

Marathon Patent Group, Inc.  
Form 10-Q  
August 14, 2017  
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**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 AND EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

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

**MARATHON PATENT GROUP, INC.**

(Exact Name of Registrant as Specified in Charter)

Nevada  
(State or other jurisdiction  
of incorporation)

001-36555  
(Commission File Number)

01-0949984  
(IRS Employer Identification No.)

11100 Santa Monica Blvd., Ste. 380  
Los Angeles, CA

90025

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(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 703-232-1701

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 [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

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

|   |                          |                           |                                     |
|---|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer                     | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer                       | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| (Do not check if smaller reporting company) |                          | Emerging growth company   | <input checked="" type="checkbox"/> |

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 24,257,472 shares of common stock are issued and outstanding as of August 9, 2017.

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## OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, Marathon Patent Group, Inc., we, us, our and similar terms refer to Marathon Patent Group, Inc., a Nevada corporation, and its subsidiaries.

Table of Contents**Item 1. Financial Statements**

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

|   | June 30, 2017 | December 31, 2016 |
|---|---------------|-------------------|
| <b>ASSETS</b>   |               |                   |
| Current assets:   |               |                   |
| Cash  | \$ 1,095,721  | \$ 4,998,314      |
| Accounts receivable - net of allowance for bad debt of \$387,976 as of June 30, 2017 and December 31, 2016                  | 116,336       | 95,069            |
| Bonds posted with courts  | 375,603       | -                 |
| Note receivable   | 588,864       | 225,982           |
| Prepaid expenses and other current assets, net of discounts of \$2,659 for June 30, 2017 and \$3,724 for December 31, 2016  | 128,718       | 202,067           |
| Total current assets  | 2,305,242     | 5,521,432         |
| Other assets:   |               |                   |
| Property and equipment, net of accumulated depreciation of \$128,718 and \$108,407 for June 30, 2017 and December 31, 2016  | 12,213        | 28,329            |
| Intangible assets, net of accumulated amortization of \$12,691,608 and \$11,323,185 for June 30, 2017 and December 31, 2016 | 11,358,722    | 12,314,628        |
| Other non current assets, net of discounts of \$0 for June 30, 2017 and \$797 for December 31, 2016                         | 200,000       | 201,203           |
| Goodwill  | 224,353       | 222,843           |
| Total other assets  | 11,795,288    | 12,767,003        |
| Total Assets  | \$ 14,100,530 | \$ 18,288,435     |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |               |                   |
| Current liabilities:  |               |                   |
| Accounts payable and accrued expenses   | \$ 5,294,616  | \$ 7,217,078      |
| Clouding IP earn out - current portion  | 81,930        | 81,930            |
| Notes payable, net of discounts of \$503,572 for June 30, 2017 and \$852,404 for December 31, 2016                          | 5,622,173     | 13,162,007        |
|   | 10,998,719    | 20,461,015        |
| Long-term liabilities   |               |                   |
| Notes Payable, net of discount of \$1,302,129 for June 30, 2017 and \$57,763 for December 31, 2016                          | 11,499,723    | 4,670,502         |
| Clouding IP earn out  | 1,386,203     | 1,400,082         |
| Revenue share liability   | 1,225,000     | 1,000,000         |
| Other long term liability   | 39,853        | 43,978            |
| Total long-term liabilities   | 14,150,779    | 7,114,562         |

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|  |               |               |
|--|---------------|---------------|
| Total liabilities  | 25,149,498    | 27,575,577    |
| Stockholders Deficit:  |               |               |
| Preferred stock Series B, \$.0001 par value, 100,000,000 shares authorized:<br>782,004 issued and outstanding at June 30, 2017 and December 31, 2016 | 78            | 78            |
| Common stock, \$.0001 par value; 200,000,000 shares authorized; 23,257,472<br>at June 30, 2017 and 18,552,472 at December 31, 2016                   | 2,326         | 1,856         |
| Additional paid-in capital   | 53,950,993    | 49,877,710    |
| Accumulated other comprehensive (loss)   | (933,245)     | (1,060,390)   |
| Accumulated deficit  | (63,749,987)  | (57,942,548)  |
| Total Marathon Patent Group Stockholders Deficit   | (10,729,834)  | (9,123,294)   |
| Non-controlling Interests  | (319,134)     | (163,848)     |
| Total Equity   | (11,048,968)  | (9,287,142)   |
| Total liabilities and stockholders equity  | \$ 14,100,530 | \$ 18,288,435 |

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

|   | For The<br>Three Months<br>Ended<br>June 30, 2017 | For The<br>Three Months<br>Ended<br>June 30, 2016 | For The<br>Six Months<br>Ended<br>June 30, 2017 | For The<br>Six Months<br>Ended<br>June 30, 2016 |
|---|---|---|---|---|
| Revenues  | \$ 368,800  | \$ 34,349,762                                     | \$ 446,937                                      | \$ 36,409,438                                   |
| Expenses  |   |   |   |   |
| Cost of revenues  | 1,024,078   | 15,467,763  | 1,479,486                                       | 18,107,740                                      |
| Amortization of patents and website                     | 639,887   | 1,961,411   | 1,345,846                                       | 3,987,310                                       |
| Compensation and related taxes                          | 760,542   | 1,120,924   | 1,846,088                                       | 2,154,270                                       |
| Consulting fees   | 85,580  | 364,836   | 56,801  | 645,612   |
| Professional fees                                       | 645,144   | 498,212   | 1,070,830                                       | 903,705   |
| General and administrative                              | 142,281   | 223,130   | 386,286   | 428,513   |
| Goodwill impairment                                     | -   | 83,000  | -   | 83,000  |
| Patent impairment                                       | -   | 620,696   | -   | 993,890   |
| Total operating expenses                                | 3,297,512   | 20,339,972  | 6,185,337                                       | 27,304,040                                      |
| Operating income (loss) from operations                 | (2,928,712)                                       | 14,009,790  | (5,738,400)                                     | 9,105,398                                       |
| Other income (expenses)                                 |   |   |   |   |
| Other income (expense)                                  | 913,357   | (17,745)  | 898,532   | (31,532)  |
| Foreign exchange gain (loss)                            | 102,913   | (69,201)  | 17,050  | (62,223)  |
| Change in fair value adjustment of Clouding IP earn out | -   | 169,172   | 13,879  | 167,830   |
| Warrant income (expense)                                | 208,301   | -   | (4,907)   | -   |
| Interest income   | 621   | 931   | 1,862   | 1,862   |
| Interest expense  | (564,680)   | (844,407)   | (1,133,499)                                     | (1,851,256)                                     |
| Total other income (expenses)                           | 660,512   | (761,250)   | (207,083)                                       | (1,775,319)                                     |
| Loss before benefit for income taxes                    | (2,268,200)                                       | 13,248,540  | (5,945,483)                                     | 7,330,079                                       |
| Income tax expense                                      | (17,242)  | (5,345,983)                                       | (17,242)  | (3,320,935)                                     |
| Net income (loss)                                       | (2,285,442)                                       | 7,902,557   | (5,962,725)                                     | 4,009,144                                       |
| Net loss attributable to non-controlling interests      | 84,650  | 3,722   | 155,286   | 3,722   |
| Net income (loss) attributable to common shareholders   | \$ (2,200,792)                                    | \$ 7,906,279                                      | \$ (5,807,439)                                  | \$ 4,012,866                                    |
| Income (loss) per common share:                         |   |   |   |   |
| Basic   | \$ (0.10)   | \$ 0.53   | \$ (0.28)                                       | \$ 0.27   |
| Fully Diluted   | \$ (0.10)   | \$ 0.49   | \$ (0.28)                                       | \$ 0.25   |

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| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:                    |                |              |                |              |
|--|----------------|--------------|----------------|--------------|
| Basic  | 22,566,648     | 14,994,697   | 20,822,791     | 14,980,919   |
| Fully Diluted  | 22,566,648     | 16,031,564   | 20,822,791     | 16,017,786   |
| Net loss   | \$ (2,200,792) | \$ 7,906,279 | \$ (5,807,439) | \$ 4,012,866 |
| Other Comprehensive Loss:                                      |                |              |                |              |
| Unrealized gain (loss) on foreign currency translation         | 126,062        | (150,171)    | 127,144        | 97,256       |
| Comprehensive loss   | (2,074,730)    | 7,756,108    | (5,680,295)    | 4,110,122    |
| Less: comprehensive income related to non-controlling interest | 84,650         | 3,722        | 155,286        | 3,722        |
| Comprehensive loss attributable to Marathon Patent Group, Inc. | \$ (1,990,080) | \$ 7,759,830 | \$ (5,525,009) | \$ 4,113,844 |

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | For The Six<br>Months Ended<br>June 30, 2017 | For The Six<br>Months Ended<br>June 30, 2016 |
|---|--|--|
| <b>Cash flows from operating activities:</b>  |  |  |
| Net loss  | \$ (5,807,439)                               | \$ 4,012,866                                 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |  |  |
| Depreciation  | 948  | 2,710  |
| Amortization of patents and website   | 1,345,846                                    | 3,987,310                                    |
| Deferred tax asset  | -  | 3,547,856                                    |
| Deferred tax liability  | -  | (275,490)                                    |
| Impairment of intangible assets   | -  | 993,890                                      |
| Impairment of goodwill  | -  | 83,000                                       |
| Stock based compensation  | 183,356                                      | 1,062,200                                    |
| Stock issued for services   | -  | 136,000                                      |
| Non-cash interest, discount, and financing costs  | 59,607                                       | 664,182                                      |
| Change in fair value of Clouding earn out   | (13,879)                                     | (167,830)                                    |
| Allowance for doubtful accounts   | -  | 12,226                                       |
| Non-controlling interest  | (155,286)                                    | (3,722)                                      |
| Other non-cash adjustments  | (120,703)                                    | (104,899)                                    |
| Changes in operating assets and liabilities   |  |  |
| Accounts receivable   | (21,267)                                     | (2,718)                                      |
| Bonds posted with courts  | (375,603)                                    | (518,455)                                    |
| Prepaid expenses and other assets   | (289,533)                                    | 165,301                                      |
| Other non current assets  | 1,203  | -  |
| Accounts payable and accrued expenses   | (1,922,462)                                  | (469,660)                                    |
| <b>Net cash provided by (used in) operating activities</b>                                | <b>(7,115,212)</b>                           | <b>13,124,767</b>                            |
| <b>Cash flows from investing activities:</b>  |  |  |
| Acquisition of patents  | -  | (1,150,000)                                  |
| Purchase of property, equipment, and other intangible assets                              | (4,194)                                      | (6,291)                                      |
| Net cash used in investing activities   | (4,194)                                      | (1,156,291)                                  |
| <b>Cash flows from financing activities:</b>  |  |  |
| Payment on note payable in connection with the acquisition of Medtech and Orthophoenix    | -  | (2,953,779)                                  |
| Payment on Fortress note payable  | -  | (3,973,854)                                  |
| Payment on 3Dnano license note payable  | (100,000)                                    | -  |
| Cash received upon issuance of equity (net of issuance costs)                             | 3,753,063                                    | -  |
| Issuance of Warrants  | 137,334                                      | -  |
| Medtronic note payable  | 600,000                                      | -  |
| 3Dnano convertible notes payable  | 50,000                                       | -  |
| Payments on Siemens notes payable   | (1,000,000)                                  | -  |
| Payments on notes payable to vendors  | (125,000)                                    | -  |
| Payments on notes payable, net  | (103,000)                                    | (437,070)                                    |
| <b>Net cash provided by (used) in by financing activities</b>                             | <b>3,212,397</b>                             | <b>(7,364,703)</b>                           |



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|   |              |              |
|---|--------------|--------------|
| Effect of exchange rate changes on cash | 4,416        | (145)        |
| Net increase (decrease in) in cash      | (3,902,593)  | 4,603,628    |
| Cash at beginning of period             | 4,998,314    | 2,555,151    |
| Cash at end of period                   | \$ 1,095,721 | \$ 7,158,779 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

|                         |            |              |
|-------------------------|------------|--------------|
| Cash paid for:          |            |              |
| Interest expense        | \$ 456,917 | \$ 1,187,074 |
| Taxes paid              | \$ 17,242  | \$ 27,682    |
| Cash invested in 3DNano | \$ -       | \$ 115,000   |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

|   |            |              |
|---|------------|--------------|
| Revenue share liability incurred in conjunction with note payable           | \$ 225,000 | \$ -         |
| Warrant issued in conjunction with common stock issuance                    | \$ 257,957 | \$ -         |
| Note payable issued in conjunction with the acquisition of Munitech patents | \$ -       | \$ 1,750,000 |
| Convertible debt warrant repricing  | \$ -       | \$ 6,425     |

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

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**Notes to Unaudited Consolidated Condensed Financial Statements**

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

**Organization**

Marathon Patent Group, Inc.'s (the "Company") business is to acquire patents and patent rights and to monetize the value of those assets to generate revenue and profit for the Company. We acquire patents and patent rights from their owners, who range from individual inventors to Fortune 500 companies. Part of our acquisition strategy is to acquire or invest in patents and patent rights that cover a wide-range of subject matter, which allows us to achieve the benefits of a growing diversified portfolio of assets. Generally, the patents and patent rights that we acquire are characterized by having large identifiable companies who are or have been using technology that infringes our patents and patent rights. We generally monetize our portfolio of patents and patent rights by entering into license discussions, and if that is unsuccessful, initiating enforcement activities against any infringing parties with the objective of entering into a standard form of comprehensive settlement and license agreement that may include the granting of non-exclusive retroactive and future rights to use the patented technology, a covenant not to sue, a release of the party from certain claims, the dismissal of any pending litigation and other terms that are appropriate in the circumstances. Our strategy has been developed with the expectation that it will result in a long-term, diversified revenue stream for the Company.

The Company was incorporated in the State of Nevada on February 23, 2010 under the name Verve Ventures, Inc. On December 7, 2011, we changed our name to American Strategic Minerals Corporation and were engaged in the business of exploration and potential development of uranium and vanadium minerals business. In June 2012, we discontinued our minerals business and began to invest in real estate properties in Southern California. In October 2012, we discontinued our real estate business when our CEO joined the firm and we commenced our current business, at which time the Company's name was changed to Marathon Patent Group, Inc.

On October 1, 2012, the shareholders holding a majority of the Company's voting capital had voted and authorized the Company to change the name of the Company to Marathon Patent Group, Inc. (the "Name Change"). The Board of Directors approved the Name Change on October 1, 2012. The Board of Directors determined the name "Marathon Patent Group, Inc." better reflected the long-term strategy in exploring other opportunities and the identity of the Company going forward. On February 15, 2013, the Company filed the Certificate of Amendment with the Secretary of State of the State of Nevada in order to effectuate the Name Change.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of

normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

#### **Use of Estimates and Assumptions**

The preparation of financial statements in conformity with US 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 the reporting period. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, estimating the useful lives of patent assets, the assumptions used to calculate fair value of warrants and options granted, goodwill impairment, realization of long-lived assets, deferred income taxes, unrealized tax positions and business combination accounting.

#### **Cash**

The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation. The Company's accounts held at this institution, up to a limit of \$250,000, are insured by the Federal Deposit Insurance Corporation ( FDIC ). As of June 30, 2017, the Company had bank balances exceeding the FDIC insurance limit. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits.

Table of Contents**Accounts Receivable**

The Company has a policy of reserving for questionable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the bad debt expense after all means of collection have been exhausted and the potential for recovery is considered remote. At each of June 30, 2017 and December 31, 2016, the Company had recorded an allowance for bad debts in the amount of \$387,976. Accounts receivable, net at June 30, 2017 and December 31, 2016, amounted to \$116,336 and \$95,069, respectively.

**Concentration of Revenue and Geographic Area**

Revenue from the Company's patent enforcement activities is considered United States revenue as any payments for licenses included in that revenue are for United States operations irrespective of the location of the licensee's or licensee's parent home domicile.

The Company had \$265,000 in revenues from two newly issue licenses accounting for approximately 72% of the Company's revenues during the three months ended June 30, 2017, and revenues from the five largest licenses accounted for approximately 99% of the Company's revenues for the three months ended June 30, 2016, as set forth below. The Company derived these revenues from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses. While the Company has a growing portfolio of patents, at this time, the Company expects that a significant portion of its future revenues will be based on one-time grants of similar non-recurring, non-exclusive, non-assignable licenses to a relatively small number of entities and their affiliates. Further, with the expected small number of firms with which the Company enters into license agreements, and the amount and timing of such license agreements, the Company also expects that its revenues may be highly variable from one period to the next.

| For the Three Months Ended June 30, 2017 |                |              | For the Three Months Ended June 30, 2016 |                |              |
|--|----------------|--------------|--|----------------|--------------|
| Licensor                                 | License Amount | % of Revenue | Licensor                                 | License Amount | % of Revenue |
| Munitech IP S.a.r.l.                     | \$ 200,000     | 54%          | Dynamic Advances, LLC                    | \$ 24,900,000  | 72%          |
| Signal IP, Inc.                          | \$ 65,000      | 18%          | Orthophenix, LLC                         | \$ 4,500,000   | 13%          |
|  |                |              | Orthophenix, LLC                         | \$ 3,750,000   | 11%          |
|  |                |              | Orthophenix, LLC                         | \$ 600,000     | 2%           |
|  |                |              | Signal IP, Inc.                          | \$ 310,000     | 1%           |
|  | Total          | 72%          | Total                                    | Total          | 99%          |

The remainder of the revenue is attributable to running royalties in the Company's Medtech portfolio.

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At the current time, we define customers as firms that obtain licenses to the Company's patents, either prior to or during enforcement litigation. These firms generally enter into non-recurring, non-exclusive, non-assignable license agreements with the Company, and these customers do not generally engage on ongoing, recurring business activity with the Company. The Company has historically had a small number of customers enter into such agreements, resulting in higher levels of revenue concentration.

### **Revenue Recognition**

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 605, Revenue Recognition. Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured. In general, revenue arrangements provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company.

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These rights typically include some combination of the following: (i) the grant of a non-exclusive, perpetual license to use patented technologies owned or controlled by the Company, (ii) a covenant-not-to-sue, (iii) the dismissal of any pending litigation.

The intellectual property rights granted typically are perpetual in nature. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the non-exclusive licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, and when all other revenue recognition criteria have been met.

The Company also considers the revenue generated from its settlement and licensing agreements as one unit of accounting under ASC 605-25, Multiple-Element Arrangements as the delivered items do not have value to customers on a standalone basis, there are no undelivered elements and there is no general right of return relative to the license. Under ASC 605-25, the appropriate recognition of revenue is determined for the combined deliverables as a single unit of accounting and revenue is recognized upon delivery of the final elements, including the license for past and future use and the release.

Also, since the settlement element and license element for past and future use are the Company's major central business, the Company presents these two elements as one revenue category in its statement of operations. The Company does not expect to provide licenses that do not provide some form of settlement or release. Revenue from newly issued patent licenses activities accounted for 72% and 99% of the Company's revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets of \$128,718 and \$202,067 at June 30, 2017 and December 31, 2016, respectively, consist primarily of costs paid for future services, which will occur within a year. Prepaid expenses include prepayments in cash and equity instruments for public relation services, business advisory, consulting, and prepaid insurance, which are being amortized over the terms of their respective agreements.

**Bonds Posted With Courts**

Under certain circumstances related to litigations in Germany, the Company is either required to or may decide to enter a bond with the courts. As of June 30, 2017 and December 31, 2016, the Company had outstanding bonds in the amount of \$375,603 and \$0, respectively. These bonds were entered into in Germany upon the filing of cases in the Company's Munitech portfolio in Germany during the three months ended March 31, 2017 and the difference in the balance of the litigation bonds at December 31, 2016 compared to June 30, 2017 is attributable to the placement of these bonds with the German court.

**Related Party Transactions**

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Parties are considered related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all related party transactions.

On May 13, 2013, we entered into a six-year advisory services agreement (the Advisory Services Agreement) with IP Navigation Group, LLC (IP Nav), of which Erich Spangenberg is founder and former Chief Executive Officer. Mr. Spangenberg is an affiliate of the Company. The terms of the Advisory Services Agreement provide that, in consideration for its services as intellectual property licensing agent, the Company will pay to IP Navigation Group, LLC between 10% and 20% of the gross proceeds of certain licensing campaigns in which IP Navigation Group, LLC acts as intellectual property licensing agent.

On November 18, 2013, we entered into Amendment No. 1 to the Executive Employment Agreement with our Chief Executive Officer and Chairman, Doug Croxall, pursuant to which Mr. Croxall's base salary was raised to \$480,000, subject to a 3% increase every year commencing on November 14, 2014. We also granted Mr. Croxall a bonus of \$350,000 and ten-year stock options to purchase an aggregate of 100,000 shares of our Common Stock, with a strike price of \$5.93 per share (representing the closing price on the date of grant), vesting in twenty-four (24) equal installments on each monthly anniversary of the date of grant.

On November 18, 2013, we entered into a consulting agreement with Jeff Feinberg (Feinberg Agreement), pursuant to which we agreed to grant Mr. Feinberg 100,000 shares of our restricted Common Stock, 50% of which shall vest on the one-year anniversary of the Feinberg Agreement and the remaining 50% of which shall vest on the second-year anniversary of the Feinberg Agreement. Mr. Feinberg is the trustee of The Feinberg Family Trust and holds voting and dispositive power over shares held by The Feinberg Family Trust, which is a 10% beneficial owner of our Common Stock.

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On May 2, 2014, the Company completed the acquisition of certain ownership rights (the Acquired Intellectual Property ) from TechDev, Granicus and SFF pursuant to the terms of three purchase agreements between: (i) the Company, TechDev, SFF and DA Acquisition LLC, a newly formed Texas limited liability company and wholly-owned subsidiary of the Company; (ii) the Company, Granicus, SFF and IP Liquidity Ventures Acquisition LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company; and (iii) the Company, TechDev, SFF and Sarif Biomedical Acquisition LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company. TechDev, SFF and Granicus are owned or controlled by Erich Spangenberg or family members or associates.

- Pursuant to the DA Agreement, the Company acquired 100% of the limited liability company membership interests of Dynamic Advances, LLC, a Texas limited liability company, in consideration for: (i) two cash payments of \$2,375,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to \$2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company's Series B Convertible Preferred Stock. The remaining cash payment was made on April 1, 2015 and is fully paid. Under the terms of the DA Agreement, TechDev and SFF are entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below.
- Pursuant to the IP Liquidity Agreement, the Company acquired 100% of the limited liability company membership interests of IP Liquidity Ventures, LLC, a Delaware limited liability company, in consideration for: (i) two cash payments of \$2,375,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to \$2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company's Series B Convertible Preferred Stock. The remaining cash payment was made on April 1, 2015 and is fully paid. Under the terms of the IP Liquidity Agreement, Granicus and SFF are entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below.
- Pursuant to the Sarif Agreement, the Company acquired 100% of the limited liability company membership interests of Sarif Biomedical, LLC, a Delaware limited liability company, in consideration for two cash payments of \$250,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to \$300,000 if not made on or before June 30, 2014. The remaining cash payment was made on February 24, 2015 and is fully paid. Under the terms of the Sarif Agreement, TechDev and SFF are entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below.
- Pursuant to the Pay Proceeds Agreement, the Company may pay the sellers a percentage of the net recoveries (gross revenues minus certain defined expenses) that the Company makes with respect to the assets held by the entities that the Company acquired pursuant to the DA Agreement, the IP Liquidity Agreement and the Sarif Agreement. Under the terms of the Pay Proceeds Agreement, as amended in 2016, if the Company recovers \$10,000,000 or less with regard to the IP Assets, then nothing is due to the sellers; if the Company recovers between \$13,000,000 and \$40,000,000 with regard to the IP Assets, then the Company shall pay 40% of the cumulative gross proceeds of such recoveries to the sellers; and if the Company recovers over \$40,000,000 with regard to the IP Assets,



the Company shall pay 50% of the cumulative gross proceeds of such recoveries to the sellers. Pursuant to the amendment to the Pay Proceeds Agreement, the Company paid TechDev, Granicus and SFF \$2.4 million. In no event will the total payments made by the Company under the Pay Proceeds Agreement exceed \$250,000,000.

On May 2, 2014, we entered into an opportunity agreement (the Marathon Opportunity Agreement ) with Erich Spangenberg, who is an affiliate of the Company. The terms of the Marathon Opportunity Agreement provide that we have ten business days after receiving notice from Mr. Spangenberg to provide up to 50% of the funding for certain opportunities relating to the licensing, intellectual property acquisitions and/or intellectual property enforcement actions in which Mr. Spangenberg, IP Nav or any entity controlled by Mr. Spangenberg, other than: (i) IP Nav or any of its affiliates, and (ii) Medtech Development, LLC or any of its affiliates.

On June 17, 2014, Selene Communication Technologies Acquisition LLC ( Acquisition LLC ), a Delaware limited liability company and newly formed wholly-owned subsidiary of the Company, entered into a merger agreement with Selene Communication Technologies, LLC ( Selene ). Selene owned a patent portfolio consisting of three United States patents in the field of search and network intrusion that relate to tools for intelligent searches applied to data management systems as well as global information networks such as the internet. IP Nav provided patent monetization and support services under an existing agreement with Selene prior to the return of the patents to Stanford Research Institute ( SRI ), the original owners of the patents.

On August 29, 2014, the Company entered into a patent purchase agreement to acquire a portfolio of patents from Clouding IP, LLC for an aggregate purchase price of \$2.4 million, of which \$1.4 million was paid in cash and \$1.0 million was paid in the form of a promissory note issued by the Company that matured on October 31, 2014 and was fully paid prior to the maturation date. The Company also issued 25,000 shares of its restricted common stock in connection with the acquisition. Clouding IP, LLC is also entitled to certain possible future cash payments. Clouding IP LLC is owned or controlled by Erich Spangenberg or family members or associates.

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On October 10, 2014, the Company entered into an interest sale agreement with MedTech Development, LLC ( MedTech ) to acquire from MedTech 100% of the limited liability membership interests of OrthoPhoenix and TLIF as well as 100% of the shares of MedTech GmbH. In connection with the transaction, the Company is obligated to pay to MedTech \$1 million at closing and \$1 million on each of the following nine (9) month anniversary dates of the closing. On July 16, 2015, the Company entered into a forbearance agreement (the Agreement ) with MedTech Development, the holder of a Promissory Note issued by the Company, dated October 10, 2014. Pursuant to the Agreement, the term of the Note was extended to October 1, 2015 and the Note began accruing interest starting from May 13, 2015. In addition, the Company agreed to make certain mandatory prepayments under certain circumstances and issue to MedTech Development 200,000 shares of restricted common stock of the Company. In accordance with ASC 470-50, the Company recorded this agreement as debt extinguishment and \$654,000 was recorded as loss on debt extinguishment during the year ended September 30, 2015. On October 23, 2015, the Company entered into Amendment No. 1 to the Forbearance Agreement (the Amendment ) entered into with MedTech Development on July 16, 2015. Pursuant to the Amendment, the due date of the Promissory Note was extended to October 23, 2016 in return for which the Company made a payment of \$100,000 on October 23, 2015 and modified the terms under which the Company agreed to make mandatory prepayments under certain circumstances. The acquired subsidiaries are also obligated to make certain additional payments to MedTech from recoveries following the receipt by the acquired subsidiaries of 200% of the purchase payments, plus recovery of out of pocket expenses in connection with patent claims. The participation payments may be paid, at the election of the Company, in common stock of Marathon at the market price on the date of issuance. In connection with the transaction, the Company entered into a promissory note, common interest agreement and in the event of issuance of common stock to MedTech, will enter into a lockup and registration rights agreement. Approximately forty-five percent (45%) of MedTech is owned or controlled by Erich Spangenberg or family members or associates.

On May 10, 2016, the Company entered into an executive employment agreement with Erich Spangenberg pursuant to which Mr. Spangenberg became the Company's Director of Acquisitions, Licensing and Strategy. Mr. Spangenberg resigned on August 3, 2017 and has been engaged as a consultant by the Company.

On October 1, 2016, one of the Company's subsidiaries, PG Technologies S.a.r.l. entered into an advisory services agreement with Granicus IP, LLC, an entity owned or controlled by one of the Company's employees, whereby Granicus receives a percentage of pre-tax return from PG Technologies after certain revenue thresholds have been met.

During 2016, certain officers and directors of the Company received restricted common stock in the Company's 3D Nano subsidiary.

At June 30, 2017, and December 31, 2016, Other noncurrent assets in the Balance Sheets consist of a note receivable from an entity controlled by one of the Company's employees that are uncollateralized. The note receivable does not carry interest and is repayable to the Company at the earlier of March 31, 2022 or based on certain milestones. The note receivable balance have been classified as current assets because the Company believes that it will be collected within one year from the Balance Sheet dates.

**Fair Value of Financial Instruments**

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The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

- Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The carrying amounts reported in the consolidated condensed balance sheet for cash, accounts receivable, bonds posted with courts, accounts payable, and accrued expenses, approximate their estimated fair market value based on the short-term maturity of these instruments. The carrying value of notes payable and other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the Company.

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Clouding IP earn out liability was determined as a Level 3 liability, which requires an assessment of fair value at each period end by using discounted cash flow as a valuation technique using unobservable inputs, such as revenue and expenses forecasts, timing of proceeds, and discount rate. Based on reassessment of fair value as of June 30, 2017, the Company determined that there was no reduction in either the Clouding IP earn out liability or the carrying value of the Clouding IP intangible assets during the three and six months ended June 30, 2017.

Under certain circumstances related to litigations in Germany, the Company is either required to or may decide to enter a bond with the courts. As of June 30, 2017 and December 31, 2016, the Company had outstanding bonds in the amount of \$375,603 and \$0, respectively. The Company adjusted the value as of June 30, 2017 of the bonds, relative to value as of March 31, 2017, in an amount of \$23,956 to reflect changes to the exchange rate between the Euro and the US Dollar.

**Accounting for Acquisitions**

In the normal course of its business, the Company makes acquisitions of patent assets and may also make acquisitions of businesses. With respect to each such transaction, the Company evaluates facts of the transaction and follows the guidelines prescribed in accordance with ASC 805 Business Combinations to determine the proper accounting treatment for each such transaction and then records the transaction in accordance with the conclusions reached in such analysis. The Company performs such analysis with respect to each material acquisition within the consolidated group of entities.

**Income Taxes**

The Company accounts for income taxes pursuant to the provision of ASC 740-10, Accounting for Income Taxes which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Position. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is most likely that not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions will more likely than not be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The Company is in the process of filing the 2016 tax returns. After review of the prior year financial statements and the results of operations through December 31, 2016, the Company has recorded a full valuation allowance on its deferred tax asset.

#### **Basic and Diluted Net Loss per Share**

Net loss per common share is calculated in accordance with ASC Topic 260: Earnings Per Share ( ASC 260 ). Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. The computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding, as they would be anti-dilutive. The Company has options to purchase 2,725,404 shares of common stock, warrants to purchase 4,731,573 shares of common stock, convertible notes convertible into 66,667 shares of Common Stock outstanding and 782,004 shares of Series B Convertible Preferred Stock convertible into 782,004 shares of Common Stock outstanding at June 30, 2017, which were excluded from the computation of diluted shares outstanding, as they would have had an anti-dilutive impact on the Company's net loss.

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The following table sets forth the computation of basic and diluted loss per share:

|   | For the Three Months<br>Ended June 30, 2017 | For the Three Months<br>Ended June 30, 2016 | For the Six Months<br>Ended June 30, 2017 | For the Six Months<br>Ended June 30, 2016 |
|---|---|---|---|---|
| Net income (loss) attributable to Common shareholders | \$ (2,200,792)                              | \$ 7,906,279                                | \$ (5,807,439)                            | \$ 4,012,866                              |
| <b>Denominator</b>                                    |   |   |   |   |
| Weighted average common shares - Basic                | 22,566,648                                  | 14,994,697                                  | 20,822,791                                | 14,980,919                                |
| Weighted average common shares - Diluted              | 22,566,648                                  | 16,031,564                                  | 20,822,791                                | 16,017,786                                |
| <b>Earnings (loss) per common share:</b>              |   |   |   |   |
| Earnings (loss) - Basic                               | \$ (0.10)                                   | \$ 0.53                                     | \$ (0.28)                                 | \$ 0.27                                   |
| Earnings (loss) - Diluted                             | \$ (0.10)                                   | \$ 0.49                                     | \$ (0.28)                                 | \$ 0.25                                   |

### **Intangible Assets - Patents**

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. The patents purchased are recorded based on the cost to acquire them and patents acquired in lieu of cash are recorded at their fair market value. The costs of these assets are amortized over their remaining useful lives. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. The Company did not record an impairment charge to its intangible assets during the three and six months ended June 30, 2017, compared to an impairment charge associated with the end of life of a number of the Company's portfolios during the three and six months ended June 30, 2016 in the amounts of \$620,696 and \$993,890, respectively.

### **Goodwill**

Goodwill is tested for impairment at the reporting unit level at least annually in accordance with ASC 350, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then applies a two-step impairment test. The two-step impairment test first compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of the reporting unit exceeds its fair value, the Company determines the implied fair value of the reporting unit's goodwill and if the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded in the consolidated condensed statement of operations. The Company performs the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30.

For the three and six months ended June 30, 2017, the Company recorded no impairment charge to its goodwill and for the three and six months ended June 30, 2016, the Company recorded impairment to its Goodwill in the amount of \$83,000 and \$83,000, respectively.

**Other Intangible Assets**

In accordance with ASC 350-30, Intangibles - Goodwill and Others, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of use of the acquired assets or the strategy for the overall business; and (3) significant negative industry or economic trends.

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

For the three and six months ended June 30, 2017 and June 30, 2016, the Company recorded no impairment charge to its other intangible assets.

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**Impairment of Long-lived Assets**

The Company accounts for the impairment or disposal of long-lived assets according to the ASC 360 Property, Plant and Equipment . The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of long-lived assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated future net undiscounted cash flows expected to be generated by the asset. When necessary, impaired assets are written down to estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset.

The Company did not record any impairment charges on its long-lived assets during the three and six months ended June 30, 2017 and June 30, 2016.

**Stock-based Compensation**

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. As stock-based compensation expense is recognized based on awards expected to vest, forfeitures are also estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For the three and six months ended June 30, 2017, the expected forfeiture rate was 12.75%, which resulted in an expense of \$19,498 and \$48,634, for the three and six months ended June 30, 2017, respectively, recognized in the Company's compensation expenses. For the three and six months ended June 30, 2016, the expected forfeiture rate was 11.03%, which resulted in an expense of \$12,477 and \$27,262 for the three and six months ended June 30, 2016, respectively, recognized in the Company's compensation expenses. The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third parties, compensation expense is determined at the measurement date. The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

**Liquidity and Capital Resources**

At June 30, 2017, we had approximately \$1.1 million in cash and cash equivalents and a working capital deficit of approximately \$8.7 million.



Based on the Company's current revenue and profit projections, management is uncertain that the Company's existing cash and accounts receivables will be sufficient to fund its operations through at least the next twelve months from the issuance date of the financial statements, raising substantial doubt regarding the Company's ability to continue operating as a going concern. If we do not meet our revenue and profit projections or the business climate turns negative, then we will need to:

- raise additional funds to support the Company's operations; provided, however, there is no assurance that the Company will be able to raise such additional funds on acceptable terms, if at all. If the Company raises additional funds by issuing securities, existing stockholders may be diluted; and
- review strategic alternatives.

If adequate funds are not available, we may be required to curtail our operations or other business activities or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets. The accompanying consolidated condensed financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and settlements of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern

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**Recent Accounting Pronouncements**

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. This ASU provides clarity about which changes to the terms or conditions of a share-based payment award require the application of modification accounting. Specifically, ASU 2017-09 clarifies that changes to the terms or conditions of an award should be accounted for as a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of ASU 2017-09 to significantly impact its accounting for share-based payment awards, as changes to awards terms and conditions subsequent to the grant date are unusual and infrequent in nature.

In January 2017, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2017-04 *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ( ASU 2017-04 ). This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for interim and annual period beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business* ( ASU 2017-01 ), which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

In October 2016, the FASB issued ASU 2016-16 *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ( ASU 2016-16 ), which eliminates the exception in existing guidance which defers the recognition of the tax effects of intra-entity asset transfers other than inventory until the transferred asset is sold to a third party. Rather, the amended guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted as of the beginning of an annual reporting period. The Company is currently assessing the impact of this guidance on its consolidated condensed financial statements.

In August 2016, the FASB issued ASU 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ( ASU 2016-15 ). The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted for all entities. The Company is currently evaluating the impact of this guidance on its consolidated condensed financial

statements.

In May 2014, the FASB Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers, as a new Topic, (ASC) Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. This ASU must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are considering the alternatives of adoption of this ASU and we are conducting our review of the likely impact to the existing portfolio of customer contracts entered into prior to adoption. After completing our review, we will continue to evaluate the effect of adopting this guidance upon our results of operations, cash flows and financial position.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ( ASU 2016-02 ). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Accordingly, the standard is effective for us on September 1, 2019 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated condensed financial statements.

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

**NOTE 3 ACQUISITIONS**

**Clouding Corp.**

On August 29, 2014, the Company entered into a patent purchase agreement (the Clouding Agreement) between Clouding Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ( Clouding ) and Clouding IP, LLC, a Delaware limited liability company ( Clouding IP ), pursuant to which Clouding acquired a portfolio of patents from Clouding IP. Clouding owns patents related to network and data management technology.

The Company paid Clouding IP (i) \$1.4 million in cash, (ii) \$1.0 million in the form of a promissory note issued by the Company that would have matured on October 31, 2014, (iii) 25,000 shares of its restricted common stock valued at \$281,000 and (iv) fifty percent (50%) of the net recoveries (gross revenues minus certain defined expenses) in excess of \$4.0 million in net revenues that the Company makes with respect to the patents purchased from Clouding IP. The Company valued the Common Stock at the fair market value on the date of the Interests Sale Agreement at \$11.24 per share or \$281,000 and the promissory note was paid in full prior to October 31, 2014. The revenue share under item (iv) above was booked as an earn out liability on the balance sheet in accordance with the appraisal of the consideration and intangible value. As of June 30, 2017 and December 31, 2016, the fair value of the earn out liability was \$1,468,133 and \$1,482,012, respectively. The Company booked a payable to the sellers pursuant to the earn out liability in the amount of \$2,148,000 at September 30, 2014, based on license agreements entered into during the quarter. No further amount is owed until the Company generates additional revenue, if any, from the Clouding patents.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations . The Company engaged a third-party valuation firm to determine the fair value of the assets purchases, and the net purchase price paid by the Company was subsequently allocated to assets acquired and liabilities assumed on the records of the Company as follows:

|                    |    |                   |
|--------------------|----|-------------------|
| Intangible assets  | \$ | 14,500,000        |
| Goodwill           |    | 1,296,000         |
| Net purchase price | \$ | <b>15,796,000</b> |

Total consideration paid of the following:

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|                    |    |                   |
|--------------------|----|-------------------|
| Cash               | \$ | 1,400,000         |
| Promissory Note    |    | 1,000,000         |
| Common Stock       |    | 281,000           |
| Earn Out Liability |    | 13,115,000        |
| Net purchase price | \$ | <b>15,796,000</b> |

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Upon further evaluation, the total value of the earn-out liability was reduced, measured as of the acquisition date, to reflect certain underlying changes in the litigation schedule. Historical financial statements of Clouding and the pro forma condensed combined consolidated financial statements can be found on the Form 8-K/A filed with the SEC on November 12, 2014. The unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results that would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

The Clouding IP earn out liability was determined to be a Level 3 liability, which requires fair assessment of fair value at each period end by using a discounted cash flow model as the valuation methodology, using unobservable inputs, such as revenue and expenses forecasts, timing of proceeds, and discount rates. Based on the reassessment of fair value as of June 30, 2016, the Company determined the Clouding IP earn out liability to be \$81,930 (current portion) and \$1,386,203 (long-term portion), which was unchanged from the fair value as of ended March 31, 2017.

**Munitech IP S.a.r.l. ( Munitech )**

On June 27, 2016, Munitech S.a.r.l. ( Munitech ), a Luxembourg limited liability company and newly formed wholly-owned subsidiary of the Company, entered into two Patent Purchase Agreements (the PPA or together, the PPAs ) to purchase 221 patents from Siemens Aktiengesellschaft. The patents purchased by Munitech relate to W-CDMA and GSM cellular technology and cover all the major global economies including China, France, Germany, the United Kingdom and the United States. Significantly, many of the patent families have been declared to be Standard Essential Patents ( SEPs ) with the European Telecommunications Standard Institute ( ETSI ) and/or the Association of Radio Industries and Businesses ( ARIB ) related to Long Term Evolution ( LTE ), Universal Mobile Telecommunications System ( UMTS ), and/or General Packet Radio Service ( GPRS ).

Pursuant to the terms of the PPAs, Munitech (i) paid Siemens Aktiengesellschaft \$1,150,000 in cash upon closing and (ii) agreed to two future payments, one in the amount of \$1,000,000 payable on December 31, 2016 and the second in the amount of \$750,000 payable on September 30, 2017.

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licensing activity, vendors associated with the patents, any royalties, and any other assets other than the patents.

**Magnus IP GmbH ( Magnus )**

On July 5, 2016, Marathon IP GmbH ( Marathon IP ), a German corporate entity and newly formed wholly-owned subsidiary of the Company, entered into a Patent Purchase Agreements (the PPA ) to purchase 86 patents from Siemens Switzerland Ltd and Siemens Industry Inc., (together, Siemens ). On September 15, 2016, the patents were assigned by Marathon IP to Magnus, both of which are wholly-owned subsidiaries of the Company. The patents purchased by Marathon IP relate to Internet-of-Things (IOT) technology. Generally, the portfolio s subject matter is directed toward self-healing control networks for automation systems. The patents are relevant to wireless mesh or home area networks for use in IOT, or connected home devices and enable simple commissioning, application level security, simplified bridging, and end-to-end IP security.

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The technology can support a wide variety of IOT enabled devices including lighting, sensors, appliances, security, and more. Pursuant to the terms of the PPA, Marathon IP paid Siemens \$250,000 in cash upon closing.

Pursuant to the terms of the PPAs, Munitech (i) paid Siemens \$250,000 in cash upon closing and (ii) will pay a percentage of gross proceeds in excess of a reserve threshold on behalf of Marathon IP.

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licensing activity, vendors associated with the patents, any royalties, and any other assets other than the patents.

### **Traverse Technologies Corp. ( Traverse )**

On August 3, 2016, Traverse Technologies Corp. ( Traverse ), a United States corporation and newly formed wholly-owned subsidiary of the Company, entered into a Patent Purchase Agreement (the PPA ) to purchase 12 patents from CPT IP Holdings ( CPT ). The patents purchased by Traverse relate to batteries and principally cover various Asian and the United States markets.

Pursuant to the terms of the PPAs, Traverse (i) paid CPT \$1,300,000 in cash upon closing and (ii) will pay a percentage of net recoveries in excess of a reserve threshold on behalf of Traverse.

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After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licensing activity, vendors associated with the patents, any royalties, and any other assets other than the patents.

**PG Technologies S.a.r.l. ( PG Tech )**

On August 11, 2016, PG Technologies S.a.r.l. ( PG Tech ), a Luxembourg limited liability company jointly owned with a large litigation financing fund, entered into a Patent Funding and Exclusive License Agreement (the ELA ) to manage the monetization of greater than 10,000 patents in a single industry vertical with a Fortune 50 company. The patents cover all the major global economies including China, France, Germany, the United Kingdom and the United States. The Company determined that its ownership in PG Tech constitutes a VIE and that the Company is the primary beneficiary, as a result of which, the Company consolidated PG Tech in its financial statements.

Pursuant to the terms of the ELA, PG Tech agreed with the Fortune 50 company to pay (i) \$1,000,000 in cash upon closing, (ii) a future payment in the amount of \$1,000,000 payable on or before December 31, 2016, (iii) minimum quarterly payments of \$250,000 starting on April 1, 2017 and (iv) split 50% of the net licensing revenues.

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licensing activity, vendors associated with the patents, any royalties, and any other assets other than the patents.

**Motheye Technologies LLC ( Motheye )**

On September 13, 2016, Motheye Technologies, LLC ( Motheye ), a United States corporation and newly formed wholly-owned subsidiary of the Company, entered into a Patent Purchase Agreements (the PPA ) to purchase 1 patent from Cirrex Systems, LLC ( Cirrex ). The patent purchased by Motheye relates to LED lighting and is issued in the United States.

Pursuant to the terms of the PPA, Motheye paid no determined cash consideration, but is required to pay a percentage of net recoveries in excess of a reserve threshold on behalf of Motheye.

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licensing activity, vendors associated with the patents, any royalties, and any other assets other than the patents.



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On June 14, 2017, following a decision by the Company not to enforce the Motheye patent, Motheye entered into an agreement whereby the patent held in Motheye was assigned back to the seller of the portfolio.

### NOTE 4 INTANGIBLE ASSETS

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. Patents purchased are recorded based at their acquisition cost and patents acquired in lieu of cash are recorded at their fair market value. Intangible assets consisted of the following:

|                                       | June 30, 2017 | December 31, 2016 |
|---------------------------------------|---------------|-------------------|
| Intangible Assets                     | \$ 24,050,330 | \$ 23,637,813     |
| Accumulated Amortization & Impairment | (12,691,608)  | (11,323,185)      |
| Intangible assets, net                | \$ 11,358,722 | \$ 12,314,628     |

Intangible assets are comprised of patents with estimated useful lives between approximately 1 to 16 years. Once placed in service, the Company will amortize the costs of intangible assets over their estimated useful lives on a straight-line basis. During the three and six months ended June 30, 2017, respectively, the Company capitalized a total of \$0 and \$0 in patent acquisition costs and during the three and six months ended June 30, 2016, respectively, the Company capitalized a total of \$2,900,000 and \$2,900,000 in patent acquisition costs. Costs incurred to acquire patents, including legal costs, are also capitalized as long-lived assets and amortized on a straight-line basis with the associated patent. Amortization of patents is included as an operating expense as reflected in the accompanying consolidated condensed statements of operations. The Company assesses fair market value for any impairment to the carrying values. The Company did not record an impairment charge to its intangible assets during the three and six months ended June 30, 2017, compared to an impairment charge associated with the end of life of a number of the Company's portfolios during the three and six months ended June 30, 2016 in the amounts of \$620,696 and \$993,890, respectively.

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Patent amortization expense for the three and six months ended June 30, 2017 was \$639,887 and \$1,345,846, respectively, and for the three and six months ended June 30, 2016, patent amortization expense was \$1,961,411 and \$3,987,310, respectively. All patent amortization expense figures are net of foreign currency translation adjustments. Future amortization of intangible assets, net of foreign currency translation adjustments is as follows:

|                     |           |                   |
|---------------------|-----------|-------------------|
| 2017                | \$        | 1,018,300         |
| 2018                |           | 1,932,854         |
| 2019                |           | 1,849,273         |
| 2020                |           | 1,539,520         |
| 2021                |           | 1,370,920         |
| 2022 and thereafter |           | 3,647,855         |
| <b>Total</b>        | <b>\$</b> | <b>11,358,722</b> |

As of June 30, 2017, our operating subsidiaries owned 293 patents, as set forth below, and had economic rights to over 10,000 additional patents, both of which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. In the aggregate, the earliest date for expiration of a patent in the Company's patent portfolio has passed (the patent is expired, but patent rules allow for six-year look-back for royalties), the median expiration date for patents in the Company's portfolio is January 13, 2021, and the latest expiration date for a patent in any of the Company's patent portfolios is July 29, 2033. A summary of the Company's patent portfolios is as follows:

|                                 | Number of | Earliest        | Median          | Latest          |  |
|---------------------------------|-----------|-----------------|-----------------|-----------------|--|
| Subsidiary                      | Patents   | Expiration Date | Expiration Date | Expiration Date | Subject Matter   |
| Bismarck IP Inc.                | 2         | 1/21/2018       | 1/21/2018       | 1/22/2018       | Communication and PBX equipment                                  |
| Clouding Corp.                  | 30        | 3/19/2017       | 3/6/2021        | 5/29/2029       | Network and data management                                      |
| CRFD Research, Inc.             | 5         | 5/25/2021       | 9/17/2021       | 8/19/2023       | Web page content translator and device-to-device transfer system |
| Cyberfone Systems, LLC          | 3         | 11/11/2017      | 6/7/2019        | 6/7/2020        | Telephony and data transactions                                  |
| Dynamic Advances, LLC           | 2         | 11/6/2021       | 3/4/2024        | 7/1/2026        | Natural language interface                                       |
| E2E Processing, Inc.            | 4         | 4/27/2020       | 11/17/2023      | 7/18/2024       | Manufacturing schedules using adaptive learning                  |
| Hybrid Sequence IP, Inc.        | 1         | 7/7/2017        | 7/7/2017        | 7/7/2017        | Asynchronous communications                                      |
| Loopback Technologies, Inc.     | 5         | 7/9/2017        | 5/11/2019       | 8/27/2022       | Automotive   |
| Magnus IP                       | 50        | 1/27/2023       | 9/27/2025       | 12/9/2031       | Network Management/Connected Home Devices                        |
| Medtech Group Acquisition Corp. | 54        | Expired         | 7/30/2018       | 8/9/2029        | Medical technology   |
| Motheys Technologies            | 1         | 6/7/2021        | 6/7/2021        | 6/7/2021        | Optical Networking   |
| Munitech IP                     | 150       | 9/24/2017       | 6/26/2021       | 4/5/2027        | W-CDMA and GSM cellular technology                               |
| Sampo IP, LLC                   | 3         | 3/13/2018       | 12/1/2019       | 11/16/2023      | Centrifugal communications                                       |
| Signal IP, Inc.                 | 3         | 2/5/2017        | 8/28/2020       | 8/6/2022        | Automotive   |
| TLI Communications, LLC         | 6         | 6/17/2017       | 6/17/2017       | 6/17/2017       | Telecommunications   |
| Traverse Technologies           | 19        | 2/27/2022       | 2/25/2029       | 7/29/2033       | Li-Ion Battery/High Capacity Electrodes                          |
| Vantage Point Technology, Inc.  | 7         | 2/19/2017       | 11/12/2017      | 3/2/2019        | Computer networking and operations                               |
|                                 |           | <b>Median</b>   | <b>08/28/20</b> |                 |  |

On June 14, 2017, Motheys Technologies, LLC ( Motheys ), one of the Company's wholly-owned subsidiaries, entered into an agreement whereby the patent held in Motheys was assigned back to the seller of the portfolio.

**NOTE 5 - STOCKHOLDERS EQUITY**

The Company has authorized capital to 200,000,000 shares of Common Stock with par value to \$0.0001 per share, and has authorized capital of 100,000,000 shares of preferred stock, par value \$0.0001 per share.

**Series B Convertible Preferred Stock**

The terms of the Series B Convertible Preferred Stock are summarized below:

*Dividend.* The holders of Series B Convertible Preferred Stock will be entitled to receive such dividends paid and distributions made to the holders of Common Stock, pro rata to the same extent as if such holders had converted the Series B Convertible Preferred Stock into Common Stock (without regard to any limitations on conversion herein or elsewhere) and had held such shares of Common Stock on the record date for such dividends and distributions.

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*Liquidation Preference.* In the event of a liquidation, dissolution or winding up of the Company, after provision for payment of all debts and liabilities of the Company, any remaining assets of the Company shall be distributed pro rata to the holders of Common Stock and the holders of Series B Convertible Preferred Stock as if the Series B Convertible Preferred Stock had been converted into shares of Common Stock on the date of such liquidation, dissolution or winding up of the Company.

*Voting Rights.* The Series B Convertible Preferred Stock have no voting rights except with regard to certain customary protective provisions set forth in the Series B Convertible Preferred Stock Certificate of Designations and as otherwise provided by applicable law.

*Conversion.* Each share of Series B Convertible Preferred Stock may be converted at the holder's option at any time after issuance into one share of Common Stock, provided that the number of shares of Common Stock to be issued pursuant to such conversion does not exceed, when aggregated with all other shares of Common Stock owned by such holder at such time, result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) in excess of 9.99% of all of the Common Stock outstanding at such time, unless otherwise waived in writing by the Company with sixty-one (61) days' notice.

**Common Stock**

On May 11, 2016, the Company entered into a consulting agreement with the Cooper Law Firm, LLC ( Cooper ), pursuant to which the Company agreed to issue 80,000 shares of the Company's Common Stock. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.70 per share or \$136,000.

On December 9, 2016, the Company entered into a securities purchase agreement (the Purchase Agreement ) with certain institutional investors for the sale of an aggregate of 3,481,997 shares of the Company's common stock, at a purchase price of \$1.50 per share, and warrants to purchase 1,740,995 shares of common stock for a purchase price of \$0.01 per warrant, or \$17,019.95 in total. None of the warrants were purchased prior to December 31, 2016, and all were subsequently purchased prior to the date of this report.

On February 1, 2017, the Company issued 750,000 shares of common stock pursuant to an At-The-Market ( ATM ) securities offering with certain institutional investors at an average price of \$1.74 per share, yielding gross proceeds of \$1,301,923.

On April 12, 2017, pursuant to an amendment entered into on March 6, 2017 to the settlement agreement entered into on October 29, 2015 between the Company and Dominion Harbor, the Company issued 125,000 shares of common stock to Dominion Harbor. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$0.83 per share or \$103,750.

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On April 18, 2017, the Company entered into a securities purchase agreement (the "April Purchase Agreement") with certain institutional investors for the sale of an aggregate of 3,800,000 shares of the Company's common stock at a purchase price of \$0.70 per share and warrants to purchase 2,280,000 shares of common stock at a purchase price of \$0.83 per share.

On April 24, 2017, the Company issued one of its vendors 30,000 shares of Common Stock in exchange for cancellation of the vendor's outstanding invoices. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$0.83 per share or \$24,897.

### Common Stock Warrants

Pursuant to the sales of securities underlying the Purchase Agreement entered into on December 9, 2016, the Company issued a warrant to the underwriter ("Underwriter's Warrant") to purchase 174,100 shares of Common Stock on December 9, 2016. The Underwriter's Warrant has an exercise price of \$1.73 per share. In addition, in a series of issuances in January 2017, the Company issued warrants to the investors ("Investor Warrants") pursuant to the Purchase Agreement to purchase 1,740,995 shares of the Company's Common Stock. The Investor Warrants have an exercise price of \$1.70 per share. The warrants were issued in a series of transactions during January 2017 and were valued based on the Black-Scholes model, using the strike price of \$1.70 per share, market prices ranging from \$1.75 to \$2.13 per share, an expected term of 3.25 years, volatility ranging from 38% to 39%, based on the average volatility of comparable companies over the comparable prior period, and a discount rate as published by the Federal Reserve ranging from 1.50% to 1.56%. The Company reviewed the issuance of the Underwriter and Investor Warrants and determined that pursuant to ASC 480 and ASC 815, the Underwriter and Investor Warrants should be classified as a liability and marked to market every reporting period. Following acceptance by the SEC of the Company's registration statement registering these warrants, the warrants were reclassified from a liability to equity.

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On January 10, 2017, pursuant to the amendment to the Fortress debt, the Company issued a five-year warrant to DBD to purchase 187,500 shares of the Company's Common Stock, exercisable at \$1.70 per share, subject to adjustment. The warrant was valued based on the Black-Scholes model, using the strike and market prices of \$1.70 and \$1.90 per share, respectively, an expected term of 3.00 years, volatility of 39% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.52%. The Company reviewed the issuance of the Underwriter and Investor Warrants and determined that pursuant to ASC 480 and ASC 815, the Underwriter and Investor Warrants met the requirement to be classified as equity and were booked as Additional Paid-in Capital.

Pursuant to the sales of securities underlying the April Purchase Agreement entered into on April 18, 2017, the Company issued a warrant to the underwriter ( Underwriter's Warrant ) to purchase 57,000 shares of Common Stock. The Underwriter's Warrant has an exercise price of \$0.77 per share. In addition, also associated with the April Purchase Agreement, the Company issued warrants to the investors ( April Investor Warrants ) pursuant to the Purchase Agreement to purchase 2,280,000 shares of the Company's Common Stock. The Investor Warrants have an exercise price of \$0.83 per share. The Investor Warrants were valued based on the Black-Scholes model, using the strike price of \$0.77 per share, an expected term of 2.5 years, volatility of 39%, based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.60%. The Underwriter's Warrant was valued based on the Black-Scholes model, using the strike price of \$0.83 per share, an expected term of 3.25 years, volatility of 38%, based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.72%. The Company reviewed the issuance of the Underwriter and Investor Warrants and determined that pursuant to ASC 480 and ASC 815, the Underwriter and Investor Warrants should be classified as equity.

At June 30, 2017, the Company had warrants outstanding to purchase 4,731,573 shares of Common Stock with a weighted average remaining life of 4.88 years. A summary of the status of the Company's outstanding stock warrants and changes during the period then ended is as follows:

|   | Number of<br>Warrants | Weighted<br>Average Exercise<br>Price | Weighted<br>Average<br>Remaining Life |
|---|-----------------------|---------------------------------------|---------------------------------------|
| Balance at December 31, 2016                                      | 466,078               | \$ 3.79                               | 3.25                                  |
| Granted   | 4,265,495             | 1.22                                  | 5.11                                  |
| Cancelled   | -                     | -                                     | -                                     |
| Forfeited   | -                     | -                                     | -                                     |
| Exercised   | -                     | -                                     | -                                     |
| Balance at June 30, 2017  | 4,731,573             | \$ 1.48                               | 4.88                                  |
| Warrants exercisable at June 30, 2017                             | 466,078               |                                       |                                       |
| Weighted average fair value of warrants granted during the period |                       | \$ 0.11                               |                                       |

**Warrant Amendment Letter**

On March 11, 2016, the Company entered into an agreement with the remaining investor in the Company's convertible debt issued on October 9, 2014 to revise the strike price of their warrant, which could be exercised for the purchase of 23,334 shares of Common Stock, in exchange for permanent waiver of certain consent rights held by the holder of the convertible debt. As a result of the amendment, the strike price was reduced from \$4.125 to the lower of 1) \$2.00 per share or 2) the same gross per share price as the Company sells shares of its Common Stock in any future public offering of the Company's Common Stock.

**Common Stock Options**

On May 10, 2016, the Company entered into an executive employment agreement with Erich Spangenberg ( Spangenberg Agreement ) pursuant to which Mr. Spangenberg would serve as the Company s Director of Acquisitions, Licensing and Strategy. As part of the consideration, the Company agreed to grant Mr. Spangenberg a ten-year stock option to purchase an aggregate of 500,000 shares of Common Stock, with a strike price of \$1.87 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of the date of the Spangenberg Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.87 per share, an expected term of 5.75 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.32%.

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On May 20, 2016, the Company entered into an employment agreement with Kathy Grubbs ( Grubbs Agreement ) pursuant to which Ms. Grubbs would serve as an analyst. As part of the consideration, the Company agreed to grant Ms. Grubbs a ten-year stock option to purchase an aggregate of 50,000 shares of Common Stock, with a strike price of \$2.25 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Grubbs Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$2.25 per share, an expected term of 6.50 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.88%.

On July 1, 2016, in conjunction with an executive employment agreement with David Liu ( Liu Agreement ) pursuant to which Mr. Liu would serve as the Company's CTO, entered into on June 29, 2016, the Company granted Mr. Liu a ten-year stock option to purchase an aggregate of 150,000 shares of Common Stock, with a strike price of \$2.79 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Liu Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$2.79 per share, an expected term of 6.50 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.20%.

On October 13, 2016, the Company issued its independent board members ten-year options to purchase an aggregate of 80,000 shares of the Company's Common Stock with an exercise price of \$2.41 per share, subject to adjustment, which shall vest monthly over twelve (12) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$2.41 per share, an expected term of 5.5 years, volatility of 46% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.21%. As there were not sufficient shares in the Company's equity incentive plans to accommodate these grants, Mr. Croxall forfeited a portion of one of his options to purchase 80,000 shares.

At June 30, 2017, there was a total of \$399,167 of unrecognized compensation expense related to non-vested option-based compensation arrangements entered into during the year. A summary of the stock options as of June 30, 2017 and changes during the period are presented below:

|  | Number of<br>Options | Weighted<br>Average Exercise<br>Price | Weighted<br>Average<br>Remaining Life |
|--|----------------------|---------------------------------------|---------------------------------------|
| Balance at December 31, 2016                                     | 3,526,136            | \$ 4.46                               | 6.80                                  |
| Granted  | -                    | -                                     | -                                     |
| Cancelled  | -                    | -                                     | -                                     |
| Forfeited  | 790,732              | 4.18                                  | -                                     |
| Exercised  | -                    | -                                     | -                                     |
| Balance at June 30, 2017   | 2,725,404            | \$ 4.26                               | 6.19                                  |
| Options Exercisable at June 30, 2017                             | 2,326,238            | \$ 4.39                               | 5.77                                  |
| Options expected to vest   | 399,166              | \$ 3.88                               | 8.66                                  |
| Weighted average fair value of options granted during the period |                      | \$ -                                  |                                       |



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Debt consists of the following:

|  | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|--|----------------------|----------------------|----|----------------------|--------------------------|
| Senior secured term notes                | 9-Jul-20             | LIBOR + 9.75%        | \$ | 15,835,900           | \$ 15,620,759            |
| Less: debt discount                      |                      |                      |    | (1,805,701)          | (1,425,167)              |
| Total senior-term notes, net of discount |                      |                      | \$ | 14,030,199           | \$ 14,195,592            |

|                  | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|------------------|----------------------|----------------------|----|----------------------|--------------------------|
| Convertible Note | 10-Oct-18            | 11%                  | \$ | 500,000              | \$ 500,000               |

|                       | <b>Maturity Date</b> | <b>Late Fee</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|-----------------------|----------------------|-----------------|----|----------------------|--------------------------|
| iRunway trade payable | On Demand            | 1.5% per month  | \$ | 191,697              | \$ 191,697               |

|              | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|--------------|----------------------|----------------------|----|----------------------|--------------------------|
| Note payable | 31-Jan-17            | NA                   | \$ | -                    | \$ 103,000               |

|         | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|---------|----------------------|----------------------|----|----------------------|--------------------------|
| Siemens | 30-Sep-17            | NA                   | \$ | 750,000              | \$ 1,672,924             |

|                 | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|-----------------|----------------------|----------------------|----|----------------------|--------------------------|
| Dominion Harbor | 15-Oct-17            | NA                   | \$ | -                    | \$ 125,000               |

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|           | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|-----------|----------------------|----------------------|----|----------------------|--------------------------|
| Oil & Gas | On Demand            | NA                   | \$ | 1,000,000            | \$ 944,296               |

|                         | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|-------------------------|----------------------|----------------------|----|----------------------|--------------------------|
| 3dnano Convertible Note | 1-Jan-18             | 15%                  | \$ | 50,000               | \$ -                     |

|              | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|--------------|----------------------|----------------------|----|----------------------|--------------------------|
| Medtech Note | 1-May-18             | NA                   | \$ | 600,000              | \$ -                     |

|                     | <b>Maturity Date</b> | <b>Interest Rate</b> |    | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|---------------------|----------------------|----------------------|----|----------------------|--------------------------|
| 3dnano Liscense Fee | 31-Jan-17            | NA                   | \$ | -                    | \$ 100,000               |

|                               |  | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|-------------------------------|--|----------------------|--------------------------|
| Total                         |  | \$ 17,121,896        | \$ 17,832,509            |
| Less: current portion         |  | (5,622,173)          | (13,162,007)             |
| Total, net of current portion |  | \$ 11,499,723        | \$ 4,670,502             |

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**Senior Secured Term Notes**

On January 29, 2015, the Company and certain of its subsidiaries entered into a series of Agreements including a Securities Purchase Agreement with DBD Credit Funding LLC, ( DBD ) an affiliate of Fortress Credit Corp., under which the terms of the notes were:

- (i) \$15,000,000 original principal amount of Fortress Notes (the Initial Note );
- (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (the Revenue Stream , after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes);
- (iii) a five-year Fortress Warrant to purchase 100,000 shares of the Company s Common Stock exercisable at \$7.44 per share, subject to adjustment; and
- (iv) 134,409 shares of the Issuer s Common Stock (the Fortress Shares ).

On February 12, 2015, the Company issued an additional \$5,000,000 of Notes (which increase proportionately the Revenue Stream).

The Initial Note matures on July 29, 2018. Additional Notes issued pursuant to the Fortress Purchase Agreement mature 42 months after issuance. The unpaid principal amount of the Initial Note plus the additional \$5,000,000 note (including any PIK Interest, as defined below) bear cash interest at a rate equal to LIBOR plus 9.75% per annum payable on the last business day of each month. Interest is paid in cash except that 2.75% per annum of the interest due on each Interest Payment Date shall be paid-in-kind, by increasing the principal amount of the Notes by the amount of such interest. Monthly principal payments are due commencing one year after the anniversary dates of the loans.

The terms of the Fortress Warrant provide that until January 29, 2020, the Warrant may be exercised for cash or on a cashless basis. Exercisability of the Fortress Warrant is limited if, upon exercise, the holder would beneficially own more than 4.99% of the Company s Common Stock. The exercise price of the warrant is \$7.44 and the warrant fair value was determined to be \$318,679 utilizing the Black-Scholes model, with the fair value of the warrants recorded as additional paid-in capital and reducing the carrying value of the Notes. As of June 30, 2017 and December 31, 2016, the unamortized discount on the Notes was \$1,805,701 and \$1,425,167, respectively.

**Senior Secured Term Note Amendment**

On January 10, 2017 the Company and certain of its subsidiaries entered into the Amended and Restated Revenue Sharing and Securities Purchase Agreement ( ARRSSPA ) with DBD Credit Funding LLC, under which the Company and DBD amended and restated the Revenue Sharing and Securities Purchase Agreement dated January 29, 2015 (the Original Agreement ) pursuant to which (i) Fortress purchased \$20,000,000 in promissory notes, of which \$15,835,900 is outstanding as of June 30, 2017, (ii) an interest in the Company s revenues from certain activities and warrants to purchase 100,000 shares of the Company s common stock. The ARRSSPA amends and restates the Original

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Agreement to provide for (i) the sale by the Company of a \$4,500,000 promissory note (the *New Note* ) and (ii) the insurance of additional warrants to purchase 187,500 shares of common stock (the *New Warrant* ). Pursuant to the ARRSSPA, Fortress acquired an increased revenue stream right to certain revenues generated by the Company through monetization of our patent portfolio ( *Monetization Revenues* ). The ARRSSPA increases the revenue stream basis to \$1,225,000. The ARRSSPA provides for the potential issuance of up to \$7,500,000 of additional notes (the *Additional Notes* ), of which not more than \$3,750,000 shall be made prior to June 30, 2017 and of which not more than \$3,750,000 shall be made available during the period following June 30, 2017 and on or prior to December 31, 2017 and not more than two such issuances shall occur under the ARRSSPA.

The unpaid principal amount of the *New Note* (including any *PIK Interest*, as defined below) shall bear cash interest at a rate equal to LIBOR plus 9.75% per annum; provided that upon and during the continuance of an *Event of Default* (as defined in the *Initial Note*), the interest rate shall increase by an additional 2% per annum.

Interest on the *Initial Note* shall be paid on the last business day of each calendar month (the *Interest Payment Date* ), commencing January 31, 2017. Interest shall be paid in cash except that 2.75% per annum of the interest due on each *Interest Payment Date* shall be paid-in-kind, by increasing the principal amount of the *Notes* by the amount of such interest, effective as of the applicable *Interest Payment Date* ( *PIK Interest* ). *PIK Interest* shall be treated as added principal of the *New Note* for all purposes, including interest accrual and the calculation of any prepayment premium. The Company paid a structuring fee of 2.0% of the *New Note* and would pay a 2.0% fee upon the issuance of any *Additional Notes*. The proceeds of the *New Note* and any *Additional Notes* may be used for working capital purposes, portfolio acquisitions, growth capital and other general corporate purposes.

The ARRSSPA contains certain customary events of default, and also contains certain covenants including a requirement that the Company maintain minimum liquidity of \$1,250,000 in unrestricted cash and cash equivalents.

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The terms of the New Warrants provide that from July 10, 2017 until January 10, 2022, the Warrant may be exercised for cash or on a cashless basis. Exercisability of the Warrant is limited if, upon exercise, the holder would beneficially own more than 4.99% of the Issuer's Common Stock.

Pursuant to the ARSSPA, as security for the payment and performance in full of the Secured Obligations (as defined in the Security Agreement entered in favor of the Note purchasers (the Security Agreement)) the Company and certain subsidiaries executed and delivered in favor of the purchasers a Security Agreement and a Patent Security Agreement, including a pledge of the Company's interests in certain of its subsidiaries. As further set forth in the Security Agreement, repayment of the Note Obligations (as defined in the Notes) is secured by a first priority lien and security interest in all the assets of the Company, subject to certain permitted liens. Certain subsidiaries of the Company also executed guarantees in favor of the purchasers (each, a Guaranty), guaranteeing the Note Obligations.

As of June 30, 2017 and December 31, 2016, the outstanding balances were \$15,835,900 and \$15,620,759, respectively.

**Convertible Note**

In two transactions, on October 9, 2014 and October 16, 2014, the Company sold an aggregate \$5,550,000 of principal amount of convertible notes (Convertible Notes) along with two-year warrants to purchase 129,499 shares of the Company's Common Stock. The Convertible Notes are convertible into shares of the Company's Common Stock at \$7.50 per share and the Warrants have an exercise price of \$8.25 per share. The Notes mature on October 10, 2018 and bear interest at the rate of 11% per annum, payable quarterly in cash on each of the three, six, nine and twelve-month anniversaries of the issuance date and on each conversion date. The Notes may become secured by a security interest granted to the holder in certain future assets under certain circumstances. In the event the Company's Common Stock trades at a price of at least \$27.00 per share for four out of eight trading days, the Notes will be mandatorily converted into Common Stock of the Company at the then applicable conversion price per share. The Company repaid the Convertible Notes for all but one holder in early 2015, and the balance was \$500,000 as of June 30, 2017 and December 31, 2016, respectively.

**iRunway**

The Company converted a set of outstanding invoices related to work performed by one of the Company's vendors to a short-term payable whereby the Company agreed to pay iRunway over time for the open invoices, subject to a payment schedule as defined. To the extent that the Company does not make payments according to that schedule, the remaining balance accrues interest at 1.5% per month. As of June 30, 2017 and December 31, 2016, principal in the amount of \$191,697 and \$191,697, respectively, remained outstanding and the Company expects to repay the open balance during the year ended December 31, 2017.

**Note Payable**

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The Company entered into a short-term advance with an officer related to funds the Company was transferring from its European subsidiaries. The advance carried no interest and as of June 30, 2017 and December 31, 2016, the outstanding balance was \$0 and \$103,000, respectively.

### **Siemens Purchase Payment**

The Company entered into a purchase agreement to acquire ownership of certain patents. As part of the purchase agreement, the Company agreed to certain future payments of cash consideration. The payment obligation bears no interest and as of June 30, 2017 and December 31, 2016, the outstanding balances were \$750,000 and \$1,672,924, respectively, with the remaining balance expected to be made by September 30, 2017.

### **Dominion Harbor Settlement Note**

The Company entered into a settlement agreement with Dominion Harbor, a former licensing agent for some of the Company's subsidiaries, on October 29, 2015 whereby the Company agreed to issue 300,000 shares of the Company's Common Stock to Dominion Harbor and make eight (8) payments of \$25,000 each ending on October 15, 2017. The shares issued to Dominion Harbor were valued at the quoted market price on the date of the grant of \$1.71 per share or \$513,000. As of June 30, 2017 and December 31, 2016, \$0 and \$125,000, respectively, remained outstanding, following an agreement between the Company and Dominion wherein the Company paid \$25,000 and issued 125,000 shares of Common Stock to Dominion in full resolution of the outstanding obligation.

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**Oil & Gas Purchase Payment**

The Company entered into a purchase agreement to acquire monetization rights to certain patents. As part of the purchase agreement, the Company agreed to certain future payments of cash consideration. The payment obligation bears no interest and as of June 30, 2017 and December 31, 2016, the Company had an outstanding obligation for purchase of certain Siemens patents in the net amount of \$1,000,000 and \$944,296, respectively, with such payments expected to be made by December 31, 2017.

**3D Nano Purchase Payment**

3D Nano entered into a license and purchase agreement with HP Inc. ( HP ) to acquire the rights to use if 3D Nano chooses, the right to exercise an option to acquire, ownership of certain patents, trade secrets and other intellectual property (the Technology ). As part of the purchase agreement, the Company agreed to license the Technology for two payments of \$100,000 each, with the first payment made in April 2016 and the second payment due by January 31, 2017. Under the original agreement, the payment obligations bear no interest and as of June 30, 2017 and December 31, 2016, 3D Nano had an outstanding obligation in the amount of \$0 and \$100,000, respectively. On May 1, 2017, 3D Nano entered into an amendment with HP whereby the agreement was extended for two years. While 3D Nano does not have the obligation under the amendment to make additional payments, should 3D Nano desire to do so, payments in the amount of \$100,000 in each of 2018 and 2019 would be due to HP for the agreement to remain in effect.

**Medtech Note**

On May 31, 2017, the Company entered into a note payable with Medtronic, Inc. ( Medtronic ), the original owner of the patents in the Company's Medtech portfolio, whereby the Company agreed to pay Medtronic a total of \$750,000 in ten equal monthly installments for patent enforcement related expenses incurred by Medtronic. The note payable carries no interest and as of June 30, 2017 and December 31, 2016, the outstanding balance, following two payments of \$75,000 each in May and June 2017, was \$600,000 and \$0, respectively.

**Total Future Minimum Principal Payments**

Future minimum principal payments for all items set forth above are as follows:

|       |    |            |
|-------|----|------------|
| 2017  | \$ | 2,446,561  |
| 2018  |    | 7,208,368  |
| 2019  |    | 6,058,367  |
| 2020  |    | 3,214,301  |
| Total | \$ | 18,927,597 |

**Office Lease**

In October 2013, the Company entered into a net-lease for its current office space in Los Angeles, California. The lease will commence on May 1, 2014 and runs for seven years through April 30, 2021, with monthly lease payment escalating each year of the lease. In addition, to paying a deposit of \$7,564 and the monthly base lease cost, the Company is required to pay pro rata share of operating expenses and real estate taxes. Under the terms of the lease, the Company will not be required to pay rent for the first five months but must remain in compliance with the terms of the lease to continue to maintain that benefit. In addition, the Company has a one-time option to terminate the lease in the 42th month of the lease. Minimum future lease payments under this lease at June 30, 2017, for the next five years are as follows:

|                   |    |         |
|-------------------|----|---------|
| 2017 (Six Months) | \$ | 36,162  |
| 2018              |    | 74,540  |
| 2019              |    | 77,872  |
| 2020              |    | 81,336  |
| 2021              |    | 27,504  |
| Total             | \$ | 297,414 |

#### NOTE 7 SUBSEQUENT EVENTS

On July 17, 2017, the Company received a written notification from the NASDAQ Stock Market LLC ( Nasdaq ) indicating that Nasdaq has determined to grant the Company an extension until October 17, 2017 to regain compliance with Nasdaq Listing Rule 5550(b)(1) (the Rule ), which requires companies to maintain stockholders equity of at least \$2.5 million.

On July 17, 2017, the Company and the purchasers (the Holders ) of securities in the Company s April 21, 2017 offering (the Offering ) entered into separate exchange agreements (the Agreements ). Under the terms of the Agreements, the Holders agreed to exchange warrants to purchase 2,280,000 shares of the common stock for 2,394,000 shares of common stock of the Company (the Exchange Shares ) and waived and terminated their rights to participate in or approve any future offering of securities by the Company and other matters related to the Company. Holders maintain their rights to Exercise the Warrants until the Exchange has been approved by the Company s shareholders. Under NASDAQ Rule 5635(d) the Company is required to obtain shareholder approval prior to issuing the Exchange Shares ( Shareholder Approval ).



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On August 3, 2017, the Company entered into a First Amendment to Amended and Restated Revenue Sharing and Securities Purchase Agreement and Restructuring Agreement (the "First Amendment and Restructuring Agreement") with DBD Credit Funding LLC, an affiliate of Fortress Investment Group, LLC (referred to as "Fortress") to restructure and replace the obligations of the Company under that certain Amended and Restated Revenue Sharing and Securities Purchase Agreement (as it may be amended, restated, supplemented or otherwise modified from time to time, the "Amended and Restated Agreement"), dated January 10, 2017, which was originally entered into by the Company and Fortress on January 29, 2015. Pursuant to the First Amendment and Restructuring Agreement, certain intellectual property owned by the Company and originally purchased by the Company from various parties (the "IP") is to be assigned to one or more newly created special purpose entities (the "SPE") as elected by Fortress, which SPE is under the management and control of an affiliate of Fortress (the "IP Monetization Manager"). All Monetization Revenues arising from the IP shall be paid to an account that is under the sole and exclusive control of the Collateral Agent as the IP Monetization Manager. In addition, until the Restructuring, the Company shall be responsible for the expenses associated with the maintenance, prosecution and enforcement of the IP, or Maintenance Fees, and for any expenses associated with the pursuit of monetization activities relating to the IP (any such funding by Fortress, the "Cash Advances"). Following the occurrence of the Restructuring, the SPE shall be responsible for any Maintenance Fees arising following the Restructuring. In addition, the First Amendment and Restructuring Agreement modifies the revenue share provided for in the Amended and Restated Agreement such that all proceeds from the Monetization Activities will be applied as follows: (i) first, to pay for certain third party expenses incurred by the Company, Fortress or third party brokers in relation to the Monetization Activities, (ii) second, to Fortress, as the Collateral Agent, to pay any outstanding expenses of the Collateral Agent which have not been advanced by Fortress as Cash Advances, (iii) third, to Fortress to pay the Note Obligations until paid in full, (iv) fourth, to Fortress, as the Purchaser, until Fortress has received an amount equal to the sum of (x) 150% of reimbursement of any Cash Advances by Fortress pursuant to the Restructuring Agreement plus (y) the accrued management fee of \$2.45 million per annum plus 10% of any Cash Advances, plus (z) \$24.5 million less any amounts paid to Fortress under the Amended and Restated Agreement after January 10, 2017, and (v) fifth, after all of the foregoing payment obligations are satisfied, 55% to Fortress and 45% to the Company.

On August 3, 2017, Erich Spangenberg resigned as an employee of the Company, effective immediately, and the Company and Mr. Spangenberg entered into a consulting agreement whereby Mr. Spangenberg will continue to advise the Company with respect to the monetization of its patent assets.

On August 7, 2017, the Company entered into an exchange agreement (the "Exchange Agreement") with the holder (the "Holder") of a convertible promissory note, dated October 16, 2014 (the "Note"), issued by the Company in the aggregate principal amount of \$500,000. Pursuant to the Exchange Agreement, the Holder agreed to exchange the Note, together with interest, in the amount of \$2,750 due and payable thereon and relinquish any and all rights thereunder, for five hundred and two thousand seven hundred and fifty (502,750) shares of the Company's newly authorized Series D Convertible Preferred Stock, par value \$0.0001 per share (the "Series D Preferred Shares"). Each Series D Preferred Share is initially convertible into five (5) shares of our common stock in accordance with the terms of the Certificate of Designation Of Rights, Powers, Preferences, Privileges And Restrictions of The 0% Series D Convertible Preferred Stock (the "Series D Certificate of Designation"). On August 7, 2017, the Holder exercised their right to convert 200,000 shares of Series D Preferred Shares.

On August 13, 2017, Richard Chernicoff and Richard Tyler resigned as members of the Company's Board of Directors, effective immediately. Mr. Chernicoff and Mr. Tyler's resignations were not the result of any disagreement with respect to the Company's operations, policies or practices. They were replaced by Merrick Okamoto and David Lieberman.

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

This report on Form 10-Q ( Report ) and other written and oral statements made from time to time by us may contain so-called forward-looking statements, all of which are subject to risks and uncertainties. Forward-looking statements can be identified by the use of words such as expects, plans, will, forecasts, projects, intends, estimates, and other words of similar meaning. One can identify them by the fact that they do not strictly to historical or current facts. These statements are likely to address our growth strategy, financial results and product and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from our forward-looking statements. These factors may include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

Information regarding market and industry statistics contained in this Report is included based on information available to us that we believe is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. We have not reviewed or included data from all sources, and cannot assure investors of the accuracy or completeness of the data included in this Report. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We do not assume any obligation to update any forward-looking statement. As a result, investors should not place undue reliance on these forward-looking statements.

**Overview**

We acquire patents and patent rights from owners or other ventures and seek to monetize the value of the patents through litigation and licensing strategies, alone or with others. Part of our acquisition strategy is to acquire or invest in patents and patent rights that cover a wide-range of subject matter which allows us to seek the benefits of a diversified portfolio of assets in differing industries and countries. Generally, the patents and patent rights that we seek to acquire have large identifiable targets who are or have been using technology that we believe infringes our patents and patent rights. We generally monetize our portfolio of patents and patent rights by entering into license discussions, and if that is unsuccessful, initiating enforcement activities against any infringing parties with the objective of entering into comprehensive settlement and license agreements that may include the granting of non-exclusive retroactive and future rights to use the patented technology, a covenant not to sue, a release of the party from certain claims, the dismissal of any pending litigation and other terms. Our strategy has been developed with the expectation that it will result in a long-term, diversified revenue stream for the Company. As of June 30, 2017, we owned 293 patents and had economic rights to over 10,000 additional patents, both of which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

Our principal office is located at 11100 Santa Monica Blvd., Suite 380, Los Angeles, CA 90025. Our telephone number is (703) 232-1701.

We were incorporated in the State of Nevada on February 23, 2010 under the name Verve Ventures, Inc. On December 7, 2011, we changed our name to American Strategic Minerals Corporation and were engaged in exploration and potential development of uranium and vanadium minerals business. During June 2012, we discontinued our minerals business and began to invest in real estate properties in Southern California. In November 2012, we discontinued our real estate business.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

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**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated condensed financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

**Use of Estimates and Assumptions**

The preparation of financial statements in conformity with US 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 the reporting period. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, estimating the useful lives of patent assets, the assumptions used to calculate fair value of warrants and options granted, goodwill impairment, realization of long-lived assets, deferred income taxes, unrealized tax positions and business combination accounting.

**Revenue Recognition**

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 605, Revenue Recognition. Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured. In general, revenue arrangements provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company.

These rights typically include some combination of the following: (i) the grant of a non-exclusive, perpetual license to use patented technologies owned or controlled by the Company, (ii) a covenant-not-to-sue, (iii) the dismissal of any pending litigation.

The intellectual property rights granted typically are perpetual in nature. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the non-exclusive licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, and when all other revenue recognition criteria have been met.

The Company also considers the revenue generated from its settlement and licensing agreements as one unit of accounting under ASC 605-25, Multiple-Element Arrangements as the delivered items do not have value to customers on a standalone basis, there are no undelivered elements and there is no general right of return relative to the license. Under ASC 605-25, the appropriate recognition of revenue is determined for the combined deliverables as a single unit of accounting and revenue is recognized upon delivery of the final elements, including the license for past and future use and the release.

Also, due to the fact that the settlement element and license element for past and future use are the Company's major central business, the Company presents these two elements as one revenue category in its statement of operations. The Company does not expect to provide licenses that do not provide some form of settlement or release.

Revenue from newly issued patent licenses activities accounted for 72% and 99% of the Company's revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

#### **Accounting for Acquisitions**

In the normal course of its business, the Company makes acquisitions of patent assets and may also make acquisitions of businesses. With respect to each such transaction, the Company evaluates facts of the transaction and follows the guidelines prescribed in accordance with ASC 805 Business Combinations to determine the proper accounting treatment for each such transaction and then records the transaction in accordance with the conclusions reached in such analysis. The Company performs such analysis with respect to each material acquisition within the consolidated group of entities.

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**Intangible Asset - Patents**

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. The patents purchased are recorded based on the cost to acquire them and patents acquired in lieu of cash are recorded at their fair market value. The costs of these assets are amortized over their remaining useful lives. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. The Company did not record an impairment charge to its intangible assets during the three and six months ended June 30, 2017, compared to an impairment charge associated with the end of life of a number of the Company's portfolios during the three and six months ended June 30, 2016 in the amounts of \$620,696 and \$993,890, respectively.

**Goodwill**

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then applies a two-step impairment test. The two-step impairment test first compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of the reporting unit exceeds its fair value, the Company determines the implied fair value of the reporting unit's goodwill and if the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded in the consolidated condensed statement of operations. The Company performs the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30.

For the three and six months ended June 30, 2017, the Company recorded no impairment charge to its goodwill and for the three and six months ended June 30, 2016, the Company recorded impairment to its Goodwill in the amount of \$83,000 and \$83,000, respectively.

**Other Intangible Assets**

In accordance with ASC 350-30-65, *Intangibles - Goodwill and Others*, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of use of the acquired assets or the strategy for the overall business; and (3) significant negative industry or economic trends.

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

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For the three and six months ended June 30, 2017 and June 30, 2016, the Company recorded no impairment charge to its other intangible assets.

### **Impairment of Long-lived Assets**

The Company accounts for the impairment or disposal of long-lived assets according to the ASC 360 Property, Plant and Equipment . The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of long-lived assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated future net undiscounted cash flows expected to be generated by the asset. When necessary, impaired assets are written down to estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset.

The Company did not record any impairment charges on its long-lived assets during the three and six months ended June 30, 2017 and June 30, 2016.

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**Stock-based Compensation**

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. As stock-based compensation expense is recognized based on awards expected to vest, forfeitures are also estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For the three and six months ended June 30, 2017, the expected forfeiture rate was 12.75%, which resulted in an expense of \$19,498 and \$48,634, for the three and six months ended June 30, 2017, respectively, recognized in the Company's compensation expenses. For the three and six months ended June 30, 2016, the expected forfeiture rate was 11.03%, which resulted in an expense of \$12,477 and \$27,262 for the three and six months ended June 30, 2016, respectively, recognized in the Company's compensation expenses. The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third parties, compensation expense is determined at the measurement date. The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

**Liquidity and Capital Resources**

At June 30, 2017, we had approximately \$1.1 million in cash and cash equivalents and a working capital deficit of \$8.7 million.

Based on the Company's current revenue and profit projections, management is uncertain that the Company's existing cash and accounts receivables will be sufficient to fund its operations through at least the next twelve months, raising substantial doubt regarding the Company's ability to continue operating as a going concern. If we do not meet our revenue and profit projections or the business climate turns negative, then we will need to:

- raise additional funds to support the Company's operations; however, there is no assurance that the Company will be able to raise such additional funds on acceptable terms, if at all. If the Company raises additional funds by issuing securities, existing stockholders may be diluted; and
- review strategic alternatives.



If adequate funds are not available, we may be required to curtail our operations or other business activities or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets.

## Results of Operations

*For the Three and Six Months Ended June 30, 2017 and 2016*

We generated revenues of \$368,800 and \$446,937 during the three and six months ended June 30, 2017 as compared to \$34,349,762 and \$36,409,438 during the three and six months ended June 30, 2016. For the three and six months ended June 30, 2017, this represented a decrease of \$33,980,962 or 99% and \$35,962,501 or 99%, respectively. On an absolute basis, revenue for the three and six months ended June 30, 2017 was derived from both the issuance of two one-time patent licenses and recurring royalties and for the three and six months ended June 30, 2016 revenue was primarily derived from the issuance of one-time patent licenses with the remainder of the revenue derived from recurring royalties. The decrease in revenue from 2016 to 2017 resulted from fewer, smaller license agreements following the Company's largest period of revenues in 2016.

Revenues from the issuance of one-time licenses to certain of the Company's patent portfolios accounted for approximately 72% and 59% of our revenues for the three months and six ended June 30, 2017 and 100% and 99% for the three and six months ended June 30, 2016, respectively. For the three months ended June 30, 2017, revenues from two settlement and license agreements accounted for approximately 72% of the Company's revenues, whereas revenues from the five largest settlement and license agreements accounted for 99% of the Company's revenue for the comparable period ending June 30, 2016.

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Direct cost of revenues during the three and six months ended June 30, 2017 amounted to \$1,024,078 and \$1,479,486, respectively and for the three and six months ended June 30, 2016, the direct cost of revenues amounted to \$15,467,763 and \$18,107,740, respectively. For the three and six months ended June 30, 2017, this represented a decrease of \$14,443,685 or 93% and \$16,628,254 or 92%, respectively. Direct costs of revenue include contingent payments to patent enforcement legal costs, patent enforcement advisors and inventors as well as various non-contingent costs associated with enforcing the Company's patent rights and otherwise in developing and entering into settlement and licensing agreements that generate the Company's revenue. For the three and six months ended June 30, 2017, the Company had lower contingent fee costs associated with lower levels of revenue. Direct cost of revenues were 178% and 230%, respectively, for the three and six months ended June 30, 2016 and direct costs of revenues were 45% and 50%, respectively, for the comparable periods in 2016. The higher direct cost of revenues in 2017 relative to 2016 result from lower levels of revenue in 2017 relative to the same period in 2016 as well as costs associated filing new infringement cases in Germany.

We incurred other operating expenses of \$2,273,434 and \$4,705,851 for the three and six months June 30, 2017, respectively and \$4,872,209 and \$9,196,300 for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2017, this represented a decrease in other operating expenses of \$2,598,775 or 47% and \$4,490,449 or 51%, respectively. These expenses primarily consisted of amortization of patents, general expenses, compensation to our officers, directors and employees, professional and consulting fees incurred in connection with the day-to-day operation of our business and patent and goodwill impairment charges. The year over year decline in other operating expenses for the three and six months ended June 30, 2017 resulted from declines every expense category other than Other General and Administrative, which increased for both periods in 2017 compared to 2016.

The operating expenses consisted of the following:

|                                      | Total Other Operating Expenses              |   | Total Other Operating Expenses            |   |
|--------------------------------------|---|---|---|---|
|                                      | For the Three Months<br>Ended June 30, 2017 | For the Three Months<br>Ended June 30, 2016 | For the Six Months<br>Ended June 30, 2017 | For the Six Months<br>Ended June 30, 2016 |
| Amortization of patents(1)           | \$ 639,887                                  | \$ 1,961,411                                | \$ 1,345,846                              | \$ 3,987,310                              |
| Compensation and related taxes (2)   | 760,542                                     | 1,120,924                                   | 1,846,088                                 | 2,154,270                                 |
| Consulting fees (3)                  | 85,580                                      | 364,836                                     | 56,801                                    | 645,612                                   |
| Professional fees (4)                | 645,144                                     | 498,212                                     | 1,070,830                                 | 903,705                                   |
| Other general and administrative (5) | 142,281                                     | 223,130                                     | 386,286                                   | 428,513                                   |
| Goodwill impairment (6)              | -   | 83,000                                      | -   | 83,000                                    |
| Patent Impairment (7)                | -   | 620,696                                     | -   | 993,890                                   |
| Total                                | \$ 2,273,434                                | \$ 4,872,209                                | \$ 4,705,851                              | \$ 9,196,300                              |

Operating expenses for the three and six months ended June 30, 2017 include non-cash operating expenses totaling \$783,821 and \$1,532,685, respectively, and for the three and six month ended June 30, 2016, the Company incurred non-cash operating expenses of \$3,326,155 and \$6,271,933, respectively. Non-cash operating expenses consisted of the following:

|  | Non-Cash Operating Expenses                 |   | Non-Cash Operating Expenses               |   |
|--|---|---|---|---|
|  | For the Three Months<br>Ended June 30, 2017 | For the Three Months<br>Ended June 30, 2016 | For the Six Months<br>Ended June 30, 2017 | For the Six Months<br>Ended June 30, 2016 |

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|                                      |    |         |    |           |    |           |    |           |
|--------------------------------------|----|---------|----|-----------|----|-----------|----|-----------|
| Amortization of patents (1)          | \$ | 639,887 | \$ | 1,961,411 | \$ | 1,345,846 | \$ | 3,987,310 |
| Compensation and related taxes (2)   |    | 135,940 |    | 482,640   |    | 317,277   |    | 901,447   |
| Consulting fees (3)                  |    | 5,883   |    | 156,572   |    | (134,138) |    | 274,263   |
| Professional fees (4)                |    | 108     |    | 8,552     |    | 217       |    | 17,087    |
| Other general and administrative (5) |    | 2,003   |    | 13,284    |    | 3,483     |    | 14,936    |
| Goodwill impairment (6)              |    | -       |    | 83,000    |    | -         |    | 83,000    |
| Patent Impairment (7)                |    | -       |    | 620,696   |    | -         |    | 993,890   |
| Total                                | \$ | 783,821 | \$ | 3,326,155 | \$ | 1,532,685 | \$ | 6,271,933 |

(1) Amortization of intangibles and depreciation: Amortization expenses associated with patents and the Company's website were \$639,887 and \$1,345,846 during the three and six months ended June 30, 2017, respectively, a decrease of \$1,321,524 or 67% and \$2,641,464 or 67% relative to the three and six months ended June 30, 2016. The decrease results from the partial or full impairment of numerous of the Company's portfolios reducing the carrying fair value and the related amortization expenses. When the Company acquires patents and patent rights, the Company capitalizes the cost of those assets and amortizes those costs over the remaining useful lives of the assets. All patent amortization expenses are non-cash expenses.

(2) Compensation expense and related taxes: Compensation expense includes cash compensation and related payroll taxes and benefits, and non-cash equity compensation expenses. For the three and six months ended June 30, 2017, respectively, compensation expense and related payroll taxes were \$760,542 and \$1,846,088, a decrease of \$360,382 or 32% and 308,182 or 14% relative to the three and six months ended June 30, 2016. The decrease in compensation for the three and six months ended June 30, 2017 primarily reflects lower headcount following a staff reduction during the first quarter of 2017. We recognized non-cash employee and board equity based compensation of \$135,940 and \$317,277, respectively, for the three and six months ended June 30, 2017 and \$482,640 and \$901,477, respectively, for the three and six months ended June 30, 2016.

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(3) Consulting fees: For the three and six months ended June 30, 2017, respectively, we incurred consulting fees of \$85,580 and \$56,801. This represented decreases in the amount of \$279,256 or 77% and \$588,811 or 91% compared to the three and six months ended June 30, 2016. Consulting fees include both cash and non-cash related consulting fees primarily for investor relations, public relations and general consulting services. The decrease during the three months ended June 30, 2017 reflects a reduction in activity related to the acquisition of new portfolios and a reduction in expenses associated with consultants. The decrease in consulting for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was a result of the lower level of activity described above for the three months ended June 30, 2017, as well as a credit recognized during the three months ended March 31, 2017 associated with the mark to market of an option grant issued to a consultant who no longer derives a majority of his compensation from the Company. As a result, the Company must mark to market his option grant on a quarterly basis, and given the considerable decline in the Company's stock price since the issuance of the grant, this resulted in a sizable credit. During the three ended June 30, 2017, we recognized non-cash equity based consulting expenses of \$5,883 and during the six months ended June 30, 2017, we recognized a non-cash equity based consulting credit of \$134,138. During the three and six months ended June 30, 2016, we recognized non-cash equity-based consulting expenses of \$156,572 and \$274,263, respectively.

(4) Professional fees: For the three and six months ended June 30, 2017, we incurred professional fees of \$645,144 and \$1,070,830, respectively, an increase of \$146,932 or 29% and \$167,125 or 18% over the comparable periods in 2016. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The increase in professional fees for the three and six months ended June 30, 2017 over the three and six months ended June 30, 2016 relate to higher professional outside legal, accounting and audit fees resulting from the costs associated with closing the Fortress restructuring in January 2017 and the equity issuance in April 2017. During the three and six months ended June 30, 2017, we recognized non-cash equity-based professional expenses of \$108 and \$217, respectively, compared to non-cash equity-based professional expenses of \$8,552 and \$17,087, respectively, during the same periods in 2016.

(5) Other general and administrative expenses: For the three and six months ended June 30, 2017, we incurred other general and administrative expenses of \$142,281 and \$386,286, respectively, a decrease of \$80,849 or 36% and \$42,227 or 10% over the comparable periods in 2016. General and administrative expenses reflect the other non-categorized operating costs of the Company and include expenses related to being a public company, rent, insurance, technology and other expenses incurred to support the operations of the Company. During the three and six months ended June 30, 2017, we recognized non-cash equity based other G&A expenses of \$2,003 and \$3,483, respectively, compared to non-cash equity-based other G&A expenses of \$13,284 and \$14,936, respectively, during the same periods in 2016.

(6) Goodwill impairment: For the three and six months ended June 30, 2017, there was no impairment of goodwill. Based on the Company's decision to end of life one of its portfolios, the Company took an impairment charge during the three and six months ended June 30, 2016 in the carrying value of the related goodwill in the amount of \$83,000.

(7) Patent impairment: For the three and six months ended June 30, 2017, there was no impairment of the carrying value of the Company's patents. Based on changes in the expected timing of proceeds from the Clouding portfolio, as well as the impairment of one portfolio during the three months ended June 30, 2016 and two portfolios during the three months ended March 31, 2016, the Company took impairment charges for three and six months June 30, 2016 in the carrying value of the Company's patents assets in the amount of \$620,696 and 993,890, respectively.

We reported operating income (loss) of \$(2,928,712) and \$(5,738,400) for the three and six months ended June 30, 2017 and operating income (loss) of \$14,009,790 and 9,105,398, for the three and six months ended June 30, 2016. For the three and six months ended June 30, 2017, this represented a decrease in operating income of \$16,938,502 and 14,843,798, respectively. The decreased income from operations in 2017 relative to 2016 was primarily attributable to lower revenue, higher direct cost of revenues as a percentage of revenue, only partially offset by lower cash and non-cash operating expenses.

**Other Income (Expenses)**

Total other income (expenses) was \$660,512 and \$(207,083) for the three and six months ended June 30, 2017, respectively, and \$(761,250) and \$(1,775,319) for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2016, this represented an increase in other income of \$1,421,762 and \$1,568,236, respectively.

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**Income Tax Benefit (Expense)**

We recognized no income tax benefit for the three and six months ended June 30, 2017 following a decision to record a full valuation allowance for the Company's deferred tax asset as of December 31, 2016. For the three and six months ended June 30, 2016, the Company recognized no income tax benefit as a result of the Company's profit. We recognized an income tax expense for the three and six months ended June 30, 2017 in the amounts of \$(17,242) and \$(17,242), respectively and \$(5,345,983) and \$(3,320,935) for the three and six months ended June 30, 2016, respectively.

**Net Income (Loss)**

We reported net income (loss) of \$(2,285,442) and \$(5,962,725) for the three and six months ended June 30, 2017, respectively, and net income (loss) of \$7,902,557 and \$4,009,144 for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2017, this represented a decrease in the net income of \$10,187,999 and \$9,971,839, respectively.

**Non-GAAP Reconciliation**

Non-GAAP earnings as presented in this Annual Report is a supplemental measure of our performance that is neither required by, nor presented in accordance with, U.S. generally accepted accounting principles (US GAAP). Non-GAAP earnings is not a measurement of our financial performance under US GAAP and should not be considered as alternative to net income, operating income, or any other performance measures derived in accordance with US GAAP, or as alternative to cash flow from operating activities as a measure of our liquidity. In addition, in evaluating Non-GAAP earnings, you should be aware that in the future we will incur expenses or charges such as those added back to calculate Non-GAAP earnings. Our presentation of Non-GAAP earnings should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items.

Non-GAAP earnings has limitations as an analytical tool, and you should not consider it in isolation, or as substitutes for analysis of our results as reported under US GAAP. Some of these limitations are (i) it does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments, (ii) they do not reflect changes in, or cash requirements for, our working capital needs, (iii) it does not reflect interest expense, or the cash requirements necessary to service interest or principal payments, on our debt, (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Non-GAAP earnings does not reflect any cash requirements for such replacements, (v) it does not adjust for all non-cash income or expense items that are reflected in our statements of cash flows, and (vi) other companies in our industry may calculate this measure differently than we do, limiting its usefulness as comparative measures.

We compensate for these limitations by providing specific information regarding the US GAAP amounts excluded from such non-GAAP financial measures. We further compensate for the limitations in our use of Non-GAAP financial measures by presenting comparable US GAAP measures more prominently.

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We believe that Non-GAAP earnings facilitates operating performance comparisons from period to period by isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present Non-GAAP earnings because (i) we believe that this measure is frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe that investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use Non-GAAP earnings internally as benchmark to compare our performance to that of our competitors.

The Company uses a Non-GAAP reconciliation of net income (loss) and earnings (EPS reconciliation loss) per share in the presentation of financial results here. Management believes that this presentation may be more meaningful in analyzing our income generation.

On a Non-GAAP basis, the Company s recorded a Non-GAAP loss of \$(2,088,631) and \$(4,497,051) for the three and six months ended June 30, 2017, respectively, compared to Non-GAAP earnings in the amount of \$16,467,737 and \$14,108,086 for the three and six months ended June 30, 2016. The details of those expenses and non-GAAP reconciliation of these non-cash items are set forth below:

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|   | <b>Non-GAAP Reconciliation</b>              |   | <b>Non-GAAP Reconciliation</b>            |   |
|---|---|---|---|---|
|   | For the Three Months<br>Ended June 30, 2017 | For the Three Months<br>Ended June 30, 2016 | For the Six Months<br>Ended June 30, 2017 | For the Six Months<br>Ended June 30, 2016 |
| Net income (loss) attributable to Common Shareholders | \$ (2,200,792)                              | \$ 7,906,279                                | \$ (5,807,439)                            | \$ 4,012,866                              |
| <b>Non-GAAP</b>                                       |   |   |   |   |
| Amortization of intangible assets & depreciation      | 640,364                                     | 1,961,411                                   | 1,346,794                                 | 3,987,310                                 |
| Equity-based compensation                             | 141,931                                     | 647,764                                     | 183,356                                   | 1,198,797                                 |
| Impairment of intangible assets                       | -   | 703,696                                     | -   | 1,076,890                                 |
| Change in the fair value of the clouding IP liability | -   | (169,172)                                   | (13,879)                                  | (167,830)                                 |
| Warrant (income) expense, net                         | (208,301)                                   | -   | 4,907                                     | -   |
| Non-cash other (Income) expense, net                  | (913,357)                                   | -   | (898,532)                                 | -   |
| Non-cash interest expense                             | 449,998                                     | 58,492                                      | 685,209                                   | 664,182                                   |
| Deferred tax benefit                                  | -   | 5,345,983                                   | -   | 3,320,935                                 |
| Other   | 1,526                                       | 13,284                                      | 2,535                                     | 14,936                                    |
| Non-GAAP earnings (loss)                              | \$ (2,088,631)                              | \$ 16,467,737                               | \$ (4,497,049)                            | \$ 14,108,086                             |

The following table sets forth the computation of basic and diluted loss per share on a Non-GAAP basis:

|   | <b>Non-GAAP Reconciliation</b>              |   | <b>Non-GAAP Reconciliation</b>            |   |
|---|---|---|---|---|
|   | For the Three Months<br>Ended June 30, 2017 | For the Three Months<br>Ended June 30, 2016 | For the Six Months<br>Ended June 30, 2017 | For the Six Months<br>Ended June 30, 2016 |
| Non-GAAP net income (loss)                        | \$ (2,088,631)                              | \$ 16,467,737                               | \$ (4,497,049)                            | \$ 14,108,086                             |
| <b>Denominator</b>                                |   |   |   |   |
| Weighted average common shares - Basic            | 22,566,648                                  | 14,994,697                                  | 20,822,791                                | 14,980,919                                |
| Weighted average common shares - Diluted          | 22,566,648                                  | 16,031,564                                  | 20,822,791                                | 16,017,786                                |
| <b>Non-GAAP earnings (loss) per common share:</b> |   |   |   |   |
| Non-GAAP earnings (loss) - Basic                  | \$ (0.09)                                   | \$ 1.10                                     | \$ (0.22)                                 | \$ 0.94                                   |
| Non-GAAP earnings (loss) - Diluted                | \$ (0.09)                                   | \$ 1.03                                     | \$ (0.22)                                 | \$ 0.88                                   |

### **Liquidity and Capital Resources**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. At June 30, 2017, the Company's cash balances totaled \$1,095,721 compared to \$4,998,314 at December 31, 2016. The decrease in the cash balances of \$3,902,593 resulted primarily from net cash used in operations, offset by cash received upon the issuance of equity.



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The net working capital deficit declined by \$6,226,106 to \$(8,693,477) at June 30, 2017 from \$(14,939,583) at December 31, 2016. The increase in net working capital resulted primarily from a reduction in the Company's accounts payable as well as the restructuring of the Fortress debt, as part of which, the obligation to make principal payments were deferred for one year, moving a majority of the Company's short-term debt to long-term debt.

Cash provided (used) in operating activities was \$(7,115,212) during the six months ended June 30, 2017 and cash provided (used) in operating activities of was \$13,124,767 during the six months ended June 30, 2016. The difference between the six months ended June 30, 2016, during which the Company generated cash from operating activities, and the six months ended June 30, 2017, during which the Company used cash in operating activities, is largely tied to the much lower level of revenues during the six months ended June 30, 2017 as compared to the comparable period in 2016.

Cash provided (used) in investing activities was \$(4,194) for the six months ended June 30, 2017 compared to \$(1,156,291) cash used in investing activities for the six months ended June 30, 2016. The use of cash during the six months ended June 30, 2017 was solely related to the purchases of property, equipment and other non-patent intangible assets and cash used during the six months ended June 30, 2016 was primarily the acquisition of new patent portfolios.

Cash provided (used) in financing activities was \$3,212,397 during the six months ended June 30, 2017 compared to cash provided (used) in financing activities in the amount of \$(7,364,703) during the six months ended June 30, 2016. Cash provided by financing activities for the six months ended June 30, 2017 resulted from the issuance of equity, offset by the repayment of some outstanding debt. Cash used in financing activities for the six months ended June 30, 2016 resulted from the repayment of notes payable related to the acquisition of the Medtech portfolios, the repayment of principal on the Fortress debt and the repayment of other minor debt obligations.

Management is uncertain that the balance of cash and cash equivalents of \$1,095,721 at June 30, 2017 is sufficient to continue to fund the Company's operations through at least the next twelve months. The Company's operations are subject to various risks and there is no assurance that changes in the operations of the Company will not require the Company to raise additional cash sooner than planned in order to continue uninterrupted operations. In that event, the Company would seek to raise additional capital from the sale of the Company's securities, from borrowing or from other sources. Should the Company seek to raise capital from the issuances of its securities, such transactions would be subject to the risks of the market for the Company's securities at the time.

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Based on the Company's current revenue and profit projections, management is uncertain that the Company's existing cash and accounts receivables will be sufficient to fund its operations through at least the next twelve months, raising substantial doubt regarding the Company's ability to continue operating as a going concern. If we do not meet our revenue and profit projections or the business climate turns negative, then we will need to:

- raise additional funds to support the Company's operations; provided, however, there is no assurance that the Company will be able to raise such additional funds on acceptable terms, if at all. If the Company raises additional funds by issuing securities, existing stockholders may be diluted; and
- review strategic alternatives.

If adequate funds are not available, we may be required to curtail our operations or other business activities or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets.

**Off-balance Sheet Arrangements**

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated condensed financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

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

Not required for smaller reporting companies.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures.*

We conducted an evaluation of the effectiveness of our disclosure controls and procedures ( Disclosure Controls ), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), as of June 30, 2017, the end of the

period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, because of material weakness in our internal control over financial reporting, described below in Management's Report on Internal Control Over Financial Reporting, our disclosure controls and procedures were not effective as of June 30, 2017, such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework in the 2013 COSO framework. During our assessment of the effectiveness of internal control over financial reporting as of June 30, 2017, management identified a material weakness with respect to the financial reporting and close process, resulting from a lack of segregation of duties within accounting functions and evidence of control review. Accordingly, management concluded that our internal controls over financial reporting were not effective as of June 30, 2017.

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Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps if implemented, will help remediate the material weakness identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate. Due to the nature of this material weakness in our internal control over financial reporting, there is more than a remote likelihood that misstatements which could be material to our annual or interim financial statements could occur that would not be prevented or detected.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting since the Company is a smaller reporting company under the rules of the SEC.

***Changes in Internal Controls.***

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

In the normal course of our business of patent monetization, it is generally necessary for us to initiate litigation in order to commence the process of protecting our patent rights. Such litigation is expected to lead to a monetization event. Accordingly, we are, and in the future, expect to become, a party to ongoing patent enforcement related litigation alleging infringement by various third parties of certain patented technologies owned and/or controlled by us. Litigation is commenced by and managed through the subsidiary that owns the related portfolio of patents or patent rights. In connection with our enforcement activities, we are currently involved in multiple patent infringement cases. As of June 30, 2017, the Company is involved into a total of 11 lawsuits against defendants in the following jurisdictions:

|                              |   |
|------------------------------|---|
| <b>United States</b>         |   |
| District of Delaware         | 5 |
| Eastern District of Michigan | 1 |
| <b>Foreign</b>               |   |
| Germany                      | 5 |

Marathon Patent Group, Inc. and Clouding Corp. are currently defendants in a lawsuit captioned as Symantec Corporation v. IP Navigation Group, LLC; Clouding IP, LLC, et al., Los Angeles County Superior Court, Case No.: BC640931. Symantec alleges the following causes of action against Marathon and Clouding in the First Amended Complaint: fraudulent misrepresentation; interference with contractual relations; violation of Business and Professions Code section 17200, et seq.; and accounting. A Post Mediation Status Conference is scheduled for January 24, 2018 (although the parties have not discussed mediation or any other form of alternative dispute resolution). A Final Status Conference is scheduled for March 16, 2018. Trial of the matter is scheduled to commence on March 26, 2018.

On October 13, 2016, Liner LLP (Liner), a law firm, filed an arbitration request seeking payment of outstanding legal fees invoiced by Liner to Signal IP, Inc., a wholly-owned subsidiary of the Company. The Company filed a counter-claim against Liner for legal malpractice and obtained the appointment of three arbitrators to handle the matter. At that time, Liner began engaging in settlement negotiations. The parties are finalizing the settlement negotiations and anticipate complete resolution within 60 days.

Other than as disclosed herein, we know of no other material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation other than in the normal course of business.

**Item 1A. Risk Factors.**

Not required for smaller reporting companies.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Certain officers of the Company have received stock grants and / or options in 3D Nanocolor Corp. ( 3D Nano ), a wholly-owned subsidiary of the Company, pursuant to 3D Nano 's 2016 Equity Incentive Plan.

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**Item 6. Exhibits.**

|         |  |
|---------|--|
| 31.1    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1    | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 32.2    | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 101.ins | XBRL Instance Document**   |
| 101.sch | XBRL Taxonomy Schema Document**  |
| 101.cal | XBRL Taxonomy Calculation Document**                                     |
| 101.def | XBRL Taxonomy Linkbase Document**  |
| 101.lab | XBRL Taxonomy Label Linkbase Document**                                  |
| 101.pre | XBRL Taxonomy Presentation Linkbase Document**                           |

\* Furnished herewith

\*\* Filed herein

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**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.

Date: August 14, 2017

**MARATHON PATENT GROUP, INC.**

By: /s/ Doug Croxall  
Name: Doug Croxall  
Title: Chief Executive Officer and Chairman  
(Principal Executive Officer)

By: /s/ Francis Knuettel II  
Name: Francis Knuettel II  
Title: Chief Financial Officer  
(Principal Financial and Accounting Officer)