

Marathon Patent Group, Inc.  
Form 10-Q  
May 15, 2017  
Table of Contents

**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 March 31, 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  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  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.

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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 23,257,472 shares of common stock are issued and outstanding as of May 11, 2017.

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Table of Contents**TABLE OF CONTENTS**

	Page No.
<b>PART I. - FINANCIAL INFORMATION</b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Condensed Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</u>
	3
	<u>Consolidated Condensed Statements of Operations and Comprehensive Loss for the Three months Ended March 31, 2017 and 2016</u>
	4
	<u>Consolidated Condensed Statements of Cash Flows for the Three months Ended March 31, 2017 and 2016</u>
	5
	<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>
	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	33
<u>Item 4.</u>	<u>Controls and Procedures</u>
	33
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	35
<u>Item 1A</u>	<u>Risk Factors</u>
	35
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	35
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>
	35
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	35
<u>Item 5.</u>	<u>Other Information</u>
	35
<u>Item 6.</u>	<u>Exhibits</u>
	36

## 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)

	March 31, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 493,452	\$ 4,998,314
Accounts receivable - net of allowance for bad debt of \$387,976 for March 31, 2017 and December 31, 2016, respectively	103,397	95,069
Bonds posted with courts	351,647	-
Note Receivable	588,864	225,982
Prepaid expenses and other current assets, net of discounts of \$3,279 for March 31, 2017 and \$3,724 for December 31, 2016	226,088	202,067
Total current assets	1,763,448	5,521,432
Other assets:		
Property and equipment, net of accumulated depreciation of \$118,420 and \$108,407 for March 31, 2017 and December 31, 2016	20,414	28,329
Intangible assets, net of accumulated amortization of \$12,028,755 and \$11,323,189 for March 31, 2017 and December 31, 2016	11,683,170	12,314,628
Other non current assets, net of discounts of \$797 for March 31, 2017 and December 31, 2016, respectively	200,000	201,203
Goodwill	224,353	222,843
Total other assets	12,127,937	12,767,003
Total Assets	\$ 13,891,385	\$ 18,288,435
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,117,663	\$ 7,217,078
Clouding IP earn out - current portion	81,930	81,930
Notes payable, net of discounts of \$440,219 and \$852,404 for March 31, 2017 and December 31, 2016	3,666,278	13,162,007
	9,865,871	20,461,015
Long-term liabilities		
Notes Payable, net of discount of \$572,763 and \$57,763 for March 31, 2017 and December 31, 2016	12,685,536	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	255,400	43,978
Total long-term liabilities	15,552,139	7,114,562

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Total liabilities	25,418,010	27,575,577
Stockholders' equity (deficit):		
Preferred stock Series B, \$.0001 par value, 100,000,000 shares authorized: 782,004 issued and outstanding at March 31, 2017 and December 31, 2016	78	78
Common stock, \$.0001 par value; 200,000,000 shares authorized; 19,302,472 and 18,552,472 issued at March 31, 2017 and December 31, 2016	2,627	1,877
Additional paid-in capital	51,313,656	49,877,689
Accumulated other comprehensive loss	(1,059,308)	(1,060,390)
Accumulated deficit	(61,549,194)	(57,942,548)
Total Marathon Patent Group stockholders' equity (deficit)	(11,292,141)	(9,123,294)
Noncontrolling Interests	(234,484)	(163,848)
Total stockholders' equity (deficit)	(11,526,625)	(9,287,142)
Total liabilities and stockholders' equity (deficit)	\$ 13,891,385	\$ 18,288,435

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

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Table of Contents

MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	For The Three Months Ended March 31, 2017	For The Three Months Ended March 31, 2016
Revenues	\$ 78,137	\$ 2,059,676
Expenses		
Cost of revenues	451,762	2,639,976
Amortization of patents and website	705,958	2,025,899
Compensation and related taxes	1,085,546	1,033,346
Consulting fees	(28,779)	280,776
Professional fees	425,686	405,493
General and administrative	247,652	217,010
Patent impairment	-	373,195
Total operating expenses	2,887,825	6,975,695
Operating loss	(2,809,688)	(4,916,019)
Other income (expenses)		
Other income (expense)	(14,825)	(2,159)
Foreign exchange gain (loss)	(85,862)	6,978
Change in fair value adjustment of Clouding IP earn out	13,879	(1,342)
Warrant expense	(213,208)	-
Interest income	1,241	931
Interest expense	(568,819)	(1,006,850)
Total other expenses	(867,594)	(1,002,442)
Loss before benefit for income taxes	(3,677,282)	(5,918,461)
Income tax benefit	-	2,025,048
Net loss	(3,677,282)	(3,893,413)
Net (income) loss attributable to noncontrolling interests	70,636	-
Net loss	\$ (3,606,646)	\$ (3,893,413)
Loss per common share:		
Basic and fully diluted	\$ (0.19)	\$ (0.26)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and fully diluted	19,059,559	14,967,141
Net loss attributable to common shareholders	\$ (3,606,646)	\$ (3,893,413)
Other comprehensive loss:		
Unrealized gain on foreign currency translation	1,083	247,427

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Comprehensive loss		(3,605,563)		(3,645,986)
Less: comprehensive income related to non-controlling interest		70,636		-
Comprehensive loss attributable to Marathon Patent Group, Inc.	\$	(3,534,927)	\$	(3,645,986)

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

Table of Contents

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Three Months Ended March 31, 2017	For The Three Months Ended March 31, 2016
Cash flows from operating activities:		
Net loss	\$ (3,606,646)	\$ (3,893,413)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	471	1,652
Amortization of patents and website	705,958	2,025,899
Deferred tax asset	-	(1,934,419)
Deferred tax liability	-	(76,463)
Impairment of intangible assets	-	373,195
Stock based compensation	41,424	550,436
Non-cash interest, discount, and financing costs	52,733	605,690
Change in fair value of Clouding earnout	(13,879)	1,342
Non-controlling interest	(70,636)	-
Other non-cash adjustments	67,164	(33,607)
Changes in operating assets and liabilities:		
Accounts receivable	(8,328)	(15,275)
Bonds posted with courts	(351,647)	359,960
Prepaid expenses and other assets	(386,903)	192,352
Other non current assets	1,203	2,069
Accounts payable and accrued expenses	(1,099,415)	1,953,751
Net cash provided by (used in) operating activities	(4,668,501)	113,169
Cash flows from investing activities:		
Purchase of property, equipment, and other intangible assets	(2,097)	(2,097)
Net cash provided by (used in) investing activities	(2,097)	(2,097)
Cash flows from financing activities:		
Cash received upon issuance of common stock	1,262,865	-
Issuance of Warrants	132,427	-
Proceeds from Fortress note payable	4,500,000	-
Payment on Fortress note payable	(4,500,000)	(1,184,600)
Payments on Seimens notes payable	(1,000,000)	-
Payments on 3D Nano notes payable, gross	(100,000)	-
Payments on notes payable to vendors	(25,000)	(63,840)
Payments on notes payable, net	(103,000)	-
Net cash provided (used in) by financing activities	167,292	(1,248,440)
Effect of exchange rate changes on cash	(1,556)	2,607
Net decrease in cash	(4,504,862)	(1,134,761)
Cash at beginning of period	4,998,314	2,555,151



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Cash at end of period	\$	493,452	\$	1,420,390
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest expense	\$	333,608	\$	401,159
Taxes paid	\$	-	\$	7,999

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

Table of Contents

**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 March 31, 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 March 31, 2017 and December 31, 2016, the Company had recorded an allowance for bad debts in the amounts of \$387,976 and \$387,976, respectively. Accounts receivable, net at March 31, 2017 and December 31, 2016, amounted to \$103,397 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 no revenues from newly issue licenses during the three months ended March 31, 2017 and revenues from two licenses accounted for approximately 93% of the Company's revenues for the three months ended March 31, 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 March 31, 2017

For the Three Months Ended March 31, 2016

Licensors	License Amount	% of Revenue	Licensors	License Amount	% of Revenue
			Signal IP, Inc.	\$ 1,900,000	92%
			Signal IP, Inc.	\$ 15,000	1%
	% of Total Revenues	0%		% of Total Revenues	93%

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

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.

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.

Table of Contents

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 0% and 0% of the Company's revenues for the three months ended March 31, 2017 and March 31, 2016, respectively.

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets of \$226,088 and \$202,067 at March 31, 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 March 31, 2017 and December 31, 2016, the Company had outstanding bonds in the amount of \$351,647 and \$0, respectively. These bonds were entered into in Germany upon the filing of cases in the Company's Munitech portfolio in Germany and the difference in the balance of the litigation bonds at December 31, 2016 compared to March 31, 2017 is attributable to the entering of new bonds associated with new Munitech cases filed.

**Related Party Transactions**

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 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.

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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.

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

Table of Contents

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.

Table of Contents

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 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 March 31, 2017, and December 31, 2016, Other noncurrent receivables 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**

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.

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 March 31, 2017, the Company determined that the Clouding IP earn out liability declined by \$13,879 and that there was no reduction in the carrying value of the Clouding IP intangible assets during the three months ended March 31, 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 March 31, 2017 and December 31, 2016, the Company had outstanding bonds in the amount of \$351,647 and \$0, respectively. The Company adjusted the value as of March 31, 2017 of the bonds, in an amount of \$6,139, 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.

Table of Contents

**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 3,304,619 shares of common stock, warrants to purchase 2,394,573 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 March 31, 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.

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

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For the Three Months  
Ended March 31, 2017

For the Three Months  
Ended March 31, 2016

Net loss		(3,606,646)		(3,893,413)
Denominator				
Weighted Average Common Shares - Basic		19,059,559		14,967,141
Weighted Average Common Shares - Diluted		19,059,559		14,967,141
Loss per common share:				
Loss - Basic	\$	(0.19)	\$	(0.26)
Loss - Diluted	\$	(0.19)	\$	(0.26)

Table of Contents

**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 months ended March 31, 2017, compared to an impairment charge associated with the end of life of two of the Company's portfolios during the three months ended March 31, 2016 in the amount of \$373,195.

**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 months ended March 31, 2017 and March 31, 2016, the Company recorded no impairment charge to its goodwill.

**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 months ended March 31, 2017 and March 31, 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 months ended March 31, 2017 and March 31, 2016.

Table of Contents

**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 months ended March 31, 2017, the expected forfeiture rate was 12.75%, which resulted in an expense of \$29,135 recognized in the Company's compensation expenses. For the three months ended March 31, 2016, the expected forfeiture rate was 2.65%, which resulted in an expense of \$14,785 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 March 31, 2017, we had approximately \$0.5 million in cash and cash equivalents and a working capital deficit of approximately \$8.1 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.

### Recent Accounting Pronouncements

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.

Table of Contents

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.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ( ASU 2016-09 ). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for us on January 1, 2017 and we are currently evaluating the impact that the standard will have on our consolidated condensed financial statements.

In March 2016, the FASB issued ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting*. The amendments in the ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years and should be applied prospectively upon the effective date. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

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

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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.

Table of Contents**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 March 31, 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:

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>

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

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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 March 31, 2016, the Company determined the Clouding IP earn out liability to be \$81,930 (current portion) and \$1,386,203 (long-term portion), which resulted in a gain from exchange in fair value adjustment of \$13,879 for the three months 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 ).

Table of Contents

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. 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 pays no determined cash consideration, but is required to pay a percentage of net recoveries in excess of a reserve threshold on behalf of Motheye.

Table of Contents

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.

**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:

	March 31, 2017		December 31, 2016
Intangible Assets	\$ 23,711,923	\$	23,637,813
Accumulated Amortization & Impairment	(12,028,753)		(11,323,185)
Intangible assets, net	\$ 11,683,170	\$	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 months ended March 31, 2017 and 2016, respectively, the Company capitalized a total of \$0 and \$0 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. Management concluded that there was no impairment to the carrying value for the three months ended March 31, 2017, compared to an impairment to the carrying value in the amount of \$373,195 for the three months ended March 31, 2016. The Company determined the fair value using a Level 3 fair value category of unobservable inputs and concluded that the fair value on these intangibles was zero.

Patent amortization expense for the three months ended March 31, 2017 and March 31, 2016 was \$705,958 and \$2,025,899, respectively, net of foreign currency translation adjustments. Future amortization of intangible assets, net of foreign currency translation adjustments is as follows:

2017	\$	1,629,337
2018		1,893,164
2019		1,809,705
2020		1,500,241
2021		1,331,822
2022 and thereafter		3,518,901
Total	\$	11,683,170

As of March 31, 2017, our operating subsidiaries owned 345 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 August 28, 2020, and the latest expiration



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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:

Table of Contents

Subsidiary	Number of Patents	Earliest Expiration Date	Median Expiration Date	Latest Expiration Date	Subject Matter
Bismarck IP Inc.	2	1/21/18	1/21/18	1/22/18	Communication and PBX equipment
Clouding Corp.	30	3/19/17	3/6/21	5/29/29	Network and data management
CRFD Research, Inc.	5	5/25/21	9/17/21	8/19/23	Web page content translator and device-to-device transfer system
Cyberfone Systems, LLC	3	11/11/17	6/7/19	6/7/20	Telephony and data transactions
Dynamic Advances, LLC	2	11/6/21	3/4/24	7/1/26	Natural language interface
E2E Processing, Inc.	4	4/27/20	11/17/23	7/18/24	Manufacturing schedules using adaptive learning
Hybrid Sequence IP, Inc.	1	7/7/17	7/7/17	7/7/17	Asynchronous communications
Loopback Technologies, Inc.	5	7/9/17	5/11/19	8/27/22	Automotive
Magnus IP	50	1/27/23	9/27/25	12/9/31	Network Management/Connected Home Devices
Medtech Group Acquisition Corp.	54	Expired	7/30/18	8/9/29	Medical technology
Motheye Technologies	1	6/7/21	6/7/21	6/7/21	Optical Networking
Munitech IP	150	9/24/17	6/26/21	4/5/27	W-CDMA and GSM cellular technology
Sampo IP, LLC	3	3/13/18	12/1/19	11/16/23	Centrifugal communications
Signal IP, Inc.	3	2/5/17	8/28/20	8/6/22	Automotive
TLI Communications, LLC	6	6/17/17	6/17/17	6/17/17	Telecommunications
Traverse Technologies	19	2/27/22	2/25/29	7/29/33	Li-Ion Battery/High Capacity Electrodes
Vantage Point Technology, Inc.	7	2/19/17	11/12/17	3/2/19	Computer networking and operations
		<b>Median</b>	<b>08/28/20</b>		

**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.

*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.

Table of Contents

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.

**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 transaction 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.

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.

During the three months ended March 31, 2017 and March 31, 2016, the Company recorded no stock-based compensation expense associated with the warrants. At March 31, 2016, there was a total of \$0 of unrecognized compensation expense related to future recognition of warrant-based compensation arrangements. At March 31, 2017, the Company had warrants outstanding to purchase 2,394,573 shares of Common Stock with a weighted average remaining life of 4.81 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 Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2016	466,078	\$ 3.79	3.25
Granted	1,928,495	\$ 1.70	5.24
Cancelled	-	\$ -	-
Forfeited	-	\$ -	-
Exercised	-	\$ -	-
Balance at March 31, 2017	2,394,573	\$ 1.97	4.81
Warrants exercisable at March 31, 2017	466,078		
Weighted average fair value of warrants granted during the period		\$ 0.64	

**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.

Table of Contents

**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%.

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 March 31, 2017, there was a total of \$547,903 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 March 31, 2017 and changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2016	3,516,136	\$ 4.46	6.80
Granted	-	\$ -	-
Cancelled	-	\$ -	-
Forfeited	211,517	\$ 3.13	-

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Exercised	-	\$	-	-
Balance at March 31, 2017	3,304,619	\$	4.44	6.55
Options Exercisable at March 31, 2017	2,756,717	\$	4.61	5.97
Options expected to vest	547,903	\$	3.73	8.72
Weighted average fair value of options granted during the period		\$	-	

**NOTE 6 DEBT, COMMITMENTS AND CONTINGENCIES**

Debt consists of the following:

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Table of Contents

	<b>Maturity Date</b>	<b>Interest Rate</b>		<b>March 31, 2017</b>	<b>December 31, 2016</b>
Senior secured term notes	9-Jul-20	LIBOR + 9.75%	\$	15,729,596	\$ 15,620,759
Less: debt discount				(1,919,480)	(1,425,167)
Total senior-term notes, net of discount			\$	13,810,116	\$ 14,195,592

	<b>Maturity Date</b>	<b>Interest Rate</b>		<b>March 31, 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>March 31, 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>March 31, 2017</b>	<b>December 31, 2016</b>
Note payable	31-Jan-17	NA	\$	0	\$ 103,000

	<b>Maturity Date</b>	<b>Interest Rate</b>		<b>March 31, 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>March 31, 2017</b>	<b>December 31, 2016</b>
Dominion Harbor	15-Oct-17	NA	\$	100,000	\$ 125,000

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



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

	<b>31-Mar-17</b>	<b>31-Dec-16</b>
Total	\$ 16,351,814	\$ 17,832,509
Less: current portion	(3,666,278)	(13,162,007)
Total, net of current portion	\$ 12,685,536	\$ 4,670,502

Table of Contents

**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 December 31, 2016, and 2015 the unamortized discount on the Notes was \$1,425,167 and \$2,150,263; 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 \$15,729,596 is outstanding as of March 31, 2017 (less \$4,500,000 that is currently held in a cash collateral account), (ii) an interest in the Company s revenues from certain activities and warrants to purchase 100,000 shares of the Company s

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common stock. The ARRSSPA amends and restates the Original 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.

Table of Contents

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.

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 March 31, 2017 and December 31, 2016, the outstanding balances were \$15,729,596 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 March 31, 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 March 31, 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**

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 March 31, 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 March 31, 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 March 31, 2017 and December 31, 2016, \$100,000 and \$125,000, respectively, remained outstanding and the Company and Dominion Harbor subsequently agreed to issue 125,000 shares of the Company's Common Stock in lieu of the remaining balance.

Table of Contents

**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 March 31, 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. 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. The payment obligation bears no interest and as of March 31, 2017 and December 31, 2016, the Company had an outstanding obligation in the amount of \$0 and \$100,000, respectively.

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

2017	\$	2,528,681
2018		6,343,813
2019		5,843,813
2020		3,554,986
Total	\$	18,271,293

**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 March 31, 2017, for the next five years are as follows:

2017 (Nine Months)	\$	53,984
2018		74,540
2019		77,872
2020		81,336
2021		27,504
Total	\$	315,236

**NOTE 7 SUBSEQUENT EVENTS**

On April 17, 2017, the Company received a staff deficiency letter from The Nasdaq Capital Market ( Nasdaq ) notifying the Company that it is no longer in compliance with the minimum stockholders' equity requirement for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(b)(1) requires listed companies to maintain stockholders' equity of at least \$2.5 million. In the Company's Annual Report on Form 10-K for the period ended December 31, 2016, the Company reported stockholders' equity of \$(9,287,142), which is below the minimum stockholders' equity required for continued listing pursuant to Nasdaq Listing Rule 5550(b)(1). Further, as of April 17, 2017, the Company does not meet the alternative compliance standards relating to the market value of listed securities or net income from continuing operations and does not comply with the Nasdaq Listing Rules. This notification has no immediate effect on the Company's listing on the Nasdaq Capital Market. Nasdaq has provided the Company with 45 calendar days, or until June 1, 2017, to submit a plan to regain compliance with the minimum stockholders' equity standard. If the Company's plan to regain compliance is accepted, Nasdaq may grant an extension of up to 180 calendar days from the date of the notification letter to evidence compliance. The Company intends to promptly evaluate various courses of action to regain compliance and to timely submit a plan to Nasdaq to regain compliance with the Nasdaq minimum stockholders' equity standard. However, there can be no assurance that the Company's plan will be accepted or that if it is, the Company will be able to regain compliance. If the Company's plan to regain compliance with the minimum stockholders' equity standard is not accepted or if it is and the Company does not regain compliance within 180 days from the date of the notification letter or if the Company fails to satisfy another Nasdaq requirement for continued listing, Nasdaq staff could provide notice that the Company's common stock will become subject to delisting. In such event, Nasdaq rules permit the Company to appeal the decision to reject its proposed compliance plan or any delisting determination to a Nasdaq Hearings Panel.

On April 18, 2017, the Company entered into a securities purchase agreement (the 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 an exercise price of \$0.83 per share, subject to adjustment as provided under the terms of the warrants. The warrants will be exercisable commencing six months from the date of issuance for a period expiring five years after the date six months after the date of issuance. The closing of the sales of the shares and warrants occurred on April 21, 2017.

The shares of common stock will be issued in a registered direct offering pursuant to a prospectus supplement filed with the Securities and Exchange Commission on April 19, 2017, in connection with a takedown from the Registration Statement on Form S-3 (File No. 333-198569), which was declared effective by the Securities and Exchange Commission on January 6, 2015.

Pursuant to a registration rights agreement (the Registration Rights Agreement ) entered into between the Company and the investors, the Company agreed to register the resale of the shares of common stock underlying the warrants, on a Form S-1 registration statement to be filed with the Securities and Exchange Commission (the SEC ) within 45 days following the date of the offering (the Filing Date ) and to cause the registration statement to be declared effective within 75 days following the date of the offering (or in the event of a full review by the SEC, the 105th calendar day following the date of the offering).

Pursuant to a placement agency agreement between the Company and Aegis Capital Corp. ( Aegis ), the Company retained Aegis as the exclusive placement agent for the offering of shares and warrants and paid Aegis a fee of \$150,733 (equal to 5.67% of the gross proceeds) in connection with the offering. The Company also agreed to issue to Aegis, on the closing date, a warrant (the Agent's Warrant ) to purchase 57,000 shares of common stock at an exercise price equal to \$0.77 per share. The Agent's Warrant issued to Aegis will be exercisable commencing upon issuance for a period expiring five years from the effective date of the offering.

On May 11, 2017, the Company entered into an agreement (the Payoff Letter ) with DBD, under which the Company and DBD agreed to a value at which the Company may prepay and terminate all borrowings outstanding with DBD pursuant to the ARRSSPA. As of April 30, 2017, the Company had an outstanding balance of approximately \$15,763,240 under these borrowings. Under the Payoff Letter, if payment is made on or prior to August 15, 2017, DBD and Fortress agree to accept (i) \$15,763,240, with accrued interest through the date at which the borrowings

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outstanding are repaid, and (ii) five (5%) percent of the gross revenues received, exclusively from revenue generated from portfolios the Company currently owns, by the Company during the twelve (12) month period following payment of such amount, in satisfaction of all outstanding obligations by the Company to DBD and Fortress. In the event that the Company does not satisfy the terms of the Payoff Letter on or prior to August 15, 2017, the Payoff Letter will terminate and the Company will remain obligated under the current agreements with DBD and Fortress.



Table of Contents

**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 March 31, 2017, we owned 345 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.

**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.

Table of Contents

**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.

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Revenue from newly issued patent licenses accounted for 0% and 0% of the Company's revenues for the three months ended March 31, 2017 and March 31, 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.

### **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 months ended March 31, 2017, compared to an impairment charge associated with the end of life of two of the Company's portfolios during the three months ended March 31, 2016 in the amount of \$373,195.

Table of Contents

**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 months ended March 31, 2017 and March 31, 2016, the Company recorded no impairment charge to its goodwill.

**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.

For the three months ended March 31, 2017 and March 31, 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 months ended March 31, 2017 and March 31, 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 months ended March 31, 2017, the expected forfeiture rate was 12.75%, which resulted in an expense of \$29,135 recognized in the Company's compensation expenses. For the three months ended March 31, 2016, the expected forfeiture rate was 2.65%, which resulted in an expense of \$14,785 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.

Table of Contents

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 March 31, 2017, we had approximately \$0.5 million in cash and cash equivalents and a working capital deficit of \$8.1 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 Months Ended March 31, 2017 and 2016*

We generated revenues of \$78,137 during the three months ended March 31, 2017 as compared to \$2,059,676 during the three months ended March 31, 2016. For the three months ended March 31, 2017, this represented a decrease of \$1,981,539 or 96%. Revenue for the three months ended March 31, 2017 were derived primarily from recurring royalties from the Company's Medtech portfolios and revenue for the three months ended March 31, 2016 were derived primarily from the issuance of one-time patent licenses, with the balance of the revenue coming from recurring royalties.

For the three months ended March 31, 2017, the Company received no revenues from newly-issued settlement and license agreements and for the three months ended March 31, 2016, the issuance of two new licenses accounted for approximately 93% of the Company's total revenues and 100% of newly-issued license revenues.

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.

Direct cost of revenues during the three months ended March 31, 2017 amounted to \$451,762 and for the three months ended March 31, 2016, the direct cost of revenues amounted to \$2,639,976. For the three months ended March 31, 2017, this represented a decrease of \$2,188,214 or 83%. 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. The decline in the direct cost of revenues was associated with no contingent counsel expenses and lower trial preparation expert expenses for the three months ended March 31, 2017, relative to the three months ended March 31, 2016 when two of the Company's subsidiaries, Dynamic Advances and Signal, were preparing for trials early in the second quarter of 2016.

We incurred other operating expenses of \$2,436,063 for the three months March 31, 2017 and \$4,335,719 for the three months March 31, 2016. For the three months ended March 31, 2017, this represented a decrease of \$1,899,656 or 44%. These expenses primarily consisted of amortization of patents, general expenses, compensation to our officers, directors and employees, professional fees and consulting incurred in connection with the day-to-day operation of our business. Total other operating expenses declined for the three months ended March 31, 2017 relative to the same period in the prior year primarily as a result of declines in expenses associated with patent amortization and consulting costs and a patent impairment charge in the amount of \$373,195 for the three months ended March 31, 2016 compared to no impairment charge for the three months ended March 31, 2017.



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### Table of Contents

The operating expenses consisted of the following:

	Total Other Operating Expenses	
	For the Quarter Ended March 31, 2017	For the Quarter Ended March 31, 2016
Amortization of patents(1)	\$ 705,958	\$ 2,025,899
Compensation and related taxes (2)	1,085,546	1,033,346
Consulting fees (3)	(28,779)	280,776
Professional fees (4)	425,686	405,493
Other general and administrative (5)	247,652	217,010
Patent Impairment (6)	-	373,195
<b>Total</b>	<b>\$ 2,436,063</b>	<b>\$ 4,335,719</b>

Non-cash other operating expenses for the three months ended March 31, 2017 and March 31, 2016 include non-cash other operating expenses totaling \$748,862 and \$2,951,779, respectively. Non-cash operating expenses consisted of the following:

	Non-Cash Operating Expenses	
	For the Quarter Ended March 31, 2017	For the Quarter Ended March 31, 2016
Amortization of patents (1)	\$ 705,958	\$ 2,025,899
Compensation and related taxes (2)	181,337	424,807
Consulting fees (3)	(140,021)	117,691
Professional fees (4)	108	8,535
Other general and administrative (5)	1,480	1,652
Patent Impairment (6)	-	373,195
<b>Total</b>	<b>\$ 748,862</b>	<b>\$ 2,951,779</b>

- (1) Amortization of patents: Amortization expenses were \$705,958 and \$2,025,899 during the three months ended March 31, 2017 and 2016, respectively, a decrease of \$1,319,941 or 65%. The decrease results from the expiration of some of the Company's patents and lower book value associated with remaining patent portfolios following impairment charges taken over the last twelve months to some of the Company's portfolios. 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 months ended March 31, 2017 and 2016, respectively, compensation expense and related payroll taxes were \$1,085,546 and \$1,033,346, an increase of \$52,200 or 5%. The increase in compensation primarily reflects both a higher average number of employees during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 and the termination of employees and payout of accrued paid-time-off during the three months ended March 31, 2017, offset by a decrease in non-cash equity-based compensation expenses. During the three months ended March 31, 2017 and 2016, we recognized non-cash employee and board equity-based compensation of \$181,337 and \$424,807, respectively. The decline in non-cash equity-based compensation expenses during the three months ended March 31, 2017 compared to the same period in 2016 resulted from the termination of options in 2016 held by former employees and board members and the completion of vesting of certain option grants issued when the Company's stock was higher.

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- (3) Consulting fees: For the three months ended March 31, 2017 and 2016, we incurred consulting fees of \$(28,779) and \$280,776, respectively, a decrease of \$309,555 or 110%. Consulting fees include both cash and non-cash related consulting fees primarily for investor relations and public relations services as well as other consulting services. The decline in consulting fees for the three months ended March 31, 2017 compared to the same period in the prior year was primarily the result of a credit 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 and the Company therefore must mark to market his option grant on a quarterly basis. 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 months ended March 31, 2017 and 2016, we recognized non-cash equity-based consulting fees of \$(140,021) and \$117,691, respectively.

Table of Contents

- (4) Professional fees: For the three months ended March 31, 2017 and 2016, professional fees were \$425,686 and \$405,493, respectively, an increase of \$20,193 or 5%. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The increase in professional fees for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 related to professional outside legal, accounting and audit fees resulting from costs associated with closing the Fortress restructuring transaction and the issuance of shares pursuant to the ATM offering. During the three months ended March 31, 2017 and 2016, we recognized non-cash equity based consulting fees of \$108 and \$8,535, respectively.
- (5) Other general and administrative expenses: For the three months ended March 31, 2017 and 2016, other general and administrative expenses were \$247,652 and \$217,010, respectively, an increase of \$30,642 or 14%. 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. The increase in general and administrative costs in the three months ended March 31, 2017 compared to the three months ended March 31, 2016 resulted from an increase in these expenses, including opening offices in Germany and Luxembourg, initiating efforts in Asia and in support of the expansion of the operations of the Company and number of patents owned or managed in different world-wide jurisdictions.
- (6) Patent impairment: The Company recorded no impairment charges to its intangible assets during the three months ended March 31, 2017. However, based on the Company's determination that the fair value of two of the Company's portfolios were less than the carrying amounts at March 31, 2016, the Company took an impairment charge in the carrying value of the two portfolios in the amount of \$373,195 for the three months ended March 31, 2016.

**Operating Loss**

We reported operating income (loss) from continuing operations of \$(2,809,688) for the three months ended March 31, 2017 and operating income (loss) of \$(4,916,019), for the three months ended March 31, 2016. For the three months ended March 31, 2017, this represented a reduction in the operating loss in the amount of \$2,106,331. The decreased loss from operations during the three months ended March 31, 2017 relative to the same period in 2016 primarily resulted from decreases in cost of revenue, patent amortization and consulting fees, offset by lower revenue.

**Other Expenses**

Total other income (expenses) was \$(867,594) for the three months ended March 31, 2017 and \$(1,002,445) for the three months ended March 31, 2016. For the three months ended March 31, 2017, this represented a decrease in other income (expenses) of \$134,848. The principal component of the increase in the other income (loss) for the three months ended March 31, 2016 was a decrease in interest expenses, offset by higher foreign exchange losses and warrants expenses.

**Income Tax Benefit**

We recognized no income tax benefit for the three months ended March 31, 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 months ended March 31, 2016, the Company recognized an income tax benefit in the amount of \$2,025,048.

**Net Loss Available to Common Shareholders**

We reported net income (loss) of \$(3,606,646) for the three months ended March 31, 2017 and net income (loss) of \$(3,893,413) for the three months ended March 31, 2016. For the three months ended March 31, 2017, this represented a reduction in the net loss in the amount of \$286,767.

**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.

Table of Contents

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.

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 \$(2,423,244) for the three months ended March 31, 2017 compared to a Non-GAAP loss in the amount of \$(2,359,650) for the three months ended March 31, 2016. The details of those expenses and non-GAAP reconciliation of these non-cash items are set forth below:

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### Table of Contents

	Non-GAAP Reconciliation	
	For the Quarter Ended March 31, 2017	For the Quarter Ended March 31, 2016
Net loss attributable to Marathon Patent Group, Inc. common shareholders	(3,606,646)	(3,893,413)
Non-GAAP		
Amortization of intangible assets	705,958	2,025,899
Equity-based compensation	41,424	551,033
Impairment of intellectual property	-	373,195
Change in earn out liability	(13,879)	1,342
Warrant income (expense)	213,208	-
Non-cash interest expense	235,211	605,690
Deferred tax (benefit) / tax expense	-	(2,025,048)
Other	1,480	1,652
Non-GAAP net income (loss)	(2,423,244)	(2,359,650)

The below is a reconciliation to our US GAAP loss per common share, basic and diluted.

	Non-GAAP Reconciliation	
	For the Quarter Ended March 31, 2017	For the Quarter Ended March 31, 2016
Non-GAAP net loss	\$ (2,423,244)	\$ (2,359,650)
Denominator		
Weighted average common shares - Basic and Diluted	19,059,559	14,967,141
Non-GAAP loss per common share:		
Non-GAAP loss - Basic and Diluted	\$ (0.13)	\$ (0.16)

The below is a reconciliation to our US GAAP loss per common share - basic and diluted:

Net loss attributable to Common Shareholders	\$ (3,606,646)	\$ (3,893,413)
Denominator		
Weighted average common shares - Basic and Diluted	19,059,559	14,967,141
GAAP earnings (loss) per common share:		
GAAP earnings (loss) - Basic and Diluted	\$ (0.19)	\$ (0.26)

### **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 March 31, 2017, the Company's cash and cash equivalents balances totaled \$493,452 compared to \$4,998,314 at December 31, 2016. The decrease in the cash balances of \$4,504,861 resulted primarily from cash used in operations as well as posting of bonds for German litigations, repayment of accrued accounts payable and increase in prepaid expenses.

Net working capital increased by \$6,837,161 to \$(8,102,423) at March 31, 2017 from \$(14,939,584) at December 31, 2016. The increase in net working capital resulted primarily from the restructuring of the Fortress debt agreement, whereby the Company and Fortress agreed to a new amortization schedule for the repayment of the debt. Under the new amortization schedule, the Company will pay interest-only for a period of 12 months from January 10, 2017 and then pay principal over the following thirty months. The effect of this was that short-term principal

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repayment obligations as of December 31, 2016 were moved to long-term liabilities upon the close of the restructuring on January 10, 2017.

Cash provided (used) in operating activities was \$(4,668,501) during the three months ended March 31, 2017 and cash provided (used) in operating activities of \$113,169 during the three months ended March 31, 2016.

Cash provided (used in) by investing activities was \$(2,097) for both of the three months ended March 31, 2017 and for the three months ended March 31, 2016. The use of cash during the three months ended March 31, 2016 and the three months ended March 31, 2015 was solely related to the purchases of property, equipment and other non-patent intangible assets.

Table of Contents

Cash provided (used in) by financing activities was 167,292 during the three months ended March 31, 2017 compared to cash used in financing activities in the amount of \$(1,248,440) during the three months ended March 31, 2016. Cash provided by financing activities for the three months ended March 31, 2017 resulted from proceeds from the sale of common stock issued pursuant to an ATM offering, offset by payments made for the acquisition of patents and other intangible assets. Cash used in financing activities for the three months ended March 31, 2016 resulted from primarily from the repayment of Fortress debt.

At March 31, 2017, we had approximately \$0.5 million in cash and cash equivalents and a working capital deficit of approximately \$8.1 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; 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 March 31, 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 March 31, 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 March 31, 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 March 31, 2017.

Table of Contents

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 March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**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 March 31, 2017, the Company is involved into a total of 15 lawsuits against defendants in the following jurisdictions:

<b>United States</b>	
District of Delaware	5
Central District of California	1
Eastern District of Michigan	1
<b>Foreign</b>	
Germany	8

On November 14, 2016, Symantec Corporation filed a complaint against Clouding Corp., a wholly-owned subsidiary of the Company, the Company and other unaffiliated parties in the Superior Court of the State of California for the County of Los Angeles, Unlimited Jurisdiction. Symantec Corporation asserted claims against Clouding Corp. and the Company of negligent misrepresentation, fraudulent misrepresentation, intentional interference with contractual relations, violation of Business & Professions Code Section 17200, and for an accounting. The Court has sustained in its entirety Clouding Corp.'s demurrer to Symantec Corporation's complaint. Neither Clouding Corp. nor the Company were parties to the agreement on which the claims are based. Clouding Corp. plans to vigorously defend against such claims and is exploring counter-claims and repayment of the Company's legal fees.

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 is preparing counter-claims against Liner for its breach of the engagement agreement and abject failure in its representation of Signal IP, Inc. The Company plans to vigorously defend against such claims and is preparing counter-claims and will seek repayment of the Company's legal fees.

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.

Table of Contents

**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

Table of Contents

**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: May 15, 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)