|   | <b>2016</b>                        | <b>2015</b>         |
| Cash and cash equivalents                           | <u>\$ 505</u>                      | <u>\$ 4,060</u>     |
| Working capital (deficit)                           | <u>\$ (10,343)</u>                 | <u>\$ (4,238)</u>   |

**Operating Activities:**

Net cash used in operating activities during the nine months ended September 30, 2016 and 2015 were \$1.1 million and \$3.9 million, respectively. Net cash used in operating activities during the nine months ended September 30, 2016 consisted of the following (in thousands):

|  |                   |
|--|-------------------|
| Net loss                                       | \$ (13,201)       |
| Non-cash income and expenses                   | 5,727             |
| Net change in operating assets and liabilities | 6,338             |
| Net cash used in operating activities          | <u>\$ (1,136)</u> |

The non-cash income and expenses of \$5,727,000 consisted primarily of (in thousands):

|                 |  |
|-----------------|--|
| \$ 884          | Depreciation and amortization expense  |
|                 | Amortization of intangibles primarily attributable to the Lilien, Shoom, AirPatrol and LightMiner operations, which were acquired effective March 1, 2013, |
| 3,169           | August 31, 2013, April 16, 2014 and April 24, 2015, respectively.  |
| 1,055           | Stock-based compensation expense attributable to warrants and options issued as part of Company operations and prior acquisitions                          |
| 619             | Other  |
| <u>\$ 5,727</u> | <u>Total non-cash income and expenses</u>  |

The net use of cash due to changes in operating assets and liabilities totaled \$6,338,000 and consisted primarily of the following (in thousands):

|                 |   |
|-----------------|---|
| \$ 4,016        | Decrease in accounts receivable and other receivables                     |
| 1,248           | Decrease in prepaid licenses and maintenance contracts                    |
| 850             | Increase in accounts payable  |
| 1,915           | Increase in deferred revenue  |
| (1,395)         | Decrease in accrued liabilities and other liabilities                     |
| (296)           | Decrease in inventory and other assets                                    |
| <u>\$ 6,338</u> | <u>Net use of cash in the changes in operating assets and liabilities</u> |

**Investing Activities:**

Net cash used in investing activities during the nine months ended September 30, 2016 was \$1.6 million compared to net cash used in investing activities of \$891,000 for the prior year period. The net cash used in investing activities during the nine months ended September 30, 2016 was comprised of \$461,000 for the purchase of property and equipment and \$1.2 million investment in capitalized software.

**Financing Activities:**

Net cash used in financing activities during the nine months ended September 30, 2016 was approximately \$832,000. Net cash provided by financing activities for the nine months ended September 30, 2015 was \$6.9 million. The net cash used in financing activities during the nine months ended September 30, 2016 was primarily comprised of \$4.2 million of repayments to the Credit Facility, \$1.6 million of repayments to a term loan offset by \$5 million received from the Debenture.

**Liquidity and Capital Resources - General:**

Our current capital resources and operating results as of September 30, 2016, as described in the preceding paragraphs, consist of:

- 1) An overall working capital deficit of \$10.3 million;
- 2) Cash of \$505,000;
- 3) The Credit Facility for up to \$10 million which we borrow against based on eligible assets with a maturity date of April 29, 2017 of which \$4.4 million is utilized; and
- 4) Net cash used in operating activities year-to-date of \$1.1 million.

We believe our total working capital deficit of \$10.3 million does not represent a severe impediment to our operations and growth when its principal components are separately identified and analyzed and the growth of our business is taken into account. The breakdown of our overall working capital deficit is as follows (in thousands):

| <b>Working Capital</b>  | <b>Assets</b>    | <b>Liabilities</b> | <b>Net</b>         |
|---|------------------|--------------------|--------------------|
| Cash and cash equivalents                                     | \$ 505           | \$ --              | \$ 505             |
| Accounts receivable, net / accounts payable                   | 7,785            | 10,170             | (2,385)            |
| Notes and other receivables                                   | 1,294            | --                 | 1,294              |
| Prepaid licenses and maintenance contracts / deferred revenue | 6,971            | 11,912             | (4,941)            |
| Short-term debt   | --               | 4,600              | (4,600)            |
| Other   | 3,618            | 3,834              | (216)              |
| <b>Total</b>  | <b>\$ 20,173</b> | <b>\$ 30,516</b>   | <b>\$ (10,343)</b> |

Accounts payable exceeds the related accounts receivable by \$2.4 million. We do not believe there are material collectability issues with respect to our accounts receivable. Deferred revenue exceeds the related prepaid contracts by \$4.9 million and other liabilities exceed other assets by \$216,000.

Net cash used in operating activities during the nine months ended September 30, 2016 of \$1.1 million consists of net loss of \$13.2 million less non-cash expenses of \$5.7 million and net cash provided by changes in operating assets and liabilities of \$6.3 million. We expect net cash from operations to increase during 2016 as:

- 1) Sysorex was awarded two large multiple-award government IDIQ Contracts in 2015 and one in 1<sup>st</sup> Quarter of 2016 (NASA SEWP, NIH CIO-CS and PMSS-3) that enable Sysorex to capture task orders issued by any government agency under these contract vehicles. The Company has captured task orders under the NASA SEWP contract and believes that it will be successful in securing additional task orders under all of these contracts, however there are no assurances that additional task orders under the contracts will ultimately be awarded to the Company. If such task orders are secured, then these contracts will provide the opportunity to increase our revenue and cash flows.
- 2) Sysorex is generating revenue from new versions of its AirPatrol product line that will contribute to operating cash flow and is expected to generate 60-70% gross margins.
- 3) The Company launched its LightMiner product in the first half of 2016 which is expected to have 60-70% gross margins and will start contributing to cash-flow this year.
- 4) We have a purchase order for a follow-on project to the Daruna contract for \$4 million which we expect to collect before the end of this year.

In addition, we anticipate that our Daruna project will start in early 2017, which will result in \$500,000 a month in revenue for 15 years with a total value of \$90 million. The Company's capital resources as of September 30, 2016, increased bank facility, net proceeds from the September 25, 2015 offering and August 9, 2016 convertible debenture and preferred stock offering, higher margin business line expansion and recent contract awards, including prepayments anticipated to be received are expected to be sufficient to fund planned operations during the next twelve months from the filing of this quarterly report. While the Company also has an effective registration statement on Form S-3 which will allow it to raise additional capital from the sale of its securities, subject to certain limitations for registrants with a market capitalization of less than \$75 million, if additional financing is needed we anticipate such financing will come from an increase in our bank facility or from another lender rather than through a sale of equity, however, our decision will be based on our capital requirements and the terms of the various types of financing that will be available to us when we need it. The information in this Form 10-Q concerning the Company's Form S-3 registration statement does not constitute an offer of any securities for sale. If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months, the Company may need to reduce costs and curtail certain aspects of its expansion activities or consider other means of obtaining additional financing, although there is no guarantee that any such additional financing would be available to the Company.

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

We do not have any off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

#### **Recently Issued Accounting Standards**

For a discussion of recently issued accounting standards, please see Note 3 to our financial statements, which is included in this report in Item 1.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

**Item 4. Controls and Procedures.*****Disclosure Controls and Procedures***

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our condensed consolidated financial statements in conformity with United States generally accepted accounting principles.

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Principal Executive and Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

***Changes in Internal Controls***

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Limitations of the Effectiveness of Control***

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations of any control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

There are presently no pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their property is subject and no such proceedings are known to the Company to be threatened or contemplated against it.

### Item 1A. Risk Factors.

We incorporate by reference the risk factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016.

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

On August 2, 2016, the Company issued an aggregate of 1,827,000 shares of common stock to LMS Holding Corp., Chris Baskett and Matthew and Hannah Granade, which were issued in accordance with the terms of that certain Asset Purchase Agreement, dated April 24, 2015 by and among the Company, LightMiner and Chris Baskett.

On August 9, 2016, the Company entered into a Securities Purchase Agreement, pursuant to which the Company issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of \$5,700,000 due on August 9, 2018 (the “Debenture”) and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value \$0.001 per share (the “Preferred Stock”), to Hillair Capital Investments L.P., for an aggregate purchase price of \$5,000,000. Further information about the Debenture and the Preferred Stock is incorporated by reference to the disclosures in “Recent Events” under Part I, Item 2.

The securities above were issued as restricted securities in transactions that were exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act or Rule 506 of Regulation D promulgated thereunder, which exempts transactions by an issuer not involving any public offering. The Company relied on the representations made in the transaction documents signed by the applicable securities holders. No commissions were paid and no underwriter or placement agent was involved in these transactions.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Mine Safety Disclosure.

Not applicable.

### Item 5. Other Information.

#### Change of Board Composition

Prior to the Company’s 2016 annual meeting of stockholders (the “Annual Meeting”) held on November 8, 2016, Abdus Salam Qureishi resigned as a director of the Company and Chairman of the Board, effective as of the close of business on September 30, 2016. Geoffrey Lilien did not stand for re-election at the Annual Meeting and his term as a director of the Company expired at the Annual Meeting. The Board has not nominated individuals to fill the resulting vacancies. The Company nominated five directors, Nadir Ali, Leonard Oppenheim, Thomas Steding, Kareem Irfan and Tanveer Khader to stand for re-election at the Annual Meeting. Mr. Ali, Mr. Oppenheim, Mr. Irfan and Mr. Khader were elected as directors to serve until the next annual meeting of stockholders, and Mr. Steding was not elected as a director.

### **Integrio Technologies Asset Acquisition**

On November 14, 2016 (the "Execution Date"), Sysorex Global (the "Company") and Sysorex Government Services, Inc., a wholly-owned subsidiary of the Company (the "Buyer", and together with the Company, the "Buyer Parties") entered into an Asset Purchase Agreement (the "Purchase Agreement") with Integrio Technologies, LLC, a Delaware limited liability company ("Seller") and Emtec Federal, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Seller ("Seller Sub" and together with Seller, "Seller Parties"), which are in the business of providing IT integration and engineering services to customers, primarily government agencies. Pursuant to the Purchase Agreement, the Buyer intends to acquire substantially all, with the exception of certain excluded assets described in the Purchase Agreement, of the business and assets of the Seller Parties (the "Assets"), and will assume certain specified liabilities, (the "Assumed Liabilities") (the "Acquisition").

The consideration to be paid for the Assets will include an aggregate of (A) \$1,800,000 in cash, of which \$1,400,000 minus the Seller's Cash On Hand (as defined in the Purchase Agreement) and certain amounts payable to creditors of the Seller shall be paid upon the closing of the Acquisition (the "Closing") and \$400,000 shall be paid in two (2) annual installments of \$200,000 each on the respective anniversary dates of the Closing, subject to certain set offs and recoupment by Buyer; (B) 530,000 unregistered restricted shares of the Company's voting common stock valued at \$1.50 per share; (C) the aggregate amount of certain specified assumed liabilities; and (D) up to an aggregate of \$1,200,000 in earnout payments, of which up to \$400,000 shall be payable to the Seller per year for the three years following the Closing.

The Closing of the Acquisition is subject to the satisfaction of certain customary closing conditions.

The foregoing is only a summary of the Purchase Agreement which is qualified in its entirety by the full text of the Purchase Agreement which will be filed with the Securities and Exchange Commission within four business days of the execution date.

On November 14, 2016 the Company issued a press release relating to the execution of the Purchase Agreement.

### **GemCap Lending Loan Agreement**

The Company and its wholly-owned subsidiaries, Sysorex USA and Sysorex Government Services, Inc. (jointly and severally, the "Borrower"), entered into a Loan and Security Agreement (the "Loan Agreement") with GemCap Lending I, LLC, a Delaware limited liability company (the "Lender") dated as of November 14, 2016.

Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, the Lender has agreed to make revolving credit loans to the Borrower in an aggregate principal amount which does not exceed 85% of Eligible Accounts (as defined in the Purchase Agreement) at any one time outstanding, net of all taxes, discounts, allowances and credits given or claimed, provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed \$10 million (subject to certain conditions). All amounts due under the Loan Agreement upon funding will be secured by the assets of the Company.

Borrowings pursuant to the Loan Agreement will bear interest at an annual rate equal to the greater of (a) 9.5% and (b) the sum of (i) the "Prime Rate" as reported in the "Money Rates" column of The Wall Street Journal, adjusted as and when such Prime Rate changes, plus (ii) 6%. The interest rate on borrowings is subject to increase by 4% if an event of default has occurred and is continuing.

In connection with the Loan and Security Agreement, the Borrower will pay to the Lender a \$100,000 closing fee. The Lender will also receive (a) an annual line fee equal to \$100,000; (b) an unused line fee equal to 0.5% of the daily average unused portion of the maximum amount of Availability (as defined in the Loan Agreement), calculated on an annualized basis, due and payable monthly; (c) a loan administration and monitoring fee equal to 0.5% of the daily average used portion of Availability calculated on a monthly basis, due and payable monthly; and (d) certain other audit and wire fees. The closing of the transactions contemplated by the Loan Agreement are subject to the satisfaction of certain closing conditions.

Upon closing, the Loan and Security Agreement will provide the Borrower with a revolving line of credit, the proceeds of which are to be used to repay in full the existing indebtedness owed to Western Alliance Bank, as successor in interest to Bridge Bank, N.A.; pay certain expenses related to obtaining the revolving line of credit and for general working capital purposes.

**Item 6. Exhibits.**

(a) Exhibits required by Item 601 of Regulation S-K.

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1(i)             | Articles of Incorporation. (1)  |
| 3.1(ii)            | Certificate of Amendment to the Articles of Incorporation, effective April 8, 2014. (2)   |
| 3.1(iii)           | Articles of Merger, effective January 1, 2016. (3)  |
| 3.1(iv)            | Certificate of Designation of Preferences, Rights and Limitations of Series 1 Convertible Preferred Stock. (5)  |
| 3.1(v)             | Certificate of Correction. (5)  |
| 3.2                | Bylaws. (1)   |
| 4.1                | 8% Original Issue Discount Senior Convertible Debenture issued to Hillair Capital Investments L.P. (5)  |
| 10.1               | Amendment No. 6 to Business Financing Agreement and Forbearance Agreement. (4)  |
| 10.2               | Securities Purchase Agreement dated as of August 9, 2016 by and between Sysorex Global and Hillair Capital Investments L.P.(5)  |
| 10.3               | Security Agreement dated as of August 9, 2016 by and among Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp., Sysorex Arabia LLC and Hillair Capital Investments L.P.(5)         |
| 10.4               | Subsidiary Guarantee dated as of August 9, 2016 made by Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp. and Sysorex Arabia LLC in favor of Hillair Capital Investments L.P.(5) |
| 10.5               | Amendment Number Seven to Business Financing Agreement by and between the Company and its subsidiaries and Western Alliance Bank, dated August 5, 2016 (5)  |

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 31.1               | Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.* |
| 31.2               | Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.* |
| 32.1               | Certification of the Company's Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.#                           |
| 99.1               | Press release issued on November 14, 2016 #   |
| 101.INS            | XBRL Instant Document *   |
| 101.SCH            | XBRL Taxonomy Extension Schema Document *   |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document *   |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document *  |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document *   |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document *  |

\* Filed herewith

# Furnished herewith

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-190574) filed with the SEC on August 12, 2013.

(2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on April 10, 2014.

(3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2015.

(4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 9, 2016.

(5) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2016.



**SIGNATURES**

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

Dated: November 15, 2016

**SYSOREX GLOBAL**

By: /s/ Nadir Ali  
Nadir Ali  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Kevin R. Harris  
Kevin R. Harris  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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(5) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2016.

## CERTIFICATION

I, Nadir Ali, certify that:

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

Date: November 15, 2016

/s/ Nadir Ali

Nadir Ali  
Chief Executive Officer

## CERTIFICATION

I, Kevin R. Harris, certify that:

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

Date: November 15, 2016

/s/ Kevin R. Harris

Kevin R. Harris

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION**

In connection with the periodic report of Sysorex Global (the "Company") on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), we, Nadir Ali, Chief Executive Officer (Principal Executive Officer) and Kevin R. Harris, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, 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 at the dates and for the periods indicated.

Date: November 15, 2016

/s/ Nadir Ali  
Nadir Ali  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Kevin R. Harris  
Kevin R. Harris  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



## News Release

November 14, 2016

### **Sysorex Announces intent to Purchase Certain Assets of Integrio Technologies, LLC**

#### **Accretive Acquisition Expected to Expand Sysorex' Customer Base**

**PALO ALTO, Calif.** – Sysorex (NASDAQ: SYRX), a developer of high performance analytics software and solutions, today announced it has signed a definitive Asset Purchase Agreement to acquire certain assets of Integrio Technologies Inc. (Integrio). The total purchase price for the assets will consist of \$1.8 million in cash, 530,000 shares of Sysorex common stock, the assumption by Sysorex of approximately \$3 million in net liabilities and up to \$1.2 million in earn-out payments to be paid over three years. The completion of the asset purchase is subject to customary closing conditions.

Integrio, an SBA-designated small business headquartered in Herndon, VA, is an IT integration and engineering company with approximately 40 employees and a 20 plus year track record of providing cutting-edge solutions for network performance, secure wireless infrastructure, software application lifecycle support, and physical cyber security, supporting the missions of federal, state and local government agencies.

“We believe that the purchase of Integrio’s federal government contracts including FBI ITAP; Bureau of Prisons; U.S. Army ADMC2; Department of Justice ITSS; and others will enhance Sysorex’s Storage and Computing and Professional Services business segment offerings for key government customers,” explained Sysorex CEO, Nadir Ali. “We believe it also provides additional opportunities for Sysorex to sell its AirPatrol and LightMiner products to Integrio’s customer base.”

“We are very pleased to welcome the Integrio Team to Sysorex and expect it will become a significant addition to our Professional Services and Government VAR business segments,” continued Mr. Ali. “We expect that the addition of Integrio’s revenue, contracts and customers will enable Sysorex to significantly expand our presence in the government sector. As represented by Integrio, it has generated more than \$40 million per year in revenue over the past two years. As I said in the past, with the overall slowdown in the commercial VAR business segment, we have begun shifting our focus to bid more aggressively on government contracts like SEWP/CIO-CS and this acquisition allows us to balance our mix of public and private sector customers with a broader capability in an area of our business that continues to show measured growth.”

- more -

2479 E. Bayshore Road, Suite 195 · Palo Alto, CA 94303 · +1 408 702 2167 · [www.sysorex.com](http://www.sysorex.com)

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**About Sysorex**

Sysorex develops the systems and solutions that power the data-driven enterprise. With an innovative approach to big data, analytics and the Internet of Things (IoT), we blend virtual data from software and networks with the huge volume of physical data generated by mobile devices and Internet-connected things to open new worlds of insight. Our unique solutions are helping organizations worldwide improve decision making, increase productivity, and fuel the discoveries of tomorrow. Headquartered in Palo Alto, California, we have regional offices in North America, South America, Europe and the Middle East. Visit [www.sysorex.com](http://www.sysorex.com), follow us @SysorexGlobal and [Link up on LinkedIn](#).

**Safe Harbor Statement**

All statements in this release that are not based on historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. While management has based any forward-looking statements included in this release on its current expectations, the information on which such expectations were based may change. These forward-looking statements include the statement that the addition of Integrio’s revenue, contracts and customers will enable Sysorex to significantly expand its presence in the government sector and that the acquisition will provide additional opportunities for Sysorex to sell its AirPatrol and LightMiner products to Integrio’s customer base. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties and other factors, many of which are outside of the control of Sysorex and its subsidiaries, which could cause actual results to materially differ from such statements. Such risks, uncertainties, and other factors include, but are not limited to, the fluctuation of global economic conditions, the performance of management and employees, the company’s ability to obtain financing, competition, general economic conditions and other factors that are detailed in the company’s periodic and current reports available for review at [www.sec.gov](http://www.sec.gov). Furthermore, we operate in a highly competitive and rapidly changing environment where new and unanticipated risks may arise. Accordingly, investors should not place any reliance on forward-looking statements as a prediction of actual results. We disclaim any intention to, and undertake no obligation to, update or revise forward-looking statements.

**Contacts****Sysorex Investor Relations:**

CorProminence LLC  
Scott Arnold, +1 (516) 222-2560  
Managing Director  
[www.corprominence.com](http://www.corprominence.com)

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